

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF
TIMBER PRODUCTS MANUFACTURERS TRUST
SPOKANE, WASHINGTON

NAIC CODE 12239
December 31, 2011

Order No. 13-36
Timber Products Manufacturers Trust
Exhibit A

SALUTATION

Seattle, Washington
January 30, 2013

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

Timber Products Manufacturers Trust
of
Spokane, Washington

hereinafter referred to as "TPMT" or the "Trust" at its home office located at 951 East Third Avenue, Spokane, Washington 99202. This report is respectfully submitted showing the financial condition and related corporate matters of the Trust as of December 31, 2011.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Timber Products Manufacturers Trust of Spokane, Washington. This report shows the financial condition and related corporate matters as of December 31, 2011.



Patrick H. McNaughton
Chief Examiner

1-30-13

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2007 through December 31, 2011 and comprises a risk focused review of the books and records of the Trust. 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 though the end of field work on January 10, 2013.

Corporate records, external reference materials, and various aspects of the Trust'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 Trust's Certified Public Accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2011 NAIC FCEH which requires the examiner to consider the Trust's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess the Trust's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Trust's greatest areas of risk, and providing assurance on the Trust's financial statements as of the examination date.

INSTRUCTIONS

The examiners reviewed the Trust's filed 2011 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Trust completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Trust'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. Washington Trust Bank Custodial Agreement

The Trust responded in its 2011 NAIC Annual Statement General Interrogatories 28.01 that its custodial agreement with Washington Trust Bank complied with the FCEH. However, it did not contain several provisions required by the FCEH.

The Trust is instructed to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions, and affairs and to follow the NAIC Annual Statement Instructions and the AP&P, as required under WAC 284-07-050(2). The Trust is also instructed to execute a revised or amended custodial agreement that complies with the FCEH.

2. NAIC Annual Statement Errors, Omissions, and Misclassifications

The examination team found instances in which the Trust's filing of the 2011 NAIC Annual Statement (Annual Statement) did not conform to the AP&P and the NAIC Annual Statement Instructions. While the Trust needs to correct these errors, the following items were not material to the financial statements and no adjustments were necessary.

a. Underwriting and Investment Exhibit, Part 3

The following misclassifications were noted on the Underwriting and Investment Exhibit, Part 3:

- i. Premium Taxes were incorrectly classified as board, bureau and association fees instead of state premium taxes on line 23.2.
 - ii. The administrative fees paid for claim processing included on line 18, Group service and administration fees were incorrectly classified as Cost Containment Expenses instead of Other Claim Adjustment Expenses.
 - iii. The administrative fees paid for premium processing included on line 18, Group Service and administration fees were incorrectly classified as cost Containment Expenses instead of General Administrative Expenses.
 - iv. The administration fees collected on behalf of Timber Products Manufacturers, Inc. were included on line 18, Group Service and administration fees when they should have been recorded as payable.
- b. **Statement of Revenue and Expenses** - The Trust incorrectly recorded group life premiums collected on behalf of Timber Products Manufacturers, Inc. as fee-for-service income, line 4. The group life premiums should have been recorded as a payable. As a result, the net income reported in the Trust's 2011 NAIC Annual Statement was overstated.
- c. **Assets** – The Trust incorrectly recorded a \$20,000 legal retainer advance deposit as an admitted asset. Prepaid charges for expenses paid by the Trust are nonallowable assets pursuant to RCW 48.12.020. As a result, the assets reported in the Annual Statement were overstated by \$20,000.
- d. **General Interrogatories (GI)** - The Trust owns an indemnity deposit in the amount of \$208,052 as of December 31, 2011, and on deposit with the state of Washington. The Trust erroneously reported "No" in GI 25.1 and did not complete GI 25.2. The Trust should complete GI 25.2 by recording the indemnity deposit of \$208,052.
- e. **Notes to Financial Statements** - Our examination noted missing responses or documentation in Note 1.A regarding Special Consent, Note 7 regarding investment income; Note 10 regarding information concerning parent, subsidiaries, affiliates and other related parties; Note 14 regarding contingencies and Note 19 regarding direct premium written or produced by managing general agents or third party administrators.

The Trust is instructed to comply with RCW 48.05.073 and RCW 48.05.250 by filing its financial statements in the general form and context approved by the NAIC and with WAC 284-07-050(2), which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

COMMENTS AND RECOMMENDATIONS

1. Conflict of Interest Policy

The Trust did not comply with its Policy Statement on Conflicts of Interest (policy). The policy requires all trustees and any employee exercising authority on behalf of the Trust to annually review the policy and submit a Certificate Regarding Policy Statement on Conflicts of Interest (certificate) to the Trust secretary that they have read the policy and that to the best of their knowledge is not violating any of the principles enunciated in the policy or has made full disclosure of facts regarding any possible question of violation.

