



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

**SAMARITAN HEALTH PLANS, INC.
DBA SAMARITAN ADVANTAGE HEALTH PLAN
CORVALLIS, OREGON**

NAIC COMPANY CODE 12257

AS OF

December 31, 2008

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SALUTATION

July 14, 2009

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

Dear 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

**SAMARITAN HEALTH PLANS, INC.
dba SAMARITAN ADVANTAGE HEALTH PLAN
3600 NW Samaritan Drive
Corvallis, Oregon 97330**

NAIC Company Code 12257

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

SCOPE OF EXAMINATION

We examined the Company's financial statements as of December 31, 2008. This examination covers the three-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, 2005, 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.

DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of Oregon on May 16, 2004. On June 15, 2004, the Company received an acknowledgment letter for the assumed name of Samaritan Health Plans, Inc., dba Samaritan Advantage Health Plan.

On January 31, 2005, the Company received its Certificate of Authority from the State of Oregon to conduct business as a health care service contractor under ORS 750.

The Company is an Oregon non-profit mutual benefit corporation that is a subsidiary of Samaritan Health Services, Inc. (SHS).

In 2005, the Company was approved as a coordinated care plan by the Centers for Medicare and Medicaid Services. The approval allows the Company to enroll members to Medicare Advantage plans.

CAPITALIZATION

The Company was initially capitalized in September 2004 with a surplus contribution from SHS totaling \$3,001,000. The Company is an Oregon non-profit mutual benefit corporation with its sole member being SHS. In March 2008, the Company issued a \$1.5 million Surplus Note to SHS in return for a cash contribution of \$1.5 million. Interest accrues at a 5% annual rate and the entire surplus note plus unpaid interest is payable in December 2012. Interest payments and repayment of principal are dependent on the Director's approval.

MANAGEMENT AND CONTROL

Board of Directors

The Restated Bylaws vest the Company's management and control in a Board of Directors consisting of no less than nine and no more than fifteen members. During 2007 and 2008, the Board of Directors had only eight members. **I recommend the Company comply with its Bylaws and appoint at least nine members to its Board of Directors.**

One third of the Board shall be representatives of the public who are not practicing doctors nor have a familial or employment relationship with the corporation or shareholders of the corporation. The directors serving the Company at December 31, 2008, were as follows:

<u>Name and Address</u>	<u>Position and Affiliation</u>	<u>Representation</u>
Larry A Mullins Corvallis, OR 97330	President/CEO Samaritan Health Services	Medical
Richard S. Hein Corvallis, OR 97339	President OSU Federal Community Credit Union	Public
David G. Triebes Albany, OR 97321	CEO / Attorney Samaritan General Hospital Albany	Public
John D. Lees MD Albany, OR 97321	Ophthalmology Eye Care Associates	Medical
Richard L. Fox, MD Depoe Bay, OR 97341	Physician Samaritan Pacific Health System	Medical
Doris Mimnaugh Corvallis, OR 97330	Retired – Volunteer Samaritan Health Systems Auxiliary	Public
Gilbert L Beck Corvallis, OR 97330	President CEO - Retired Western Allied Corp	Public
Michael G. Maksud PhD Corvallis, OR 97330	Dean Higher Education Retired	Public

*Chairman of the Board

At least one third of the members of the Board of Directors are representatives of the public as required by to the provisions of ORS 750.015(1).

Officers

Principal officers managing the Company as of December 31, 2008, were as follows:

<u>Name</u>	<u>Office</u>
Kelley C. Kaiser	Chief Executive Officer
Ronald S. Stevens	Chief Financial Officer
Kim R. Whitley	Chief Operating Officer

Officers and Board members appear to have sufficient insurance experience and the ability to direct the affairs of the Plan as required by ORS 731.386(1).

Affiliated Companies

Samaritan Health Services (SHS) is a non-profit corporation that operates five hospitals, including Good Samaritan Regional Medical Center (GSRMC) in Corvallis, Oregon. SHS is the sole member of the Plan and the ultimate controlling entity.

InterCommunity Health Plans, Inc. (IHP) is a wholly owned subsidiary of SHS formed as a fully capitated health plan under the Department of Medical Assistance Programs (DMAP). IHP has substantial experience in managing health plans for the Oregon Health Plan.

INTERCOMPANY AGREEMENTS

Effective January 1, 2008, the Company signed an agreement with SHS, whereby SHS provides administrative and staff services. Administrative services included human resources, payroll, accounting, risk management, investments, materials management and stores. Trained staff management and operations staff, including Medical Director services, were included as staff services. A \$6,500 per month payment covered the administrative services portion, while staff services were charged at the cost of employee salaries plus related taxes.

