



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**MID ROGUE INDEPENDENT PHYSICIANS ASSOCIATION
DBA MID ROGUE HEALTH PLAN
GRANTS PASS, OREGON**

NAIC COMPANY CODE 12253

AS OF

DECEMBER 31, 2008

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SALUTATION

June 4, 2009

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

**MID ROGUE INDEPENDENT PHYSICIANS ASSOCIATION
DBA MID ROGUE HEALTH PLAN
740 SE 7th Street
Grants Pass, Oregon 97526
NAIC Company Code 12253**

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

SCOPE OF EXAMINATION

The examination of the Plan was conducted as of December 31, 2008, covering the three year period then ended, and included a review of material transactions or events which occurred subsequent to the examination cut-off date and were noted during the examination.

The examination was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines prescribed by the NAIC for the purpose of determining the Plan's financial condition, ability to fulfill its obligations, nature of its operations, and compliance with the Insurance Code. Accounting methods, internal control procedures, records and other supporting evidence were examined or tested by appropriate methods to the extent deemed necessary and appropriate for the type, volume and complexity of the accounting system and operations utilized by the Plan. A review was also made of the corrective actions taken by the Company with respect to comments and recommendations in the previous financial report of examination as of December 31, 2005, published by the Oregon Insurance Division.

Scott Fitzpatrick, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, participated in this examination by evaluating losses and loss adjustment expenses unpaid. The results of his analysis are found under the relevant section of this report.

PLAN HISTORY

The Plan was incorporated on April 27, 1994, under the laws of the State of Oregon as Mid Rogue Independent Practice Association, Inc. It was formed to provide managed care contracting, practice management and other business services primarily for the benefit of its physician-shareholders located in the communities of Southern Oregon. The Plan also administered a fully capitated contract for the Oregon Health Plan through the Division of Medical Assistance Programs (DMAP).

On January 23, 2004, the Plan changed its name to Mid Rogue Independent Physicians Association, and filed for an assumed business name with the Secretary of State, to be known as Mid Rogue Community Health Plan. On January 28, 2005, the Plan received a Certificate of Authority to transact business as a health care service contractor pursuant to ORS Chapter 750. On November 28, 2005, the Board of Directors approved a name change, and the Plan adopted its current name effective February, 2006.

The Plan operates under two commercial names, CareSource Medicare Advantage Program for Medicare Advantage business and Mid Rogue Health Plan for Oregon Health Plan business.

CAPITALIZATION

The Plan was originally capitalized with the issuance of shares of no par common stock to physician-members of the IPA, with a stated value of \$2,000 per share. The Plan has authorization to issue 500 shares of no par value common stock. As of the date of the last examination, the company had issued and outstanding 74 shares of common capital stock with a stated value of \$148,000.

In an order issued March 29, 2007, the Director of DCBS authorized the formation of an Insurance Company Holding System whereby the Plan would be owned and controlled by a newly formed corporation, Mid Rogue IPA Holding Company (MRHC). Effective January 1, 2008, all of the then current shareholders of the Plan exchanged 100% of their shares on a one-for-one basis for shares in MRHC. Simultaneously, the Plan issued 75 shares of common stock to MRHC, representing 100% of the issued and outstanding shares. Note No. 13 in the Notes to Financial Statement reported the 75 shares had a par value of \$2.00 per share. Line 24 of the Liabilities, Capital and Surplus page of the annual statement filed by

the Plan reported a balance of \$150,000 in common capital stock. This was verified to the general ledger account. This would indicate the true par value to be \$2,000 per share.

Dividends to Stockholders and Other Distributions

From 2006 to 2008, the Plan declared and paid dividends and distributions to its stockholder as follows:

<u>Declared date</u>	<u>Paid date</u>	<u>Amount</u>	<u>Description</u>
3/16/2007	6/25/2007	\$ 15,600	Ordinary
3/10/2008	6/30/2008	2,106,285	Extraordinary

The 2007 dividend was paid in cash and the 2008 distribution was in the form of furniture and equipment. Both were approved by the Oregon Insurance Division pursuant to ORS 732.554 and 732.576.