- There were six members of the Board of Trustees; however, only five trustees submitted their certificates in 2011. Of the five certificates, only one was signed in 2011. Two of the submitted certificates were signed in 2004, one was signed in 2008, and one was signed in 2009.
- The Trust has no employees; however, Timber Products Manufacturers, Inc. has employees that perform administrative functions on behalf of the Trust. Those employees have never submitted a certificate.

It is recommended that each member of the Board of Trustees and each employee who performs administrative functions for the Trust submit a Certificate Regarding Policy Statement on Conflicts of Interest annually in accordance with TPMT's policy regarding conflicts of interest.

2. Board of Trustees

According to the Trust Agreement, the Board of Trustees shall consist of nine trustees appointed by the Board of Directors of Timber Products Manufacturers, Inc. There were only six trustees as of December 31, 2011.

It is recommended that the number of trustees be maintained in accordance with the Trust Agreement.

COMPANY PROFILE

Company History

The Trust was organized on August 4, 1960 by Timber Products Manufacturers, Inc. (the Association), and operates under Title I of the Employee Retirement Income Security Act (ERISA) as a non-profit entity registered under the provisions of the Internal Revenue Code of 1986, Section 501(c)(9). Effective March 31, 2004, the Washington State Legislature enacted Senate Bill 6112 which authorized the amendment of several chapters and sections in Title 48 RCW and the addition of a new Chapter 48.125 RCW titled Self-Funded Multiple Employer Welfare Arrangement (MEWA). In addition to operating as an ERISA plan, effective January 1, 2005, the Trust was licensed to operate as a MEWA pursuant to Chapter 48.125 RCW.

Capitalization

The Trust met the minimum capital requirements of RCW 48.44.037 with \$5,014,230 of capital and surplus as of December 31, 2011. Member companies' contributions fund the Trust. "Unassigned funds"

were \$2,764,555 and \$5,014,230 as of years ended 2010 and 2011, respectively. Capital requirements are being met pursuant to RCW 48.125.060.

Territory and Plan of Operation

The Trust has Certificates of Authority in the states of Idaho, Montana, Oregon and Washington and operates as a legally recognized ERISA Employee Welfare Plan in Wyoming. The Trust was established to provide health, dental, and vision benefits to member companies.

The Association developed a self-funded health care plan (Plan Document) for the benefit of member companies, their eligible employees and dependents. The purpose of the Plan Document is to provide reimbursement for eligible expenses incurred for covered services, treatment or supplies as a result of medically necessary treatment for illness or injury of the member companies' eligible employees and their eligible dependents. The Association, by and through the Trust, agrees to make payments as provided in the Plan Document.

Growth of Company

The following reflects the growth of the Trust 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>	
2011	\$8,646,823	\$3,632,593	\$5,014,230	
2010	6,886,780	4,122,225	2,734,555	
2009	8,156,509	5,316,480	2,840,029	
2008	11,771,591	6,199,460	5,572,131	
2007	9,535,430	4,263,999	5,271,431	

<u>Year</u>	<u>Total Revenue</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2011	\$25,200,584	\$2,126,721	\$122,954	\$2,249,675
2010	26,431,581	(341,266)	265,792	(75,474)
2009	28,815,793	(3,238,519)	506,417	(2,732,102)
2008	31,126,765	254,151	142,390	396,541
2007	28,025,705	355,512	275,942	633,552

MANAGEMENT AND CONTROL

Timber Products Manufacturers, Inc. (the Association)

The Association was founded in 1916 and is comprised of 158 member companies in the wood products industry and is the sponsor of the Trust. The Association is a non-profit, non-stock corporation with a mission to improve, promote and advance the common interests and welfare of member companies in the timber products industry. Dues from each member company fund the Association.

The Trust Agreement was first executed between the Trust and the Association on August 4, 1960. It has been amended and restated several times with the most recent amendment and restatement effective September 18, 2009.

Ownership

The Trust is controlled by the Association with management vested in a Board of Trustees.

Board of Trustees (BOT)

According to the Trust Agreement, management of the Trust is vested in a board of nine trustees appointed by the Board of Directors of the Association. Trustees are appointed for a three-year term. There are three trustees appointed each year to achieve continuity on the BOT. The BOT will select a chairman and a vice chairman from among its members to serve as officers of the Trust. (See Comments and Recommendations No. 2.)