CONFLICT OF INTEREST

The Company requires officers and directors to read the corporate conflict of interest policy and then disclose any conflict of interest on a signed conflict of interest statement. A signed conflict of interest statement was received from each of the directors. They appeared to have adequately disclosed any conflicts of interest.

CORPORATE RECORDS

The corporate records, including the Articles of Incorporation, Bylaws and minutes of the Board of Directors meetings and committee meetings, were reviewed for the period under examination.

Board Minutes

A quorum met at each Board of Directors meeting during the examination period. The Board minutes were recorded in sufficient detail to have an understanding of the actions taken by the Board. See also the Accounts and Records section of this report.

Articles of Incorporation

The Articles of Incorporation conformed with Oregon Statutes. No changes were made to the Articles of Incorporation during the period under examination.

Bylaws

The Bylaws conformed with Oregon Statutes. Restated Bylaws were adopted by the Board on October 3, 2007. These Bylaws require the Board have no less than nine and no more than fifteen members. During 2007 and 2008, the Board of Directors had only eight members. See the recommendation under Board of Directors that recommends the Company comply with its Bylaws and appoint at least nine members to its Board of Directors.

FIDELITY BONDS AND OTHER INSURANCE COVERAGES

SHS carried insurance covering itself and its subsidiaries, including the Company. An Executive Liability policy covered losses up to \$10,000,000. A directors and officers policy covered losses from wrongful acts up to \$2,000,000 after a retention of \$50,000 per claim. These coverages exceed the minimum coverage recommended by the NAIC.

The Company leases space from SHS. It has no autos or EDP equipment. It contracts with SHS for employees for which they pay under an administrative agreement; therefore, no coverage for employees is needed.

The Company has no need for additional insurance coverages.

PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

All retirement plans, deferred compensation, post employment benefits, compensated absences and other post retirement benefit plans are maintained by SHS as part of a management agreement.

TERRITORY AND PLAN OF OPERATION

The Company received approval from the Centers for Medicare and Medicaid Services (CMS) in May 2005 to become a coordinated care plan. The Company provides health services as a Medicare Advantage risk contractor to persons eligible for Medicare by selling four different products 1) premium – includes medical and pharmacy, 2) conventional – includes medical only, 3) special needs, and 4) premier plus. The Company has arranged to provide such health care services through executed contracts for professional services with SHS and other professional service providers in the Mid-Willamette Valley. CMS restricts the Company's service area to Linn, Benton, and Lincoln counties. The Company is only authorized to transact health insurance in Oregon.

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 a report of examination was published by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Net Income</u>
2005*	\$ 4,841,410	\$1,439,894	\$3,401,516	\$ (834,623)
2006	10,464,972	6,513,248	3,951,724	1,204,211
2007	9,708,348	5,394,853	4,313,495	55,860
2008*	13,440,154	6,950,512	6,489,642	833,950

*Per examination

LOSS EXPERIENCE

Annual underwriting results for the Company are shown below. Amounts shown were compiled from the Company's annual statements, except in those years in which a report of examination was published by the Oregon Insurance Division.

<u>Year</u>	<u>Premium Income</u>	<u>Claims Incurred</u>	<u>Ratio</u>
2005*	\$ 3,828,642	\$ 3,813,662	99.61%
2006	29,172,458	25,945,250	88.94%
2007	32,437,245	30,583,372	94.28%
2008*	46,690,490	43,131,298	92.38%

*Per examination

REINSURANCE

During 2008 the Company had a Stop Loss Reinsurance Agreement with OneBeacon Insurance Company covering Medicare Advantage. Under terms of the agreement, the reinsurer reimburses the Company for losses per member up to \$1,000,000 per policy period for each Medicare risk. Retention was \$150,000 per Medicare Advantage member, subject to an average per day maximum of \$5,000 for eligible inpatient and \$2,000 for outpatient services. The Company's reinsurance agreements clearly specified the risk taken by the reinsurer, with no unusual provisions reducing the reinsurer's risk.

Insolvency Clause

The reinsurance agreement contained an insolvency clause which meets the requirements of ORS 731.508(3).

Unauthorized Reinsurance

No funds were held for unauthorized reinsurance. OneBeacon Insurance Company is authorized to write insurance in Oregon since November 1956. It is authorized to write property-casualty, workers' compensation, marine and transportation and surety lines. However, it is not authorized to write health. This is in violation of ORS 731.508(1) which states an insurer may accept reinsurance only of such risks, and retain risk thereon within such limits, as it is otherwise authorized to insure. **I recommend the Company obtain reinsurance with a reinsurer that is authorized to write health insurance in Oregon in compliance with ORS 731.508(1).**

Prior to the publication of this examination report, the Company obtained reinsurance through OneBeacon America Insurance Company effective January 1, 2009. OneBeacon America Insurance Company is authorized to write health insurance in Oregon.