MANAGEMENT AND CONTROL

Board of Directors

Article 4.1 of the Bylaws vests the Plan's management and control in a Board of Directors. The Bylaws require the Board of Directors consist of fourteen (14) voting members. Directors are divided into three defined classifications. The first class is made up of five (5) primary care physicians who are shareholders of the Plan; the second class of four (4) specialty care physicians who are shareholders; and the third class of five (5) members of the public who are not practicing doctors. Each director is elected for a three year term, staggered so that one-third of the directors are elected at each annual meeting.

A majority of the number of directors constitutes a quorum, except that at least five directors defined as non-public members must be present. Members of the Board of Directors serving as of December 31, 2008, were:

<u>Name and Address</u>	<u>Title and Affiliation</u>	<u>Member Since</u>
Martin G. Bauer Grants Pass, OR 97526	Real Estate Investor	2008
Walter L. Cauble Grants Pass, OR 97526	Private Practice Attorney Cauble, Dole & Sorenson	2005
James D. Dowd, M.D. Grants Pass, OR 97527	Orthopedic Surgeon Greentree Orthopedics	2008
Barry C. Hamann, M.D. Grants Pass, OR 97526	Family Practice Mountainview Family Practice	2006
James R. Lowe, M.D. Grants Pass, OR 97526	General Surgery Grants Pass Surgery Center	2006
Colene M. Martin Grants Pass, OR 97528	Retired	2008
Brian J. Mateja, D.O. Rogue River, OR 97537	Family Medicine	2007
Robert A. Montgomery, III, M.D. Grants Pass, OR 97526	Anesthesiology	2008
James Nordal, M.D. Cave Junction, OR 97523	Family Medicine Cave Junction Family Medicine	2007
Agnes E. Baker-Pilgrim Grants Pass, OR 97526	Community Activist Confederated Tribes of Siletz	2005
James L. Reed Coos Bay, OR 97420	Retired Actuary	2007

There were three open director positions at December 31, 2008. The Plan is in compliance with the provisions of ORS 750.015; however, since the reorganization of the Plan in 2008, the Plan may want to consider amending its Bylaws to remove language requiring its directors to be shareholders.

Officers

Operating management of the Plan as of December 31, 2008, was under the direction of the following principal officers:

Name

Office

Douglas L. Flow, PhD
Robert M. Gentry, M.D.
Charles R. Crispen, D.O.
Felicia Cohen, M.D.

Chief Executive Officer
President
Secretary/Treasurer
Vice President

CONFLICT OF INTEREST

The Plan has an established policy requiring disclosure of any material interest or affiliation on the part of its directors, officers, and key personnel which may conflict with official duties. A review of the completed disclosures did not reveal any exceptions.

CORPORATE RECORDS

Board of Director Minutes

In general, the review of 2006 to 2008 Board meeting minutes, as well as the various committees authorized by the Bylaws, indicated that the minutes support the transactions of the Plan and clearly describe the actions taken by its directors and officers. A quorum was achieved at all of the meetings held during the period under review.

A review of the Plan's Board of Director's Meeting minutes, and the minutes of authorized committees, showed evidence that the salaries of the officers were being approved pursuant to ORS 732.320(3).

Articles of Incorporation

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

Bylaws

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

Parent, Subsidiaries and Affiliated Companies

Prior to January 1, 2008, the Plan was not required to file an insurance holding company registration statements in accordance with the provisions of ORS 732.551 and Oregon Administrative Rule (OAR) 836-027-0010. Effective that date, however, the Plan formed a holding company and reorganized under a plan approved by the director of DCBS. As of the date of completion of the fieldwork, the Plan has not filed any registration statement and is in violation of ORS 732.551(2), which states an insurer that is subject to registration under this section shall register not later than 15 days after the date the insurer becomes subject to registration, and annually thereafter on or before April 30 for the previous calendar year. **I recommend the Plan immediately file an insurance holding company system annual registration statement (Form B) and a summary of registration statement (Form C) in the format described in OAR 836-027-0030, as required by ORS 732.552 and 732.554, and OAR 836-027-0010 and 836-027-0012.**

