



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**TRILLIUM COMMUNITY HEALTH PLAN, INC.  
EUGENE, OREGON**

**NAIC COMPANY CODE 12559**

AS OF

DECEMBER 31, 2007

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## SALUTATION

July 11, 2008

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 Business and 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

**TRILLIUM COMMUNITY HEALTH PLAN, INC.**  
**1800 Millrace Drive**  
**Eugene, Oregon 97403**

**NAIC Company Code 12559**

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

## **SCOPE OF EXAMINATION**

We examined the Plan's financial statements as of December 31, 2007. This examination covers the one-year period then ended. Material transactions or events subsequent to the examination cut-off date were reviewed and noted during the examination.

We followed the provisions of ORS 731.300 and the procedures and guidelines prescribed by the NAIC. This examination determined the Plan's financial condition, ability to fulfill its obligations, nature of operations and compliance with the Insurance Code. Accounting methods, records and supporting evidence were examined or tested. Assets, liabilities, income and expense related items were also examined or tested.

## **COMPANY DESCRIPTION**

The Plan was incorporated in Oregon on February 14, 2006, as a for-profit health care service contractor to market group and individual health plans and related products and services to the general public. Specifically, the Plan covers enrollees whose Medicaid coverage is provided under their Office of Medical Assistance Program (OMAP) contract. Centers for Medicare and Medicaid Services (CMS) appointed the Plan as a Medicare Advantage plan after the Oregon Insurance Division granted them a Certificate of Authority. Operations began January 1, 2007.

The Plan is a direct subsidiary of Lane Individual Practice Association, Inc. ("LIPA"), an independent physicians association incorporated in the State of Oregon on January 29, 1996, and Trillium Holdings, Inc., a holding company, which directly owns both LIPA and the Plan.

LIPA owns 3,000 shares, or 60% of the issued and outstanding common capital stock of the Plan. LIPA writes Medicaid business in Oregon through a fully capitated plan with the

Oregon Health Plan, which is administered by OMAP, a division of the Oregon Department of Human Resources.

Trillium Holdings, Inc. (“THI”), owns the remaining 2,000 shares, or 40% of the issued and outstanding common capital stock. THI is a holding company formed to hold the stock of LIPA and the Plan. In turn, THI is 100% owned by Agate Resources Inc. Agate is a physician-owned employee leasing company, providing administration and computer services for LIPA and the Plan. A total of 303 individual shareholders own Agate Resources Inc.

### **CAPITALIZATION**

The Plan’s Articles authorize issuance of 10,000 shares of non-par voting common stock. As of December 31, 2007, there were 5,000 shares of \$1,000 per share stock issued and outstanding. LIPA owns 3,000 shares and Trillium Holdings, Inc., owns the remaining 2,000 shares.

### **MANAGEMENT AND CONTROL**

#### **Board of Directors**

The Bylaws specify that the business and affairs of the corporation shall be managed by a Board of Directors, which has the authority to represent the corporation on all business aspects. The Bylaws specify the number of directors of the corporation shall be between three and twelve, with each director serving a term of one year. The Bylaws further state that, at all times, at least one-third of the Board members must be representatives of the public who are not practicing physicians or employees or trustees of a hospital with which the corporation participates or contracts. The Plan, therefore, complies with ORS 750.015(1).

The following directors were serving the Plan at December 31, 2007:

<u>Name</u>	<u>Affiliation</u>	<u>Representing</u>
Thomas Kurt Wuest, MD Eugene, OR 97401	Surgeon Orthopedic HealthCare Northwest	Medical
Terry Wayne Coplin Eugene, OR 97403	Chief Executive Officer Lane Individual Practice Assn. Agate Resources, Inc.	Company
David Lavern Cole Eugene, OR 97403	Chief Financial Officer Lane Individual Practice Assn. Agate Resources, Inc.	Company
Peter Fletcher Davidson Eugene, OR 97401	Chief Executive Officer Oregon Medical Group/ Symbion, Inc.	Medical
Dean Raymond Kortge* Eugene, OR 97401	Agent Pacific Benefit Consultants	Public
Mary Frances Theresa Spilde* Eugene, OR 97405	President Lane Community College	Public

\*Public representatives

### Officers

Operating management of the Plan as of December 31, 2007, was under the direction of the following principal officers:

Thomas K. Wuest, MD	President
Terry W. Coplin	Secretary
David L. Cole	Vice President
Rhonda J. Busek	Senior Vice President of Governmental Affairs
John Sattenspiel	Chief Medical Officer

### AFFILIATED COMPANIES

The Plan is affiliated with the following companies, all of which are directly or indirectly owned by Agate Resources Inc.

