

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



FINANCIAL EXAMINATION

Of

**LifeWise Health Plan of Washington
Mountlake Terrace, Washington**

NAIC CODE 52633
DECEMBER 31, 2004

Order No. G 07-5
LifeWise Health Plan of
Washington
Exhibit A

SALUTATION

Seattle, Washington
March 1, 2007

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building – Capitol Campus
302 – 14th Avenue SW
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.44.145 and 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 the location of its home office, 7001 220th Street SW, Mountlake Terrace, Washington 98043-2124. This report is respectfully submitted showing the condition of the Company as of December 31, 2004.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of LifeWise Health Plan of Washington, Mountlake Terrace, Washington. This report shows the financial condition and related corporate matters as of December 31, 2004.



Patrick H. McNaughton
Chief Examiner

3-1-2007

Date

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION.....	1
INSTRUCTIONS.....	1
COMMENTS AND RECOMMENDATIONS	5
COMPANY PROFILE	5
Company History.....	5
Capitalization.....	5
Territory and Plan of Operation.....	5
Growth of Company	6
AFFILIATED COMPANIES	6
Organizational Chart.....	7
INTERCOMPANY AGREEMENTS.....	7
MANAGEMENT AND CONTROL.....	8
Ownership.....	8
Board of Directors	8
Senior Officers.....	8
Conflict of Interest.....	9
Fidelity Bond and Other Insurance.....	9
Officers', Employees', and Agents' Welfare and Pension Plans	9
CORPORATE RECORDS	9
ACTUARIAL REVIEW	9
REINSURANCE	10
SPECIAL DEPOSITS.....	10
ACCOUNTING RECORDS AND INFORMATION SYSTEMS.....	10
SUBSEQUENT EVENTS	11
FINANCIAL STATEMENTS.....	11
Assets, Liabilities, Capital and Surplus	12
Statement of Revenue and Expenses	13
Surplus Reconciliation.....	14
NOTES TO THE FINANCIAL STATEMENTS.....	15
ACKNOWLEDGMENT	16
AFFIDAVIT	17

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2000 through December 31, 2004 and comprises a comprehensive review of the books and records of the Company. The examination followed the 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 Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

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 sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed 2004 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 contained 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 and Misclassifications

The results of the examination disclosed several instances where the Company's filing of the 2004 NAIC Annual Statement did not conform to the NAIC AP&P Manual and the NAIC Annual Statement Instructions.

a. Securities Lending Accounting for Collateral Received on Securities Loaned

The Company incorrectly reported securities lending collateral in the amount of \$8,136,963 in the 2004 NAIC Annual Statement as an asset with a corresponding liability. The collateral received by the Company is not available for the general use of the transferor and therefore considered as restricted. Pursuant to SSAP No. 18, paragraph 25, restricted collateral shall not be reflected in the transferor's balance sheet as an asset with a corresponding liability. (See examination reclassification adjustment No. 1, debiting "Aggregate write-ins for other liabilities" and crediting "Aggregate write-ins for other than invested assets" in the amount of \$8,136,963.)

- b. Premium Reporting on Schedule T and the Underwriting and Investment Exhibit, Part 1
The Company incorrectly reported earned premiums on Schedule T and in the Underwriting and Investment Exhibit, Part 1, Column 1, in the 2004 NAIC Annual Statement. Pursuant to the 2004 NAIC Annual Statement Instructions, for the Underwriting and Investment Exhibit, Part 1 and Schedule T, written premiums should be reported. (See Instruction No. 6)
- c. Board Member Listing Error on Jurat Page
An individual who was not a member of the Board of Directors was incorrectly included on the Company jurat page as a member of the Board of Directors in the 2004 NAIC Annual Statement.
- d. Remittances and Items Not Allocated Misclassified
The Company misclassified unapplied premium payments in the amount of \$3,249,182 as “Aggregate write-ins for other liabilities” in the 2004 NAIC Annual Statement. Pursuant to SSAP No. 67, paragraph 9, and the 2004 NAIC Annual Statement Instructions, the unapplied premium payments should have been reported as “Remittances and items not allocated”. (See examination reclassification adjustment No. 3, debiting “Aggregate write-ins for other liabilities” and crediting “Remittances and items not allocated” in the amount of \$3,249,182.)
- e. Additional Data to the NAIC Annual Statement
The Company did not prepare the 2004 Additional Data to the 2004 NAIC Annual Statement as required by WAC 284-07-050(8). The Company included in the small group category, group sizes 2 to 99 and association business. RCW 48.43.005(24) defines a small group as fewer than 51, and RCW 48.44.024(2) states that associations are not considered small groups.

