



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF QUALIFYING FINANCIAL EXAMINATION

OF

**TIMBER PRODUCTS MANUFACTURERS TRUST  
SPOKANE, WASHINGTON**

AS OF

February 29, 2004

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April 23, 2004

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

Dear Director:

In accordance with your instructions and pursuant to ORS 731.300, I have examined the business affairs and financial condition of

**TIMBER PRODUCTS MANUFACTURERS TRUST**  
**951 E. Third Avenue**  
**Spokane, Washington 99202**

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

## **SCOPE OF EXAMINATION**

This qualifying examination of the Trust was conducted as of February 29, 2004, and included subsequent events that are considered material to the financial condition and compliance with the Oregon Insurance Code.

The examination was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC).

## **COMPANY HISTORY**

Timber Products Manufacturers Trust ("Trust") was formed August 4, 1960, by Timber Products Manufacturers ("TPM"). TPM is an association of employers in the wood products industry and is the sponsor of the Trust. TPM is a non-profit, non-stock corporation with a mission to improve, promote and advance the common interests and welfare of employers in the timber products industry. TPM established the Trust to provide health, dental, vision, life and short-term disability benefits to participating employers. The Trust and TPM were established under the Laws of the State of Washington. The Trust has been operating under Title I of ERISA and is a general nonprofit corporation registered under the provisions of the Internal Revenue Code of 1986, Section 501(c)(9). Pursuant to ORS 750.305, the Trust has applied for a Certificate of Multiple Employer Welfare Arrangement to conduct business as a Multiple Employer Welfare Arrangement.

## **TRUST**

Timber Products Manufacturers, Inc. (the Association) – The Association is representing 180 members of the timber industry. Founded in 1916, the Association serves its member companies through government relations and public policy development, research and analysis, communication, and a variety of coordinated member services. Dues from each member company fund the Association.

## **CAPITALIZATION**

The Trust was founded in 1960 and has been operating as a Multiple Employer Welfare Arrangement. All surplus funds as of February 29, 2004, are the result of profits on its ongoing operations and total \$3,155,244. The Trust complies with the capital and surplus requirements of ORS 750.309(3).

## **TRUST RECORDS**

The examination included a review of the Trust's records which include: Application for Certificate of Multiple Employer Welfare Arrangement, Trust Agreement, Third Party Administration Agreements, and Participation Agreements with sponsoring employers.

### **Trust Agreement**

The Trust is governed by a trust agreement which defines its purpose and sets forth the rights and obligations of its Trustees and participants. The Board of Directors appoints trustees from the participating members. Trustees serve until fulfillment of their term, resignation, removal, incapacity or death.

The Trust does not have Articles of Incorporation or Bylaws as it is governed by a trust agreement.

## **MANAGEMENT AND CONTROL**

The Board of Directors appoints Trustees and their respective affiliation is as follows:

### **Name and Address**

### **Affiliation**

Loren Rose\*  
PO Box 549  
Seeley Lake, MT 59868

Controller  
Pyramid Mountain Lumber, Inc.

Dick Molenda  
PO Box 190  
Polson, MT 59860

President  
Western Bee Supplies

**Name and Address**

**Affiliation**

Patrick Marion  
PO Box 1496  
Tacoma, WA 98401

Director of Human Resources  
L.D. McFarland Company

Bill Clawson  
PO Box 17557  
Missoula, MT 59807

President  
Clawson Manufacturing Company

Mike Clements  
PO Box 8288  
Boise, ID 83707

Chief Financial Officer  
Intermountain Orient

Ernie Schmidt  
PO Box 6088  
Sheridan, WY 82801

President  
Wyoming Saw Mills

Suzanne Lord  
149 SE Ninth Street  
Bend, OR 97702  
\*Chairman of the Board

Chief Financial Officer  
Bend Garbage & Recycling

**Officers**

The officers of the Trust as of February 29, 2004, are as follows:

**Name**

**Title**

Loren Rose  
Dick Molenda  
Chistina DeAugustino

Chairman  
Vice Chairman  
Secretary

The Trust meets the requirements of ORS 750.309(1) by contracting with a third party administrator licensed under ORS Chapter 744.

**SERVICE AGREEMENTS**

**Administrative Service Agreements**

The Trust is party to various administrative service agreements with service providers and consultants for the purposes of satisfying operational requirements of the employee benefit plan.

