



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**PACIFICSOURCE HEALTH PLANS  
SPRINGFIELD, OREGON**

**NAIC COMPANY CODE 54976**

AS OF

DECEMBER 31, 2008

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## SALUTATION

June 30, 2009

Alfred W. Gross, Commissioner  
Chairman, NAIC Financial Condition (E) Committee  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
PO Box 1157  
Richmond, Virginia 23218

Honorable Cory Streisinger, Director  
Department of Consumer and Business Services  
State of Oregon  
350 Winter Street NE, Room 440  
Salem, Oregon 97301-3883

Dear Commissioner and Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

**PACIFICSOURCE HEALTH PLANS**  
**110 International Way**  
**Springfield, Oregon 97477**

**NAIC Company Code 54976**

hereinafter referred to as the "Company." The following report of examination is respectfully submitted.

## **SCOPE OF EXAMINATION**

We examined the Company's financial statements as of December 31, 2008. This examination covers the four-year period then ended. Material transactions or events subsequent to the examination cut-off date were reviewed and noted during the examination.

We considered the provisions of ORS 731.300 and the NAIC procedures and guidelines during our examination. This examination determined the Company's financial condition, ability to fulfill and the manner in which it fulfills its obligations, nature of operations and compliance with the Insurance Code. Accounting methods, internal control procedures, records, and other supporting evidence were examined or tested. Assets, liabilities, income and expense related items were tested. Corrective actions taken by the Company in response to comments and recommendations in the December 31, 2004, report of examination were reviewed.

Scott F. Fitzpatrick, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, evaluated claims unpaid, unpaid claim adjustment expenses and aggregate health policy reserves for this report. His conclusions are included in the notes to the financial statements section of this report.

## **COMPANY HISTORY**

Pacific Hospital Association (Association) was incorporated in 1933 as a nonprofit organization under the name "Pacific Hospital Society." The Articles of Incorporation were amended in 1939 changing the Association's name to "Pacific Hospital Association" and expanding its corporate powers to include the issuance of contracts for hospital and medical coverage.

On June 20, 1940, the Oregon Insurance Division issued the Association a Certificate of Authority to operate as a hospital association. Pacific Hospital Association operated as a hospital association until April 1, 1968, at which time the Oregon Insurance Commissioner issued a Certificate of Authority authorizing it to operate as a health care service contractor pursuant to ORS Chapter 750. On October 18, 1994, the Association changed its business name to PacificSource Health Plans. On October 18, 1994, the Oregon Insurance Division granted an amended Certificate of Authority to reflect the name change. The Company writes business in Oregon and Idaho. Washington granted it a Certificate of Registration to write health insurance on December 11, 2008. It began writing health insurance in Washington in 2009.

## **MANAGEMENT AND CONTROL**

### **Membership**

Membership in the Company is limited to physicians licensed to practice medicine in Oregon and whom the Board of Directors has voted into membership. Initially physicians are selected as associate members for two years. During this two-year period they may attend and vote at the annual membership meeting. At the end of two years, the Board of Directors may vote the physicians into the Company as full members. The Company also contracts with other physician panels and a variety of other health care professionals.

### **Board of Directors**

The Board is comprised of 13 directors, six professional members of the Company and seven representatives of the public who are not practicing doctors, employees, or trustees of a participant hospital. Board members serve a five-year term and are elected at an annual meeting. Directors elected and serving at December 31, 2008, were as follows:

<b><u>Name</u></b>	<b><u>Business</u></b>	<b><u>Date Last Appointed</u></b>
Clark W. Compton Eugene, OR	President Compton Consulting Inc.	April 2005
David J. Abel, MD Eugene, OR	Physician	April 2005
Mary McCauley Burrows Eugene, OR	Retired	April 2005
Denise Honzel Camas, WA	Consultant	April 2008
Paul A Chavin MD Sun River, OR	Physician	April 2007
Hal Brown Eugene, OR	President Pacific Continental Bank	April 2007
John Dewenter Springfield, OR	Attorney	April 2008
Charles Zachem MD Eugene, OR	Physician	April 2007
Patricia Buchanan MD Eugene, OR	Physician	April 2006
Fletcher Little Eugene, OR	Consultant Leadership Coaching	April 2006
Indulal Rughani, MD Eugene, OR	Physician	April, 2005
Jeffrey Houck MD Eugene, OR	Physician	April 2006
Priscilla Gould Springfield, OR	Executive Director United Way	April 2008

More than one-third of the Company's directors are not participating doctors, employees, or trustees of a participant hospital in compliance with ORS 750.015.