The Company is instructed to comply with RCW 48.44.100 and file an accurate statement of its financial condition, transactions, and affairs; with RCW 48.43.097 which requires the filing of its financial statements in accordance with the NAIC AP&P Manual; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the NAIC AP&P Manual.

2. Investment Custodial Agreement Criteria

The Company's custodial and safekeeping agreement with the Bank of New York Trust Company (BNY) does not contain all the custodial agreement criteria as required by the 2004 NAIC Financial Condition Examiners Handbook (FCEH), Part 1 - General, Section IV.J. The 2004 NAIC Annual Statement Instructions for General Interrogatory No. 23 requires investment custodial safekeeping agreements to include language as required by the NAIC FCEH.

The Company also incorrectly listed BNY in General Interrogatory No. 23.01 of the 2004 NAIC Annual Statement as having custodial agreements that comply with the NAIC FCEH.

The Company is instructed to amend its custodial agreement with BNY to include appropriate wording and criteria as set forth in the NAIC FCEH pursuant to RCW 48.03.010(1) and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions.

In connection with the incorrect statement in General Interrogatory No. 23.01, the Company is also instructed to comply with RCW 48.44.100 and file an accurate statement of its financial condition, transactions, and affairs.

3. Tax Allocation

The Company has been utilizing portions of the federal income tax net operating loss carry forward of Premera Blue Cross (PBC) without properly reimbursing PBC. Without reimbursement, the net income and unassigned funds for the Company have been reported incorrectly in the NAIC Annual Statements over the period of this examination. Accordingly, the federal income tax on the Summary of Operations in the NAIC Annual Statements is not properly charged on a separate return calculation basis as is claimed in the Notes to Financial Statements. This distorts the presentation of the Company's financial position and operating results. SSAP No. 25, paragraph 14a, requires that a transaction conducted between affiliates for a business purpose "...shall be recorded at its fair value at the date of the transaction". "Unassigned funds (surplus)" should be debited and "Amounts due to parent, subsidiaries and affiliates" should be credited in the amount of \$1,190,000. (See adjustment No. 4)

The Company is instructed to comply with RCW 48.44.100 and file an accurate statement of its financial condition, transactions, and affairs; with RCW 48.43.097 which requires the filing of its financial statements in accordance with the NAIC AP&P Manual; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the NAIC AP&P Manual.

4. Statement of Actuarial Opinion (SAO) Issues

- a. The 2004 SAO was signed by two actuaries. One actuary used the term "I" or "my opinion" throughout the SAO, but also mentioned that the review was in conjunction with another actuary. The 2004 NAIC Annual Statement Instructions require the SAO to be signed by "a qualified actuary", not more than one actuary.
- b. The consulting actuary separated unpaid claims and unpaid claims adjustment expenses into actuarial and non-actuarial items, and stated that non-actuarial items are beyond the scope of actuarial review for the SAO. The 2004 NAIC Annual Statement Instructions and SSAP No. 55, require the actuary to calculate, examine, and opine on all items related to the unpaid claims and unpaid claims adjustment expenses as they are reported in the 2004 NAIC Annual Statement.
- c. The consulting actuary also did not state if there were any actuarial liabilities or any reserve for rate credits or experience rated refunds. Experience rated refunds were

included in the health policy reserves, but the 2004 NAIC Annual Statement Instructions require the actuary to list experience rated refunds separately.

The Company is instructed to comply with WAC 284-07-060(2)(a) and include a SAO that is in compliance with the NAIC Annual Statement Instructions and the NAIC AP&P Manual pursuant to WAC 284-07-050(2).