## **CONFLICT OF INTEREST**

The Trust requires its trustees to disclose any conflict of interest by signing a conflict of interest statement.

From a review of the conflict of interest statements, it appeared the trustees performed due diligence in disclosing all and any potential conflicts of interest.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Trust has adequate insurance coverages in all exposed areas of risk. The examination of these coverages involved determining the methods by which the Trust assesses risk, adequacy of limits and retentions, and solvency of the insurers providing the coverages.

In addition to the general liability and fiduciary responsibility coverages, the Trust is covered up to \$1,000,000 for each claim and in aggregate for directors and officers liability insurance. The fidelity coverage under its crime policy of \$500,000 meets the prescribed minimum coverage as specified by the NAIC.

## **TERRITORY AND PLAN OF OPERATION**

Timber Products Manufacturers, Inc., is an employer association primarily operating in five states: Washington, Oregon, Idaho, Montana, and Wyoming. The Association has been in existence since 1916. The Association sponsors the Trust which commenced operation of the health plan in 1960. Currently about 180 member companies cover 4,200 employees and their dependents. A company must be a member of the Association in order to participate in the Trust. The Trust currently offers self-funded group health and short-term disability benefits to its member companies in the states mentioned above.

## **REINSURANCE**

Effective April 1, 2003, the Trust obtained an excess of loss reinsurance policy that provides reinsurance coverage for medical expenses in excess of \$250,000 per member, with a per lifetime maximum reimbursement of \$2,000,000. In addition to the per member limitations, once the aggregate deductible amount has been reached for the agreement year, the reinsurer pays 100% of eligible charges up to \$1,000,000. The annual aggregate deductible is based on the number of covered members times a monthly factor. The Trust meets the requirements of ORS 750.309(2).

### ***Provision for Notification upon Termination***

The Trust's reinsurance agreement contains a provision that it may not be terminated for any reason by any person unless the director of the Department of Consumer and Business Services receives a written notice of termination from the insurer at least 30 days before the effective date of the termination as required by ORS 750.309(2)(b).

## **STATUTORY DEPOSIT**

The Trust filed a surety bond in the sum of \$250,000 with the Oregon Insurance Division which meets the requirements of ORS 750.309(5).

## **ACCOUNTS AND RECORDS**

The records and source documentation supported the amounts presented in the Trust's February 29, 2004, financial statements and are maintained in a manner by which the financial condition can readily be verified as required by ORS 733.170. However, attention is directed to the following issues:

### **Management of Trust**

Management of the Trust is invested in its chairman, vice chairman, and secretary. Day to day operations are controlled by the president of the Association. However, the Trust is lacking experience in statutory accounting methods and maintenance of records for statutory purposes. **I recommend the Trust employ an individual familiar with statutory accounting principals or provide current employees appropriate training to assist the Trust in its filing requirements as a Multiple Employer Welfare Arrangement.** This recommendation is made pursuant to the provisions of ORS 731.386(1), management of insurers, which in part states that the director of the Department of Consumer and Business Services shall not grant or continue authority to transact insurance in this state for any insurer the management of which lacks insurance experience.

### **Records Maintenance**

From a review of the trial balance, the examiner determined that several accounts reflected the same balance for a period of one year at which time independent auditors would determine the average balance of the supporting detail for the previous year and this average would be used for the ensuing year. Actual amounts would fluctuate minimally month-to-month. This is contrary to the provisions of ORS 733.170, accounts and records, which in part states that an insurer shall keep its books, records, accounts and transactions source data in such manner that the director of the Department of Consumer and Business Services may readily verify its statements of financial condition. **I recommend the Trust report actual account balances in its financial statements rather than taking the average balance of prior month balances.** This recommendation is made pursuant to the provisions of ORS 733.170. Because the

differences between the actual account balances and the estimated balances reported by the Company are immaterial, no adjustments have been made.

Based on a review of the Trust's accounts, it appears the Trust has made sufficient provisions for the recording of all assets, liabilities, surplus, income and expenses related to its proposed operations.

The Trust is in compliance with ORS 733.580 which relates to investment of required capitalization.

The Trust agrees to establish procedures to account for funds subject to escheat as required by ORS 98.352.

