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HEARINGS UNIT
OFFICE OF
INSURANCE COMMISSIONER

BEFORE THE STATE OF WASHINGTON
OFFICE OF INSURANCE COMMISSIONER

In the Matter of

**WASHINGTON TECHNOLOGY
INDUSTRY ASSOCIATION,**

Applicant.

Docket No. 15-0290

DECLARATION OF STEVEN E.
DRUTZ

I, STEVEN E. DRUTZ, declare as follows:

1. I am over the age of 18 and make this declaration based on my personal knowledge. If called, I can competently testify to the contents of this declaration.
2. I am the Chief Financial Analyst for the Company Supervision Division of the Washington State Office of the Insurance Commissioner ("OIC"). I have been with the OIC for seventeen years, and in the Analysis section of Company Supervision since 2001. I have been the Chief Financial Analyst for two years. I am a Certified Public Accountant ("CPA") and a Certified Financial Examiner ("CFE"). I obtained my Bachelor of Science degrees from the University of Colorado (1987) and the Evergreen State College (1989).
3. My basic duties as Chief Financial Analyst include overseeing the analysis and interpretation of financial statements filed by domestic and foreign authorized insurers and other regulated entities. My staff and I perform financial solvency surveillance and identify financially weak and troubled insurers.
4. I helped evaluate the application of Washington Technology Industry Association ("WTIA") for a certificate of authority under Chapter 48.125 RCW. Ultimately, we had to deny

1 their application. WTIA is not eligible for a certificate of authority due to the lack of self-
2 funded experience, failed to timely submit an application even if they were eligible, and had
3 not complied with all the requirements of RCW 48.125.030 through 48.125.070, as explained
4 in my November 18, 2015, letter to WTIA's representatives.

5 5. The language of Chapter 48.125 RCW is clear that a MEWA without a history of self-
6 funded operations, such as WTIA, is not eligible for a certificate of authority under this chapter
7 of the Code. This interpretation also makes logical sense, given the differences between fully
8 insured MEWAs, like WTIA, and self-insured MEWAs.

9 6. My understanding of fully insured MEWAs is that they generally help the member
10 companies of the association pool their risks so they can go out into the market and purchase
11 insurance at a cheaper rate than they could probably otherwise do on their own. Fully insured
12 MEWAs do not function like insurance companies, especially because they do not take on
13 insurance risk.

14 7. In contrast, self-funded MEWAs take on insurance risk, acting like a health insurance
15 company for the member companies of the association that choose to get their insurance from
16 the self-funded MEWA. There is a significant amount of expertise required to run a self-funded
17 MEWA, including but not limited to expertise in underwriting, statutory financial statement
18 preparation, claims handling, and network adequacy. It is unlikely that an entity would have
19 the requisite expertise without significant experience of these operations.

20 8. I believe the Legislature understandably required a self-funded MEWA to have
21 extensive experience with self-funded operations because running what is essentially an
22 insurance company is a complex task, especially due to the operational expertise required, as
23 noted above. A self-funded MEWA's participating companies could incur significant harm in
24 light of the nature of insurance operations, whereby the self-funded MEWA sets and collects
25 premiums to pay for the current and future healthcare costs of its members. This process
26 requires the self-funded MEWA to set aside the appropriate liabilities (reserves) for the future

1 healthcare costs of its members. A failure to accurately calculate its reserves or accurately carry
2 out any of the other operational requirements noted above can have significant negative
3 consequences on the MEWA's members and the companies that they work for, especially if the
4 self-funded MEWA is no longer able to pay the health care costs of its members. That is why
5 there are minimum surplus requirements for self-funded MEWAs in Washington State.

6 9. The experience of self-funded MEWAs in Washington State reflects both the
7 complexity of the operational requirements and need for the minimum surplus requirement. Of
8 the self-funded MEWAs operating in Washington prior to the passage of Chapter 48.125 RCW,
9 Timber Products Manufacturers Trust, Washington Employers Trust, and Washington State
10 Auto Dealers Insurance Trust successfully applied for a certificate of authority. Of these, only
11 Timber Products Manufacturers Trust continues to hold an active certificate of authority.

12 10. Washington Employers Trust (NAIC #12621) was admitted on May 16, 2006, and
13 withdrew its certificate of authority on August 22, 2011. Starting in 2006, Washington
14 Employers Trust (WET) reported net losses in its first three years after being admitted as a
15 MEWA. WET's financial condition continued to erode over the first three quarters of 2009
16 with its September 30, 2009 quarterly financial statement reflecting its surplus was below the
17 \$2 million required by statute. This apparently led WET to withdraw from the market in 2010.

18 11. This problem is a recurring theme with the MEWAs we have regulated, as the desired
19 low cost of the employer members of the MEWAs tends to outweigh the need to establish rates
20 that are both sustainable and allow for unexpected adverse results. My characterization of this
21 issue is this: There is an apparent conflict of interest in having the MEWAs run by boards of
22 trustees that are made up of the employer groups that are trying to find the lowest cost health
23 care possible.

24 12. Washington State Auto Dealers Insurance Trust (NAIC #12609) was admitted on July 7,
25 2006, and withdrew its certificate of authority on July 1, 2010. This entity started with surplus
26 of \$7.2 million, but reported a net loss of \$4.2 million during the first year of reporting with our

1 office, with ending surplus of \$3.0 million. While the Washington State Auto Dealers Insurance
2 Trust (WSADIT) reported profitable operations in 2007 of \$600,000, significant common stock
3 investments combined with poor operating results in 2008 led to a net loss of \$1.5 million and
4 unrealized capital losses of \$300,000 in 2008, leaving surplus at \$1.9 million as of year-end
5 2008, below the \$2 million minimum requirement. This entity decided to withdraw from the
6 market in November 2008.

7 13. Along with the apparent conflict of interest noted above, WSADIT's results apparently
8 suffered from the fact that all of its business originated from one industry (auto dealers), which
9 was significantly impacted by the recession. This is another inherent risk that is common to
10 most MEWAs. Because of their industry concentration, if economic conditions are unfavorable
11 to the particular industry that a MEWA serves, its financial condition is more susceptible to
12 significant fluctuations as its members lack the diversity of employment that most health
13 carriers have within their membership.

14 14. Timber Products Manufacturers Trust (NAIC #12239) was admitted on January 1, 2005,
15 and is the only remaining domestic MEWA licensed in this state. Timber Products
16 Manufacturers Trust (TPMT) similarly apparently struggled from the fact that all of its business
17 originated from one industry (timber), which was also significantly impacted by the recession.
18 TPMT's surplus decreased by almost 50% to \$2.8 million in 2009 as a result of a net loss of
19 \$2.7 million during that year. Since 2010 TPMT reports profitable operations that have allowed
20 surplus to increase to \$8.1 million as of December 31, 2014.

21 15. Part of the purpose of Chapter 48.125 RCW is to ensure the financial integrity of self-
22 funded MEWAs. Requiring a self-funded MEWA to have significant self-funded operating
23 experience before receiving a certificate of authority furthers that purpose, especially given the
24 difficulties that experienced and qualified MEWAs of this type have experienced in the
25 Washington market.

1 I declare under penalty of perjury under the laws of the State of Washington that the
2 foregoing is true and correct.

3 Dated this 22nd day of January, 2016, at Tumwater, Washington.
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6 STEVEN E. DRUTZ
7 Chief Financial Analyst
8 Company Supervision Division
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