The reorganized holding company structure is comprised of the following entities:

Mid Rogue IPA Holding Company (MRHC) is an Oregon for-profit corporation. MRHC was incorporated on April 25, 2007, as the direct parent of the Plan. At December 31, 2008, it was owned by approximately 75 medical providers, each of whom owns one share of MRHC common stock. MRHC owns 100% of the outstanding shares of the Plan and would be considered the ultimate controlling entity.

Mid Rogue Management Services Organization, LLC is an Oregon limited liability corporation formed on April 25, 2007, by MRHC. It provides member managed care services on behalf of the Plan under a Services Agreement and holds most of the EDP and office furniture assets. It employs all staff and management personnel and is responsible for claims administration, peer review/credentialing, medical management, provider network

development, compliance, member services, quality improvement and health plan sales and marketing.

Mid Rogue eHealth Services, LLC is an Oregon limited liability corporation formed on April 25, 2007, by MRHC. The company sells, markets, and deploys an integrated electronic medical records and practice management system developed by a third-party, Greenway Medical Technologies.

Mid Rogue Foundation is an Oregon non-profit organization incorporated on July 29, 2008. It has filed to become a 501(c)(3) tax-exempt charitable organization. Its board is comprised of five physician shareholders of MRHC and five non-shareholders. The purpose of the charitable organization is to improve health care within the rural communities through education, technology, and collaboration. It will also provide charitable assistance to entities that support children, health education, and unmet community health needs.

INTERCOMPANY AGREEMENTS

As of December 31, 2008, the Plan was party to the following agreements with affiliates:

Management Services Agreement

Effective January 1, 1998, the Plan entered into an agreement with an affiliate, Mid Rogue Management Services Organization, LLC, to establish cost allocation methods and procedures to allocate operating expenses between affiliates. The affiliate agrees to perform all accounting and financial services, administrative and executive support services, sales, marketing and public relations services, and property management. In exchange, the Plan will pay a set per member per month (PMPM) fee. Payments shall be made no later than the 10th day of each month.

The Plan intends to file a consolidated tax report for the year 2008 to the Internal Revenue Service, but has not entered into any written tax agreement with its parent or affiliates. During the fieldwork phase of the examination, the Plan drafted an agreement with the intent to file a Form D with the Oregon Insurance Division, pursuant to ORS 732.552(1)(c)(H).

FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, the authority to write in the State of Oregon, and the solvency of the insurers providing the coverages. At December 31, 2008, the Plan was insured up to \$250,000 per occurrence, after a \$10,000 deductible against losses from employee theft. This coverage is less than the NAIC suggested minimum level of fidelity bond coverage for the size and volume of its operation. **I recommend the Plan increase its employee fidelity coverage to at least \$500,000 per occurrence, and possibly higher if premium income is forecasted to increase, to comply with the NAIC Financial Condition Examiner's Handbook and ORS 731.574(6).**

The Plan has directors and officers liability coverage for \$5,000,000, after a \$25,000 deductible. Other insurance coverages in force at December 31, 2008, were as follows:

Provider malpractice	General liability
ERISA bond	Employment practices liability

The limits for the above coverages were found to be adequate as of December 31, 2008.

TERRITORY AND PLAN OF OPERATION

The Plan has written managed care business for the Oregon Health Plan (OHP) under the Division of Medical Assistance Programs (DMAP) since 1995. It enrolls and services enrollees of OHP business in Josephine and Jackson counties, and portions of southern Douglas County. It has also accepted partial risk for commercial HMO contracts and for

supplemental benefits such as pharmacy, vision, and dental services funded by the State of Oregon to cover services not provided under Medicare. In 2008, the Plan signed an agreement with PrimeCare IPA, a health provider network based in Medford and Ashland, which increased the OHP coverage area throughout Jackson County.

