STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

HEALTH NET HEALTH PLAN OF OREGON, INC.
TIGARD, OREGON

AS OF

DECEMBER 31, 2013

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

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TIGARD, OREGON

NAIC COMPANY CODE 95800

AS OF

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SALUTATION

January 12, 2015

Honorable Laura N. Cali, Commissioner
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Commissioner:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

HEALTH NET HEALTH PLAN OF OREGON, INC.
13221 SW 68th Parkway, Suite 200
Tigard, Oregon 97223

NAIC Company Code 95800

hereinafter referred to as the "Company" or "Plan." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our examination of Health Net Health Plan of Oregon, Inc., conducted as a single-state examination. The last examination of this health care service contractor was completed as of December 31, 2009. The current examination covers the period of January 1, 2010, to December 31, 2013.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1), which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook.* The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Plan by obtaining information about the Plan, including corporate governance, identifying and assessing inherent risks within the Plan, 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, annual statement instructions, and Oregon statutes and administrative rules.

All accounts and activities of the Plan were considered in accordance with the risk focused examination process.

COMPANY HISTORY

The Company was incorporated as a nonprofit corporation on June 1, 1989, by Foundation Health Corporation. On June 22, 1989, the Company acquired all of the rights Foundation Health Corporation held with respect to Foundation Health Plan, Inc. This acquisition resulted in the legal dissolution of Foundation Health Plan, Inc., and the formation of QualMed Oregon Health Plan, Inc., as a for profit stock corporation. The original Certificate of Authority was issued by the Oregon Director of the Department of Insurance and Finance

on June 23, 1989, and authorized the Plan to transact the business as a health care service contractor under ORS 750.055 and 731.354. On April 3, 1991, the Plan became a federally qualified health maintenance organization.

On April 9, 1997, PACC Health Plans and PACC HMO (collectively "PACC"), two Oregon based health care service contractors, entered into an Agreement and Plan of Reorganization for the merger of PACC into the Plan and assignment of PACC's Washington business to other subsidiaries of Foundation Health System, Inc. (FHS), the ultimate parent of the Plan. As a consequence of the merger, the Plan became the surviving entity and PACC no longer existed. Pursuant to the Articles of Merger, the effective date of the merger was October 22, 1997.

During 2000, FHS changed its name to Health Net, Inc. At the same time, QualMed Oregon Health Plan, Inc., changed its name to Health Net Health Plan of Oregon, Inc.

Capitalization

The Articles of Incorporation authorize the corporation to issue 5,000 shares of common stock with no par value. The Company has 1,000 shares of common stock authorized, issued and outstanding. All shares are owned by its parent company, QualMed, Inc. The Plan reported a total value of the common capital stock of $10.

Dividends and Other Distributions

During the period under examination, the Plan declared and paid cash distributions amounting to $53,300,000 to its sole shareholder as follows:

Date Declared	Date Paid	Amount	Description
11/18/2010	12/23/2010	$ 7,300,000	Extraordinary
8/22/2011	9/30/2011	9,000,000	Extraordinary
11/17/2011	12/19/2011	6,000,000	Extraordinary
6/12/2012	7/13/2012	6,000,000	Ordinary
11/13/2012	12/15/2012	9,000,000	Ordinary
6/11/2013	7/20/2013	16,000,000	Extraordinary

The Company made the proper disclosure of the distributions to the director of the Department of Consumer and Business Services ("DCBS") in accordance with the reporting requirements established by ORS 732.554, ORS 732.576 and OAR 836-027-0170(2).

Surplus Note

On November 19, 2009, the Plan requested approval to issue a surplus note in the amount of $19,200,000 dated December 22, 2009, payable to Health Net, Inc. The surplus note had no specified maturity date and no specified interest payment date. The note is payable at a 4% rate of interest. The note contained all the relevant provisions of SSAP No. 41, including a provision that no interest or principal payment may be made without the prior approval of the director of DCBS. The Oregon Insurance Division approved the surplus note on December 10, 2009.

On November 18, 2010, the Plan requested permission to repay the surplus note in full, together with accrued interest of $768,000. This request was approved by the Insurance Division on December 15, 2010, and the obligation was extinguished.

CORPORATE RECORDS

Board Minutes

In general, the review of the Board meeting minutes of the Plan indicated the minutes support the transactions of the Plan and clearly describe the actions taken by its directors. A quorum,

as defined by the Plan's Bylaws, met at all of the meetings held during the period under review.

