



OFFICE OF  
INSURANCE COMMISSIONER

In the Matter of	)	No. 11-110
	)	
The Financial Examination of	)	FINDINGS, CONCLUSIONS,
<b>LIFEWISE HEALTH PLAN</b>	)	AND ORDER ADOPTING REPORT
<b>OF WASHINGTON</b>	)	OF FINANCIAL EXAMINATION
	)	

A Registered Health Care Service Contractor.

**BACKGROUND**

An examination of the financial condition of **LIFEWISE HEALTH PLAN OF WASHINGTON**, (the Company) as of December 31, 2009, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of registration as a health care service contractor. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on May 5, 2011. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and the submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

**FINDINGS**

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 14 of the report.

## CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **LIFEWISE HEALTH PLAN OF WASHINGTON**, and to order the Company to take the actions described in the Instructions section of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions prior to the date of this order. The Instructions in the report are appropriate responses to the matters found in the examination.

## ORDER

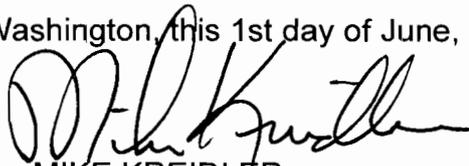
The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions contained in the examination report on pages 1-3.

1. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in accordance with the AP&P and WAC 284-07-050(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with RCW 48.43.097 and WAC 284-07-050(2) which require adherence to the AP&P by amending its agreement to be in compliance with SSAP 96, and file a Form D for OIC approval in accordance with RCW 48.31C.050(2)(d) and WAC 284-18A-420. Instruction 2, Examination Report, page 3.
3. The Company is ordered to comply with RCW 48.13.273(e) by limiting its investments in lower grade obligations of any one institution to one-half of one percent of the Company's admitted assets. Instruction 3, Examination Report, page 3.
4. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in the in accordance with the AP&P and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 1st day of June, 2011.

A handwritten signature in black ink, appearing to read "Mike Kreidler", written in a cursive style.

MIKE KREIDLER  
Insurance Commissioner

**RECEIVED**

MAY 25 2011



VIA OVERNIGHT MAIL

**INSURANCE COMMISSIONER  
COMPANY SUPERVISION**

May 24, 2011

Mr. James T. Odiorne, CPA, JD  
Deputy Insurance Commissioner  
Company Supervision Division  
Office of Insurance Commissioner  
5000 Capital Boulevard  
Olympia, WA 98501

Re: Financial Examination Report of LifeWise Health Plan of Washington  
as of December 31, 2009

Dear Deputy Insurance Commissioner Odiorne:

The purpose of this letter is to respond to your May 5, 2011 letter and furnish you with our comments concerning the Draft Financial Examination Report ("Draft Report") for LifeWise Health Plan of Washington ("LWWA" or the "Company"). Exhibit A to this letter provides the Company's responses to each of the Instructions contained in the Draft Report. For ease of reference, the letter contains the exact verbiage of each finding in italics.

In closing, if you have any questions about our comments, I would be happy to discuss them with you.

Sincerely,

A handwritten signature in black ink that reads "Sharilyn A Campbell". The signature is written in a cursive style.

Sharilyn Campbell  
Vice President, Finance

Enclosure

EXHIBIT A  
LIFEWISE HEALTH PLAN OF WASHINGTON RESPONSE TO  
DRAFT FINANCIAL EXAMINATION REPORT

**1. NAIC Annual Statement Errors, Omissions, and Misclassifications**

*The results of the examination disclosed several instances in which the Company's filing of the 2009 NAIC Annual Statement did not conform to the NAIC AP&P Manual and the NAIC Annual statement Instructions. Except for the finding noted in instruction No. 1b, none of the following items in this instruction were material to the financial statements and no examination adjustments were necessary.*

**a. Schedule D - Part 1** – *The Company did not properly implement the new rating process for Residential Mortgage Backed Securities (RMBS) as required by the NAIC's "Interim Reporting Instructions for the Year Ending December 31, 2009 For Use in Reporting Residential Mortgage Backed Securities." As a result, the book/adjusted carrying value for a few of its non-agency RMBS were understated on Schedule D, Part 1.*

LWWA Response: The Company does not disagree with the finding, and properly implemented the new rating process for RMBS for its 2010 annual statement.

**b. Liabilities, Capital, and Surplus** - *The Company reported federal income tax sharing payables to the parent of \$1.1 million on page 3, line 15, "Amounts due to parent, subsidiaries and affiliates." The NAIC Annual Statement Instructions require the amount to be recorded on page 3, line 10.1, "Current federal and foreign income tax payable and interest thereon." (See adjustment No. 1)*

LWWA Response: The Company does not disagree with the finding, and corrected the reporting of this item on its 2010 annual statement.