Beginning in May, 2005, the Plan began writing Medicare Advantage business in Josephine County and parts of Douglas and Jackson counties of southern Oregon. Beginning January 1, 2009, the Plan partnered with an unaffiliated provider-sponsored organization, Doctors of the Oregon Coast South (DOCS), which had terminated its agreement with Atrio Health Plan, Roseburg, OR. The Plan now offers Medicare Advantage coverages for eligible enrollees in Curry and Coos counties along the southern Oregon coast.

The Plan has expanded rapidly since the last examination. Enrollment increased as follows:

<u>Year</u>	<u>Medicaid</u>	<u>Medicare</u>	<u>Total</u>
2005	5,243	572	5,815
2006	5,164	1,401	6,565
2007	5,476	1,857	7,333
2008	13,103	3,280	16,383

This rapid increase in enrollees has brought in significantly higher premium income, but has caused the Risk Based Capital ratio to fall dramatically. The December 31, 2008, Health RBC Report filed with the Oregon Insurance Division showed the Plan was in a Regulatory Action Level RBC. Please see Conclusion at the end of this report.

GROWTH OF THE PLAN

The growth of the Plan over the last five years is reflected in the following table. The stated amounts were derived from filed annual statements and from financial examination reports prepared by the Oregon Insurance Division.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Net Income</u>
2005*	\$ 8,249,003	\$ 4,386,776	\$3,862,227	\$1,462,449
2006	10,534,131	5,698,732	4,835,398	1,047,420
2007	8,527,527	5,008,249	3,519,278	425,264
2008*	17,232,652	15,797,814	1,434,838	2,015,792

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the underwriting results of the Plan over the past five years.

The amounts were compiled from the Plan's filed annual statements.

<u>Year</u>	<u>A</u> <u>Net Premium</u> <u>Income</u>	<u>B</u> <u>Total Hospital</u> <u>and Medical</u>	<u>C</u> <u>CAE and Gen'l</u> <u>Expenses</u>	<u>(B+C)/A</u> <u>Combined Ratio</u>
2005*	\$21,251,536	\$14,667,769	\$4,357,403	89.5%
2006	29,895,517	23,337,736	5,264,771	95.7%
2007	34,557,586	26,218,829	7,919,443	98.8%
2008*	65,565,009	53,637,393	9,656,309	96.5%

*Per examination

REINSURANCE

Ceded Reinsurance

Beginning March 1, 2007, and renewed annually, the Plan's reinsurance program was comprised of an HMO Excess Reinsurance Agreement with QBE Reinsurance Corporation (NAIC #10219) covering the Plan's Medicare Advantage business. Under terms of the agreement, the reinsurer reimburses the Plan for losses per member up to \$2,000,000 for each individual risk, after a \$100,000 retention. In addition, beginning November 1, 2006, and renewed annually, the Plan had entered into an HMO Specific Excess Loss Reinsurance Agreement with Ace American Insurance Company (NAIC #22667) covering OHP business. This reinsurer reimburses the Plan for losses per member up to \$1,000,000 for each individual risk, after a \$70,000 retention. It was determined the two reinsurance agreements clearly specified the risk taken by the reinsurer, with no unusual provisions reducing the reinsurer's risk.

The examiners noted the Plan did not include information of the agreement with Ace American in Schedule S in either the 2007 nor 2008 Annual Statements. **I recommend the Plan disclose information on all reinsurance contracts in force in the statements filed with the Oregon Insurance Division, to comply with the NAIC Annual Statement Instructions for Health manual and ORS 731.574(1).**

Insolvency Clause

The reinsurance agreements both contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded.

Risk Retention

In view of the Company's adjusted surplus of \$1,434,838 at December 31, 2008, it appears the Company does not maintain risk on any one subject in excess of ten percent of its surplus to policyholders, in compliance with ORS 731.504.