The Plan's Bylaws, in Article III, section 3.1, authorize the Board to create one or more committees. In practice, the Board relies on committees of its upstream parent, Health Net, Inc. The actions of the committees are summarized and reported to the Board of Directors during their regular meetings.

Articles of Incorporation

The Plan last amended its Articles of Incorporation on March 22, 2000. No changes were made to the Articles during the period under examination. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

The Plan's Bylaws were last amended on July 10, 2002. No changes were made during the period under examination. The Plan's Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws state all corporate powers of the corporation shall be exercised by or under the authority of its Board of Directors; the business and affairs of the corporation shall be managed under the direction of its Board of Directors. The Bylaws, in Article II, Section 2.3, state the number of directors shall be not less than one (1) nor more than ten (10) directors. As of December 31, 2013, the Plan was governed by a three member Board of Directors as follows:

Name and Address	Principal Affiliation	Member Since
Christian D. Ellertson Beaverton, Oregon	President Health Net Health Plan of Oregon, Inc.	2002
Kenneth L. Leander Camas, Washington	Retired	2002
Steven J. Sell* Mill Valley, California	President, Vice Chairman Health Net of California. Inc.	2010

*Chairman

One of the three directors meets the definition of representative of the public and the Plan's Board of Directors is in compliance with ORS 732.305.

Officers

Principal officers serving at December 31, 2013 were as follows:

Officer	Office
Steven J. Sell	Chairman of the Board
Christian D. Ellertson	President and CEO
Marie Montgomery	Vice President, CFO and Treasurer
Roupen Berberian	Vice President
Cathy A. Hoens	Vice President, Provider Network Management and Strategy
Steven D. Sickle	Secretary and Corporate Legal Counsel
Angelee F. Bouchard	Assistant Secretary

