

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF
LIFEWISE HEALTH PLAN OF WASHINGTON
MOUNTLAKE TERRACE, WASHINGTON

NAIC CODE 52633
December 31, 2009

SALUTATION

Seattle, Washington
June 1, 2011

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
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

LifeWise Health Plan of Washington
of
Mountlake Terrace, Washington

hereinafter referred to as "LWWA," or the "Company" at its home office located at 7001 220th Street Southwest, Mountlake Terrace, Washington 98043. This report is respectfully submitted showing the condition of the Company as of December 31, 2009.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of LifeWise Health Plan of Washington of Mountlake Terrace, Washington. This report shows the financial condition and related corporate matters as of December 31, 2009.



Patrick H. McNaughton
Chief Examiner

6-1-2011

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2005 through December 31, 2009 and comprises a risk focused review of the books and records of the Company. The examination followed statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioner (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination through the end of field work on April 11, 2011.

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 section of this report. In addition, the Company's Certified Public Accountants' (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2009 NAIC FCEH which requires the examiners to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess the Company's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and providing assurance on the Company's financial statements as of the examination date.

INSTRUCTIONS

The examiners reviewed the Company's filed 2009 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 to 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 outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

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.

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)

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.

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.

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."

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.

g. Underwriting and Investment 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.

The Company is instructed 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.

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.

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 admitted assets.

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.

COMMENTS AND RECOMMENDATIONS

None

COMPANY PROFILE

Company History

LWWA was originally incorporated on November 19, 1998 as a for-profit stock corporation in the state of Washington. LWWA reorganized pursuant to RCW 24.06, and filed Articles of Amendment of Restated Articles of Incorporation changing from a for-profit corporation to a non-profit corporation on May 2, 2000. LWWA received its Certificate of Registration on August 31, 2000. LWWA is a wholly owned subsidiary of Ucentris, which is a wholly owned subsidiary of Premera Blue Cross (PBC), a non-profit corporation. PREMERA, an upstream nonprofit holding company, is the sole voting member of PBC.

Capitalization

Pursuant to RCW 48.44.037, the Company met minimum capital requirements with \$46,866,754 of capital and surplus as of December 31, 2009. The Company does not have any capital stock. The sole voting member is Ucentris, which is a wholly owned subsidiary of PBC.

Territory and Plan of Operation

The Company is a nonprofit health care service contractor incorporated in the state of Washington. The Company administers individual and group indemnity subscriber contracts in Washington State.

Growth of Company

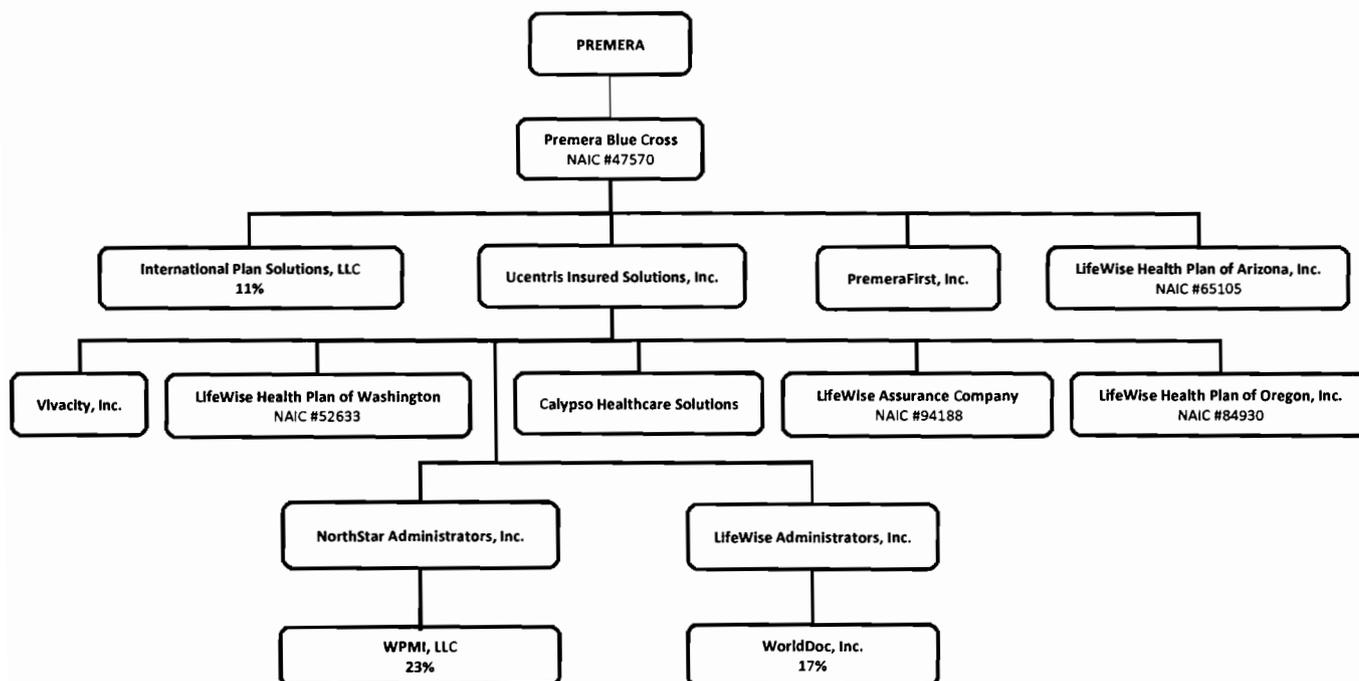
The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the five year period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
2009	\$97,258,120	\$50,391,366	\$46,866,754
2008	82,650,976	45,368,200	37,282,776
2007	70,423,316	39,020,490	31,402,826
2006	76,607,592	45,488,041	31,119,551
2005	55,849,756	41,014,115	14,835,641