5. Understated and Overstated Unpaid Claims Adjustment Expense (CAE)

Unpaid CAE for health plans are usually based on the historical ratio of paid CAE to paid claims, multiplied by the unpaid claims. The Company has consistently understated the accrued unpaid CAE compared to actual paid claim adjustment expense for the corresponding periods as indicated in the following schedule of ratios:

<u>Year</u>	<u>CAE Accrued Ratio</u>	<u>CAE Actual Ratio</u>	<u>Accrual was Understated</u>
2004	4.08%	8.25%	(4.17)%
2003	4.19	11.00	(6.81)
2002	4.00	15.67	(11.67)
2001	3.83	123.97	(120.14)
2000	na	na	na

The Company is instructed to adequately account for unpaid claims adjustment expenses using past experience adjusted for current trends, pursuant to SSAP No. 55, paragraph 8, and comply with RCW 48.44.100 and file an accurate statement of its financial condition, transactions, and affairs; with RCW 48.43.097 which requires the filing of its financial statements; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the NAIC AP&P Manual.

6. Premium Tax Return Deficiencies

The Company incorrectly used earned premiums when preparing the state of Washington Premium Tax statement for the tax years 2001, 2003 and 2004. The state of Washington Premium Tax statement instructions require the usage of written premiums. Using earned premiums resulted in an underpayment of premium taxes due in the amount of \$49,769. (See examination adjustment No. 2, debiting “Unassigned funds (surplus)” and crediting “General expenses due and accrued”.)

The Company is instructed to calculate all future premium taxes based on written premiums, pursuant to RCW 48.14.0201(2) and pay the deficiency amount of \$49,769 immediately to Washington State Office of Insurance Commissioner.

COMMENTS AND RECOMMENDATIONS

1. Legal Entity Name

The current inforce securities custodial agreement, signed on August 31, 2000, is between LWWA and BNY Western Trust, but incorrectly names Premera Healthcare, Inc., as a participant in the agreement. Premera Healthcare, Inc., has changed its name several times, eventually becoming LWWA on July 11, 2002.

It is recommended that the Company amend its custodial agreement to reflect the current legal Company name.

COMPANY PROFILE

Company History

The Company was originally incorporated as Premera Health Care, Inc., on November 19, 1998 as a for-profit stock corporation in the state of Washington. On January 12, 1999, the Company filed Restated Articles of Incorporation and changed its name to Premera Healthcare, Inc. On May 2, 2000, the Company reorganized pursuant to Chapter 24.03 RCW, and filed Articles of Amendment of Restated Articles of Incorporation changing from a for-profit corporation to a nonprofit corporation, and changed its corporate name to Premera Healthcare. For the first 21 months the Company remained inactive until August 31, 2000, when the Company received its certificate of registration to operate as a health care service contractor in the state of Washington. On January 8, 2001, the Company changed its name to Premera LifeWise Health Plan. On July 11, 2002, the Company changed its name to LifeWise Health Plan of Washington.

Capitalization

The original Articles of Incorporation of November 19, 1998, authorized 50,000 shares of no par common capital stock. These shares were 100% owned by Washington-Alaska Group Services, Inc. (WAGS). The capital structure changed in the year 2000 when the Company reorganized and restated its Articles of Incorporation and became a nonprofit organization. WAGS retained control as the sole member.

Minimum capital requirements are met with Gross paid in and contributed surplus received from WAGS, in the amount of \$9,860,000 plus Unassigned funds in the amount of \$5,097,194.

Territory and Plan of Operation

LWWA operates as a health care service contractor in the state of Washington and provides group and individual health coverage to Washington State residents.

Growth of Company

The following reflects the growth of the Company based on its filed NAIC Annual Statement for the years ending December 31:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Assets, Liabilities, Capital and Surplus:					
Admitted Assets	\$3,160,000	\$9,191,128	\$20,088,399	\$39,236,591	\$60,505,113
Liabilities	0	5,477,406	18,265,197	26,625,151	45,547,919
Capital and Surplus	<u>\$3,160,000</u>	<u>\$3,713,722</u>	<u>\$1,823,202</u>	<u>\$12,611,440</u>	<u>\$14,957,194</u>
Revenue and Expenses:					
Premiums Earned	\$0	\$6,402,870	\$41,669,608	\$83,946,862	\$118,436,205
Net Underwriting Deductions	0	8,268,721	46,717,263	75,659,711	116,938,111
Underwriting Gain or Loss	0	(1,865,851)	(5,047,655)	8,287,151	1,498,094
Investment and Other Income		92,525	800,484	1,200,301	1,427,964
Pre-Tax Income	0	(1,773,326)	(4,247,171)	9,487,452	2,926,058
Taxes Incurred		(296,283)	(759,651)	1,982,521	655,041
Net Income	<u>\$0</u>	<u>(\$1,477,043)</u>	<u>(\$3,487,520)</u>	<u>\$7,504,931</u>	<u>\$2,271,017</u>