## Officers

Company management as of December 31, 2008, was directed by the following personnel:

<u>Name</u>	<u>Title</u>
Kenneth Provencher	President/Chief Executive Officer
Clark Compton	Secretary/Treasurer
Sujata Sanghvi	Chief Operating Officer
Erick T. Doolen	Chief Information Officer
Troy L. Kirk	Chief Marketing Officer
Peter F. Davidson	Chief Financial Officer
Steven D. Marks MD	Chief Medical Officer

## CONFLICT OF INTEREST

Company policy requires disclosure of any material interest or affiliation on the part of any of its directors and officers which conflicts with official duties. No exceptions were noted during a review of such forms.

## CORPORATE RECORDS

### Board Minutes

In general, the review of 2005 to 2008 Board minutes indicated that the minutes support the transactions of the Company and the actions taken by its officers. Investments were approved regularly at the Finance Committee meetings. A quorum met at all of the meetings held from 2005 to 2008.

### Articles of Incorporation

New Articles of Incorporation were filed on July 10, 2006, changing the Company's name from Pacific Hospital Association to PacificSource Health Plans. No other changes were made to the Articles of Incorporation. The Articles of Incorporation conformed to Oregon statutes.

## Bylaws

In conjunction with the new Articles of Incorporation, the amended Bylaws changed the Company's name to PacificSource Health Plans. The Bylaws conformed to Oregon statutes.

## AFFILIATED COMPANIES

PacificSource Charitable Foundation, Inc. (Foundation) was established December 15, 1992.

The Foundation is a public benefit corporation organized for the purpose of providing funds for the health and welfare of the poor and needy. It qualifies as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code.

PacificSource Administrators, Inc. (PAI) is a wholly owned third party administrator of COBRA benefits, flexible spending accounts and health reimbursement arrangements. Its business name is Manley Services Company.

PacificSource Self Insurance Administrators, Inc. (PSAI) is a wholly owned third party administrator of self-funded employee benefit plans. Its business name is Select Benefits Administrators.

## FIDELITY BONDS AND OTHER INSURANCE COVERAGES

Insurance coverage limits, risk retention and insurer solvency were reviewed for insurance policies covering the Company. A crime policy insures the Company against crimes committed by its employees up to \$1 million per occurrence less \$10,000 retention. The NAIC suggested minimum level of fidelity bond coverage is \$1,250,000 given this Company's size and premium writings.

**I recommend the Company increase its crime coverage to at least \$1,250,000 to comply with the NAIC Financial Examiners Handbook and ORS 731.302.**

In addition to the crime bond, the Company's director and officers liability (including employment liability) coverage insures against losses up to \$10,000,000 after \$100,000 retention. Other insurance coverages in force at December 31, 2008, included property, general liability, automobile, catastrophe liability, earthquake, directors and officers liability (plus employment practices), managed care third party errors & omissions (E&O), excess E&O, fiduciary liability, flood, excess flood and workers' compensation. All of these insurance coverages appeared adequate.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2008, the Company was authorized to write insurance in Oregon, Idaho and Washington. However, it did not write in Washington until 2009, since its Certificate of Registration was issued December 11, 2008. Services are provided by member physicians, contracted physician panels and other contracted health care professionals. The Company pays these health care providers for covered services based upon various fee allowance schedules, which they accept as the maximum charge allowable. Amounts over the allowance are written off by the provider and may not be billed to the subscriber. In addition, the Company has two capitated risk arrangements in Lane County, Oregon. Under these arrangements, the Company pays primary care practitioners a capitated fee for care provided in the prior month. All provider contracts contain a hold harmless clause as required by ORS 750.095(2). The Company uses licensed and appointed agents to market the majority of its business. Some groups contract directly with the Company.