**TIMBER PRODUCTS MANUFACTURERS TRUST**  
**STATEMENT OF ASSETS, LIABILITIES, RESERVES AND OTHER FUNDS**  
**AS OF FEBRUARY 29, 2004**

<b><u>ASSETS</u></b>	<b><u>Company</u></b>	<b><u>Examination Adjustments</u></b>	<b><u>Per Examination</u></b>
Bonds	\$4,268,245	\$	\$4,268,245
Cash & short- term investments	1,499,747		1,499,747
Interest due and accrued <b>(Note 1)</b>	66,173		66,173
Premiums receivable and unpaid <b>(Note 1)</b>	15,152		15,152
Aggregate write-ins for other than invested assets	<u>115,884</u>	<u>(10,585)</u>	<u>105,299</u>
Total Assets	<u>\$5,965,201</u>	<u>\$(10,585)</u>	<u>\$5,954,616</u>
 <b><u>LIABILITIES</u></b>			
Claims unpaid <b>(Note 2)</b>	\$2,331,895	\$256,893	\$2,588,788
Unpaid claims adjustment expenses <b>(Note 2)</b>		103,552	103,552
Other expenses	30,000		30,000
Unearned premiums <b>(Note 1)</b>	76,860		76,860
Aggregate write-in for other liabilities	<u>172</u>	<u>0</u>	<u>172</u>
Total Liabilities	<u>2,438,927</u>	<u>360,445</u>	<u>2,799,372</u>
 <b><u>SURPLUS</u></b>			
Surplus as regards to policyholders	<u>3,526,274</u>	<u>(371,030)</u>	<u>3,155,244</u>
Total Liabilities and Surplus	<u>\$5,965,201</u>	<u>\$(10,585)</u>	<u>\$5,954,616</u>

**TIMBER PRODUCTS MANUFACTURERS TRUST**  
**INCOME STATEMENT**  
**FOR THE PERIOD ENDING FEBRUARY 29, 2004**

**UNDERWRITING INCOME**

Premiums earned \$17,698,920

**INVESTMENT INCOME**

Interest income 136,256

Gain on sale of investments 148,737

Interest income 4,251

Total investment income 289,244

**MISCELLANEOUS INCOME**

Cobra/self deposits 226,362

Miscellaneous 3,760

Total miscellaneous income 230,122

Total Income 18,218,286

Deductions:

Claims expenses (**Note 2**) 15,134,532

Administrative expenses 924,650

Fixed costs 677,895

Miscellaneous expenses 288,202

Total Deductions 17,025,279

Net Gain or (Loss) \$ 1,193,007

**CAPITAL AND SURPLUS**

Surplus and special funds March 31, 2003 \$ 1,972,822

Net Gain or (Loss) 1,193,007

Change in admitted assets (10,585)

Surplus and special funds February 29, 2004 \$ 3,155,244

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 1 - Interest Due and Accrued, Premium Receivable and Unpaid, Unearned Premiums**

These three line items represent averages for statement purposes. As noted in the Accounts and Records section, actual amounts should be used versus averages. These line item amounts fluctuate minimally month-to-month. Because the differences between the actual account balances and the estimated balances reported by the Company are immaterial, no adjustments have been made.

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

Mr. David Ball, actuary for the State of Oregon Department of Consumer and Business Services, has determined that the liabilities accrued for claims unpaid and unpaid claims adjustment expenses were under reserved by the following amounts.

Claims Unpaid

Per Company	\$2,331,895
Per examination	<u>2,588,788</u>
Difference	<u>\$ 256,893</u>

Unpaid Claims Adjustment Expenses

Per Company	\$ 0
Per examination	<u>103,552</u>
Difference	<u>\$103,552</u>

The above differences resulted in an adjustment to claims unpaid, unpaid claims adjustment expenses, and claims expenses.

**SUMMARY OF FINANCIAL COMMENTS AND RECOMMENDATIONS**

Page

- 9 I recommend the Trust employ an individual familiar with statutory accounting principals or provide current employees appropriate training to assist the Trust in its filing requirements as a Multiple Employer Welfare Arrangement.
  
- 9 I recommend the Trust report actual account balances in its financial statements rather than taking the average balance of prior month balances.