AFFILIATED COMPANIES

PREMERA:

PREMERA is a nonprofit holding company organized in the state of Washington under Chapter 24.06 RCW and is the ultimate controlling person of LWVA.

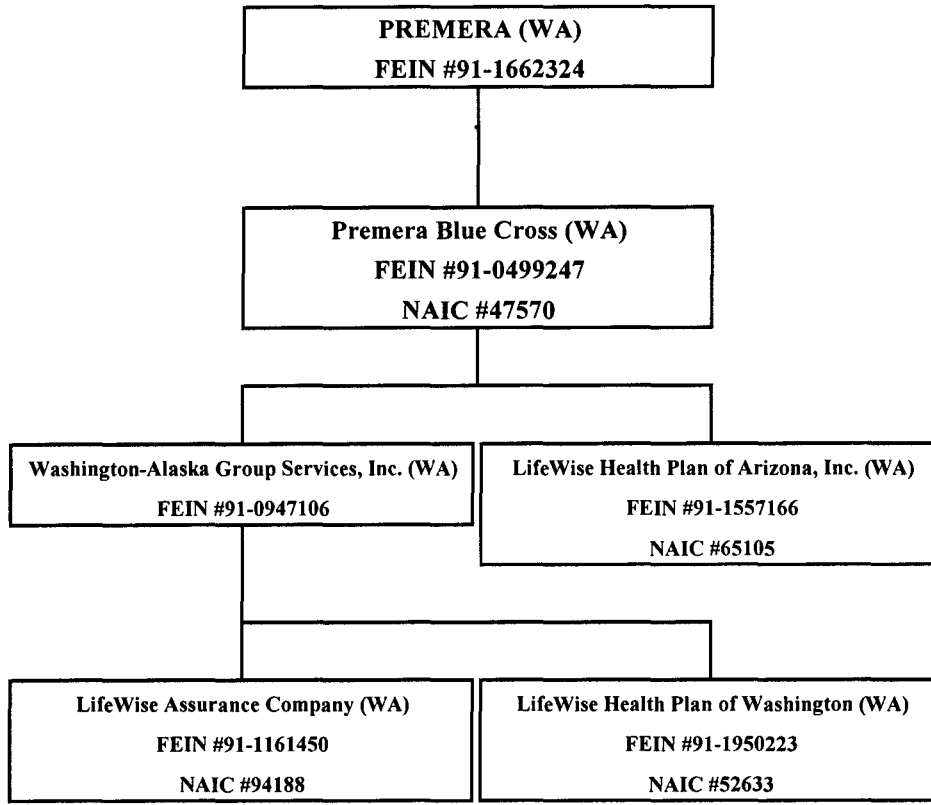
Premera Blue Cross (PBC):

PBC is a Washington State domiciled nonprofit corporation, licensed as a health care service contractor. The Company is 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. Significant types of subscriber contracts administered by the Company include individual indemnity, group indemnity, group preferred provider organizations, group managed care, Medicaid, Medicare Supplement, and self-insured plans. PBC operated as fiscal intermediary for Medicare until September 30, 2004. Additionally, PBC ceased Medicaid operations effective June 1, 2004. Several agreements are in place which describe how the subsidiary and other affiliated companies operate among themselves. The sole voting member of PBC is PREMERA.

Washington-Alaska Group Services, Inc. (WAGS):

WAGS is a for profit insurance agency. WAGS owns 100% of LifeWise Assurance Company, Inc., LWVA, and several other affiliated third party administrators, and a foreign insurance company. PBC owns 100% of WAGS.