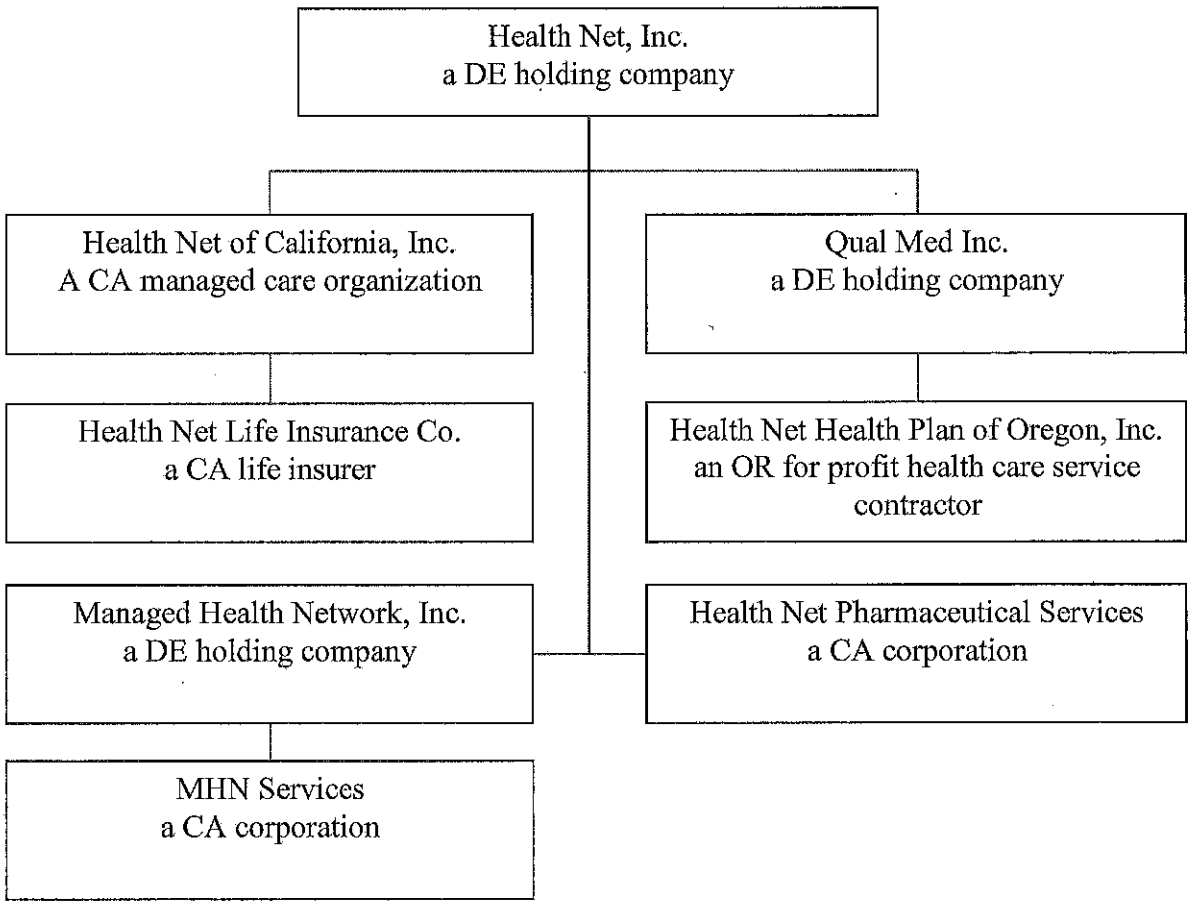
Conflict Of Interest

The Plan's Board adopted its ultimate controlling entity's Code of Business Conduct and Ethics, a shared commitment to honesty, integrity, transparency and accountability. The Code requires all employees to notify the Plan if a conflict of interest arises. In addition, the Plan has a process in place requiring all Board members, senior officers and key employees to annually sign a conflict of interest declaration. From a review of the completed conflict of interest questionnaires, the Plan's personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

Insurance Company Holding System

The Plan is a member of an insurance company holding system with Health Net, Inc., a publicly traded holding company listed on the New York Stock Exchange (NYSE – HNT) as the ultimate controlling entity.

The following is an abbreviated organization chart of those entities holding direct or indirect ownership of the Plan, or with agreement in place with the Plan during the period under review (all subsidiaries are 100% owned or controlled):



A description of the entities within the holding company system is as follows:

Health Net of California, Inc. (HNCA) is a for-profit managed care organization originally established in 1977, but converted to a for-profit company in 1992. It is a Knox-Keene corporation licensed by the California Department of Managed Health Care.

Qual Med, Inc. is a for-profit holding company formed in 1991 and is the direct parent of the Company.

Health Net Life Insurance Company is a California domiciled life and health insurer.

Health Net Pharmaceutical Services (HNPS) is a California for-profit corporation formed to manage outpatient pharmacy benefits for affiliates of Health Net, Inc.

Managed Health Network, Inc. is a Delaware for-profit corporation formed as a holding company.

MHN Services (MHNS) is a California for-profit corporation, provides mental health and substance abuse services and providing a utilization management program, as well as claims services related to such services.

INTERCOMPANY AGREEMENTS

Agreements or contracts between the insurance companies and its affiliates within the insurance holding company system are as follows:

Administrative Services Agreement between the Plan and Health Net, Inc. (HNI), effective January 1, 2004, and amended several times, most recently on March 30, 2010. Services include corporate and administrative services, including executive, strategic and operational consultation. Other services include litigation and legal counsel advice, business insurance, government relations and legislative activities, claims processing, provider contracting, membership accounting, payroll services, financial and accounting services, portfolio

management, actuarial and underwriting support, general human resources, product development, facilities management, IT administration, and other services. Fees are calculated monthly based on various drivers depending on which most appropriately correlates with a fair and reasonable allocation of costs, based on discussions with cost center managers.

Administrative Services Agreement between the Plan and Health Net of California (HNCA), effective January 1, 2007, and last amended May 1, 2013. Services include management services, underwriting/actuarial services, broker services, operational support, and fee negotiation services. Fees are calculated monthly based on various drivers depending on which most appropriately correlates with a fair and reasonable allocation of costs, based on discussions with cost center managers.

Administrative Services Agreement between Health Net Life Insurance Company (HNL) and the Plan, effective January 1, 2003, and last amended effective May 1, 2013. The Plan agrees to provide underwriting, finance, medical management services, legal services, claims processing and administration services. Compensation shall be based on actual expenses incurred in conformity with customary insurance accounting practices and payable monthly within 10 days of receipt of an invoice.

Pharmacy Benefits Management Services Agreement between Health Net Pharmaceutical Services (HNPS) and the Plan effective January 1, 2003, and last amended March 24, 2010. HNPS agrees to adjudicate claims for covered outpatient prescription drug services. The Plan agrees to pay HNPS its proportionate share of the total costs of services provided to all affiliates of HNI, based on the ratio of the number of outpatient prescription drug claims. HNPS shall invoice the Plan periodically during each month and the Plan shall pay within 3 days of receipt of invoice.