<u>Year</u>	<u>Total Revenues</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2009	\$210,246,037	\$10,557,142	\$4,819,090	\$7,078,828
2008	206,941,401	9,127,081	1,025,994	5,692,246
2007	177,676,076	(1,748,285)	3,801,797	1,148,708
2006	180,708,694	7,096,220	2,579,529	6,185,678
2005	155,648,180	464,209	1,305,301	1,121,889

Affiliated Companies

The following is an organization chart as of December 31, 2009:



PREMERA

PREMERA is a non-profit holding company organized in the state of Washington under RCW 24.06, and is the sole voting member of PBC.

Premera Blue Cross (PBC)

PBC is a Washington non-profit corporation doing business as a health care service contractor. PBC engaged in the business of providing basic medical, hospital, major medical, comprehensive, and other prepaid health care benefits for its subscribers in the states of Washington and Alaska. The sole voting member of PBC is PREMERA.

Ucentris Insured Solutions, Inc. (Ucentris)

Ucentris is a Washington for-profit corporation doing business as an insurance sales agency. PBC owns 100 percent of Ucentris, which in turn owns 100 percent of Vivacity, Inc., LWWA, LifeWise Assurance Company (LWAC), Calypso Healthcare Solutions (Calypso), LifeWise Health Plan of Oregon, Inc. (LWOR), NorthStar Administrators, Inc. (NorthStar), and LifeWise Administrators, Inc. (LWA).

Intercompany Agreements

As of December 31, 2009, the Company had the following intercompany agreements in force:

Intercompany Agreement (Allocation of Costs)

The initial agreement entered into by LWWA and its affiliates was effective January 10, 1994. The parties as of December 31, 2009 were PBC, Ucentris, LWAC, NorthStar, LWOR, PremeraFirst, Inc., LWWA, Lifewise Health Plan of Arizona, Inc., Calypso, and LWA. The agreement allocates operating

expenses to the affiliates based on a system of cost accounting. The agreement was amended on October 31, 2007 for compliance with SSAP 96 and on April 30, 2009, to list PBC as a limited purchasing agent for all affiliates.

Subsidiary Tax Sharing Agreement

The LWWA agreement with its affiliates was originally effective November 21, 1994 and amended on October 31, 2005. All affiliates within the PREMERA holding company are allocated their proportional share of federal income tax liability, which is calculated as if the entities had filed separate returns.