## **MARKET CONDUCT**

An initial qualifying market conduct review was conducted on April 13 and April 14, 2004, to determine the Trust's ability to comply with applicable requirements in several areas of operation. The examination consisted of interviewing persons involved in the development and implementation of the benefit plan and reviewing various documents provided by those individuals.

The Trust was unable to demonstrate an ability to comply with applicable requirements of Oregon statutes, rules and regulations for providing health insurance. The following deficiencies were noted as a result of this limited review. It should be noted a comprehensive market conduct examination was not conducted.

### **SUMMARY OF MARKET CONDUCT COMMENTS AND RECOMMENDATIONS**

- 1 I recommend the Trust adequately monitor the activities of the TPA or any other entity that contractually assumes a business function or is acting on behalf of the Company in compliance with ORS 744.700 through 744.740 and OAR 836-075-0050(3).
- 2 I recommend the Trust contract with their TPA to comply with applicable statutes, rules and regulations in compliance with ORS 744.700 through 744.740 and OAR 836-075-0050(3).
- 3 I recommend the Trust have a timely and organized system for resolving grievances and appeals that complies with all applicable statutes, rules and regulations in compliance with ORS 743.804(3).
- 4 I recommend the Trust file the required annual report on grievances and appeals in the format prescribed by rule in compliance with ORS 743.804(6)(c) and (9) and OAR 836-053-1000(3)(a). Format: OAR 836-053-1070(1)(2) and (3) and Bulletin 2003-1.
- 5 I recommend the Trust provide to all enrollees, either directly or through the group policyholder, a summary explaining the procedures for appealing decisions adversely affecting the enrollee's benefits or enrollment status in compliance with ORS 743.804(5)(f)(h) and (q) and ORS 743.859.
- 6 I recommend the Trust acknowledge grievances and appeals within seven days from receipt of the grievance or appeal in compliance with ORS 743.804(3)(d) and OAR 836-053-1100(1)(a).

- 7 I recommend the Trust make a decision regarding grievances and appeals within 30 days from the receipt of the grievance or appeal in compliance with ORS 743.804(3)(d) and OAR 836-053-1100(1)(b) and (2).
- 8 I recommend the Trust have a grievance and appeal process with at least three levels of appeal, including external review in compliance with ORS 743.804(3)(f).
- 9 I recommend the Trust have an external review program that complies with all applicable statutes, rules and regulations in compliance with ORS 743.804(3)(f)(A), ORS 743.857, ORS 743.859, ORS 743.861, OAR 836-053-1337, OAR 836-053-1340(1), (2) and (6) and OAR 836-053-1342(1).
- 10 I recommend the Trust establish and use claim procedures in compliance with all applicable statutes, rules and regulations. ORS 746.230, ORS 733.170, ORS 743.693 - 743.729, ORS 743.737, ORS 743.754, ORS 743.823, ORS 746.240, ORS 743.699, ORS 743.801, ORS 743.556, OAR 836-080-0205 - 836-080-0240, OAR 836-053-0040, OAR 836-053-230, OAR 836-053-1030, OAR 836-052-0220 - 836-052-0245 and Bulletin 90-6.

Management of the Trust is aware of the financial and market conduct comments and recommendations contained in this report and the expectation that the Trust will comply with the Oregon Insurance Code.

### **CONCLUSION**

The Trust has completed its application and substantially conforms with the financial requirements of the Oregon Insurance Code and is aware of the expectation that it will comply with the applicable market conduct requirements of the Insurance Code.

## ACKNOWLEDGMENT

The cooperation and assistance extended by the consultants and service providers of the Trust during the examination process are gratefully acknowledged.

In addition to the undersigned, Gary Stephenson, AIE, market conduct insurance examiner, and David Ball, FSA, MAAA, Life and Health Actuary, for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

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Timothy Hurley, CFE  
Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

**AFFIDAVIT**

STATE OF OREGON            )  
  )  ss  
County of Marion            )

Timothy Hurley, being duly sworn, deposes and says that the foregoing qualifying financial report of examination as of February 29, 2004, of Timber Products Manufacturers Trust, Spokane, Washington, subscribed by him is true to the best of his knowledge and belief.

\_\_\_\_\_  
Timothy Hurley, CFE  
Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn before me this \_\_\_\_\_ day of \_\_\_\_\_, 2004

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

My commission expires \_\_\_\_\_