ACCOUNTS AND RECORDS

In general, the Plan's records and source documentation were maintained in a manner by which the financial condition was readily verifiable as required by the provisions of ORS 733.170. Assets are maintained in accordance with the provisions of ORS 732.245. However, the following examination issue was noted:

The Plan has not adopted a formal process to hold uncashed checks as a separate liability, and to report funds available for escheatment to the Department of State Lands, Unclaimed Property Section, pursuant to ORS 98.302. **I recommend the Plan create procedures to identify and segregate uncashed checks, and to file an unclaimed property report in accordance with ORS 98.352.**

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has taken corrective action with respect to the ten recommendations made in the 2005 report of examination. A follow-up report was prepared on June 17, 2008.

FINANCIAL STATEMENTS

The following examination financial statements show the financial conditions of Mid Rogue Independent Physicians Association dba Mid Rogue Health Plan as of December 31, 2008:

- Statement of Assets
- Statement of Liabilities, Capital and Surplus
- Statement of Revenues and Expenses
- Reconciliation of Surplus Since the last Examination

MID ROGUE INDEPENDENT PHYSICIANS ASSOCIATION
DBA MID ROGUE HEALTH PLAN
BALANCE SHEET
As of December 31, 2008

<u>ASSETS</u>	<u>Balance Per Plan</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Bonds (Note 1)	\$ 2,118,108	\$ 0	\$ 2,118,108
Common Stocks (Note 1)	949,027		949,027
Cash and short-term investments (Note 1)	7,382,018		7,382,018
Investment income due and accrued	0		0
Uncollected premiums in the course of collection	3,164,875		3,164,875
Accrued retrospective premiums	234,167		234,167
Amounts recoverable from reinsurers	128,785		128,785
Amounts receivable relating to uninsured plans	810,438		810,438
Net deferred tax asset	86,949		86,949
Receivable from parent, subsidiaries and affiliates	262,300		262,300
Health care receivable	<u>2,095,984</u>	<u>0</u>	<u>2,095,984</u>
Total Assets	<u>\$17,232,651</u>	<u>\$ 0</u>	<u>\$17,232,651</u>
 <u>LIABILITIES</u>			
Claims unpaid (Note 2)	\$12,507,613	\$1,702,830	\$14,210,443
Unpaid claims adjustment expense (Note 2)	472,478	95,940	568,418
General expenses due or accrued	892,310		892,310
Federal and income tax payable	<u>126,643</u>	<u>0</u>	<u>126,643</u>
Total Liabilities	<u>13,999,044</u>	<u>1,798,770</u>	<u>15,797,814</u>
 <u>CAPITAL & SURPLUS</u>			
Common capital stock	150,000		150,000
Gross paid in and contributed surplus	10,650		10,650
Unassigned funds	<u>3,072,958</u>	<u>(1,798,770)</u>	<u>1,274,188</u>
Total Capital & Surplus	<u>3,233,608</u>	<u>(1,798,770)</u>	<u>1,434,838</u>
 Total Liabilities, Capital & Surplus	 <u>\$17,232,652</u>	 <u>\$ 0</u>	 <u>\$17,232,652</u>

Immaterial differences are due to rounding.

**MID ROGUE INDEPENDENT PHYSICIANS ASSOCIATION
DBA MID ROGUE HEALTH PLAN
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2008**