General Agency Agreement

The LWWA agreement with Ucentris was effective August 1, 2009 and authorizes Ucentris to provide marketing, proposal, enrollment, account management, producer commission accounting, and renewal services on behalf of LWWA in exchange for a fixed commission. The agreement is not in compliance with SSAP 96 which requires all written agreements to provide for a specific due date of amounts owed. (See Instruction No. 2)

Administrative Services Agreement

The LWWA agreement with PBC was effective January 1, 2005. It allows PBC to provide administrative and/or claims services to LWWA. PBC is reimbursed based on the Intercompany Agreement (Allocation of Costs).

MANAGEMENT AND CONTROL

Board of Directors (BOD)

Management of the Company is vested in a BOD made up of not less than three and no more than fifteen directors. The BOD is elected by a vote of the member at the annual meeting, and the directors hold office until the next annual meeting.

Directors as of December 31, 2009:

Louise H. R. Donigan	Chair of the BOD
Kent S. Marquardt	Director
Jeffrey E. Roe	Director

Officers

Officers as of December 31, 2009:

Jeffrey E. Roe	President
David J. Braza	Vice President
Sharilyn A. Campbell	Treasurer
John Mychalishyn	Vice President
John H. Pierce	Secretary

Conflict of Interest

LWWA does not have any employees. PBC affiliates that provide services for LWWA have a conflict of interest policy. The BOD and the officers file an annual conflict of interest statement by April of each

year. Any conflict is referred to PBC's Office of Ethics and Business Conduct or PBC's general counsel for final resolution. The purpose of the statement is to detect any activities or participation on the part of the directors or officers that could possibly be interpreted as a conflict of interest. No exceptions were noted during our review.

Fidelity Bond and Other Insurance

PREMERA is a named insured on a financial institution fidelity bond for insurance companies. An aggregate liability coverage of \$20 million and single loss limit of liability of \$10 million are provided for subsidiary companies including LWVA. The single loss deductible is \$200,000. The aggregate amount of coverage meets the recommended guidelines by the NAIC.

In addition, PREMERA is the named insured on policies for property, auto, and general liability insurance with umbrella coverage, which cover its subsidiaries including LWVA.

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

LWVA does not have any employees. Salaries, wages, and employee benefits are allocated to LWVA through the Intercompany Agreement (Allocation of Costs).

CORPORATE RECORDS

The minutes of the meetings of directors and committees adequately document appropriate approvals and support the Company's transaction and events.

ACTUARIAL REVIEW

The OIC health actuary reviewed the Company's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2009. The review included examining the Company's reserving philosophy and methodologies to determine the reasonableness of the claim liabilities; verifying that claim liabilities include provisions for all components noted in SSAP 55, paragraphs 7 and 8, and SSAP 54 paragraphs 12, 13, 18 and 19; reviewing historical paid claims and loss ratios; checking the consistency of the incurred-paid data from the Company's system with the figures reported in the 2009 NAIC Annual Statement; and estimating claims unpaid at December 31, 2009.

In the OIC Actuary's opinion, reserves were in compliance with statutory requirements, and, except for the finding as noted in Instruction No. 4, the methods, assumptions, and methodologies used by the Company were appropriate. The techniques applied to establish the "claims unpaid" amount on Page 1, Line 3 for 2009 have resulted in an adequate level of provision based on the claim runoff outcomes observed through April 2010 together with the estimated 2009 amounts remaining unpaid at that date.

REINSURANCE

LWVA was not a participant in any reinsurance contract as of December 31, 2009.

INDEMNITY DEPOSITS

The Company maintained the following statutory deposits as of December 31, 2009:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
Washington	US Government Bond	\$1,996,523	\$1,992,992
Total		<u>\$1,996,523</u>	<u>\$1,992,992</u>

ACCOUNTING RECORDS AND INFORMATION SYSTEM

The Company maintains its accounting records on a Generally Accepted Accounting Principles (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 KPMG, 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 Company's IT environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and related Technology (COBIT) Framework domains:

- Plan and Organize
- Acquire and Implement
- Deliver and Support
- Monitor and Evaluate

The IT system and controls were evaluated to gain an understanding of general IT control risks and assess the effectiveness of these controls. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels.

