

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



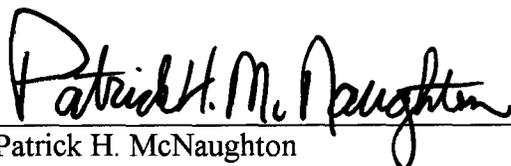
**FINANCIAL EXAMINATION
OF
One Health Plan of Washington, Inc.
Bellevue, Washington**

**NAIC CODE 47081
DECEMBER 31, 2002**

**EXHIBIT A
G06-04
GREAT WEST HEALTHCARE OF WASHINGTON, INC.,
f.k.a. ONE HEALTH PLAN OF WASHINGTON, INC.**

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of One Health Plan of Washington, Inc. of Bellevue, Washington. This report shows the financial condition and related corporate matters as of December 31, 2002.



Patrick H. McNaughton
Chief Examiner



Date

SALUTATION

Seattle, Washington
February 21, 2006

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building – Capitol Campus
302-14th Avenue SW
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

One Health Plan of Washington, Inc.

of

Bellevue, Washington

hereinafter referred to as "OHPWA" or the "Company," at the location of its home office, 3005 112th Avenue N.E., Suite 220, Bellevue, Washington 98004. This report is respectfully submitted showing the condition of the Company as of December 31, 2002.

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION	1
INSTRUCTIONS	1
COMMENTS AND RECOMMENDATIONS	8
COMPANY PROFILE	9
Company History	9
Territory And Plan Of Operation	9
Growth Of Company	9
Affiliated Companies	9
Organizational Chart	10
Intercompany Contracts	10
Administrative Services Agreement	11
Solicitor Agreement	11
Inter-Company Tax Allocation Agreement	11
Indemnity Reinsurance Agreement	11
Custodial Agreement	11
MANAGEMENT AND CONTROL	12
Board of Directors	12
Officers	12
Conflict of Interest	12
Fidelity Bond and Other Insurance	12
Officers' Employees' and Agents' Welfare and Pension Plans	12
CORPORATE RECORDS	13
LOSS EXPERIENCE	13
REINSURANCE	14
STATUTORY DEPOSITS	14
ACCOUNTING RECORDS AND INFORMATION SYSTEMS	14
SUBSEQUENT EVENTS	15
FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS	15
FINANCIAL STATEMENTS	15
Assets, Liabilities, Capital and Surplus	16
Statement of Revenue and Expenses	17
Five Year Reconciliaiton of Surplus	18
NOTES TO THE FINANCIAL STATEMENTS	19
ACKNOWLEDGMENT	20
AFFIDAVIT	21

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 1998 through December 31, 2002 and comprises a comprehensive review of the books and records of the Company. This examination is the first full scope examination of the Company since organization. However, a qualifying examination was performed as of June 30, 1997. The examination followed the statutory requirements contained in the Washington Administration Code (WAC) and Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed 2002 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review.

1. NAIC Annual Statement Errors

The examination team discovered several instances in which the Company's filing of the annual statement did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions.

a. **Premium Deficiency Reserves**

On the 2002 NAIC Annual Statement, the Company reported premium deficiency reserves on page 13, line 1. The NAIC Annual Statement Instructions specify that premium deficiency reserves should be included under line 2.

b. **Claims Adjustment Expense**

The Company incorrectly reported a negative \$5,226 for claim adjustment expense on the 2002 NAIC Annual Statement. Pursuant to the NAIC Annual Statement Instructions and SSAP No. 55, paragraph 7.b, claim adjustment expenses for managed care reporting entities are costs expected to be incurred in connection with the adjustment and recording

of accident and health claims. The Company should adequately track and report claim adjustment expenses in the NAIC annual statement in accordance with SSAP No. 55. The net effect on income is insignificant because 90% of claim expense is ceded to an upstream parent, Great-West Life & Annuity Insurance Company (GWL&A). No examination report adjustment is recommended due to immateriality.

c. Accrued Medical Incentive Pool and Bonus Payments

The Company reported \$10,803 as accrued medical incentive pool and bonus payments on page 3, line 2 of the 2002 NAIC Annual Statement. The Company discontinued its incentive programs and this amount should have been zero. No examination report adjustment is recommended due to immateriality.

d. WSHIP Assessment

The Company reported a Washington State Health Insurance Pool (WSHIP) assessment in the amount of \$47,555 as an asset on the 2002 NAIC Annual Statement. SSAP No. 35 states that this is an expense. No examination report adjustment is recommended due to immateriality.

e. Capital Stock Disclosure

There is only one stock certificate issued and outstanding in the amount of 200 shares, which leaves 9,800 shares of authorized and un-issued common capital stock. The Company reported 9,800 shares outstanding in the General Interrogatories and Notes to Financial Statements. The NAIC Annual Statement Instructions defines "outstanding" common capital stock as the number of authorized shares that have been issued and are presently held by stockholders (excluding treasury stock). The correct number of shares of common capital stock outstanding is 200 shares.

f. Prescription Drugs

The Company reported prescription drug expense in the amount of \$2,153,212 on the 2002 NAIC Annual Statement. The amount should have been \$2,222,319. The difference in the amount of \$69,000 was below the materiality level for this examination. No examination report adjustment is recommended.