Organizational Chart



INTERCOMPANY AGREEMENTS

The Company has several agreements with affiliates. As a member of an insurance company holding system, these agreements and any amendments must be filed with the OIC pursuant to RCW 48.31C.050(2)(c)(d) for health affiliates and RCW 48.31B.030(1)(b)(iv) for life affiliates, both which require that all such transactions are subject to approval by the commissioner, even without a written agreement. As of December 31, 2004, the Company had the following intercompany agreements in force:

Administrative Services Agreement (ASA)

NorthStar Administrators, Inc. provided third party administrative services that included premium processing, claim processing, customer service, and information systems management to LWWA (formerly Premera LifeWise Health Plan) through December 31, 2004.

Intercompany Agreement (Allocation of Costs)

As described in this agreement, PBC maintains an activity based cost accounting system. Operating expenses are accumulated in accordance with GAAP and allocated to the lines of business based upon an appropriate quantifiable measure supporting the activities performed in the cost center.

Restated Intercorporate Tax Sharing Agreement

This agreement specifies the manner in which the parties will share that portion of the consolidated tax liability of the affiliated group that is allocated to PBC under the agreement, and any reimbursements that are required to be made by or to PBC under the agreement for utilization of tax attributes.

Subsidiary Tax Sharing Agreement

This agreement specifies the manner in which the parties will share among themselves that portion of the consolidated tax liability of the affiliated group that is allocated to PBC under the Intercorporate Tax Sharing Agreement.

MANAGEMENT AND CONTROL

Ownership

The Company is organized as a nonprofit membership corporation under Chapter 24.03 RCW. Its Articles of Incorporation state that the corporation shall have no capital stock and that no one shall receive any pecuniary gain or benefit by reason of their membership in the corporation. WAGS is the sole voting member of LWVA.

Board of Directors (BOD)

Control of the Company is vested in the BOD, which shall consist of not less than three (3) directors nor more than fifteen (15) directors pursuant to Article 3, Section 2 of the Corporate Bylaws. Directors are elected annually at the annual membership meeting pursuant to Article 3, Section 3 of the Corporate Bylaws. The following individuals were directors as of December 31, 2004:

- H.R. Brereton Barlow President and Chief Executive Officer of PREMERA
- Brian E. Ancell Executive Vice President Health Care Services &
 Strategic Development of PREMERA
- L. Heyward R. Donigan Executive Vice President Sales & Marketing of PREMERA
- Kent S. Marquardt Executive Vice President &
 Chief Financial Officer of PREMERA
- Jeffrey E. Roe President and Chief Executive Officer of LWVA

Senior Officers

Senior officers are appointed for a one year term by the BOD at the first BOD meeting after each annual membership meeting pursuant to Article 4 of the corporate Bylaws. The following individuals were senior officers as of December 31, 2004:

- Jeffrey E. Roe President and Chief Executive Officer
- John P. Domeika Senior Vice President, General Counsel and Corporate Secretary
- Sharilyn A. Campbell Vice President, Finance, and Treasurer
- Audrey L. Halvorson Senior Vice President, Actuarial Services, and Chief Actuary

Conflict of Interest

The Company has adequate reporting procedures in place to reveal potential conflicts of interest to the chair of the BOD or the president of the Company.

Fidelity Bond and Other Insurance

The Company is a named insured on a Financial Institution Fidelity Bond. An aggregate and single loss limit of coverage in the amount of \$5,000,000 is provided for all of the affiliated companies, and the single loss deductible is \$100,000. The minimum amount recommended by the NAIC for the insured companies is \$2,500,000 to \$3,050,000. The amount of coverage is adequate to cover the exposure risk of the Company and its affiliates.

The Company is also provided protection against certain property and liability losses as a named insured on several other purchased insurance policies. Policies in effect at December 31, 2004 provided the following coverage:

- Directors and Officers Liability Insurance including Employment Practices Liability Coverage.
- Errors and Omission Coverage.
- Umbrella.
- Property.

The review of the Company's insurance policies indicates that adequate insurance coverage has been purchased and is in force covering the hazards to which the Company is exposed as of the examination date. All affiliated companies are covered as named insureds under policies purchased by the parent, PREMERA.

