

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF QUALIFYING FINANCIAL EXAMINATION

OF

**UNITED HEALTHCARE OF OREGON, INC.
PORTLAND, OREGON**

AS OF

March 31, 1997

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April 4, 1997

Honorable Kerry Barnett, Director
Department of Consumer Business and Services
State of Oregon
350 Winter Street NE, Room 440-4
Salem, OR 97310

Dear Director:

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

**United HealthCare of Oregon, Inc.
1800 SW First Avenue
Portland, Oregon 97201**

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

SCOPE OF EXAMINATION

The examination included a review of the corporate records, and other records pertinent to the Company's organization and proposed operations with a valuation of the Company's assets and a determination of its liabilities as of March 31, 1997. Such examination was performed in accordance with procedures promulgated by the National Association of Insurance Commissioners (NAIC) and in compliance with the provisions of Oregon state insurance laws and regulations.

This report on examination is confined to financial statements and comment on matters which involve departure from laws, regulations or rules, or which are deemed to require special explanation or descriptions.

DESCRIPTION OF COMPANY

United HealthCare of Oregon, Inc., is a wholly-owned subsidiary of United HealthCare Services, Inc. (the Parent), a Minnesota holding corporation, which is a wholly-owned subsidiary of United HealthCare Corporation. During October 1995, United HealthCare Corporation purchased MetraHealth Companies, Inc. MetraHealth was formed in January 1995 by the combination of the group health care business of MetLife and the Travelers Insurance Company.

The Company was incorporated under the laws of the State of Oregon on August 13, 1996, as a resident domestic health care service contractor.

An organization chart at the end of this report depicts the composition of the group.

CAPITALIZATION

United HealthCare Services, Inc. (the Parent) has used internal corporate funds to provide the initial \$5,000,000 capitalization for the Company. There are 1000 shares of authorized common stock (no par value) with 100 shares issued and outstanding. The common stock is wholly owned by United HealthCare Services, Inc.

MANAGEMENT AND CONTROL

The Bylaws vest the Company's management and control in a Board of Directors consisting of 3 members. The directors serving the Company at March 31, 1997, were as follows:

<u>Name and Address</u>	<u>Position and Affiliation</u>	<u>Representation</u>
Travers H. Wills* 300 Opus Center 9900 Bren Road East Minnetonka, MN 55343	Chief Operating Officer of United HealthCare Corp.	Medical
David P. Koppe 300 Opus Center 9900 Bren Road East Minnetonka, MN 55343	Chief Financial Officer of United HealthCare Corp.	Medical
Dan Rosborough 920 SW Sixth Avenue 1100 PSB Portland, Oregon 97204	Director for Benefits Planning for PacificCorp.	Public

*Chairman of the Board

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

Officers

Operating management of the Company as of March 31, 1997, was under the direction of the following principal officers:

<u>Name</u>	<u>Office</u>
Robert G. Adams	President
Travers H. Wills	Chairman
David P. Koppe	Executive Vice President & Assistant Treasurer
Emery Dameron	Executive Vice President
Henry R. Loubet	Chief Executive Officer
Sheila McMillan	Assistant Treasurer
Allen Weiss	Treasurer
Brigid M. Spicola	Secretary
David Lubben	Assistant Secretary
Diane Flottesmesch	Vice President, Taxes

It appears that, overall, officers and members of the Board are trustworthy, insurance experienced and possess the ability to direct the affairs of the Company, hence, meet the qualifications to hold a Certificate of Authority under ORS 731.386(1).

CONFLICT OF INTEREST

The Company requires regular 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.

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

CORPORATE RECORDS

The corporate records, i.e., Articles of Incorporation, Bylaws and Written Actions of the Board of Directors, were reviewed for the period under examination and the contents were noted as follows:

Bylaws

The Bylaws were found to be in conformity with Oregon statutes.

Articles of Incorporation

The Articles of Incorporation were in conformity with Oregon statutes.

Board Minutes

Minutes of the Board of Directors meeting were reviewed for the period under examination. As of March 31, 1997, only two meetings were held and a quorum was achieved in both meetings. These minutes support the transactions of the Company and actions taken by its officers.

FIDELITY BONDS AND OTHER INSURANCE

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

In addition to the general liability coverage, the Company is covered up to \$5,000,000 for directors and officers. The fidelity coverage of \$5,000,000 met the prescribed minimum coverage as specified by the NAIC. Other major coverages of the Company include general liability and professional liability coverage.

TERRITORY AND PLAN OF OPERATION

After receiving a Certificate of Authority, the Company will arrange for access to health services through a provider network by contracting with group and individual practices, hospitals, and ancillary care providers. As membership grows, United HealthCare of Oregon will continuously review access, availability, capacity and other health care services needs to ensure access to a full range of services for its members.

Local staff will initially consist of a provider relations manager, four provider relations representatives and two contractors. This staff will be responsible for securing provider contracts and for ongoing customer service of all participating providers.