g. Exhibit 5

The Company only reported amounts in the 1-30 days and 31-60 days columns on Exhibit 5, of the 2002 NAIC Annual Statement. It was estimated that \$7,000 should have been allocated between the 61-90 days, 91-120 days, and the over 120 days columns.

h. Exhibit 8

Exhibit 8 - Part 1, which lists all claim payments during the year, does not agree to the claims summary on page 4 of the 2002 NAIC Annual Statement. The Company provided a reconciliation to show how it computed the amount reported on Exhibit 8 - Part 1. It was discovered that one of the numbers the Company used to calculate the claims paid on Exhibit 8 - Part 1 included an \$835,000 audit adjustment. The adjustment was not removed from the reconciliation to compute the actual claims paid amount on Exhibit 8 -

Part 1. Therefore, the claims paid amount on Exhibit 8 - Part 1 was misstated by \$835,000. No examination adjustment was made because this error only appeared on a supplementary exhibit and did not affect income.

i. Underwriting & Investment (U&I) Exhibit, Part 2B

The Company included claims liability adjustments in Line 1, Columns 1 and 2 on Page 11 of the 2002 NAIC Annual Statement. The NAIC Annual Statement Instructions state that the amount reported in Columns 1 and 2 are for actual payments only.

j. Reinsurance Fee Reporting

The Company reported reinsurance fees and premium tax reimbursements related to the quota share reinsurance agreement in the 2002 NAIC Annual Statement on a net basis with premiums (premiums less reinsurance fees and premium tax).

SSAP No. 61, paragraph 24 states that, while the premiums, commissions, expense allowances, reserves, claims, etc. will result in a net amount, the proper way to report them is in their separate classifications on the balance sheet.

SSAP No. 61, paragraph 25 requires that total premiums be reported net of reinsured premiums and paragraph 29 requires that commissions and expense allowances be accounted for separately in the summary of operations and on the balance sheet.

There are two implications from this reporting treatment: (1) Because premium income has been reduced by the amount of the fees and premium tax reimbursement, it gives the impression that only 75% of premiums are ceded when the contract specifies that 90% of premiums are ceded, and (2) the fees were not reported as income on the Summary of Operations and the taxes were not offset against the premium tax amount reported on page 4, line 19 and on the U&I Exhibit, Part 3, line 23.2. The Company premium tax statements were reviewed and examiners determined that they had been properly computed and submitted to the state of Washington. This NAIC annual statement reporting error did not affect net income or premium tax expense.

k. Annual Statements Do Not Agree with the Audited Financial Statements

The Company has filed NAIC Annual Statements that are materially different than the CPA's audited financial statements for the prior three years.

2000 NAIC Annual Statement

The OIC sent a letter to the Company on August 1, 2001 noting that the 2000 NAIC Annual Statement did not agree with the audited financial statement. The Company was instructed to amend the 2000 NAIC Annual Statement and all subsequent filings due to the difference. The Company was also asked to identify the corrective action it would take to assure that future filings would be accurate and agree with the audited financial statement.

2001 NAIC Annual Statement

The OIC sent a letter to the Company on October 22, 2002 addressing the same problem with the 2001 NAIC Annual Statement and audited financial statement. The Company responded on November 14, 2002 citing many different measures it would take to ensure correct filings in the future.

2002 NAIC Annual Statement

Subsequent to the OIC's letter and the Company's response, the Company filed its 2002 NAIC Annual Statement which again differed materially from the CPA's audited financial statement.

l. Inadequate Management Discussion & Analysis (MD&A)

The Company's responses in the MD&A section only restate numerical data and do not discuss the reasons for the results. For example, the 2002 MD&A stated: "Total assets have decreased during 2002 by \$9,288,605 to \$11,041,180." There is no discussion about the cause of this change.

The NAIC Annual Statement Instructions state: "Where the financial statements reveal material changes from year to year in one or more significant line items, describe the causes for the changes to the extent necessary to provide an understanding of the insurer's business or operations...the discussion shall not merely repeat numerical data contained in the financial statements and schedules or exhibits to the annual statements."

Examiners noted that the OIC sent a letter dated October 22, 2002 to the Company addressing the inadequate responses on the 2001 MD&A. The Company responded in a letter dated November 14, 2002. Subsequent to these letters, the Company filed the 2002 MD&A which again had deficient responses.

m. Reinsurance Agreement – Recoveries on Claims Incurred Prior to Effective Date

In 2001, the Company collected \$2,914,780 from its parent and reinsurer, GWL&A, for reinsurance recoveries on the claims payable balance at December 31, 2000. These payables were not covered under the quota-share contract as the claims were incurred prior to the effective date of the quota-share contract. Both the reinsurer and the Company are in agreement with the \$2,914,780 payment, however, it needs to be accounted for as a capital contribution. Due to the misclassification, the Company erroneously reported \$2,914,780 in the 2001 NAIC Annual Statement as a reduction of claims expense when it should have been a credit to contributed surplus. No examination reclassification adjustment will be made because the error occurred in the prior year and the net affect on surplus is zero.

The Company is instructed to comply with RCW 48.44.100 and file an accurate statement of its financial condition, transactions, and affairs; with RCW 48.43.097 which requires the filing of its financial statements in accordance with the NAIC AP&P Manual; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the NAIC AP&P Manual.