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

LWWA does not have employees of its own. LWWA engages PBC to provide administrative services described in the ASA and the Intercompany Agreement (Allocation of Costs) to LWWA pursuant to the terms and conditions of the agreements.

CORPORATE RECORDS

The Articles of Incorporation, Bylaws, certificate of registration and minutes of the BOD and committees were reviewed for the period under examination. All BOD meetings were conducted with a quorum present.

ACTUARIAL REVIEW

The OIC health actuary reviewed the Company's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2004. This review included: examining the Company's reserving philosophy and methods to determine the reasonableness of the claim liabilities; verifying that claim liabilities included provisions for all components noted in SSAP No. 55, paragraphs 7 and 8; reviewing historical paid claims and loss ratios; checking the consistency of the incurred-paid data from the Company system to the amounts reported in the 2004 NAIC Annual Statement; and, estimating claims unpaid as of December 31, 2004.

The OIC health actuary found several items in the 2004 SAO that were not consistent with the 2004 NAIC Annual Statement Instructions and SSAP No. 55, paragraphs 7 and 8 (See Instruction No. 4a-4c). Additionally, an item in the 2004 NAIC Annual Statement did not represent accurate actuarial information (See Instruction No. 1f)

REINSURANCE

The Company was not a participant in any reinsurance contract as of December 31, 2004.

SPECIAL DEPOSITS

The OIC requires the filing of the Underwriting of Indemnity Calculation or Funded Reserve form pursuant to WAC 284-07-050(8). The calculation as of December 31, 2004, pursuant to WAC 284-44-340, requires a minimum deposit in the amount of \$1,336,850.

The Company is adequately reserved for its underwriting of indemnity deposits. Various securities with a total fair market value of \$6,626,144 are being held in a special deposit account by the custodian, Bank of New York Western Trust Company, pursuant to RCW 48.44.030. The deposits were confirmed directly with the custodian by the examiners.

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

PBC, an upstream parent, performs services for LWVA pursuant to an Intercompany Agreement (Allocation of Costs).

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 CPA firm of Ernst & Young 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 management of PBC is sufficiently knowledgeable of the information systems process. Systems development, acquisition and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place. Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the internal controls exercised to maintain data security. Sufficient internal controls are in place and monitored by the Company. The Company's Information Technology Department has the ability to recover from an incident or disaster and has documented the procedures in a detailed, written disaster recovery plan.

SUBSEQUENT EVENTS

There has been one event subsequent to December 31, 2004, which would have a material effect on the financial condition of the Company. The Company made a request to OIC to change its corporate structure from a nonprofit company to a for profit company. The OIC denied the conversion request and the matter was appealed by the Company and is currently pending in the Washington State Supreme Court.

In addition, Jeffrey Roe resigned as President & Chief Executive Officer of LWVA on April 14, 2005 and Darryl Price was elected as President & Chief Executive Officer of LWVA on April 18, 2005.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of LifeWise Health Plan of Washington as of December 31, 2004:

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

**LIFEWISE HEALTH PLAN OF WASHINGTON
ASSETS, LIABILITIES, CAPITAL AND SURPLUS
AS OF DECEMBER 31, 2004**

	<u>BALANCE PER COMPANY</u>	<u>ref.</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Assets				
Bonds	\$44,935,788		\$0	\$44,935,788
Cash and short-term investments	5,837,675			5,837,675
Investment income due and accrued	377,854			377,854
Uncollected premiums and agents' balances	483,599			483,599
Net deferred tax asset	285,841			285,841
Receivables from parent, subsidiaries and affiliates	190,920			190,920
Health care and other amounts receivable	248,994			248,994
Aggregate write-ins for other than invested assets:				
Miscellaneous accounts receivable	7,479			7,479
Securities lending collateral	8,136,963	1	(8,136,963)	0
Total Assets	<u>\$60,505,113</u>		<u>(\$8,136,963)</u>	<u>\$52,368,150</u>
Liabilities, Capital and Surplus				
Claims unpaid	\$19,788,030		\$0	\$19,788,030
Unpaid claims adjustment expenses	806,514			806,514
Aggregate health policy reserves	3,777,220			3,777,220
Premiums received in advance	4,586,324			4,586,324
General expenses due or accrued	1,460,073	2	49,769	1,509,842
Current federal and foreign income tax payable	2,598			2,598
Remittance and items not allocated		3	3,249,182	3,249,182
Amounts due to parent, subsidiaries and affiliates	1,666,786	4	1,190,000	2,856,786
Payable for securities	1,993,596			1,993,596
Aggregate write-ins for other liabilities:				
Miscellaneous accounts payable	864			864
Unclaimed property	79,769			79,769
Unapplied receipts	3,249,182	3	(3,249,182)	0
Securities lending payable	8,136,963	1	(8,136,963)	0
Total Liabilities	<u>45,547,919</u>		<u>(6,897,194)</u>	<u>38,650,725</u>
Gross paid in and contributed surplus	9,860,000			9,860,000
Unassigned funds (surplus)	5,097,194	2 & 4	(1,239,769)	3,857,425
Total Capital and Surplus	<u>14,957,194</u>		<u>(1,239,769)</u>	<u>13,717,425</u>
Total Liabilities, Capital and Surplus	<u>\$60,505,113</u>		<u>(\$8,136,963)</u>	<u>\$52,368,150</u>

**LIFEWISE HEALTH PLAN OF WASHINGTON
STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 2004**

	<u>BALANCE PER COMPANY</u>	<u>ref.</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Member months	665,883			665,883
Net premium income	<u>\$118,436,205</u>		<u>\$0</u>	<u>\$118,436,205</u>
Total revenues	<u>118,436,205</u>		<u>0</u>	<u>118,436,205</u>
<u>Hospital and Medical:</u>				
Hospital/medical benefits	84,384,114			84,384,114
Prescription drugs	<u>6,286,670</u>			<u>6,286,670</u>
Subtotal	<u>90,670,784</u>		<u>0</u>	<u>90,670,784</u>
<u>Less:</u>				
Net reinsurance recoveries	<u>0</u>			<u>0</u>
Total hospital and medical	90,670,784		0	90,670,784
Claims adjustment expenses	7,173,283			7,173,283
General administrative expenses	17,739,992			17,739,992
Increase in reserves for A&H contracts	<u>1,354,052</u>			<u>1,354,052</u>
Total underwriting deductions	<u>116,938,111</u>		<u>0</u>	<u>116,938,111</u>
Net underwriting gain or (loss)	<u>1,498,094</u>		<u>0</u>	<u>1,498,094</u>
Net investment income earned	1,479,883			1,479,883
Net realized capital gains or (losses)	<u>9,802</u>			<u>9,802</u>
Net investment gains or (losses)	<u>1,489,685</u>		<u>0</u>	<u>1,489,685</u>
Aggregate write-ins for other income or expenses	<u>(61,721)</u>			<u>(61,721)</u>
Net income or (loss) before federal income taxes	2,926,058		0	2,926,058
Federal and foreign income taxes incurred	<u>655,041</u>			<u>655,041</u>
Net Income (Loss)	<u>\$2,271,017</u>		<u>\$0</u>	<u>\$2,271,017</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>				
Capital and surplus prior-reporting period	<u>\$12,611,440</u>		<u>\$0</u>	<u>\$12,611,440</u>
Net income (loss) from above	2,271,017			2,271,017
Change in net deferred income tax	99,397			99,397
Change in nonadmitted assets	(24,660)			(24,660)
Aggregate write-ins for gains or (losses) in surplus:				
Premium tax deficiency		2	(49,769)	(49,769)
NOL adjustment for prior years		4	(1,190,000)	(1,190,000)
Net change in capital & surplus	<u>2,345,754</u>		<u>(1,239,769)</u>	<u>1,105,985</u>
Capital and surplus end of reporting period	<u>\$14,957,194</u>		<u>(\$1,239,769)</u>	<u>\$13,717,425</u>