	<u>Balance Per Plan</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Net premium income	\$65,565,009	\$ 0	\$65,565,009
Management fee income	<u>21,256</u>	<u>0</u>	<u>21,256</u>
Total revenues	<u>65,586,265</u>	<u>0</u>	<u>65,586,265</u>
Hospital/medical benefits	46,716,495		46,716,495
Other professional services	593,723		593,723
Emergency room and out-of-area	775,578		775,578
Prescription drugs	<u>5,916,484</u>	<u>0</u>	<u>5,916,484</u>
Subtotal	<u>54,002,280</u>	<u>0</u>	<u>54,002,280</u>
Less:			
Net reinsurance recoveries	<u>364,887</u>	<u>0</u>	<u>364,887</u>
Total medical and hospital	<u>53,637,393</u>	<u>0</u>	<u>53,637,393</u>
Claims adjustment expenses	3,206,001		3,206,001
General administrative expenses	<u>6,450,308</u>	<u>0</u>	<u>6,450,308</u>
Total underwriting deductions	<u>63,293,702</u>	<u>0</u>	<u>63,293,702</u>
Net underwriting gain	<u>2,292,563</u>	<u>0</u>	<u>2,292,563</u>
Net investment income earned	276,583		276,583
Net realized capital gains or (losses)	<u>0</u>	<u>0</u>	<u>0</u>
Net investment gains or (losses)	<u>276,583</u>	<u>0</u>	<u>276,583</u>
Net income or (loss) before federal income taxes	2,569,146	0	2,569,146
Federal and foreign income taxes incurred	<u>553,354</u>	<u>0</u>	<u>553,354</u>
Net income (loss)	<u>\$ 2,015,792</u>	<u>\$ 0</u>	<u>\$ 2,015,792</u>

**MID ROGUE INDEPENDENT PHYSICIANS ASSOCIATION
DBA MID ROGUE HEALTH PLAN
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Years Ended December 31,**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Capital and surplus, December 31, previous year	<u>\$3,243,320</u>	<u>\$4,835,398</u>	<u>\$3,862,227</u>
Net income	2,015,792	302,579	1,047,420
Net unrealized capital gains or (losses)			
Change in net deferred income tax	(259,097)	292,422	24,958
Change in nonadmitted assets	339,877	(2,179,064)	(142,481)
Change in unauthorized reinsurance			
Change in surplus notes			
Cumulative effects of changes in accounting principles			
Capital changes:			
Paid in	(114,000)		112,000
Transferred from surplus (stock dividend)		4,000	
Transferred to surplus			
Surplus adjustments:			
Paid in			
Transferred to capital (stock dividend)			
Transferred from capital			
Dividends to stockholders (cash)	(2,106,285)		(15,400)
Change in treasury stock	114,000	(12,000)	(98,000)
Examination adjustment	(1,798,771)		
Aggregate write-ins for gains and losses in surplus		(16)	44,674
Change in surplus as regards policyholders	<u>(1,808,482)</u>	<u>(1,592,078)</u>	<u>973,171</u>
Surplus as regards policyholders, December 31, current year	<u>\$1,434,838</u>	<u>\$3,243,320</u>	<u>\$4,835,398</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 –Investments

Most of the Plan's investments were in US Agency obligations, money market funds, as well as cash on deposit, cash equivalents, and Certificates of Deposit. A comparison of the investments over the past five years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common</u> <u>Stock</u>	<u>C</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>	<u>Ratio</u> <u>C/</u> <u>Total Assets</u>
2004	2,489,529	687,038	1,654,562	47%	13%	31%
2005*	3,610,376	24,836	4,209,995	44%	0%	51%
2006	2,818,401	56,602	7,335,298	27%	0%	70%
2007	1,398,000	1,613,902	4,241,996	17%	20%	51%
2008*	2,118,108	949,027	7,382,018	12%	6%	43%

*Per examination

As of December 31, 2008, invested assets of \$6,250,934 representing 60% of the total invested assets were invested in amply secured obligations of the United States or FDIC insured cash deposits and certificates of deposit, which exceeded the required capitalization amount pursuant to ORS 733.580.

At December 31, 2008, the Plan reported \$6,787,204 in an account with Umpqua Bank described as an Umpqua repurchase agreement on Schedule E – Part 2, a cash equivalent investment. The account acts as a sweep account, moving balances from other accounts and using the proceeds to purchase marketable securities, whereupon the bank agrees to repurchase the securities the next day at the same price, plus interest. This account is not protected by the FDIC, and would be characterized as an investment account. The balance represents 39.4% of total admitted assets, therefore, exceeds the limit of ORS 733.770.

