



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 10-113
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
)	AND ORDER ADOPTING REPORT
GROUP HEALTH COOPERATIVE)	OF FINANCIAL EXAMINATION
)	

A Registered Health Maintenance Organization.

BACKGROUND

An examination of the financial condition of **GROUP HEALTH COOPERATIVE**, (the Company) as of December 31, 2008, 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 maintenance organization. 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 28, 2010. 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 15 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 **GROUP HEALTH COOPERATIVE** 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.

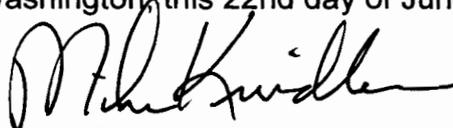
The Company is ordered as follows, these being the Instructions contained in the examination report on pages 1-4.

1. The Company is ordered to file an accurate statement of its financial condition, transactions, and affairs in compliance with RCW 48.43.097, which requires the filing of its financial statements in accordance with the AP&P, and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions. Instruction 1, Examination Report, page 3.
2. Pursuant to RCW 48.31C.050(5), GHC is ordered to follow the existing inter-company ASA or file a new Form D with the OIC that correctly reflects the terms. Instruction 2, Examination Report, page 3.
3. The Company is ordered to execute a custodial agreement with Bank of America and to amend a custodial agreement with Bank of New York that contains the required terms under RCW 48.13.480. Instruction 3, Examination Report, page 4.
4. Pursuant to RCW 48.13.340, the Company is ordered to obtain and document approval by the BOT for all investments purchased. In addition, pursuant to RCW 48.13.350(1), a permanent written record of investment transactions must be kept and authorized by an officer or by the chairman of the committee authorizing the investment. Instruction 4, Examination Report, page 4.

5. The Company is ordered to non-admit the Labor and Industries security deposit of \$5,769,367 that was held at Bank of New York Mellon, pursuant to SSAP No. 4, paragraph 2, and SSAP No. 87, paragraph 3, and comply with RCW 48.43.097 by filing a true annual statement in compliance with the NAIC Annual Statement Instructions and the AP&P as required by WAC 284-07-050(2). Instruction 5, Examination Report, page 4.

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 22nd day of June, 2010.



MIKE KREIDLER
Insurance Commissioner



Group Health Cooperative

Group Health Headquarters
320 Westlake Avenue N, Suite 100
Seattle, WA 98109

www.ghc.org

RECEIVED

JUN 15 2010

**INSURANCE COMMISSIONER
COMPANY SUPERVISION**

June 15, 2010

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
State of Washington
Office of the Insurance Commissioner
5000 Capitol Boulevard
Tumwater, WA 98501

Re: Company's Responses to Group Health Cooperative's Report of Examination as of December 31, 2008

Dear Mr. Odiorne,

We have received and reviewed the draft of the referenced report of examination for Group Health Cooperative (the "Company") dated June 1, 2010.

The Company respectfully submits the following responses to the Instructions in the examination report.

1. NAIC Annual Statement Errors and Misclassifications

a. Real Estate Investments

In the Notes to Financial Statements, Note No. 5F, the Company only included information on real estate held for the production of income.

RESPONSE

The Company expanded the disclosures in the Notes to Financial Statements filed for the period ended December 31, 2009 to include information on real estate held for sale.

b. Material Related Party Transactions

In the Notes to Financial Statements, No. 10, B and C, the Company states that it did not have material related party transactions in the reporting period.

RESPONSE

The Company expanded the disclosures in the Notes to Financial Statements filed for the period ended December 31, 2009 to include the Company's material transactions with its related parties in accordance with the National Association of Insurance Commissioner (NAIC) Annual Statement Instructions.

c. Settlement of Inter-Company Transactions

In the Notes to Financial Statements, No. 10, D, GHC reported amounts due from affiliates as amounts due from GHC. The 2008 NAIC Annual Statement Instructions for Note 10 require the reporting of amounts due from related parties.

In addition, inter-company transactions were not settled on a monthly basis as disclosed in Note 10D.

RESPONSE

The Company has corrected the disclosures in the Notes to Financial Statements filed for the period ended December 31, 2009 to reflect the amounts due from related parties and actual frequency of inter-company settlement.

d. Repayment of Loan

In the Notes to Financial Statements, Note No. 14A, the Company did not disclose the nature and amount of the guarantees relating to the loan for the construction and long-term financing of the Westlake Terry building.

RESPONSE

The Company will expand the disclosures to be in compliance with the NAIC Annual Statement Instructions.

e. Medicare Risk Corridor

The experience rating refunds for the Company's Medicare Part D obligation was misclassified in the Company's 2008 NAIC Annual Statement. In addition, the Company did not record the liability as a separate line item in the Statement of Actuarial Opinion.

RESPONSE

The Company has corrected the misclassification of Medicare Part D experience rating refunds in the Annual Statement and included the liability as a separate line item in the Statement of Actuarial Opinion filed for the period ended December 31, 2009.

f. Potential Risk Exposure

The Company incorrectly calculated the risk exposure on interest rate swap agreement.