Claims will be adjudicated within 20 working days of receipt by United HealthCare Services. Local staff will have access to claims information via on-line linkages with United HealthCare Corporation's mainframe claims processing system. Additional staffing resources for claims adjudication will be made available as claims volume increases due to membership gains.

Medical management will consist of case management, utilization review, healthy pregnancy and chronic disease management. The medical management staff will consist of a medical director, manager of medical management, ten licensed nursing staff and four administrative support personnel.

REINSURANCE

The Company has one primary excess of loss reinsurance treaty with United HealthCare Insurance Company, an affiliate. The treaty indemnifies the Company for losses in excess of \$50,000 per member for each contract year, not to exceed \$1,000,000 for lifetime per member.

Once the deductible of \$50,000 has been satisfied, the percentage of indemnity is 80% of the excess loss per member for eligible inpatient services.

The Company does not retain risk on any one subject in excess of 10% of its net worth in accordance with ORS 731.504.

All reinsurance contracts contain an insolvency clause which stipulates that in the event of insolvency, the reinsurer will remain fully liable for its share of loss to conform with ORS 731.508(3).

INTERCOMPANY MANAGEMENT AGREEMENT

A management agreement was signed in November 1996 between the Company and the Parent. The Parent agreed to provide the services necessary for the business operations of its subsidiary. These services include, but not limited to, marketing, underwriting, pricing, accounting, and data processing. In exchange, the Company agreed to reimburse the Parent on a monthly basis a management fee calculated as 12% of the Company's gross revenues which does not include interest income.

It was noted during the examination that the Company has not conducted a study which determines the adequacy of the method used in calculating the management fee.

STATUTORY DEPOSITS

Upon confirmation of the approval of the application, the Company will place \$250,000 at a depository specified by the Insurance Division to maintain compliance with ORS 750.045.

ACCOUNTS AND RECORDS

The Company's books are maintained on the basis consistent with customary and general insurance accounting practices. Electronic records are kept on various computing platforms, including mainframe, mini-computers and personal computers. All records were made readily available to the examiners in compliance with the provisions of ORS 733.170. As of the date of this report, all assets are located in Oregon in accordance with the provisions of ORS 732.245. As of March 31, 1997, the Company did not have a management contract or exclusive agency contract in effect which are prohibited under ORS 732.215 and ORS 732.220. The Company has a system in place to account for the funds, subject to escheat (a reserve for unclaimed checks), as required by ORS 98.352.

As of the date of this report, all Company assets were held as cash at Union Bank of California located in Oregon, therefore, it did not require a safekeeping agreement.

In general, the Company's records and source documentation supported the amounts presented in the Company's March 31, 1997 annual statement.

UNITED HEALTHCARE OF OREGON, INC.
STATEMENT OF ASSETS, LIABILITIES, RESERVES AND OTHER FUNDS
As of March 31, 1997

<u>ASSETS</u>	<u>Ledger Assets</u>	<u>Non Ledger (Nonadmitted) Assets</u>	<u>Net Admitted Assets</u>
Cash & cash equivalent (Note 1)	<u>\$5,000,000</u>	\$ <u>0</u>	<u>\$5,000,000</u>
Total Assets	<u>\$5,000,000</u>	<u>\$ 0</u>	<u>\$5,000,000</u>
Total Liabilities	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Common stock	100	0	100
Paid in capital	<u>4,999,900</u>	<u>0</u>	<u>4,999,900</u>
Total Liability and Reserves	<u>\$5,000,000</u>	<u>\$ 0</u>	<u>\$5,000,000</u>

No Adjustments Were Made As A Result Of This Examination

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE
FINANCIAL STATEMENTS**

NOTES TO FINANCIAL STATEMENTS

Note 1 - Location for the Cash

The cash accounts for 100% of the total assets and they are located as follows:

<u>Name of Institution and Address</u>	<u>Amount</u>
Union Bank of California 407 SW Broadway Portland, OR 97205	\$5,000,000

CONCLUSION

The Company has completed its application and is in conformance with the Oregon Insurance Code by meeting the requirements for and is entitled to receive a proper Certificate of Authority as a health care service contractor pursuant to ORS 731.402.

ACKNOWLEDGMENT

The examiners wish to express their appreciation for the cooperation extended by the officers and employees of the Company during the course of the examination.

In addition to the undersigned, Neeraj Gupta, CFE, examiner for the State of Oregon, Department of Consumer and Business Services, Insurance Division participated in the examination.

Respectfully submitted,

David L. Daulton, AFE
Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

David L. Daulton, being duly sworn, deposes and says that the foregoing report of examination as of March 31, 1997, of United HealthCare of Oregon, Inc., Portland, Oregon, subscribed by him is true to the best of his knowledge and belief.

David L. Daulton, AFE
Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn before me this _____ day of _____, 1997.

Notary Public in and for the State of Oregon

My commission expires _____