The Plan has requested the account be considered as necessary to satisfy normal current operating requirements under ORS 733.520. Because the account is considered an investment because both principle and interest are at risk and the account has no protection under FDIC or other programs, it would not meet the criteria to be considered an operating account. **I recommend the Plan reduce the balance in the Umpqua Repurchase Agreement account to a level below 10% of admitted assets as required by ORS 733.770 and ensure the balance does not exceed this limit at all times.**

During the period under examination, the Plan had one custodial agreement in place. This agreement did not contain the protections described in OAR 836-027-0200(4)(a) through (l). Additionally, the custodian, TD Ameritrade Institutional, is a discount brokerage firm that is not considered an eligible custodian under the provisions of OAR 836-027-0200.

On March 13, 2009, the Plan sold all securities on deposit with TD Ameritrade Institutional and used the proceeds to purchase Certificates of Deposit under their CDARS account at Umpqua Bank. No recommendation will, therefore, be made in this Report of Examination.

Note 2 – Unpaid Claims and Unpaid Claims Adjustment Expenses

Scott L. Fitzpatrick, FSA, MAAA, life and health actuary for the Oregon Insurance Division, reviewed the loss and loss adjustment expenses in the Company’s filed financial statements as of December 31, 2008. The purpose of his review was to determine, in general, if the Company’s liabilities were reasonably stated. In his opinion, he concluded:

I have reviewed the actuarial liabilities for the Company as done by Chris Girod, FSA, MAAA, of Milliman, Inc., Consultants and Actuaries, of San Diego, CA, for 12/31/2008. I have also reviewed other documentation, spreadsheets, and verbal information provided by the company, our examiners, and Mr. Girod. I have performed independent calculations for the actuarial liability at 12/31/2008. Estimates for the company’s liabilities are as follows:

	<u>My Estimate</u>	<u>Annual Statement</u>
Claims Unpaid	\$ 14,210,443	\$ 12,507,613
Unpaid Claim Adjustment Expense	568,418	472,478
Total Actuarial Liabilities	<u>\$ 14,778,861</u>	<u>\$ 12,980,091</u>

My total estimate for actuarial liabilities is more than the company’s estimate by \$1,798,770. The statement of the actuarial liabilities at year end for the annual statement was inadequate for this company, and the company’s reserves were insufficient to cover their liabilities for the stated items at the end of 2008.

As a result of Mr. Fitzpatrick’s report, the examiners increased unpaid claim reserves and the associated claim adjustment expense reserves by a total of \$1,798,770, reducing surplus to policyholders by the same amount, pursuant to ORS 733.050. This adjustment caused surplus to policyholders to fall below the statutory minimum required by ORS 750.045(1), and as a result the Plan was impaired at December 31, 2008.

I recommend the Plan establish unpaid claim reserves and claim adjustment expense reserves that adequately cover their expected liabilities, in accordance with ORS 733.030(1).

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

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- 9 I recommend the Plan immediately file an insurance holding company system annual registration statement (Form B) and a summary of registration statement (Form C) in the format described in OAR 836-027-0030, as required by ORS 732.552 and 732.554, and OAR 836-027-0010 and 836-027-0012.
- 11 I recommend the Plan increase its employee fidelity coverage to at least \$500,000 per occurrence, and possibly higher if premium income is forecasted to increase, to comply with the NAIC Financial Condition Examiner’s Handbook and ORS 731.574(6).

- 14 I recommend the Plan disclose information on all reinsurance contracts in force in the statements filed with the Oregon Insurance Division, to comply with the NAIC Annual Statement Instructions for Health manual and ORS 731.574(1).
- 15 I recommend the Plan create procedures to identify and segregate uncashed checks, and to file an unclaimed property report in accordance with ORS 98.352.
- 19 I recommend the Plan reduce the balance in the Umpqua Repurchase Agreement account to a level below 10% of admitted assets as required by ORS 733.770 and ensure the balance does not exceed this limit at all times.
- 20 I recommend the Plan establish unpaid claim reserves and claim adjustment expense reserves that adequately cover their expected liabilities, in accordance with ORS 733.030(1).