RESPONSE

The Company has corrected the miscalculation of the risk exposure on the interest rate swap agreement in the Annual Statement filed for the period ended December 31, 2009.

g. Misclassification of Prescription Drugs

In the 2008 NAIC Annual Statement, the Company included in error prescription drug administrative fees as part of the expense for "Prescription drugs."

RESPONSE

The Company correctly reported the administrative fees for prescription drugs as claims adjustment expense in the Quarterly Statement filed for the period ended March 31, 2010.

h. Medicare Cost Sharing and Medicare Reinsurance

The Company incorrectly reported Medicare Low-Income Cost Sharing (LICS) and Medicare Reinsurance in its 2008 Annual Statement as "Premiums received in advance."

RESPONSE

The Company has corrected the misclassification of Medicare LICS and Reinsurance and reported the receivables as "Amounts receivable relating to uninsured plans" in the Annual Statement filed for the period ended December 31, 2009.

i. Derivative – Cap on Early Termination Clause

In the Notes to Financial Statements, Note 8, for an interest rate swap agreement, the disclosure note does not reflect the terms of the contract to include potential losses and incorrectly cites the market value.

RESPONSE

The Company will expand the disclosure to be in compliance with the NAIC Annual Statement Instructions.

j. Reserves for Long-Term Health Care

In the Underwriting and Investment Exhibit, Part 2D, the reserve for the long-term health care line of business was reported as "Aggregate write-ins for other policy reserves."

RESPONSE

The Company has corrected the misclassification of the reserves for long-term health care and reported the current claim obligation as “Aggregate health claim reserves” and non-current claim obligation as “Aggregate health policy reserves.”

k. Claims Unpaid Aging

The Annual Statement, Exhibit 4 – Claims Unpaid and Incentive Pool , does not include an accurate aging analysis. An aging analysis was not included for 30 to 60 days and 60 to 90 days.

RESPONSE

The Company respectfully disagrees with this finding as all claims fully adjudicated to the terms of benefit contract are paid, in full, at the end of each month. The claims unpaid liability on Exhibit 4 consists almost solely of the Company’s incurred but not reported claims liability, as determined by its actuary.

2. Settlement of Inter-Company Balances

In accordance with RCW 48.31C.050(5), GHC is instructed to follow the existing inter-company ASA or file a new Form D with the OIC that correctly reflects the terms.

RESPONSE

The Company is in compliance with the settlement terms required in the existing inter-company ASA as of January 2010.

3. Custodial Agreement Deficiencies

The Company is instructed to execute a custodial agreement and to amend a custodial agreement that contains the required terms under RCW 48.13.480.

RESPONSE

Chapter 48.13 RCW does not expressly apply to health maintenance organizations. However, GHC has elected to enter into custodial agreements that follow the requirements of RCW 48.13.480. To that end, GHC is working with Bank of New York (now BNY Mellon) on an amended form of the custodial agreement that will follow the provisions of 48.13.480.

4. Approval of Investment Transactions

Pursuant to RCW 48.13.340, the Company is instructed to obtain and document approval by the BOT for all investments purchased. Pursuant to RCW 48.13.350(1), a permanent written record of investment transactions must be kept and authorized by an officer or by the chairman of the committee authorizing the investment.

RESPONSE

Chapter 48.13 RCW does not expressly apply to health maintenance organizations. However, GHC has established a procedure that meets the terms of RCW 48.13.340. Specifically, since October 2009 GHC's investments have been approved by the Finance and Investment Committee of the Board of Trustees (the "FIC"), a duly constituted committee of the board charged with the duty of approving investments. The FIC approves these investments in accord with an investment policy adopted by the Board of Trustees. Minutes of the FIC meetings at which the FIC approves these investments are recorded. Going forward, these minutes will be forwarded to the Board of Trustees along with a cover report confirming the activity for board approval

5. Security Deposit Non-Admitted

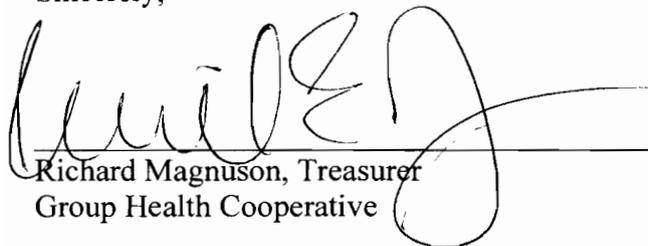
The Company is instructed to non-admit the Labor and Industries security deposit pursuant to SSAPs No. 4 and 87.

RESPONSE

The Company began non-admitting the L&I security deposit on the Quarterly Statement filed for the period ended September 30, 2009.

If you have any further questions, please contact me at 206-448-5528.

Sincerely,



Richard Magnuson, Treasurer
Group Health Cooperative