**SURPLUS RECONCILIATION
FOR THE YEARS ENDED DECEMBER 31**

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Capital and Surplus Prior-Reporting Period	<u>\$12,611,440</u>	<u>\$1,823,202</u>	<u>\$3,713,722</u>	<u>\$3,160,000</u>	<u>\$0</u>
Net income or (loss)	2,271,017	7,504,931	(3,487,520)	(1,477,043)	
Change in net deferred income tax	99,397	143,172	157,021	100,633	
Change in nonadmitted assets	(24,660)	(59,865)	(60,021)	(69,868)	
Surplus adjustments:					
Paid in		3,200,000	1,500,000		
Aggregate write-ins for gains or (losses) in surplus:					
Capital contribution from WAGS				2,000,000	3,160,000
NOL adjustment for prior years	(1,190,000)				
Premium tax deficiency	(49,769)				
Net change in capital & surplus	<u>1,105,985</u>	<u>10,788,238</u>	<u>(1,890,520)</u>	<u>553,722</u>	<u>3,160,000</u>
Capital and Surplus End of Reporting Period	<u><u>\$13,717,425</u></u>	<u><u>\$12,611,440</u></u>	<u><u>\$1,823,202</u></u>	<u><u>\$3,713,722</u></u>	<u><u>\$3,160,000</u></u>

NOTES TO THE FINANCIAL STATEMENTS

The Company has no other special consents, permitted practices or orders from the state of Washington. There were four examination report adjustments.

1. LWWA reported Securities lending collateral received in the amount of \$8,136,963 as an asset, "Aggregate write-ins for other than invested assets", with a corresponding liability as "Aggregate write-ins for other liabilities" in the 2004 NAIC Annual Statement. Pursuant to SSAP No. 18, paragraph 25, restricted collateral shall not be reflected in the transferor's balance sheet as an asset with a corresponding liability for the return of the collateral. An examination reclassification adjustment debiting "Aggregate write-ins for other liabilities" and crediting "Aggregate write-ins for other than invested assets" is reflected in the preceding financial statements. (See Instruction No. 1a)
2. LWWA incorrectly used earned premiums when preparing the state of Washington Premium Tax statement for the tax years 2001, 2003, and 2004. Using earned premiums resulted in a short payment of premium taxes due in the amount of \$49,769. An examination reclassification adjustment debiting "Unassigned funds (surplus)", and crediting "General expenses due and accrued" is reflected in the preceding financial statements. (See Instruction No. 6)
3. LWWA misclassified unapplied premium payments in the amount of \$3,249,182 as "Aggregate write-ins for other liabilities" in the 2004 NAIC Annual Statement. Pursuant to SSAP No. 67, paragraph 9, and the 2004 NAIC Annual Statement Instructions, it should have been reported as "Remittances and items not allocated". An examination reclassification adjustment, debiting "Aggregate write-ins for other liabilities" and crediting "Remittances and items not allocated" is reflected in the preceding financial statements. (See Instruction No. 1d)
4. LWWA has been utilizing portions of the net operating loss carry forward of its parent PBC, without properly reimbursing the parent, thus causing net income and unassigned funds to be misstated. An examination adjustment in the amount of \$1.19 million, debiting "Unassigned funds (surplus)", and crediting "Amounts due to parent, subsidiaries and affiliates" is reflected in the preceding financial statements. (See Instruction No. 3)

ACKNOWLEDGMENT

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

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Carl M. Baker, CPA, CFE, CISA, Supervising Examiner; John R. Jacobson, AFE, CISA, AES, Information Systems Specialist; Lichiou Lee, ASA, MAAA, Health Actuary; Friday P. Enoye, Insurance Examiner; Richard V. Bologna, Insurance Examiner; Kathleen Hicks, CPA, Insurance Examiner; Ann V. Kauffman, Insurance Examiner; Jeanette Liao, AFE, Insurance Examiner; and Youngjae Lee, Insurance Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,



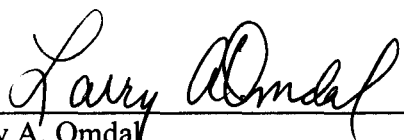
Larry A. Omdal
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 }
 } ss
COUNTY OF KING }


Larry A. Omdal, being duly sworn, deposes and says that the foregoing report subscribed is true to the best of his knowledge and belief.

He attests that the examination of LifeWise Health Plan of Washington 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 (NAIC).



Larry A. Omdal
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 1st day of March, 2007.



Notary Public in and for the
State of Washington.