Risk Retention

The Plan did not retain risk on any one subject in excess of 10% of its surplus to policyholders as required by the provisions of ORS 731.504.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in its 2008 annual statement and were maintained in a manner by which the financial condition was readily verifiable as required by the provisions of ORS 733.170. However, the following comments or recommendations have been made as a result of this examination:

Board of Director Approval of Investments

The examiner found no evidence that the Board of Directors approved any investment transactions during 2008. **I recommend the Board of Directors approve all investment transactions in a timely manner, in accordance with the requirements of the NAIC Examiners Handbook and ORS 733.730 and 733.740.**

At the May 6, 2009 meeting, the Board of Directors approved the investments purchases and sales.

Advance Premium Detail

The Company did not maintain advance premiums detail by member/policy at December 31, 2008. The examiner could not, therefore, test premiums received in advance. **I recommend the Company maintain advance premium detail by member/policy on a monthly basis to allow verification of year-end account balances, in accordance the NAIC Financial Condition Examiners Handbook and ORS 731.302.**

Investment Income Due and Accrued

The Company reported investment income due and accrued in the amount of \$67,113. It reported accrued bond interest in the amount of \$37,121 resulting in a discrepancy of \$29,992. It did not report any accrued interest for short-term investments and did not hold any preferred or common stocks. **I recommend the Company reconcile investment income due and accrued to related investment schedules and exhibits to more accurately account for the reported accrued amount. This would comply with the NAIC Annual Statement Instructions and ORS 731.302.**

State Taxes Payable Reporting

In the process of reviewing the current-year activity, the examiner determined that the annual statement liability, current federal and foreign income tax payable, of \$318,720 included \$90,150 of state taxes payable. Annual Statement Instructions require a liability for federal and foreign income taxes due or accrued be reported separately from state income taxes payable. **I recommend the Company report federal and foreign taxes payable and state taxes payable in accordance with Annual Statement Instructions pursuant to ORS 731.574(1).**

SAMARITAN HEALTH PLANS, INC.
DBA SAMARITAN ADVANTAGE HEALTH PLAN
BALANCE SHEET
As of December 31, 2008

<u>ASSETS</u>	<u>Annual Statement</u>	<u>Examination Adjustments</u>	<u>Examination Balance</u>
Bonds (Note 1)	\$ 5,477,083	\$ 0	\$ 5,477,083
Cash & short – term investments	3,307,410		3,307,410
Investment income due and accrued	67,113		67,113
Uncollected premiums	1,704,450		1,704,450
Accrued retrospective premiums	573,415		573,415
Amounts recoverable from reinsurers	58,071		58,071
Amounts receivable relating to uninsured plans	1,746,599		1,746,599
Net deferred tax asset	64,701		64,701
Receivable from parent subs & affiliates	<u>441,312</u>	<u>0</u>	<u>441,312</u>
Total Assets	<u>\$13,440,154</u>	<u>\$ 0</u>	<u>\$13,440,154</u>
 <u>LIABILITIES</u>			
Claims unpaid (Note 2)	\$6,034,539	\$ 0	\$6,034,539
Accrued medical incentive pool	12,000		12,000
Unpaid claims adjustment expense	60,511		60,511
Premiums received in advance	145,073		145,073
General expenses due or accrued	154,051		154,051
Current federal income tax payable	318,720		318,720
Amounts due to parent & affiliates	<u>225,618</u>	<u>0</u>	<u>225,618</u>
Total Liabilities	<u>6,950,512</u>	<u>0</u>	<u>6,950,512</u>
 <u>CAPITAL & SURPLUS</u>			
Gross paid in and contributed surplus	3,950,000		3,950,000
Surplus notes	1,500,000		1,500,000
Unassigned funds	<u>1,039,642</u>	<u>0</u>	<u>1,039,642</u>
Total Capital and Surplus	<u>6,489,642</u>	<u>0</u>	<u>6,489,642</u>
Total Liabilities, Capital and Surplus	<u>\$13,440,154</u>	<u>\$ 0</u>	<u>\$13,440,154</u>

SAMARITAN HEALTH PLANS, INC.
DBA SAMARITAN ADVANTAGE HEALTH PLAN
INCOME STATEMENT
For the Year Ending December 31, 2008