2. Unlicensed Agents/Solicitor Agreements – Incorrect Terminology

The Company has a solicitor agreement with an upstream affiliate and reinsurer, GWL&A. The Company also has an expired solicitor agreement with New England Life Insurance Company (NELI). GWL&A and NELI do not meet the definition of a “solicitor” pursuant to RCW 48.17.030, which states that a “solicitor” is an individual. They are acting more as agents pursuant to RCW 48.17.010. However, neither is licensed as an agent or solicitor pursuant to RCW 48.17.060(1) and (2) and RCW 48.17.063.

The Company is instructed to not use the term “solicitor” when describing the affiliated company relationship between GWL&A and OHPWA as defined in RCW 48.17.010 and RCW 48.17.030, pursuant to RCW 48.44.011(2). The Company is also instructed to cease using unlicensed solicitors or agents pursuant to RCW 48.17.060(1) and (2) and RCW 48.17.063

3. Service Agreements and Separation of Premium Funds

GWL&A

The solicitor agreement with GWL&A states “any such funds received by solicitor for the account of OHPWA shall at all times be held for the benefit of OHPWA in a state or federal bank authorized to do business in the state of Washington and insured by an appropriate federal insuring agency. All such funds received by solicitor for the account of OHPWA shall at all times be segregated from the assets of solicitor, and shall be transmitted to OHPWA within five (5) business days after receipt of such funds by solicitor.”

During the period of the examination, OHPWA premiums were billed by GWL&A to the insureds directly in GWL&A's name. The insureds' premium payments were made payable to and collected by GWL&A. GWL&A deposited the premium receipts into a GWL&A bank account. GWL&A paid monthly premiums due to OHPWA from its own funds based upon billings without regard to the amounts collected.

The Company is not following the solicitor agreement that was filed with the OIC. The Health Carrier Holding Company Act, RCW 48.31C.050(2), states that “...management agreements, service contracts, and cost-sharing arrangements...involving a domestic health carrier and a person within its health care holding system may not be entered into unless the health carrier has notified the commissioner in writing of its intention to enter into the transaction and the commissioner does not declare the notice to be incomplete...”. The Company has not notified the commissioner of the agreement between themselves and GWL&A.

New England Life Insurance (NELI)

The Company allowed NELI to sell policies and collect premiums on behalf of the Company pursuant to a solicitor agreement. Although the solicitor agreement between the Company and NELI expired, there are still policies in force that were sold by NELI while the agreement was in effect. Premiums are still collected by NELI, deposited into a NELI bank account, and settled monthly through the intercompany process.

Without a current agreement allowing NELI to bill and collect premiums in the name of OHPWA for the benefit of OHPWA insureds, the Company does not have binding control over the premium receipts.

Alta Health and Life Insurance Company (ALTA)

The Company allowed ALTA, an affiliate, to sell policies and collect premiums on behalf of the Company without an agreement. RCW 48.31C.050(2)(d) of the Health Carrier Holding Company Act requires the Company to file all management agreements and service contracts between affiliates with the OIC.

Premiums are still collected by ALTA, deposited into an ALTA bank account, and settled monthly through the intercompany process.

Without a current agreement allowing ALTA to bill and collect premiums in the name of OHPWA for the benefit of OHPWA insureds, the Company does not have binding control over the premium receipts.

The Met Joint Venture

The Company allowed The Met Joint Venture, an affiliate, to sell policies and collect premiums on behalf of the Company without a written agreement. The Company asserts that the solicitor agreement between the Company and NELI allowed The Met Joint Venture to market the Company's plan. No such clause was located within the terminated NELI agreement. RCW 48.31C.050(2)(d) of the Health Carrier Holding Company Act requires the Company to file management agreements and service contracts between affiliates with the OIC.

Premiums are still collected by The Met Joint Venture, deposited into the Met Joint Venture bank account, and settled monthly through the intercompany process.

Without a current agreement allowing the Met Joint Venture to bill and collect premiums in the name of OHPWA for the benefit of OHPWA insureds, the Company does not have binding control over the premium receipts.

The Company is instructed to prepare written agreements that accurately reflect the responsibilities, the terms, conditions, and understandings currently in practice with its related parties and affiliates and file them with the OIC pursuant to RCW 48.31C.050(2).

The Company is instructed to require related parties and affiliates to deposit premium receipts directly into a premium trust account in the name of OHPWA for the benefit of OHPWA insureds as required in RCW 48.17.600, pursuant to RCW 48.44.011.

4. Administrative Services Agreement

OHPWA is one of many One Health Plans throughout the United States that are 100% owned by One Benefits, Inc. who in turn is 100% owned by GWL&A. GWL&A directly provides and incurs the costs of the administrative services it provides to all down stream affiliated companies pursuant to various administrative services agreements.

The Company indicated that GWL&A took its total budgeted administrative expenses for all One Health Plans, converted this dollar amount into a per-member per-month (PMPM) amount for all One Health Plans, and then converted the PMPM amount into a percentage of premiums for all One Health Plans. GWL&A then allocated charges to the various One Health Plans based upon this percentage of premiums.