Agate Resources, Inc. (Agate): Agate provides administrative services and leases employees and buildings for the Plan and LIPA. In return, the Plan pays Agate 9% of all payments

received from CMS and from Trillium members enrolled in a Medicare Advantage Plan. Agate owns 100% of Trillium Holdings Inc.

Trillium Holdings, Inc. owns 2,000, or 40%, shares of the Plan's issued and outstanding stock. In addition, it owns 100% of LIPA's common stock.

Lane Individual Practice Association Inc. (LIPA): LIPA provides services to Oregon Health Plan (OHP) members. Services include determining eligibility, paying claims and collecting OHP payments. LIPA owns 3,000, or 60%, of the Plan's issued and outstanding shares.

Apropo LLC (Apropo) negotiates contracts for the purchase of durable medical equipment (DME) with DME manufacturers. The Plan pays Apropo \$1 per member per month for this service. Apropo passes the savings for the DME on to the Plan and LIPA.

Lane Home Medical Equipment LLC (Lane) buys DME directly from the manufacturers. It resells the DME to LIPA, the Plan and the general public.

Individual Professional Services LLC (IPS) credentials providers for Agate.

## **INTERCOMPANY AGREEMENTS**

### **Administrative Services Agreement**

The Plan is party to an administrative service agreement with Agate. Under the terms of the agreement, Agate will perform certain services for the Plan, including employee leasing; medical management; utilization review; data processing; records maintenance and other services. Agate has an agreement with LIPA to maintain a provider network of physicians and hospitals, and Agate agrees to verify the providers' credentials, respond to inquiries and complaints, as well as maintain a process for peer review of quality care issues. For these services, Agate charged the Plan a monthly administrative fee of \$1,000 per month during

2006 and 9% of all payments from CMS and from Trillium members enrolled in the Medicare Advantage Plan beginning January 1, 2007.

Neither the agreement nor its amendment was approved by Trillium Community Health Plan Inc.'s Board of Directors. This violates ORS 732.215 prohibiting contracts granting management powers without the approval of the Board of Directors. Payments were not approved by the Board of Directors in violation of ORS 732.320(2) and (3).

**I recommend the Company submit the Administrative Services Agreement to the Plan's Board of Directors for approval. Its approval is necessary for the Administrative Services Agreement to comply with ORS 732.315 and ORS 732.320.**

#### **CONFLICT OF INTEREST**

Officers and members of the Board of Directors did not sign conflict of interest statements. ORS 733.210 states the director may apply and may require insurers to use and comply with standards, practices and procedures established by the NAIC in its manuals or other publications. One of the investment procedures required by the NAIC is that an insurer prepares conflict of interest statements. **I recommend that the Plan's officers and directors annually sign conflict of interest statements to comply with ORS 733.210.**

#### **CORPORATE RECORDS**

##### **Board of Director Minutes**

Corporate minutes were reviewed for the period under examination. It was noted that the Board of Directors did not approve investments and sales or exchanges made by the Plan as required by ORS 733.730. **I recommend the Board of Directors approve investments and sales or exchanges thereof as required by ORS 733.730.**

### **Articles of Incorporation**

The Articles of Incorporation conformed to Oregon statutes. No amendments were made to the Articles of Incorporation during the period covered by this examination.

### **Bylaws**

The Bylaws conformed to Oregon statutes. During this examination period, no amendments were made to the Bylaws.

### **INSURANCE HOLDING COMPANY REGISTRATION STATEMENT**

The Plan filed an insurance holding company registration statement in accordance with the provisions of ORS 732.552, ORS 732.554, and OAR 836-027-0020(1).

### **FIDELITY BONDS AND OTHER INSURANCE**

Trillium is covered by a \$500,000 fidelity bond, with a \$1,000 deductible, under a policy issued to Agate by Travelers Casualty & Surety Company of America. Fidelity coverage meets or exceeds the minimum limit recommended by the NAIC for companies of comparable size. Other protections include an errors & omissions policy. The Plan is a named insured on these policies.

### **REINSURANCE**

Under a Reinsurance Agreement, effective January 1, 2007 through January 1, 2008, the Plan cedes losses over the \$100,000 retention limit per claimant to HCC Life Insurance Company (HCC Life). HCC Life receives a per member per month fee for each Medicare Advantage enrolled member. Periodic electronic reports are made to HCC Life for all claimants for which the Plan has paid over the \$100,000 retention. This reinsurance agreement enables the Plan to comply with ORS 731.504, which limits the risk on any one subject to 10% of surplus. The Reinsurance Agreement's insolvency clause complies with ORS 731.508.