Net Premium Income	<u>\$46,690,490</u>
Hospital and medical deductions	24,252,710
Other professional services	11,239,061
Outside referrals	221,824
Emergency room and out-of-area	1,257,000
Prescription Drugs	<u>6,454,658</u>
Subtotal	43,425,253
Less:	
Net reinsurance recoveries	<u>293,955</u>
Total hospital and medical	43,131,298
Claims adjustment expenses	1,643,655
General administrative expenses	<u>982,720</u>
Total Underwriting deductions	<u>45,757,673</u>
Net underwriting gain or (loss)	<u>932,817</u>
Net investment income earned	330,412
Net realized capital gains (losses)	<u>17,526</u>
Net Investment gains (losses)	<u>347,938</u>
Net income or (loss) before federal income tax	1,280,755
Federal income tax incurred	<u>446,805</u>
Net income (loss)	<u>833,950</u>

CAPITAL AND SURPLUS

Capital and surplus, December 31, 2007	<u>4,313,495</u>
Net Income (loss)	833,950
Change in net deferred income tax	35,701
Change in nonadmitted assets	(117,398)
Change in Surplus notes	1,500,000
Aggregate write-ins for gains or (losses) in surplus	<u>(76,106)</u>
Net change in capital and surplus	<u>2,176,147</u>
Capital and surplus, December 31, 2008	<u>\$ 6,489,642</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

Bonds comprise 40.7% of total assets. US Treasury Notes and one GNMA comprised the entire portfolio in 2006, 2007, and 2008. All the bonds were investment grade as designated by the NAIC.

<u>Year</u>	<u>(1)</u> <u>Book Value</u> <u>Bonds</u>	<u>(2)</u> <u>Market Value</u> <u>Bonds</u>	<u>(3)</u> <u>Noninvestment</u> <u>Grade Bonds*</u>	<u>(3/1)</u> <u>% of</u> <u>Portfolio</u>
2005**	\$2,142,124	\$2,142,124	0	0%
2006	5,334,085	5,294,480	0	0%
2007	6,775,863	6,861,516	0	0%
2008**	5,477,083	5,679,906	0	0%

*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 COMMENTS AND RECOMMENDATIONS

Page

- 5 I recommend the Company comply with its Bylaws and appoint at least nine members to its Board of Directors.
- 11 I recommend the Company obtain reinsurance with a reinsurer that is authorized to write health insurance in Oregon in compliance with ORS 731.508(1).
- 12 I recommend the Board of Directors approve all investment transactions in a timely manner, in accordance with the requirements of the NAIC Examiners Handbook and ORS 733.730 and 733.740.
- 12 I recommend the Company maintain advance premium detail by member/policy on a monthly basis to allow more accurate verification of year-end account balances, in accordance with the NAIC Financial Condition Examiners Handbook and ORS 731.302.

- 12 I recommend the Company reconcile investment income due and accrued to related investment schedules and exhibits to more accurately account for the reported accrued amount. This would comply with the NAIC Annual Statement Instructions and ORS 731.302.
- 13 I recommend the Company report federal and foreign taxes payable and state taxes payable in accordance with Annual Statement Instructions pursuant to ORS 731.574(1).

CONCLUSION

During the examination's three year period, the Company's surplus increased from \$3,401,516 as of December 31, 2005, to \$6,489,642 as shown in this examination report.

Comparative assets and liabilities are shown below:

	<u>2008</u>	December 31, <u>2005</u>	<u>Change</u>
Assets	\$13,440,154	\$4,841,410	\$8,598,744
Liabilities	<u>6,950,512</u>	<u>1,439,894</u>	<u>5,510,618</u>
Surplus	<u>\$ 6,489,642</u>	<u>\$3,401,516</u>	<u>\$3,088,126</u>

SUBSEQUENT EVENTS

At its January 7, 2009 meeting, the Board of Directors elected seven new Board members. At the same meeting, it approved the November 5, 2008, Board meeting minutes which mention it is considering increasing the size of the Board to 13 members. Management put in place a plan to increase the Board members to 13 effective January 2009.

The Company's reinsurance intermediary changed the Company's reinsurance policy to OneBeacon America Insurance Company (OBAIC) effective January 1, 2009. OBAIC is authorized to write health insurance in Oregon.

ACKNOWLEDGMENT

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

In addition to the undersigned, Raymond Anderson, AFE, and Mark Giffin, CFE, financial examiners, and Scott Fitzpatrick, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

Mike P. Phillips, CFE, CPA, 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 Samaritan Health Plans, Inc. dba Samaritan Advantage Health Plan.

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 Samaritan Health Plans, Inc. dba Samaritan Advantage Health Plan., 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: _____