SUBSEQUENT EVENTS

None

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

The Company did not comply with the following instruction from the last examination report dated December 31, 2004:

The Company did not adequately account for unpaid claims adjustment expense on Page 3, line 3. While the amount reported at December 31, 2009 was not materially understated, the amount reported and the methodology used were not in compliance with SSAP 55, paragraph 8. (See Instruction No. 4)

FINANCIAL STATEMENTS

The following financial statements show the financial condition of LifeWise Health Plan of Washington as of December 31, 2009:

Assets, Liabilities, Capital and Surplus

Statement of Revenue and Expenses

Five Year Reconciliation of Surplus

Analysis of Changes in Financial Statements Resulting from the Examination

LifeWise Health Plan of Washington
Assets, Liabilities, Capital and Surplus
December 31, 2009

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>	<u>NOTES</u>
ASSETS				
Bonds	\$86,237,553	\$0	\$86,237,553	
Cash and short-term investments	6,262,415		6,262,415	
Investment income due and accrued	710,311		710,311	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	443,776		443,776	
Net deferred tax asset	3,301,276		3,301,276	
Receivables from parent, subsidiaries and affiliates	2,455		2,455	
Health care and other amounts receivable	240,958		240,958	
Aggregate write-ins for other than invested assets	59,376		59,376	
Total assets	<u>\$97,258,120</u>	<u>\$0</u>	<u>\$97,258,120</u>	
LIABILITIES, CAPITAL AND SURPLUS				
Claims unpaid	\$22,954,290	\$0	\$22,954,290	
Accrued medical incentive pool and bonus amounts	93,741		93,741	
Unpaid claim adjustment expenses	649,557		649,557	
Aggregate health policy reserves	7,259,376		7,259,376	
Premiums received in advance	6,831,358		6,831,358	
General expenses due or accrued	1,669,776		1,669,776	
Current federal and foreign income tax payable and interest thereon	4,347,576	1,068,929	5,416,505	1
Remittances and items not allocated	189,111		189,111	
Amounts due to parent, subsidiaries and affiliates	4,957,118	(1,068,929)	3,888,189	1
Payable for securities	1,221,543		1,221,543	
Aggregate write-ins for other liabilities	217,920		217,920	
Total liabilities	<u>50,391,366</u>	<u>0</u>	<u>50,391,366</u>	
Gross paid in and contributed surplus	19,860,000		19,860,000	
Unassigned fund (surplus)	27,006,754		27,006,754	
Total capital and surplus	<u>46,866,754</u>	<u>0</u>	<u>46,866,754</u>	
Total liabilities, capital and surplus	<u>\$97,258,120</u>	<u>\$0</u>	<u>\$97,258,120</u>	

**LifeWise Health Plan of Washington
Statement of Revenue and Expenses
For the Year Ended December 31, 2009**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Member months	952,907		952,907
Net Premium Income	\$210,234,599	\$0	\$210,234,599
Change in unearned premium reserves and reserve for rate credits	11,438		11,438
Total revenues	<u>210,246,037</u>	<u>0</u>	<u>210,246,037</u>
Hospital and Medical:			
Hospital/medical benefits	137,757,039		137,757,039
Emergency room and out-of-area	12,327,940		12,327,940
Prescription drugs	10,804,950		10,804,950
Incentive pool, withhold adjustments and bonus amounts	75,019		75,019
Subtotal	<u>160,964,948</u>	<u>0</u>	<u>160,964,948</u>
Less:			
Net reinsurance recoveries	0		0
Total hospital and medical	160,964,948	0	160,964,948
Claims adjustment expenses	12,180,137		12,180,137
General administrative expenses	27,455,308		27,455,308
Increase in reserves for life and accident and health contracts	(911,498)		(911,498)
Total underwriting deductions	<u>199,688,895</u>	<u>0</u>	<u>199,688,895</u>
Net underwriting gain or (loss)	<u>10,557,142</u>	<u>0</u>	<u>10,557,142</u>
Net investment income earned	4,297,329		4,297,329
Net realized capital gains (losses) less capital gains tax	521,761		521,761
Net investment gains (losses)	<u>4,819,090</u>	<u>0</u>	<u>4,819,090</u>
Aggregate write-ins for other income and expenses	<u>7,925</u>		<u>7,925</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	15,384,157	0	15,384,157
Federal and foreign income taxes incurred	<u>8,305,329</u>		<u>8,305,329</u>
Net income or (loss)	<u>\$7,078,828</u>	<u>\$0</u>	<u>\$7,078,828</u>