## **RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS**

Since the Plan has no employees, it has no retirement plans or postretirement benefits.

Employees are provided by Agate under the Administrative Services Agreement.

## **TERRITORY AND PLAN OF OPERATION**

Medicare Advantage coverage was offered to Lane County, Oregon residents in 2007. In

2008, the Plan offered the same coverage to Jackson County, Oregon residents.

## **GROWTH OF THE PLAN**

Growth of the Plan since the qualifying examination as of March 27, 2006, is shown in the following schedule. Stated amounts were derived from the Plan's filed annual statements, except for years in which the Oregon Insurance Division issued a report of examination.

<b><u>Year</u></b>	<b><u>Admitted Assets</u></b>	<b><u>Liabilities</u></b>	<b><u>Surplus</u></b>	<b><u>Net Income</u></b>
2006	\$4,049,085	\$ 103,160	\$3,945,925	(\$1,054,075)
2007*	9,700,311	5,578,778	4,121,533	585,977

\*Per examination

## LOSS EXPERIENCE

The following exhibit reflects the underwriting results of the Plan since the qualifying examination. Amounts were compiled from the Plan's filed annual statements, except in those years where the Oregon Insurance Division has prepared a report of examination.

<u>Year</u>	<u>A</u> <u>Premiums Earned</u>	<u>B</u> <u>Incurred Claims</u>	<u>C</u> <u>Incurred Expenses</u>	<u>(B+C)/A</u> <u>Ratio</u>
2006*	\$ 0	\$ 0	\$1,206,788	N/A
2007**	26,235,216	21,885,426	3,846,970	98.1%

\*Only organizational expenses were incurred in 2006, no insurance was written.

\*\*Per examination

## ACCOUNTS AND RECORDS

All records were made available to the examiners in compliance with the provisions of ORS 733.170. Records and assets were kept in Oregon in compliance with ORS 732.245.

**TRILLIUM COMMUNITY HEALTH PLAN, INC.**  
**BALANCE SHEET**  
**As of December 31, 2007**

<b><u>ASSETS</u></b>	<b><u>Per Plan</u></b>	<b><u>Examination Adjustments</u></b>	<b><u>Per Examination</u></b>
Bonds (Note 1)	\$ 259,866	\$ 0	\$ 259,866
Cash and short-term investments (Note 1)	5,747,197		5,747,197
Investment income due and accrued	4,932		4,932
Uncollected premiums	20,992		20,992
Accrued retrospective premiums (Note 2)	297,986		297,986
Amounts recoverable from reinsurer	642,742		642,742
Amounts receivable relating to uninsured plans (Note 2)	2,608,039		2,608,039
Receivable from parent, subsidiaries and affiliates	94,557		94,557
Healthcare receivables	<u>24,000</u>	<u>0</u>	<u>24,000</u>
Total Assets	<u>\$9,700,311</u>	<u>\$ 0</u>	<u>\$9,700,311</u>
 <b><u>LIABILITIES</u></b>			
Claims unpaid (Note 2)	\$4,232,000	\$ 0	\$4,232,000
Unpaid claims adjustment expense	131,000		131,000
General expenses due or accrued	347,762		347,762
Current Federal income tax payable	288,114		288,114
Net deferred tax liability	344,169		344,169
Ceded reinsurance premiums payable	172,517		172,517
Amounts due to parent, subsidiaries and affiliates	<u>63,217</u>	<u>0</u>	<u>63,217</u>
Total Liabilities	<u>5,578,778</u>	<u>0</u>	<u>5,578,778</u>
 <b><u>CAPITAL &amp; SURPLUS</u></b>			
Common capital stock	5,000,000		5,000,000
Unassigned funds (surplus)	<u>(878,467)</u>	<u>0</u>	<u>(878,467)</u>
Total Capital & Surplus	<u>4,121,533</u>	<u>0</u>	<u>4,121,533</u>
Total Liabilities, Capital & Surplus	<u>\$9,700,311</u>	<u>\$ 0</u>	<u>\$9,700,311</u>