**c. Notes to Financial Statements** - *The Company stated in Note No. 5E to Financial Statements that it had no security lending agreements when in fact it did. The NAIC Annual Statement Instructions require the Company to disclose the presence of security lending agreements.*

LWWA Response: The Company does not disagree with the finding, and corrected the reporting of this item on its 2010 annual statement.

**d. Liabilities, Capital, and Surplus** – *The Company reported uncovered claims in the covered claims column 1, on page 3, line 1 "Claims unpaid." The NAIC Annual Statement Instructions require uncovered claims unpaid to be reported in column 2. Of the total unpaid claims of \$23 million in column 3, \$22.2 million should have been reported in column 1 as covered for contracted providers and \$0.8 million should have been reported in column 2 as uncovered for non-contracted providers.*

LWWA Response: The Company does not disagree with the finding, and corrected the reporting of this item on its second quarter 2010 statement.

**e. Statement of Revenues and Expenses** - The Company reported \$118,850 of fees paid to Nurseline, a vendor which provides phone support for members to call with questions, on page 4, line 9, "Hospital/medical benefits". Nurseline fees meet the definition of cost containment expenses. SSAP 85 and the NAIC Annual Statement Instructions require cost containment expenses to be reported on page 4, line 20, "Claims adjustment expenses."

LWWA Response: The Company does not disagree with the finding, and corrected the reporting of this item on its third quarter 2010 statement.

**f. Statement of Revenues and Expenses** - The Company reported \$187,787 of administration fees paid to Medco, its pharmaceutical benefit manager, as paid claims/prescription drug benefits on page 4, line 9 "Hospital/medical benefits." The NAIC Annual Statement Instructions, SSAP 55, paragraph 6, and SSAP 85, paragraph 4, require this to be reported as "General administrative expenses" on page 4, line 21.

LWWA Response: The Company does not disagree with the finding, and corrected the reporting of this item on its third quarter 2010 statement.

**g. Underwriting and Investments Exhibit – Part 3** - The Company did not disclose the amount of management fees to affiliates in the footnote to line 26 on the Underwriting and Investment Exhibit - Part 3. The NAIC Annual Statement Instructions require this disclosure.

LWWA Response: The Company does not disagree with the finding, and corrected the reporting of this item on its 2010 annual statement.

## **2. Due Date for Related Party Transactions**

The General Agency Agreement between LWWA and Ucentris that became effective on August 1, 2009, is not in compliance with SSAP 96, paragraph 2, which requires the written agreement to provide for the timely settlement of amounts owed within a specified due date. If the due date is not addressed in the written agreement, any uncollected receivable is non-admitted.

**The Company is instructed to comply with RCW 48.43.097 and WAC 284-07-050(2) which require adherence to the AP&P by amending its agreement to be in compliance with SSAP 96, and file a Form D for OIC approval in accordance with RCW 48.31C.050(2)(d) and WAC 284-18A-420.**

LWWA Response: The Company does not disagree with the finding, and filed a Form D for the OIC's approval on May 18, 2011.

## **3. Limitation of Investment in Lower Grade Obligations**

The Company owns a bond with a carrying value of \$499,000 and a NAIC designation of 5. RCW 48.13.273(e) limits the Company's investments in lower grade obligations of any one institution to one-half of one percent of the Company's admitted assets. Such limit was \$486,000 at December 31, 2009, and the excess should have been non-admitted.

***The Company is instructed comply with RCW 48.13.273(e) by limiting its investments in lower grade obligations of any one institution to one-half of one percent of the Company's assets.***

LWWA Response: The Company does not disagree with the finding, and corrected the reporting of this item on its 2010 annual statement.

**4. Unpaid Claims Adjustment Expenses**

*The Company included accrued expenses that do not pertain to the processing of unpaid claims on page 3, line 3, "Unpaid claims adjustment expenses." SSAP 85, paragraph 3 and SSAP 55, paragraph 6, define unpaid claim adjustment expenses for accident and health reporting entities as those costs expected to be incurred in connection with the adjustment and recording of accident and health claims. In addition, the Company could not demonstrate that the amount reported on page 3, line 3, was based on the estimated cost of settling claims using past experience adjusted for current trends, and any other factor that would modify past experience, as required by SSAP 55, paragraph 8. The NAIC Annual Statement Instructions require that page 3, line 3, "Unpaid claims adjustment expenses" should provide for the estimated expenses necessary to adjust all unpaid claims, in accordance with SSAP 85 and SSAP 55.*

***The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in the in accordance with the AP&P and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.***

LWWA Response: The Company does not disagree with the finding, and corrected the reporting of this item on its third quarter 2010 statement.