**LifeWise Health Plan of Washington
Statement of Revenue and Expenses (Continued)
For the Year Ended December 31, 2009**

Capital and surplus, prior reporting year	<u>\$37,282,776</u>	<u>\$0</u>	<u>\$37,282,776</u>
Net income or (loss)	7,078,828		7,078,828
Change in net unrealized capital gains (losses) less capital gains tax	(193,035)		(193,035)
Change in net deferred income tax	2,386,826		2,386,826
Change in nonadmitted assets	(54,367)		(54,367)
Cumulative effect of changes in accounting principles	365,726		365,726
Net change in capital and surplus	<u>9,583,978</u>	<u>0</u>	<u>9,583,978</u>
Capital and surplus, end of reporting period	<u>\$46,866,754</u>	<u>\$0</u>	<u>\$46,866,754</u>

**LifeWise Health Plan of Washington
Five Year Reconciliation of Surplus
For the Years Ended December 31,**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital and surplus, prior reporting year	<u>\$37,282,776</u>	<u>\$31,402,826</u>	<u>\$31,119,551</u>	<u>\$14,835,641</u>	<u>\$14,957,194</u>
Net income or (loss)	7,078,828	5,692,246	1,148,708	6,185,678	1,121,889
Change in net unrealized capital gains (losses) less capital gains tax	(193,035)	(536,853)	(2,278)	(10,290)	
Change in net deferred income tax	2,386,826	931,001	506,489	108,331	(19,533)
Change in nonadmitted assets	(54,367)	(206,444)	(1,369,644)	191	(36,131)
Cumulative effect of changes in accounting principles	365,726				
Surplus adjustments: Paid in				10,000,000	
Aggregate write-ins for gains or (losses) in surplus					(1,187,778)
Net change in capital and surplus	<u>9,583,978</u>	<u>5,879,950</u>	<u>283,275</u>	<u>16,283,910</u>	<u>(121,553)</u>
Capital and surplus, end of reporting period	<u>\$46,866,754</u>	<u>\$37,282,776</u>	<u>\$31,402,826</u>	<u>\$31,119,551</u>	<u>\$14,835,641</u>

LifeWise Health Plan of Washington
Analysis of Changes in Financial Statements Resulting from the Examination
December 31, 2009

	<u>Per Annual Statement</u>	<u>Per Examination</u>	<u>Notes</u>	<u>Increase (Decrease) in Surplus</u>	<u>Total</u>
Capital and surplus 12/31/2009 Per Annual Statement					\$46,866,754
Liabilities					
Current federal and foreign income taxes payable and interest thereon	4,347,576	5,416,505	1	1,068,929	
Amounts due to parent, subsidiaries and affiliates	4,957,118	3,888,189	1	(1,068,929)	
Change in surplus					<u>0</u>
Capital and surplus 12/31/2009 Per Examination					<u>\$46,866,754</u>

NOTES TO THE FINANCIAL STATEMENTS

1. **Federal Income Taxes Payable**

To reclassify \$1,068,929 million on page 3, line 15, "Amounts due to parent, subsidiaries and affiliates" to page 3, line 10.1, "Current federal and foreign income tax payable and interest thereon" according to the NAIC Annual Statement Instructions. (See Instruction No. 1b.)

The state of Washington has adopted certain prescribed accounting practices that differ from NAIC statutory accounting practices. Specifically, investments in a NAIC sovereign rated 2 or greater countries are ineligible as a miscellaneous investment and are required to be nonadmitted. The assets nonadmitted under this prescribed practice were \$711,239 and \$713,335 for the years ended December 31, 2009 and 2008, respectively.

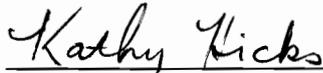
The Company has a special consent order to acquire and hold a single entity's NAIC non-exempt listed mutual fund, totaling not more than four percent of Company assets. This special consent order is subject to an aggregate investment limitation of the lesser of twenty percent of Company assets or fifty percent of its surplus over its minimum required surplus for all common stocks and NAIC non-exempt listed mutual funds. The special consent order allows the Company to acquire and hold a single entity's or entities' exempt listed mutual funds in an unlimited amount.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of LifeWise Health Plan of Washington and its affiliates during the course of this examination.

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Respectfully submitted,



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