**TRILLIUM COMMUNITY HEALTH PLAN, INC.**  
**INCOME STATEMENT**  
**For the Year Ended December 31, 2007**

	<u>Per Plan</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Net premium income	\$26,235,216	\$ 0	\$26,235,216
Hospital and Medical:			
Hospital and medical benefits	18,622,647		18,622,647
Other professional services	294,601		294,601
Emergency room and out-of-area	937,139		937,139
Prescription drugs	3,166,456		3,166,456
Incentive pool withhold adjustments & bonus amounts	(492,676)		(492,676)
Subtotal	22,528,168		22,528,168
Less:			
Net reinsurance recoveries	642,742		642,742
Total hospital and medical	21,885,426		21,885,426
Claims adjustment expenses	1,591,033		1,591,033
General administrative expenses	2,255,937		2,255,937
Total underwriting deductions	25,732,396		25,732,396
Net underwriting gain or (loss)	502,820		502,820
Net investment income earned	371,271		371,271
Net investment gain (losses)	371,271		371,271
Net Income after capital gains tax and before all other federal income taxes	874,091		874,091
Federal and foreign income taxes incurred	288,114	0	288,114
Net Income (loss)	\$ 585,977	\$ 0	\$ 585,977
 <b><u>CAPITAL &amp; SURPLUS ACCOUNT</u></b>			
Capital and Surplus December 31, 2006	\$3,945,925	\$ 0	\$3,945,925
Net income	585,977		585,977
Change in net deferred income tax	(344,169)		(344,169)
Change in nonadmitted assets	(91,082)		(91,082)
Aggregate write-ins for gains or (losses)	24,881		24,881
Net change in capital and surplus	175,608	0	175,608
Capital and Surplus December 31, 2007	\$ 4,121,533	\$ 0	\$4,121,533

## NOTES TO THE FINANCIAL STATEMENT

### Note 1 – Investments

Most of the Plan's investments were in short-term investments. A comparison of the investments is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>
2006	\$2,938,303	\$1,110,782	73%	27%
2007	259,866	5,747,197	2.7%	59%

As of December 31, 2007, invested assets of \$6,007,063 representing 62% of total invested assets were invested in amply secured obligations of the United States or FDIC insured cash deposits and certificates of deposit. This exceeded the amount that must be invested in these types of investments as required by ORS 733.580.

### Note 2 – Accrued Retrospective Premiums and Amounts Receivable Relating to Uninsured Plans

Accrued retrospective premiums is an estimate calculated by Milliman, the Plan's consulting actuaries. Milliman based its calculation upon the Plan's 2007 loss experience. Both the accrued retrospective premium and amounts receivable relating to uninsured plans is expected to be collected from CMS later in 2008. Subsequent collection will be verified in a follow-up examination.

### Note 3 - Claims Unpaid and Unpaid Claim Adjustment Expenses

Scott Fitzpatrick, FSA, MAAA, Oregon Insurance Division actuary, reviewed the Plan's unpaid claims reserves as of December 31, 2007. Based on the Plan's claims runoff data, he concluded that the December 31, 2007, liability for unpaid claims was adequate. The examiners tested the underlying data supporting the review and no exceptions were noted.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following is a summary of the recommendations made in this report of examination:

Page

- 8 I recommend the Company submit the Administrative Services Agreement to the Plan's Board of Directors for approval. Its approval is necessary for the Administrative Services Agreement to comply with ORS 732.315 and ORS 732.320.
- 8 I recommend that the Company's officers and directors annually sign Conflict of Interest statements to comply with ORS 733.210.
- 8 I recommend the Board of Directors approve investments and sales or exchanges thereof as required ORS 733.730.

## CONCLUSION

During the one-year period covered by this examination, the Plan's surplus increased from \$3,945,925, as presented in the December 31, 2006, annual statement, to \$4,121,533, as shown in this examination report. Assets, liabilities and surplus are compared below:

	<u>2007</u>	December 31, <u>2006</u>	<u>Change</u>
Assets	\$9,700,311	\$4,049,085	\$5,651,226
Liabilities	<u>5,578,778</u>	<u>103,160</u>	<u>5,475,618</u>
Surplus	<u>\$4,121,533</u>	<u>\$3,945,925</u>	<u>\$ 175,608</u>

## ACKNOWLEDGMENT

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

In addition to the undersigned, Ellen F. Quale, CPA, insurance examiner for the State of Oregon, Department of Consumer and Business Services, Insurance Division, and Scott L. Fitzpatrick, FSA, MAAA, actuary for the Department of Consumer and Business Services, participated in the examination.

Respectfully submitted,

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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  
County of Marion            )

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 Trillium Community Health Plan, Inc.
  
2.     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 Trillium Community Health Plan, Inc. 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 \_\_\_\_\_, 2008.

\_\_\_\_\_  
NOTARY PUBLIC for the State of Oregon

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