The Administrative Services Agreement states that OHPWA will pay fees to GWL&A as follows:

Commissions: up to 5% of premiums

Administrative Expenses: The Company will reimburse GWL&A for costs and expenses incurred by GWL&A which shall be apportioned to the Company as if the expense had been paid solely by the Company, pursuant to requirements of SSAP No. 70, paragraph 7. GWL&A will provide the Company with a detailed invoice for such costs and services calculated on the basis of the actual cost of the services as determined by GWL&A using its internal method of unit cost allocation for the services rendered.

The Company paid commissions of 2.7% of premiums and administrative services fees of 11.9% of premiums in 2002.

The Company was not able to provide a detailed invoice or other sufficient documentation to support the reasonableness of the fees. This is in violation of the Health Carrier Holding Company Act, RCW 48.31C.050(1) which states that charges or fees for services performed must be fair and reasonable and the Company must maintain its books and records including such accounting information as is necessary to support the reasonableness of the charges or fees to the relative parties. Examiners were unable to determine if the charges were fair and reasonable.

The Company responded that it provided the OIC its 2002 budgeted expenses, which were the basis of computing the percentage of premium used in the allocation. However, the Company did not provide any documentation supporting the reasonableness of the budgeted expenses. Examiners noted that the budgeted expense numbers were on a holding company level. The examiners did not have sufficient evidence to determine a relationship between the budgeted expenses for the holding company and for OHPWA. As a result, the information did not support the reasonableness of the charges.

The Company also stated that it completed a study in 2001 which entailed "...interviewing various department representatives to determine what percentage of their time they spent on HMO business. As a result of that study, administrative expenses were charged at 11.9% of premium..." The Company did not provide documentation relating to the study.

The Company contends that its failure to provide a detailed invoice, as required by the administrative services agreement, does not violate the contract because "...there is an implied agreement between the parties whereby the detail will be provided in the initial calculation of the administrative amounts to be charged at the beginning of the year... detail is not necessary for each subsequent period where the same assumptions are being used..." The Company did not provide sufficient detail for any period.

The Company is instructed to comply with RCW 48.31C.050(1)(a)(d) by maintaining sufficient accounting records to support the reasonableness of the fees charged, and to abide by the administrative services agreement that was filed with the OIC.

5. Monthly Premium Settlement - Inadequate Records

Examiners were unable to test whether the monthly premium billing between the Company and GWL&A was settled because the Company booked claim payments and premium billings to the same ledger account. The Company responded that there was no way to differentiate the thousands of transactions from each other.

RCW 48.31C.050(1)(d) of the Health Carrier Holding Company Act, requires that the books, accounts, and records of each party to all such transactions must be so maintained as to clearly and accurately disclose the nature and details of the transactions.

The Company is instructed to comply with RCW 48.31C.050(1)(d) and maintain its books, accounts, and records so that the nature and details of the transactions are clearly and accurately disclosed.

Subsequent to the completion of fieldwork and prior to the issuance of the examination report, the Company produced an internally developed report to show that premiums had been settled. Examiners did not rely on the report because the detail in the file had not been tested.

COMMENTS AND RECOMMENDATIONS

1. Conflict of Interest Disclosures

The Company has adequate reporting procedures in place to reveal potential conflicts of interest to the chairperson of the Board of Directors (BOD) or the president of the Company. However, the BOD meeting minutes do not contain any acknowledgment that the conflict of interest statements have been completed and reviewed, or that any potential conflicts have been reported to the BOD.

It is recommended that the BOD minutes include an acknowledgement that the conflict of interest statements have been completed by all appropriate persons and potential conflicts of interest have been disclosed.

COMPANY PROFILE

Company History

OHPWA was organized in the state of Washington as a health care service contractor (HCSC) and incorporated as a for-profit stock corporation on March 31, 1997 pursuant to Chapter 48.44 RCW.

A qualifying examination was performed as of June 30, 1997. The Company received its Certificate of Registration pursuant to RCW 48.44.040 on August 18, 1997, and commenced principal operations soon thereafter.

Territory and Plan of Operation

OHPWA contracts with independent professional associations, medical groups, physician hospital organizations, hospitals, ancillary providers, and individual physicians located in the state of Washington for the provision of medical services to its members. The Company pays negotiated fees or capitation for services provided by the providers. Enrollment in OHPWA was primarily through contracts with employer groups located in the state of Washington.

Growth of Company

The following schedule reflects the growth of the Company for the five year period ending December 31;

