Report of Examination of

Kaiser Foundation Health Plan of Ohio
Cleveland, Ohio

As of December 31, 2010

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Columbus, Ohio
June 29, 2012

Honorable Mary Taylor
Lieutenant Governor and Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code ("ORC"), the Ohio Department of Insurance ("Department") conducted an examination of

Kaiser Foundation Health Plan of Ohio

an Ohio domiciled, health insuring corporation, hereinafter referred to as the "Company." The examination was conducted at the Company's home office, located at 1001 Lakeside Avenue, Suite 1200, Cleveland, Ohio.

A report of this examination is hereby respectfully submitted.

Scope of Examination

The Department last examined the Company as of December 31, 2008. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2010.

The examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All account and activities of the Company were considered in accordance with the risk-focused process.

For each year during the period under examination, the Certified Public Accounting firm of KPMG LLP ("KPMG") provided an unqualified opinion based on statutory accounting principles. Relevant work performed by KPMG during its annual audit of the Plan was reviewed during the examination and incorporated into the examination work papers.

The Department's health actuary was retained to review the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

Significant Operating Results

The following schedule summarizes the operating results during the examination period:

	2010	2009
Medical Loss Ratio	97.40%	93.10%
Administrative Expense Ratio	11.20%	10.00%
Combined Ratio	108.60%	103.10%
Profit Margin Ratio	-8.00%	-1.10%

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

Name	Principal Occupation
Christine K. Cassel, MD	President and Chief Executive Officer, American Board of Internal Medicine
Thomas W. Chapman, EdD	President and Chief Executive Officer, HSC Foundation
Daniel P. Garcia	Senior Vice President and Chief Compliance Officer, Kaiser Foundation Health Plan, Inc.
William R. Graber	Retired Chief Financial Officer, McKesson Corporation
J. Eugene Grigsby, III, PhD	President and Chief Executive Officer, National Health Foundation
George C. Halvorson	Chairman and Chief Executive Officer, Kaiser Foundation Health Plan, Inc.

Name	Principal Occupation
Judith A. Johansen, JD	Former President and Chief Executive Officer, PacifiCorp
Kim J. Kaiser	Senior Pilot, Alaska Airlines
Philip A. Marineau	Retired President and Chief Executive Officer, Levi Strauss & Co.
Jenny Ming	Former President, Old Navy
Edward Pei	Executive Vice President, Consumer Banking, First Hawaiian Bank
J. Neal Purcell	Retired, Vice President and Managing Partner, KPMG, LLP
Cynthia A. Telles, PhD	Associate Clinical Professor, UCLA School of Medicine
Sandra P. Thompkins, JD	Executive Director, Human Resources, Delphi Corporation

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

Name	Title
George C. Halvorson	Chairman, Chief Executive Officer and President
Patricia D. Kennedy-Scott	Regional President
Kathy Lancaster	Executive Vice President – Chief Financial Officer
Arthur M. Southam, MD	Executive Vice President – Health Plan Operations
Bernard J. Tyson	President and Chief Operating Officer
Mark S. Zemelman	Senior Vice President, General Counsel, Secretary
Thomas R. Meier	Senior Vice President and Treasurer
Don H. Orndoff	Senior Vice President, National Facilities Service
Deborah Stokes	Senior Vice President, Controller and Chief Accounting Officer
Daniel H. Beck	Assistant Secretary

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Company is a subsidiary of Kaiser Foundation Health Plan, Inc., a California non-profit and charitable corporation.

Territory and Plan of Operations

The Company operates as a traditional HMO in nine counties in northeastern Ohio. The Company contracts with Kaiser Foundation Hospitals and the Ohio Permanente Medical Group to provide or arrange hospital and medical services to members.

	Percentage of Business by Line	
	2010	**2009**
Comprehensive	66.7%	75.5%
Federal Employees Health Plan	7.6%	6.7%
Medicare	25.7%	17.8%
	100.0%	100.0%

Reinsurance

The Company does not assume or cede any reinsurance.