Trustees

Trustees as of December 31, 2011:

- | | |
|------------------------|---------------|
| Andrew E. Tomlinson | Chairman |
| Lawrence N. Schmedding | Vice Chairman |
| Harry Cheff | |
| James M. Clements | |
| Richard Molenda | |
| Loren R. Rose | |

Officers

Officers as of December 31, 2011:

- | | |
|------------------------|---------------|
| Andrew E. Tomlinson | Chairman |
| Lawrence N. Schmedding | Vice Chairman |

Conflict of Interest

The Trust’s policy defines situations that could be construed as a potential conflict of interest. The policy’s practices and procedures document requires all trustees and employees exercising authority on behalf of the Trust to complete a certificate regarding policy statement on conflicts of interest. No such conflicts were noted during the examination period. However, the Trust did not comply with its policy. (See Comments and Recommendations No. 1.)

Fidelity Bond and Other Insurance

The Trust is a named insured on a financial institution fidelity bond. An aggregate loss limit of coverage in the amount of \$1,000,000 is provided with no deductible. The minimum amount recommended by the NAIC for the insured companies is \$250,000 to \$300,000. The aggregate amount of coverage meets the NAIC recommended level for the Trust.

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

The Trust has no employees. The Association performs services for the Trust and its member companies pursuant to an Administrative Service Agreement between each member company and the Association.

CORPORATE RECORDS

The Trust Agreement, Certificate of Authority, and minutes of the BOT were reviewed for the period under examination. No exceptions were noted and all BOT meetings were conducted with a quorum present.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The OIC health actuary reviewed the Trust's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2011. The review included examining the Trust'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 No. 55, paragraphs 7 and 8, and SSAP No. 54 paragraphs 12, 13, 18 and 19; reviewing historical paid claims and loss ratios; checking the consistency of the incurred-paid data from the Trust's system with the figures reported in the 2011 NAIC Annual Statement; and estimating claims unpaid for the valuation date of December 31, 2011. The OIC health actuary concluded that the reserves were in compliance with statutory requirements.

REINSURANCE

The Trust has an excess loss reinsurance treaty with Transamerica Life Insurance Company, an authorized and licensed insurance company in the state of Washington. The maximum amount of retention per year, per covered person is \$350,000. The overall maximum reimbursement that the reinsurer will be liable for over a person's lifetime is \$1,000,000. The treaty runs for a twelve month term and has a twenty-four-month incurred claims cut-off period.

SPECIAL DEPOSITS

MEWAs are required to have a reserve for the payment of claims if the MEWA becomes insolvent, pursuant to RCW 48.125.040(1)(b)(i)(A). The Trust has a special deposit of \$208,052 which satisfies this requirement. This balance was verified to the bank statement, bank reconciliation, and to a direct confirmation by the certified public accounting firm of Schaedel & Schaedel, PS.

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Trust's Information Technology (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 Trust relies upon third party administrators (TPAs) to process its financially significant applications. The TPAs IT systems and controls were evaluated to gain an understanding of the IT general control risks and assess the effectiveness of these controls to determine if appropriate mitigating and internal controls have been implemented. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels. The TPAs have effective Business Continuity Plans and Disaster Recovery Plans, which have been tested on a regular basis and include the availability of an alternate site.

SUBSEQUENT EVENTS

NONE

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions and comments, except for the conflict of interest recommendation, have been addressed and corrected. (See Comments and Recommendations No. 1.)

FINANCIAL STATEMENTS

The following financial statements show the financial condition of Timber Products Manufacturers Trust as of December 31, 2011:

Assets, Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Five Year Reconciliation of Surplus

Timber Products Manufacturers Trust
Assets, Liabilities, Capital and Surplus
December 31, 2011

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
ASSETS			
Bonds	\$5,055,539	\$0	\$5,055,539
Cash	2,509,395		2,509,395
Short Term Investments	942,419		942,419
Investment income due and accrued	45,481		45,481
Premiums and considerations			
Uncollected premiums and agents' balances in the course of collection	73,989		73,989
Aggregate write-ins for other than invested assets	20,000		20,000
Total assets	<u>\$8,646,823</u>	<u>\$0</u>	<u>\$8,646,823</u>
LIABILITIES, CAPITAL AND SURPLUS			
Claims unpaid	\$3,147,902	\$0	\$3,147,902
Unpaid claims adjustment expenses	114,469		114,469
Premiums received in advance	303,590		303,590
General expenses due or accrued	66,632		66,632
Total liabilities	<u>3,632,593</u>	<u>0</u>	<u>3,632,593</u>
Unassigned fund (surplus)	5,014,230		5,014,230
Total capital and surplus	<u>5,014,230</u>		<u>5,014,230</u>
Total liabilities, capital and surplus	<u>\$8,646,823</u>	<u>\$0</u>	<u>\$8,646,823</u>