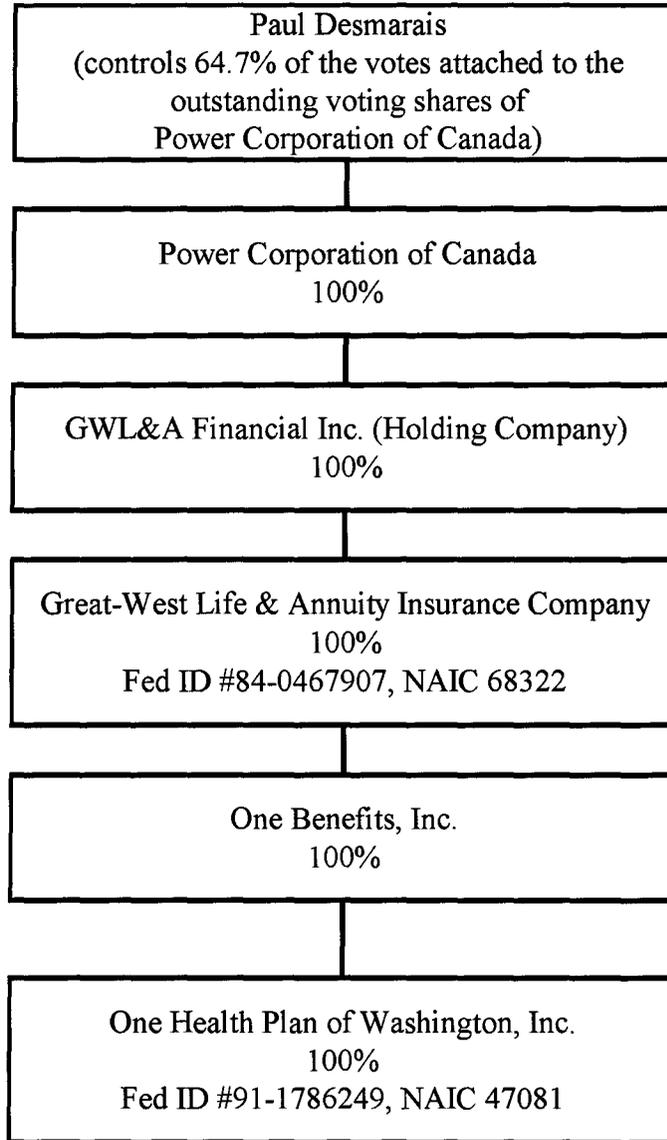
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Assets, Liabilities, Capital and Surplus:					
Admitted Assets	\$5,200,628	\$7,869,402	\$13,468,393	\$20,329,785	\$11,041,180
Liabilities	1,414,122	3,421,534	6,352,023	12,656,643	2,774,926
Capital and Surplus	3,786,506	4,447,868	7,116,370	7,673,142	8,266,254
Revenue and Expenses:					
Premiums Earned	2,359,632	8,369,079	21,211,032	5,851,928	4,072,779
Net Underwriting Deductions	<u>2,913,732</u>	<u>8,761,869</u>	<u>17,671,317</u>	<u>6,609,213</u>	<u>4,320,982</u>
Underwriting Gain or (Loss)	(554,100)	(392,790)	3,539,715	(757,285)	(248,203)
Investment and Other Income	<u>1,198,900</u>	<u>1,337,968</u>	<u>1,278,900</u>	<u>639,213</u>	<u>354,375</u>
Pre-Tax Income	644,800	945,178	4,818,615	(118,072)	106,172
Taxes Incurred	<u>218,797</u>	<u>328,679</u>	<u>1,694,672</u>	<u>(34,468)</u>	<u>24,907</u>
Net Income	<u><u>\$426,003</u></u>	<u><u>\$616,499</u></u>	<u><u>\$3,123,943</u></u>	<u><u>(\$83,604)</u></u>	<u><u>\$81,265</u></u>

Affiliated Companies

OHPWA is a wholly-owned subsidiary of One Benefits, Inc., which is a wholly-owned subsidiary of Great-West Life & Annuity Insurance Company (GWL&A), which is a wholly-owned subsidiary of GWL&A Financial, Inc., a holding company formed in 1998. The Power Corporation of Canada is the ultimate controlling entity. Paul Desmarais controls 64.7% of the outstanding voting shares of Power Corporation of Canada.

The following organization chart depicts the affiliates under the holding company system that have material relationships with the Company as of December 31, 2002.

Organizational Chart



Intercompany Contracts

The Company had several in-force agreements with affiliates. As a member of an insurance company holding system, these agreements must be filed with the OIC pursuant to RCW 48.31C.050(2)(c)(d). As of December 31, 2002, the Company was party to the following agreements:

Administrative Services Agreement

The Company entered into an Administrative Services Agreement with GWL&A effective August 18, 1997. The agreement was amended three times; the last amendment was effective October 31, 1999. Under this agreement, GWL&A agreed to provide OHPWA certain non-discretionary, ministerial administrative and other support services. OHPWA is required to reimburse GWL&A for the costs and expenses incurred in furnishing or obtaining the services defined in the agreement, and such costs and expenses can not exceed the fair market value of the services. Additionally, GWL&A is required to provide a detailed invoice for such costs and services calculated on the basis of the actual cost of services determined by GWL&A. No detailed invoices were provided to the examiners for any period under examination. (See Instruction No. 4)

Solicitor Agreement

The Company entered into a solicitor agreement with GWL&A effective August 18, 1997 for the purpose of soliciting and encouraging the enrollment of employer groups in OHPWA. RCW 48.17.030 defines a "solicitor" as an individual. GWL&A does not meet the definition of a solicitor, and is acting more as an agent of OHPWA pursuant to RCW 48.17.010. However, GWL&A does not meet the definition of an agent either pursuant to RCW 48.17.150(1)(b). GWL&A is not licensed as a solicitor or agent and has not been appointed as a solicitor or agent of OHPWA pursuant to RCW 48.44.011(2). (See Instruction No. 2)

Inter-Company Tax Allocation Agreement

The current Inter-Company Tax Allocation Agreement was executed October 3, 2001. The agreement stipulates that the Company is to be included in the consolidated federal income tax return of GWL&A Financial Inc. GWL&A Financial Inc allocates an income tax benefit or expense to the Company based principally on the effect of including the Company's operations in the consolidated income tax provision, which includes utilization of net operating losses within the group. All current and deferred income tax amounts were accounted for through the "Amounts due to/from parent, subsidiaries and affiliates" general ledger accounts and reported in the corresponding annual statement lines.