Financial Statements

The financial condition and the results of its operations for the three year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Statement of Operations
Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds

	December 31, 2010
Admitted assets	
Cash and invested assets:	
Bonds	$97,544,695
Properties occupied by the company	55,994,212
Cash and short term investments	69,061,320
Total cash and invested assets	222,600,227
Accrued investment income	715,593
Uncollected premiums and agents' balances	11,691,835
Electronic data processing equipment and software	299,852
Furniture and equipment	8,173,306
Receivables from parent, subsidiaries and affiliates	1,115,963
Health care and other amounts receivable	1,678,302
Total admitted assets	$246,275,078
Liabilities, capital and surplus	
Liabilities:	
Claims unpaid	$37,106,295
Unpaid claims adjustment expenses	1,049,900
Aggregate health policy reserves	11,700,000
Premiums received in advance	9,420,367
General expenses due or accrued	2,166,087
Amounts due to parent, subsidiaries and affiliates	31,569,473
Aggregate write-ins for liabilities	111,166,871
Total liabilities	204,178,993
Capital and surplus:	
Gross paid in and contributed surplus	12,043
Surplus notes	60,000,000
Unassigned funds	(17,915,958)
Total capital and surplus	42,096,085
Total liabilities, capital and surplus	$246,275,078

Statement of Operations

	December 31, 2010
Net premium income	$555,729,112
Fee-for-service	3,672,930
Total revenues	559,402,042
Hospital and Medical:	
Hospital/medical benefits	184,731,467
Other professional services	71,608,558
Outside referrals	60,103,399
Emergency room and out-of-area	42,897,900
Prescription drugs	56,062,245
Aggregate write-ins for other hospital and medical	117,578,796
Total hospital and medical	532,982,365
Claims adjustment expenses	11,870,517
General administrative expenses	50,647,646
Increase in reserves	11,700,000
Total underwriting deductions	607,200,528
Net underwriting gain (loss)	(47,798,486)
Net investment income earned	2,588,354
Net realized capital gains (losses) less capital gains tax	(187,790)
Net investment gains	2,400,564
Aggregate write-ins for other income	609,626
Net income (loss)	$(44,788,296)

Statement of Changes in the Capital and Surplus Account

(In thousands)

	2010	2009
Capital and surplus December 31, previous year	$40,644	$37,810
Net income (loss)	(44,788)	(6,367)
Change in non-admitted assets	(293)	(224)
Change in surplus notes	45,000	15,000
Aggregate write-ins	1,533	(5,575)
Net change in capital and surplus	1,452	2,834
Capital and surplus December 31, current year	$42,096	$40,644

Summary of Examination Changes

There were no changes made as a result of this examination.

Notes to Financial Statements

Investments

The Company's investments were in compliance with Section 3925.08 of the ORC.

Claims Unpaid

The Company had its own actuary, Kerry P. Hindsley, Director of Actuarial Services, Kaiser Foundation Health Plan, Inc., an affiliate; certify the total reserves for the years covered by the examination. The Department's actuary, Thomas S. Botsko, ACAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2010.

On the basis of the above-mentioned analysis, it was determined that the reserves for claims unpaid were reasonable as of December 31, 2010.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

Total Admitted Assets	$246,275,078
Liabilities	$204,178,993
Surplus as Regards Policyholders	42,096,085
Total Liabilities and Surplus as Regards Policyholders	$246,275,078

Subsequent Events

The Company issued numerous subordinated notes to Kaiser Foundation Hospitals, an affiliate, for $34M during 2011 and $11M during the first quarter 2012. The Company has received formal approval from the Department to treat the notes in accordance to SSAP 41.

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: Jyotika Patel, CPA, Thomas S. Botsko, ACAS, MAAA, and Brad Schorer.

Respectfully,

Donnie G. Wells, CFE
Examiner-In-Charge
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2010.

Examiner-In-Charge 7/9/12 Date

State of Ohio

County of Franklin

Personally appeared before me the above named Donnie G. Wells, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 9 day of 2012, 2012.

Elizabeth Chase
Notary Public

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017

My Commission Expires