### **GROWTH OF THE COMPANY**

Company growth since the last financial examination is shown in the following table. Amounts were derived from the Company's annual statements, except in those years in which the Oregon Insurance Division published an examination report.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	<u>Net Income</u>
2004*	\$142,594,669	\$57,951,227	\$ 84,643,442	\$17,520,271
2005	174,118,815	61,304,084	112,814,731	29,879,960
2006	182,479,916	58,966,501	123,513,415	25,685,670
2007	192,978,903	68,479,297	124,499,606	9,901,134
2008*	153,170,666	59,931,270	93,239,396	(3,601,459)

\*Per examination

### **LOSS EXPERIENCE**

Loss experience for years 2004 through 2008 is shown in the following table. Amounts were derived from the Company's annual statements, except in those years in which the Oregon Insurance Division published an examination report.

<u>Year</u>	<u>Net Premium</u>	<u>Loss &amp; Loss Adjustment Expense</u>	<u>Ratio</u>
2004*	\$374,360,495	\$328,965,479	87.87%
2005	411,215,390	348,408,321	84.73%
2006	435,814,110	381,828,236	87.61%
2007	470,038,725	430,218,760	91.53%
2008*	479,829,360	429,755,704	89.56%

\*Per examination

### **RETIREMENT PLANS AND POST RETIREMENT BENEFITS**

The Company has a non-contributory defined benefit pension plan and a participatory retirement plan (401(k)), both of which cover substantially all employees.

Non-contributory defined pension benefits are based on years of service and employees' compensation during employment. Annually the Company contributes the maximum amount that can be deducted for federal income tax purposes. The Company contributed \$2,563,793 and \$1,251,861 to this plan in 2008 and 2007, respectively. Plan assets are invested in a group annuity contract.

The participatory retirement plan (401(k)), adopted in 1984, provides for voluntary employee contributions with employer matching. The plan requires a 50% Company match on elective deferrals. Elective deferrals in excess of 6% of eligible employee compensation are not eligible to receive the match. The Company's contribution for this plan was \$335,428 and \$311,325 for 2008 and 2007, respectively.

The Company includes in its assets the cash value of a group life insurance contract and the estimated present value of purchased annuities. These contracts were purchased with the proceeds of a deferred compensation plan for member physicians, which were offered from 1966 through 1991. The plan is considered an unfunded, non-qualified, deferred compensation arrangement not subject to ERISA requirements. The insurance contracts are subject to claims by general creditors and are therefore considered a part of the Company's general assets. The contracts are payable to the member physicians and are, therefore, recorded as a liability.

In addition to pension benefits, the Company has an agreement to provide lifetime Medicare Supplement coverage for one of its retired officers. A liability in the amount of \$11,656 to cover this obligation has been included in the annual statement. The liability has been determined by applying IRS life expectancy tables to a combined annual premium of \$1,850.

### **REINSURANCE**

On August 4, 2008, the Company signed an excess of loss reinsurance policy with Reliastar Life Insurance Company effective June 1, 2008, and terminating May 31, 2009. Claims submitted to the reinsurer for reimbursement are restricted to losses incurred from June 1, 2008, through May 31, 2009, paid and reported by November 30, 2009, and submitted by December 31, 2009. The reinsurance covers losses incurred by commercial members for

inpatient hospital services, specialty drugs (regardless of setting) and transplant services up to \$1,000,000 per member per agreement period after a \$650,000 per member per agreement period retention. Under the coinsurance clause the reinsurer pays 90% of the covered loss (after retention) while the Company retains 10%. The reinsurer's lifetime maximum benefit per member is \$2,000,000. The Company does not retain risk on any one subject of insurance in an amount exceeding 10% of its surplus to policyholders in accordance with ORS 731.504.

### **STATUTORY DEPOSIT**

As of the examination date, the Company had a \$250,000 surety bond on deposit with the Oregon Insurance Division which meets the requirements of ORS 750.045(2).