Indemnity Reinsurance Agreement

The reinsurance contract in effect at December 31, 2002 was a 90% quota-share agreement that became effective January 1, 2001. In 2001, the Company collected \$2,914,780 on the claims payable balance at December 31, 2000, which did not comply with the written agreement. The appropriate accounting for this transaction should have been an increase to cash and an increase to contributed surplus. (See Instruction No. 1m) The terms of the reinsurance contract are more fully discussed in the reinsurance section of this examination report.

Custodial Agreement

A qualified securities custodian safeguarded the Company's securities pursuant to a custodial agreement. The agreement contained appropriate provisions and wording pursuant to the guidelines in the FCEH, Part 1, IV.H.2.

MANAGEMENT AND CONTROL

Board of Directors (BOD)

Control of the Company is vested in the BOD, which consisted of three members pursuant to Article I of the Corporate Bylaws. Directors are elected each year at the annual meeting of the shareholders pursuant to Article III, Section 3.2 of the Corporate Bylaws. The following individuals were directors as of December 31, 2002:

<u>Name</u>	<u>Title</u>
Donna Anne Goldin	Senior Vice President, Healthcare Operations, GWL&A
Martin Rosenbaum	Senior Vice President, Employee Benefits, GWL&A
Fred Charles Riggall	Vice President of Operations, GWL&A

Officers

Officers are elected by the BOD pursuant to Article IV, Section 4.2 of the Corporate Bylaws for an indefinite term at the pleasure of the BOD. Officers as of December 31, 2002 were:

<u>Name</u>	<u>Title</u>
Christine Ann Miller	President
Richard George Schultz	Secretary
Glen Ray Derback	Treasurer
Donna Anne Goldin	Chairperson
Stephen Mitchell Gorshow, MD	Vice President and Medical Director

Conflict of Interest

The Company has adequate reporting procedures in place to reveal potential conflicts of interest to the chairperson of the BOD or the president of the Company. However, the BOD minutes do not contain any acknowledgement that the conflict of interest statements have been completed and reviewed or that potential conflicts have been reported to the BOD. (See Comments and Recommendations No. 1)

Fidelity Bond and Other Insurance

The Company is a named insured on a financial institution fidelity bond purchased by GWL&A. An aggregate loss limit of coverage in the amount of \$50,000,000 is provided for all of the affiliated companies insured with a single loss deductible in the amount of \$50,000. The minimum amount recommended by the NAIC for OHPWA is \$100,000 to \$125,000. The aggregate amount of coverage is adequate to cover the exposure risk of the Company.

Officers', Employees', and Agents' Welfare and Pension Plans

OHPWA does not have any direct employees. Officers and employees are employed by GWL&A. All salaries, pension plans, and bonuses are paid by GWL&A.

CORPORATE RECORDS

The annual shareholder meeting minutes were reviewed for the years under examination. The election of the BOD and the appointment of the auditors for the ensuing year were routine items on the agenda. Business was conducted through actions by written consent in lieu of a meeting.

The annual meeting of the BOD was also conducted through actions by written consent in lieu of a meeting effective the same day as the annual shareholder meeting. Officers were appointed at this meeting.

Other BOD meetings were held two or three times per year or as needed. These meetings were generally well attended by the members of the BOD, the officers, and other individuals as required. Investment policy and transactions were routinely approved.

The Company's Articles of Incorporation, adopted by the incorporators on October 15, 1996, authorized the issuance of 10,000 shares of common capital stock. A solicitation permit was issued March 18, 1997 covering the offer, sale, and issuance of 200 shares of common capital stock at an offering price of \$10,000 per share. No public offering was made. All shares were purchased by One Benefits, Inc. Total consideration received was \$3,500,000 of which \$1,500,000 was allocated to gross paid-in and contributed surplus.

The Company had \$2,000,000 in capital and \$1,500,000 in contributed surplus as of December 31, 2002, which met the minimum capital requirements pursuant to RCW 48.44.037.

LOSS EXPERIENCE

The Company's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2002, were reviewed by the OIC's actuary. This review included: examining the Company's reserving philosophy and methods to determine the reasonableness of the claim liabilities, verifying that claim liabilities included provisions for all components noted in SSAP NO. 55, paragraphs 7 and 8, reviewing historical paid claims and loss ratios, checking the consistency of the incurred-paid data from the Company system to the amounts reported in the NAIC Annual Statement, and estimating claims unpaid as of December 31, 2002.

The assumptions used in the calculation of the premium deficiency reserves (PDR) were reasonable. Independent estimates of PDR and accrued medical incentive pool and bonus payment liabilities were not performed because the calculated amounts were immaterial.

The 2001 and 2002 loss ratios before the quota-share cession as reflected on pages 7 and 8 of the 2001 and 2002 NAIC Annual Statements were 87.8% and 94.5%, respectively. These loss ratios were in line with industry norms.

