

In the Matter of)	No. 13-165
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
KPS HEALTH PLANS)	AND ORDER ADOPTING REPORT
)	OF FINANCIAL EXAMINATION
)	

A Domestic Health Care Service Contractor.

BACKGROUND

An examination of the financial condition of **KPS HEALTH PLANS**, (the Company) as of December 31, 2011, 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 April 18, 2013. 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 12 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 **KPS HEALTH PLANS** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions and Comments and Recommendations prior to the date of this order. The Instructions and Comments and Recommendations 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 and Comments and Recommendations 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 the form and context approved by the NAIC and WAC 284-07-060(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 Chapter 48.13 RCW which became effective July 1, 2012. Instruction 2, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-060(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 3, Examination Report, page 2.
4. The Company is ordered to comply with RCW 48.94.015 by obtaining a written authorization with its reinsurance broker. In addition, the Company is ordered to comply with RCW 48.94.025 by using a reinsurance broker that meets the licensing requirements of RCW 48.94.010. Instruction 4, Examination Report, page 3.

5. It is ordered that the Company consider periodically reconciling its general ledger to the custodian's statement. Comments and Recommendations 1, Examination Report, page 3.

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 20th day of May, 2013.



MIKE KREIDLER
Insurance Commissioner

RECEIVED

INSURANCE
COMMISSION

May 6, 2013

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

Re: Financial Examination Report of KPS Health Plans as of December 31, 2011

Dear Mr. Odiome,

We have received and reviewed the draft of the referenced report of examination for KPS Health Plans (the "Company") dated March 27, 2013. Please find the following revisions to the facts presented in the report.

1. Robert V. O'Brien is named incorrectly as a member of the Board of Directors on page 5. His correct name is Robert V. O'Brien Jr.
2. In the Subsequent Events section on page 8, the correct date for the sale of the headquarters building and adjacent land was August 31, 2012.
3. The effective date of the Administrative Services Agreement with GHC listed on page 5 is January 1, 2007.

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

1. NAIC Annual Statement Errors, Omissions, and Misclassifications

a. Deferred Compensation Plan

The Company reported \$187,205 of plan assets on page 2, Line 25, "Aggregate Write-ins for Other Than Invested Assets" for its executive

deferred compensation plan. A corresponding liability of \$179,841 was reported on page 3, Line 12, "Amounts Withheld or Retained for the Account of Others." SSAP No. 14(11) requires the amount of plan assets that exceed the postretirement obligation to be non-admitted. Therefore, the \$7,363 excess of fair value of plan assets over the postretirement obligation should have been non-admitted. Due to immateriality, no examination adjustment was necessary.

RESPONSE

The Company corrected its reporting in the Financial Statements filed for the period ended December 31, 2012.

b. Pension Plan

KPS did not report \$930,000 of its long term pension liability in 2010. In addition, the Company did not report its long term pension liability in prior years NAIC Annual Statements. SSAP No. 89 requires long term pension liabilities to be reported. This error was corrected in the 2011 NAIC Annual Statement.

RESPONSE

As mentioned above, the Company corrected its reporting in the Financial Statements filed for the period ended December 31, 2011.

c. Notes to Financial Statements

Note No. 12 on Page 25.7 of the 2011 NAIC Annual Statement incorrectly labeled \$6,437,928 as an unrecognized actuarial gain when it should have been labeled as an unrecognized actuarial loss. No examination adjustment was necessary since this was only a labeling error.

RESPONSE

The Company will correct the disclosures in the Notes to Financial Statements in future filings to reflect the correct labeling.

d. Pharmacy Receivables

The Company reported \$96,380 of pharmacy receivables on Page 2, Line 25, "Aggregate Write-ins for Other Than Invested Assets" of the 2011 NAIC Annual Statement. The NAIC Annual Statement Instructions require these balances to be reported on Page 2, Line 24, "Health Care and Other Amounts Receivable.

RESPONSE

The Company corrected its reporting in the Financial Statements filed for the period ended December 31, 2012.

e. Exhibit 3

The Company reported the Letter of Credit (LOC) receivable from the Office of Personnel Management (OPM), related to the Federal Employee Health Benefit Program (FEHBP), as a risk-sharing receivable on Page 19, Line 5999999 of Exhibit 3 of the 2011 NAIC Annual Statement and, in Note No. 28. The LOC does not meet the definition of a risk-sharing receivable per SSAP No. 84(6) and should have been reported on Line 6999999 of Exhibit 3.

RESPONSE

The Company will correctly classify the FEHBP LOC in Exhibit 3 in future filings.

2. Limitation of Foreign Securities (Canadian Bonds)

The Company reported \$3,910,431 of Canadian bonds on Page 2, Line 1 of its 2011 NAIC Annual Statement. RCW 48.13.180(2) limits investments in any one foreign country to five percent of the insurer's assets. The five percent of assets was \$2,275,577 as of December 31, 2011. The excess over the limitation was \$1,634,854. Chapter 48.13 RCW was revised effective July 1, 2012 and eliminated the foreign investment limitation contained in RCW 48.13.180(2). Because the company is now in compliance, no examination adjustment was necessary. The Company will need to comply with the new insurance law contained in Chapter 48.13 RCW.

RESPONSE

The Company maintains its compliance with the new insurance laws enacted in 2012.

3. Incorrect Reporting of the FEHBP

The Company has a FEHBP contract with the OPM that it categorized as an experience-rated contract. The Company reported the service fee and administrative fee components of this contract as reductions to general administrative expenses on Page 4, Line 21 of the 2011 NAIC Annual Statement. Because this contract has a possibility of loss or liability due to claims incurred, it does not meet the definition of an uninsured plan per SSAP No. 47 and, therefore, must be accounted for as an insured plan. Additionally, the NAIC Annual Statement Instructions define written premiums as "...the contractually determined amount charged by the reporting entity to the policyholder for the effective period of the contract based on the expectation of risk, policy benefits, and expenses associated with the coverage provided by the terms of the insurance contract." Therefore, the administrative fee and service charge should be reported as premiums. Because FEHBP premiums are not subject to premium taxes

and since the correction of this mis-classification error has no impact on the company's surplus, no examination adjustment was necessary.

RESPONSE

The Company corrected its reporting in the Financial Statements filed for the period ended December 31, 2012.

4. Reinsurance Broker Intermediary

The Company used Evergreen RE as its reinsurance broker without a written authorization with the broker. RCW 48.94.015 requires a written authorization between a reinsurance intermediary-broker and an insurer. In addition, Evergreen RE is not licensed to do business in the state of Washington. RCW 48.94.010 requires reinsurance brokers to be licensed in the state of Washington or to be licensed in another state with comparable laws as Washington State. RCW 48.94.025 does not allow the Company to engage the services of an intermediary-broker unless the intermediary-broker is licensed in accordance with RCW 48.94.010.

RESPONSE

Evergreen RE was considered licensed in Washington by way of a 'substantially similar regulatory scheme' allowance in Washington law. Licensure expired due to a change in the law in the 'similarly regulated' state where Evergreen RE holds a license. Evergreen RE has submitted an application and subsequently requested documents to the OIC for licensure in Washington and is awaiting a final decision from the OIC.

KPS has a written authorization ready to be executed with Evergreen RE. KPS has elected to refrain from executing this agreement until licensure is granted to Evergreen RE. In the event that licensure is not granted to Evergreen RE, KPS will execute a written agreement with an appropriately licensed broker for reinsurance services.

If you have any further questions, please contact me at 206-448-4397.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bret Myers", with a horizontal line extending to the right.

Bret Myers, Treasurer
KPS Health Plans