### **ACCOUNTS AND RECORDS**

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2008, annual statement and were maintained in a manner by which the financial condition was readily verifiable as required by ORS 733.170. In addition, disbursements were evidenced by bills, invoices or statements pursuant to the provisions of ORS 732.320. However, the following issues were noted during the examination:

#### **Custodial Agreement – Fidelity**

The Company uses Fidelity Investments as the custodian for all of its bonds and a portion of its short-term investments. Fidelity Investments is defined as a broker/dealer on its website. Per OAR 836-027-0200(d) a custodian is defined as a bank or trust company licensed in the United States or by any state thereof and regularly examined by its licensing authority. Bank has the meaning given that term in ORS 706.008. Trust company means a trust company as that term is defined in ORS 706.008 or a company that is authorized under the laws of a state

other than Oregon to transact trust business, and includes the trust department of a bank. Upon reviewing the above statute, Fidelity Investments does not meet the definition of either a bank or a trust company.

**I recommend the Company hold all of its securities with a bank, trust company, or securities depository as defined in OAR 836-027-0200 and ORS 706.008. Furthermore, I recommend that the custodial agreement maintain the required safeguards and controls established in the NAIC Financial Condition Examiners Handbook and OAR 836-027-0200(4).**

**Netting of Securities Receivable/Payable**

The Company reported receivable for securities of \$3,682,037 which consisted of a receivable from custodian, Fidelity Investments of \$3,798,503, and a payable for securities to custodian, US Bank of \$115,466. SSAP 64, paragraph 2 defines when receivables and payables may be netted:

Assets and liabilities shall be offset and reported net only when a valid right of setoff exists except as provided for in paragraphs 3 and 4. A right of setoff is a reporting entity's legal right, by contract or otherwise, to discharge all or a portion of the debt owed to another party by applying an amount that the other party owes to the reporting entity against the debt. A valid right of setoff exists only when all the following conditions are met:

- a. Each of the two parties owes the other determinable amounts. An amount shall be considered determinable for purposes of this provision when it is reliably estimable by both parties to the agreement;
- b. The reporting party has the right to setoff the amount owed with the amount owed by the other party;

- c. The reporting party intends to setoff; and
- d. The right of setoff is enforceable at law."

The conditions of sub-paragraphs a, b and d, above, have not been met.

**I recommend the Company report receivables/payables for securities separately unless the right of setoff exists, to comply with SSAP 64 and ORS 731.302.**

**Other Invested Assets - Unrealized Losses**

The Company reports in Note 6, "The Company has no investments in Joint Ventures, Partnerships or Limited Liability Companies that exceed 10% of its admitted assets. The Company did not recognize any impairment write down for its investments during the reporting periods. The fair market value of assets, held by partnership investments, declined in 2008. The amount of the fair market value decline has been booked as an investment expense and represented on Schedule BA, Line 3.2".

Upon reviewing the partnership statements for 2008 and comparing the market value with 2007, the examiner discovered that the Azure Fixed Income Fund had a 2008 market value decline of (\$2,150,324) and the Jefferies Special Opportunities Partners Fund had a 2008 market value decline of (\$690,403) and a distribution of (\$35,734). The total market value decline of (\$2,840,727) was reported as an investment loss in the Exhibit of Net Investment Income (line 8 column 2) and in Schedule BA - Part 1 (column 18). The reporting as an investment loss was consistent with the limited partnership detail filed in its annual consolidated federal income tax return (Schedule K-1). However, the Company erroneously reported an unrealized loss related to the Jefferies Fund in the amount of \$726,138 on both the Exhibit of Capital Gains (Losses) and on Schedule BA - Part 1 (column 13). Further, the Company failed to provide an explanation of its limited partnerships,

including an explanation of the accounting treatment related to yearly changes in market value.

**I recommend the Company more fully describe its limited partnerships, including the accounting treatment for yearly changes in market value, in accordance with the NAIC Examiners Handbook and the NAIC Annual Statement Instructions for Health companies. The description should also include an explanation as to why the Company books market value declines under investment losses. These corrected disclosures would comply with NAIC Annual Statement Instructions and ORS 731.302.**

The Company properly reported unclaimed property to the Division of State Land in accordance with ORS 98.302 to 98.342. All books, records, and investments were held within the State of Oregon pursuant to the provisions of ORS 732.245.

#### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The Company complied with all the recommendations made in the 2004 examination report.

**PACIFICSOURCE HEALTH PLANS**  
**BALANCE SHEET**  
**AS OF DECEMBER 31, 2008**

<b><u>ASSETS</u></b>	<b><u>Per Company</u></b>	<b><u>Adjustments</u></b>	<b><u>Per Examination</u></b>
Bonds (Note 1)	\$55,660,848	\$0	\$55,660,848
Common stock	32,518,417		32,518,417
Real estate	8,434,849		8,434,849
Cash and short-term investments	22,297,749		22,297,749
Other invested assets	9,244,176		9,244,176
Receivable for securities	3,682,037		3,682,037
Investment income due and accrued	545,915		545,915
Uncollected premiums and agents balances in the course of collection	8,181,631		8,181,631
Amounts recoverable from reinsurer	21,538		21,538
Amounts receivable relating to uninsured plans	657,449		657,449
Current federal income tax recoverable	3,939,051		3,939,051
Net deferred tax asset	3,241,405		3,241,405
Electronic data processing equipment	1,016,607		1,016,607
Receivables from subsidiaries	956,055		956,055
Health care and other amounts receivable	442,518		442,518
Aggregate write-in for other than invested assets	<u>2,330,421</u>	<u>0</u>	<u>2,330,421</u>
Total Assets	<u>\$153,170,666</u>	<u>\$0</u>	<u>\$153,170,666</u>
 <b><u>LIABILITIES</u></b>			
Claims unpaid (Note 2)	\$ 42,200,535	\$0	\$42,200,535
Accrued medical incentive pool	506,663		506,663
Unpaid claims adjustment expense	1,213,191		1,213,191
Aggregate health policy reserves	3,900,000		3,900,000
Premiums received in advance	3,824,104		3,824,104
General expenses due or accrued	5,727,611		5,727,611
Amounts withheld for account of others	99,630		99,630
Aggregate write-ins for other liabilities	<u>2,459,536</u>	<u>0</u>	<u>2,459,536</u>
Total Liabilities	<u>59,931,270</u>	<u>0</u>	<u>59,931,270</u>
 <b><u>CAPITAL AND SURPLUS</u></b>			
Unassigned funds	<u>93,239,396</u>	<u>0</u>	<u>93,239,396</u>
Total Capital and Surplus	<u>93,239,396</u>	<u>0</u>	<u>93,239,396</u>
Total Liabilities, Capital and Surplus	<u>\$153,170,666</u>	<u>\$0</u>	<u>\$153,170,666</u>

**PACIFICSOURCE HEALTH PLANS**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

Net premium income	\$479,829,360
Total revenues	<u>479,829,360</u>
 <b><u>Hospital and Medical:</u></b>	
Hospital/medical benefits	301,765,050
Other professional services	18,067,113
Outside referrals	16,031,279
Emergency room and out-of-area	30,086,509
Prescription drugs	50,189,163
Incentive pool, withhold adjustments and bonus amounts	<u>154,929</u>
Subtotal	416,294,043
Less:	
Net reinsurance recoveries	<u>180,092</u>
Total hospital and medical	416,113,951
Claims adjustment expenses	13,641,753
General administrative expenses	<u>48,853,583</u>
Total underwriting deductions	<u>478,609,287</u>
Net underwriting gain	<u>1,220,073</u>
Net investment income earned	925,550
Net realized capital gains (losses)	<u>(8,794,900)</u>
Net investment gains (losses)	<u>(7,869,350)</u>
Aggregate write-ins for other income or expense	<u>(464,664)</u>
Net income after capital gains tax and before all federal income taxes	(7,113,941)
Federal income taxes incurred	<u>(3,512,482)</u>
Net Income	<u>\$ (3,601,459)</u>

**CAPITAL AND SURPLUS ACCOUNT**

Capital and surplus prior reporting period	\$124,499,606
Net income	(3,601,459)
Change in net unrealized capital gains (losses)	(16,441,189)
Change in net deferred income tax	5,370,000
Change in nonadmitted assets	<u>(16,587,562)</u>
Net change in capital and surplus	<u>(31,260,210)</u>
Capital and surplus end of reporting period	<u>\$93,239,396</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 1 - Bonds

Bonds comprise 36% of total assets. The majority of bonds were investment grade as designated by the NAIC.