The Company reported \$2,073,186 as claims unpaid as of December 31, 2002 before quota-share cessions, and \$207,319 after quota-share cessions pursuant to the consulting actuary's recommendation. The method used by the consulting actuary was one of the methods prescribed by the American Academy of Actuaries. The OIC actuary estimated the unpaid claims and

unpaid claim adjustment expenses also using a method prescribed by the American Academy of Actuaries. The amounts estimated and reported by the Company were determined to be within a reasonable range and no examination adjustments were recommended.

REINSURANCE

The Company had a \$250,000 stop loss reinsurance contract with GWL&A, which was cancelled December 31, 2000. The Company replaced this contract with a 90% quota share reinsurance contract effective January 1, 2001. The quota share contract was still in effect as of the examination date of December 31, 2002.

90% Quota Share Reinsurance Contract

According to the reinsurance contract in effect and filed with the OIC, the Company cedes 90% of premiums and claims to GWL&A, and retains 16.5% for general administrative expenses, premium taxes, and commissions. As part of the examination process, examiners tested reinsurance transactions to ensure that transactions were (1) in accordance with the contract, (2) properly recorded, and (3) in compliance with state statutes, NAIC Annual Statement Instructions, and SSAPs. Below is a summary of the findings:

According to the amounts reported on the 2002 NAIC Annual Statement and verified through discussions with Company personnel, the Company retained 16.5% of total premium receipts before calculating ceded premiums. The Company reduced premiums on page 4, line 2 by the amount of the withheld fees and premium tax reimbursements. This understated premiums and overstated expenses.

The Company's reporting of reinsurance fees and premium tax expense is not in accordance with SSAP No. 61. (See Instruction No. 1j)

STATUTORY DEPOSITS

The Company maintained a United States Treasury Bond with a face value of \$250,000. The bond was on deposit at the Bank of New York-Western Trust and met the requirements of RCW 48.44.030. The market value was \$252,813 as of December 31, 2002.

Pursuant to the NAIC Annual Statement Instructions, once per year, the Company files a form to determine its deposit requirement. On January 3, 2003, the Company submitted a withdrawal request for \$100,000 pursuant to the calculation submitted as of December 31, 2002.

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a GAAP accrual basis of accounting and adjusts to Statutory Accounting Practices (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of Deloitte & Touche LLP. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

The management of the Company is sufficiently knowledgeable of the information systems (IS) process. Systems development, acquisition, and maintenance controls were evaluated to gain assurance that appropriate controls are in place. Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed; and the controls exercised to maintain data security. Sufficient internal controls are in place and monitored by the Company. The Company's IS Department has the ability to recover from an incident or disaster and has documented these procedures in a detailed, written disaster recovery plan.

SUBSEQUENT EVENTS

One Benefits, Inc., by written consent effective May 1, 2003, elected Deborah Lynne Origer-Bauroth as a new director, replacing Fred Charles Riggall. Donna Anne Goldin and Martin Rosenbaum were re-elected as directors of the Company until the next annual meeting.

The BOD, also by written consent effective May 1, 2003, appointed a new president, Susan Wood Hallet to replace Christine Anne Miller. Richard Gardner Swanberg was appointed Vice President and Medical Director, replacing Stephen Mitchell Gorshow, MD.

The sole shareholder, One Benefits, Inc., and the OHPWA BOD, by written consent effective June 2, 2003, changed the name of the Company to Great-West Healthcare of Washington, Inc. and One Benefits, Inc. changed its name to Great-West Healthcare Holdings, Inc. on October 20, 2003.

On November 26, 2003, the Company requested approval from the OIC for an extraordinary dividend distribution to One Benefits, Inc. (the parent) in the amount of \$3,507,733. The OIC notified the Company on December 24, 2003 that its request was incomplete. As of the date of this report, the distribution has not been approved.

On May 3, 2004, the Company notified the OIC that it was going to withdraw from the Washington market and stated that it would send its subscribers notices of non-renewal. Washington subscribers may have the option of enrolling in GWL&A's disability insurance plan.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

This was the Company's first full scope examination since organization. A qualifying examination was performed as of June 30, 1997 prior to the issuance of a Certificate of Registration.

FINANCIAL STATEMENTS

Assets, Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Five Year Reconciliation of Surplus

**ONE HEALTH PLAN OF WASHINGTON, INC.
ASSETS, LIABILITIES, CAPITAL AND SURPLUS
DECEMBER 31, 2002**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Assets			
Bonds	\$4,487,274		\$4,487,274
Cash and short-term investments	3,033,093		3,033,093
Amounts recoverable from reinsurers	2,944,826		2,944,826
Investment income due and accrued	70,197		70,197
Amounts due from parent, subsidiaries and affiliates	303,652		303,652
Aggregate write-ins for other than invested assets:			0
Premium tax recoverable	154,583		154,583
WSHIP assessment	47,555		47,555
Total Assets	<u>\$11,041,180</u>	<u>\$0</u>	<u>\$11,041,180</u>
Liabilities, Capital, and Surplus			
Claims unpaid	\$207,319		\$207,319
Accrued medical incentive pool and bonus payments	10,803		10,803
Unpaid claims adjustment expenses	11,634		11,634
Aggregate policy reserves	2,095		2,095
General expenses due or accrued	78,053		78,053
Federal and foreign income tax payable	5,622		5,622
Amounts due to parent, subsidiaries and affiliates	106,033		106,033
Aggregate write-ins for other liabilities:			
Reinsurance payable	2,353,367		2,353,367
Total Liabilities	<u>2,774,926</u>		<u>2,774,926</u>
Common capital stock	2,000,000		2,000,000
Gross paid in and contributed surplus	1,500,000		1,500,000
Unassigned funds (surplus)	4,766,254		4,766,254
Total Capital and Surplus	<u>8,266,254</u>		<u>8,266,254</u>
Total Liabilities, Capital and Surplus	<u>\$11,041,180</u>	<u>\$0</u>	<u>\$11,041,180</u>