**Timber Products Manufacturers Trust
Statement of Revenue and Expenses
For the Year Ended December 31, 2011**

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Member months	139,875		139,875
Net premium income	\$25,154,332	\$0	\$25,154,332
Fee for Service	46,252		46,252
Total revenues	25,200,584	0	25,200,584
Hospital and Medical:			
Hospital/medical benefits	17,497,811	0	17,497,811
Other professional services	578,740		578,740
Prescription drugs	3,000,496		3,000,496
Subtotal	21,077,047	0	21,077,047
Less:			
Net reinsurance recoveries	127,468		127,468
Total hospital and medical	20,949,579		20,949,579
Claims adjustment expenses	1,493,419		1,493,419
General administrative expenses	647,667		647,667
Increase in reserves for life and accident and health contracts	(16,802)		(16,802)
Total underwriting deductions	23,073,863	0	23,073,863
Net underwriting gain or (loss)	2,126,721	0	2,126,721
Net investment income earned	128,845		128,845
Net realized capital gains (losses) less capital gains tax	(5,891)		(5,891)
Net investment gains (losses)	122,954	0	122,954
Net income or (loss) after capital gains tax and before all other federal income taxes	2,249,675		2,249,675
Federal and foreign income taxes incurred	0		0
Net income or (loss)	\$2,249,675	\$0	\$2,249,675

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
<u>CAPITAL AND SURPLUS ACCOUNT</u>			
Capital and surplus prior reporting year	\$2,764,555	\$0	\$2,764,555
Net income or (loss)	2,249,675		\$2,249,675
Net change in capital & surplus	2,249,675		\$2,249,675
Capital and surplus end of reporting period	\$5,014,230	\$0	\$5,014,230

**Timber Products Manufacturers Trust
Five Year Reconciliation of Surplus
For the Years Ended December 31**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital and Surplus, December 31,					
Prior Year	\$2,764,555	\$2,840,029	\$5,572,131	\$5,271,431	\$4,513,117
Net Income or (loss)	2,249,675	(75,474)	(2,732,102)	396,541	633,552
Change in valuation basis of aggregate policy and claim reserves					(70,592)
Cumulative effect of changes in accounting principles				(95,841)	
Change in net unrealized capital gains					195,354
Net change in Capital and Surplus	<u>2,249,675</u>	<u>(75,474)</u>	<u>(2,732,102)</u>	<u>300,700</u>	<u>758,314</u>
Capital and Surplus, December 31,					
Current Year	<u>\$5,014,230</u>	<u>\$2,764,555</u>	<u>\$2,840,029</u>	<u>\$5,572,131</u>	<u>\$5,271,431</u>

NOTES TO THE FINANCIAL STATEMENTS

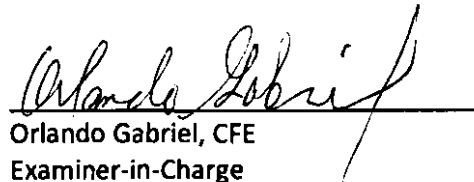
The Trust has no special consents, permitted practices or orders from the state of Washington.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Timber Products Manufacturers Trust and its affiliates during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Susan Campbell, CPA, CFE, FLMI, ARA, Life Field Supervising Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Scott Fitzpatrick, FSA, MAAA, CERA, OIC Actuary; Timothy F. Hays, CPA, JD, Investment Specialist; Keith Henderson, CPA, Financial Examiner; and Zairina Othman, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,

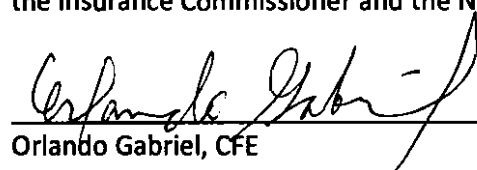

Orlando Gabriel, CFE
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 } ss
COUNTY OF KING }

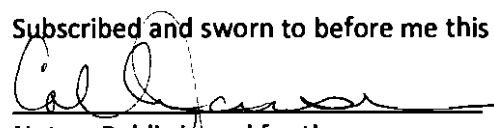
Orlando Gabriel, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Timber Products Manufacturers Trust was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners.



Orlando Gabriel, CFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 30th day of January, 2013.



Notary Public in and for the
State of Washington