<u>Year</u>	<u>(1) Book Value Bonds</u>	<u>(2) Market Value Bonds</u>	<u>(3) Noninvestment Grade Bonds*</u>	<u>(3/1) % of Portfolio</u>
2004**	\$37,346,446	\$37,192,439	\$ 425,927	1%
2005	47,568,970	47,220,615	2,745,258	6%
2006	52,581,493	52,802,763	3,213,964	6%
2007	67,985,780	69,387,314	2,121,721	3%
2008**	55,660,848	53,719,490	1,248,120	2%

\*Investment grade is defined by the NAIC as those securities with an NAIC Securities Valuation Office rating of "1" or "2." Noninvestment grade securities are those with a (SVO) rating of "3" to "6".

\*\*Per examination

### Note 2 - Claims Unpaid and Unpaid Claims Adjustment Expenses

Scott F. Fitzpatrick, FSA, MAAA, actuary with the Oregon Insurance Division reviewed the Company's unpaid claims liability as of December 31, 2008. Based on the Company's claims runoff data, he concluded that the December 31, 2008, liability for unpaid claims was adequate. The examiners tested the underlying claims data supporting the review. No exceptions were noted during the examination of the Company's claims data.

## SUMMARY OF RECOMMENDATIONS

The following recommendations were found during this examination:

### Page

- 8 I recommend the Company increase its crime coverage to at least \$1,250,000 to comply with the NAIC Financial Examiners Handbook and ORS 731.302.
  
- 13 I recommend the Company hold all its securities at a bank, trust company, or securities depository as defined in OAR 836-027-0200 and ORS 706.008. Furthermore, I recommend that the custodial agreement maintain the required safeguards and controls established in the NAIC Financial Condition Examiners Handbook and OAR 836-027-0200(4).

Page

- 14 I recommend the Company report receivables/payables for securities separately unless the right of setoff exists, to comply with SSAP 64 and ORS 731.302.
- 15 I recommend the Company more fully describe its limited partnerships, including the accounting treatment for yearly changes in market value, in accordance with the NAIC Examiners Handbook and the NAIC Annual Statement Instructions for Health companies. The description should also include an explanation as to why the Company books market value declines under investment losses. These corrected disclosures would comply with NAIC Annual Statement Instructions and ORS 731.302.

**CONCLUSION**

During the four year period covered by this examination, the surplus of the Company increased from \$84,643,442, as presented in the December 31, 2004, report of examination to \$93,239,396 as shown in this report of examination.

Comparative assets and liabilities are shown below:

	<b>December 31,</b>		
	<b><u>2008</u></b>	<b><u>2004</u></b>	<b><u>Change</u></b>
Assets	\$153,170,666	\$142,594,669	\$10,575,997
Liabilities	<u>59,931,270</u>	<u>57,951,227</u>	<u>1,980,043</u>
Surplus	<u>\$ 93,239,396</u>	<u>\$ 84,643,442</u>	<u>\$ 8,595,954</u>

## ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Raymond Anderson, CFE, Ellen Quale, CPA, AFE, Mark Giffin, CFE, insurance examiners, and Scott F. Fitzpatrick, FSA, MAAA, actuary with the Oregon Insurance Division, participated in the examination.

Respectfully submitted,

---

Michael P. Phillips, CPA, CFE, AES  
Supervising Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

**AFFIDAVIT**

State of Oregon        )  
                                  ) ss  
Marion County        )

Mike P. Phillips, CFE, CPA, AES, being duly sworn, states as follows:

1. I have authority to represent the State of Oregon in the examination of PacificSource Health Plans
  
2. The Insurance Division of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
  
3. I have reviewed the examination work papers and examination report, and the examination of PacificSource Health Plans, was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

\_\_\_\_\_  
Mike P. Phillips, CFE, CPA, AES  
Supervising Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2009.

\_\_\_\_\_  
Notary Public in and for the State of Oregon

My Commission Expires: \_\_\_\_\_