Agreement for Administrative Services and Managed Behavioral Health Care Services between the Plan and MHN Services (MHN) effective January 1, 2003, and last amended effective February 22, 2010. Prepaid fees are calculated on a capitated basis on the number of members enrolled as of the first day of each month. The Plan agrees to pay MHN each month by intercompany transfer process.

Litigation Expense Indemnification Agreement between HNI and the Plan in respect legal expenses incurred in specified class-action lawsuits, effective November 20, 2007. Under the terms of the agreement, HNI agrees to fund any litigation expenses on behalf of the Plan and other HNI subsidiaries, and to indemnify and hold harmless all its subsidiaries for all litigation expenses incurred related to the specific litigation.

Tax Allocation and Indemnification Agreement between HNI and each of the subsidiaries of the HNI Affiliated Group and the HNI Unitary Group, effective January 1, 2007. Each subsidiary shall pay HNI an amount equal to its estimated separate tax liability for such year or estimated tax payment period. Payments shall be made within 45 days following the end of each calendar month. All settlements shall be made within 30 days of the filing of the applicable estimated or actual consolidated federal corporate income tax return.

FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages. The Plan's insurance coverages are provided through insurance policies covering Health Net, Inc., with the Plan protected as a wholly owned subsidiary. The group as a whole is insured up to a $5,000,000 limit of liability, after a $100,000 deductible, against losses from acts of dishonesty and fraud by its employees and agents. Fidelity bond coverage was found to meet the coverage limits recommended by the NAIC.

Other insurance coverages in force at December 31, 2013, were found to be adequate, and included:

Commercial general liability	Business auto liability
Property liability	Professional liability
Workers' compensation	

TERRITORY AND PLAN OF OPERATION

The Plan writes health insurance coverage in the states of Oregon and Washington on a group and individual basis, including Medicare coverage in the state of Oregon. It also offers dental only plans, as well as a Medicare supplement plan.

Individual and family plans include a Preferred Provider Organization (PPO) product, a Health Maintenance Organization (HMO) product, a short term health insurance product, and a health savings account (HSA) health insurance option. The large and small business plans include HMO, PPO, tailored networks, and an HSA option.

As of December 31, 2013, the Plan distributed its products through independent producers. The marketing plan is directed from the parent, Health Net, Inc., with input from executive staff at the local level.

The Plan has experienced significant declines in the number of enrollees during the past five years, as follows:

Line of Business	**2013**	**2012**	**2011**	**2010**	**2009**
Health maintenance organizations	-	2,383	3,880	4,648	6,015
Preferred provider organizations	58,645	77,183	79,061	81,518	100,812
Point of service	3,972	3,739	2,896	2,605	4,033
Indemnity only	2,970	695	373	15	27
Exclusive provider organization	4,206	-	-	-	-
Total enrollment	69,793	84,000	86,210	88,786	110,887

GROWTH OF THE COMPANY

Growth of the Plan over the past five years is reflected in the following table. Amounts were obtained from Plan's filed annual statements, except in those years where a report of examination was published by the Oregon Insurance Division.

Year	Assets	Liabilities	Capital and Surplus	Net Income (Loss)
2009*	$120,647,157	$46,969,871	$73,677,286	$(3,231,055)
2010	109,287,281	45,979,922	63,307,359	16,606,808
2011	113,250,581	43,259,601	69,990,980	21,486,203
2012	121,437,370	54,711,198	66,726,172	10,589,254
2013*	94,617,882	41,322,678	53,295,204	4,590,737

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual loss experience of the Plan over the last five years. The amounts were compiled from copies of the Plan's filed annual statements and, where indicated, from examination reports.

Year	(1) Total Premium Revenues	(2) Total Hospital and Medical	(2) / (1) Medical Ratio	(3) CAE and General Expenses	(2)+(3)/(1) Combined Loss Ratio
2009*	$434,200,265	$388,310,325	89.4%	$51,898,143	101.4%
2010	363,730,731	295,109,630	81.1%	48,247,856	94.4%
2011	354,470,768	279,139,459	78.7%	47,906,072	92.3%
2012	368,785,153	306,602,910	83.1%	51,067,285	97.0%
2013*	294,056,815	245,401,586	83.4%	48,599,990	100.0%

A combined claims and expense to premium ratio in excess of 100% typically indicates an underwriting loss, which the Plan reported in 2009.