ONE HEALTH PLAN OF WASHINGTON, INC.
STATEMENT OF REVENUE AND EXPENSES
YEAR ENDED
DECEMBER 31, 2002

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Member months	98,510		
Net premium income	\$4,072,779	\$0	\$4,072,779
Total revenues	4,072,779		4,072,779
<u>Medical and Hospital:</u>			
Hospital/medical benefits	5,819,271		5,819,271
Other professional services	6,848,176		6,848,176
Emergency room and out-of-area	772,080		772,080
Prescription drugs	2,153,212		2,153,212
Incentive pool and withhold adjustments	(104,808)		(104,808)
Subtotal	15,487,931		15,487,931
<u>Less:</u>			
Net reinsurance recoveries	13,934,436		13,934,436
Total medical and hospital	1,553,495		1,553,495
Claims adjustment expenses	(5,226)		(5,226)
General administrative expenses	2,828,280		2,828,280
Increase in reserves for A&H contracts	(55,567)		(55,567)
Total underwriting deductions	4,320,982		4,320,982
Total underwriting gain or (loss)	(248,203)		(248,203)
Net investment gains or (losses)	354,375		354,375
Net income or (loss) before FIT	106,172		106,172
Federal and foreign income taxes incurred	24,907		24,907
Net Income (Loss)	\$81,265	\$0	\$81,265
<u>Capital and Surplus Account</u>			
Capital and surplus, prior report year	\$7,673,142	\$0	\$7,673,142
Net income or (loss)	81,265		81,265
Change in net deferred income tax	(2,851)		(2,851)
Change in nonadmitted assets	83,118		83,118
Aggregate write-ins for gains or (losses) in surplus:			
Prior year adjustment to reserves	431,580		431,580
Net change in capital and surplus	593,112		593,112
Capital and surplus, end of reporting year	\$8,266,254	\$0	\$8,266,254

**ONE HEALTH PLAN OF WASHINGTON, INC.
FIVE YEAR RECONCILIATION OF SURPLUS
FOR THE YEARS ENDED DECEMBER 31,**

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Capital and Surplus, Prior Reporting Year	<u>\$7,673,142</u>	<u>\$7,116,370</u>	<u>\$4,447,868</u>	<u>\$3,786,506</u>	<u>\$3,332,228</u>
Net income or (loss)	81,265	(83,604)	3,123,943	616,499	426,003
Change in net deferred income tax	(2,851)	6,857			
Change in nonadmitted assets	83,118	957,005	(554,100)	44,863	28,275
Cumulative effect of changes in accounting principles		(323,486)			
Aggregate write-ins for gains or (losses) in surplus:					
Prior year adjustment to reserves	<u>431,580</u>		<u>98,659</u>		
Net change in capital and surplus	<u>593,112</u>	<u>556,772</u>	<u>2,668,502</u>	<u>661,362</u>	<u>454,278</u>
Capital and Surplus, End of Reporting Year	<u><u>\$8,266,254</u></u>	<u><u>\$7,673,142</u></u>	<u><u>\$7,116,370</u></u>	<u><u>\$4,447,868</u></u>	<u><u>\$3,786,506</u></u>

NOTES TO THE FINANCIAL STATEMENTS

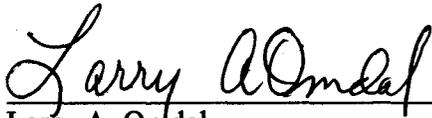
The Company has no special consents, permitted practices or orders from the state of Washington and there were no examination adjustments.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of One Health Plan of Washington, Inc., during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, Information Systems Specialist; John Gaynard, CFE, CPA, CPCU, FLMI, Reinsurance Specialist; Lichiou Lee, ASA, MAAA, Health Actuary; Adrienne DeBella, Insurance Examiner; and Juanita Turley, CPA, Insurance Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,



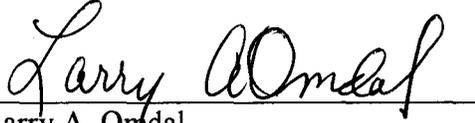
Larry A. Omdal
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 }
 } ss
COUNTY OF KING }

Larry A. Omdal, being duly sworn, deposes and says that the foregoing report subscribed is true to the best of his knowledge and belief.

He attests that the examination of One Health Plan of Washington, Inc., was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).



Larry A. Omdal
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 21st day of February, 2006.



Notary Public in and for the
State of Washington