CONCLUSION

An adjustment was made to the Plan's total capital and surplus as a result of this examination. The adjustment decreased capital and surplus by \$1,798,770. During the period covered by this examination, the surplus of the Plan has decreased from \$3,862,227, as presented in the December 31, 2005, report of examination, to \$1,434,838 as shown in this report of examination. This amount is below the \$2,500,000 capital and surplus required for a health care service contractor under ORS 750.045. The Plan is, therefore, impaired. The comparative assets and liabilities are shown below:

	<u>2008</u>	<u>2005</u>	<u>Change</u>
Assets	\$17,232,651	\$8,249,003	\$ 8,983,648
Liabilities	<u>15,797,814</u>	<u>4,386,776</u>	<u>(11,411,038)</u>
Surplus	<u>\$ 1,434,838</u>	<u>\$3,862,227</u>	<u>\$(2,427,390)</u>

As was noted earlier in this Report, the Risk Based Capital report filed with the Insurance Division reported an RBC ratio placing the Plan in a Regulatory Action Level. With the capital and surplus amount determined as a result of this Report, the adjusted RBC ratio falls within a Mandatory Action Level.

SUBSEQUENT EVENTS

On April 6, 2009, as a result of the review of the 2008 Annual Statement filing, the DCBS Financial Analyst, Richard W. Frawley, CFE, requested the Plan file an RBC plan detailing the actions to be taken to address the low RBC ratio, as specified in OAR 836-011-0515(2).

On May 22, 2009, the Plan submitted an RBC action plan identifying five issues and the corrective actions taken, as follows:

- 1) The Plan moved OHP business up to the parent company, Mid Rogue IPA Holding Company, effective January 1, 2009.
- 2) The Plan noted duplicate claims were being processed by its EZ-Cap software and contracted with Moss Adams Healthcare Consulting to perform an extensive audit of claims overpayments to providers.
- 3) The Plan requested Moss Adams Healthcare Consulting conduct an assessment of the claims operations function for process improvements.
- 4) The Plan performed a risk score audit, through an independent auditing firm, which could result in a retroactive capitation increase of approximately \$1,637,000 for 2008 Medicare Advantage enrollees.
- 5) The Plan recorded a recoverable on its OHP business and petitioned DMAP to expedite payment of maternity benefit payments due as a result of an internal claims audit by DMAP.

With the RBC action plan, the Plan submitted a three-year projected balance sheet and income statement, as well as projected RBC ratios. Based on the assumptions in the action plan, it forecasts net income to be earned during 2009, 2010, and 2011. With retained earnings and the decreases projected in nonadmitted assets, the Plan projects surplus to policyholders well above the required \$2,500,000 minimum and RBC ratios well above any RBC action level.

As noted above, the Plan moved all OHP business into the direct parent, MRHC, which is a non-regulated entity. This should have the effect of decreasing the Plan's premiums and claims, and reducing certain recoverable/liabilities associated with DMAP. However,

increases in premiums and enrollment with the Medicare Advantage business may continue to challenge the Plan in meeting acceptable premium to surplus ratios.

The Insurance Division will conduct a target examination of the 2008 claims run-out after the Plan has identified its overpayments to providers. It is anticipated the crediting of these overpayments will reduce the incurred 2008 claims, which will allow the examiners to determine if the unpaid claim reserve and LAE reserves were adequate at December 31, 2008.

Additionally, the Plan reflected a receivable due from parent, subsidiaries and affiliates totaling \$1,803,704 as a nonadmitted asset as of December 31, 2008. The Plan received cash in exchange for this receivable during January 2009. Capital and surplus restated for the collection of this nonadmitted asset totals \$3,238,542 as of December 31, 2008. The Plan is, therefore, no longer impaired based on restated surplus as of December 31, 2008.

ACKNOWLEDGMENT

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

In addition to the undersigned, Timothy Hurley, CFE, insurance examiner, and Scott Fitzpatrick, FSA, MAAA, actuary for the Department of Consumer and Business Services, participated in the examination.

Respectfully submitted,

Greg A. Lathrop, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