REINSURANCE

The Plan does not have a reinsurance program. During the period under examination, based on a cost/benefit analysis, HNOR concluded, "the potential short term benefit of reducing earnings volatility is not worth the long run requirement to pay 25% profit and overhead to reinsurers."

The maximum retained risk on any one person is unlimited, therefore it is not possible to determine if the Plan is in compliance with ORS 731.504. With reported surplus of $53,295,204 at December 31, 2013, the Plan believes it will not be exposed to any claim risk in excess of 10% of its total capital and surplus.

ACCOUNTS AND RECORDS

In general, the Plan's records and source documentation supported the amounts presented in the Plan's December 31, 2013, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

STATUTORY DEPOSITS

To satisfy the statutory deposit requirement in Oregon for health care service contractors, the Plan maintained a deposit with the Oregon Insurance Division, Department of Consumer and Business Service, a US Treasury Bond with a par value of $275,000, in compliance with ORS 750.045(2). The deposit was verified from the records of the Insurance Division.

In addition, the Plan maintained a cash deposit with the Washington Office of the Insurance Commissioner in the amount of $150,000.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were four recommendations made in the 2009 report of examination, but no adjustments were made to surplus as a result of the examination findings. A follow up report was prepared by the Oregon Insurance Division on February 19, 2013, which concluded the Plan was in compliance with each of the recommendations. However, during the current examination, the examiners noted the Plan continues to mis-report affiliates that are party to a Tax Allocation and Indemnification Agreement in Note 9(F) of the Notes to Financial Statement. A management letter will be delivered to the Plan's officer and Board noting this item remains out of compliance.

SUBSEQUENT EVENTS

Subsequent to the examination date, the Plan reported a net loss in its March 31, 2014, quarterly filing totaling $26.2 million. This consists of an operational loss of $30.6 million resulting from a premium deficiency reserve of $15.5 million, an ACA health insurance fee of $4.2 million, and other ACA charges of $5.8 million (which included risk adjustment, reinsurance payables and the exchange fee), offset by net investment gains of $668,864 and a federal income tax recoverable of $3.7 million. The net loss placed the Plan into a hazardous operating condition as defined in OAR 836-013-0110(5). In June 2014, the Plan's parent infused $10 million in contributed surplus to cure the hazardous condition. As of June 30, 2014, the Plan reported capital and surplus of $47.8 million.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of Health Net Health Plan of Oregon, Inc., as of December 31, 2013:

Statement of Assets
Statement of Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Reconciliation of Surplus since the Last Examination

HEALTH NET HEALTH PLAN OF OREGON, INC.
ASSETS
As of December 31, 2013

Assets	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Bonds	$95,891,143	$ -	$95,891,143	1
Cash, cash equivalents and short-term investments	(10,036,442)	-	(10,036,442)	1
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	85,854,701	-	85,854,701	
Investment income due and accrued	774,144	-	774,144	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	1,602,154	-	1,602,154	
Current FIT recoverable	2,756,327	-	2,756,327	
Net deferred tax assets	787,090	-	787,090	
Receivable from parent, affiliates and subsidiaries	1,624,474	-	1,624,474	
Health care and other amounts receivable	1,218,992	-	1,218,992	
Aggregate write-ins for other than invested assets	-	-	-	
Total Assets	$94,617,882	$ -	$94,617,882	

HEALTH NET HEALTH PLAN OF OREGON, INC.
LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2013

	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Claims unpaid	$27,866,195	$ -	$27,866,195	2
Unpaid claim adjustment expenses	1,035,799	-	1,035,799	2
Aggregate health policy reserves	1,443,892	-	1,443,892	2
Premiums received in advance	3,253,460	-	3,253,460	
General expenses due or accrued	3,177,801	-	3,177,801	
Remittances and items not allocated	1,139,312	-	1,139,312	
Payable to parent, subsidiaries and affiliates	1,539,729	-	1,539,729	
Liability for amounts held under uninsured plans	260,453	-	260,453	
Aggregate write-ins for liabilities	1,606,037	-	1,606,037	
Total Liabilities	$41,322,678	$ -	$41,322,678	
Common capital stock	$ 10	$ -	$ 10	
Gross paid in and contributed surplus	16,892,197		16,892,197	
Unassigned funds (surplus)	36,402,997	-	36,402,997	
Surplus as regards policyholders	$53,295,204	-	$53,295,204	
Total Liabilities, Surplus and other Funds	$94,617,882	$ -	$94,617,882	

HEALTH NET HEALTH PLAN OF OREGON, INC.
STATEMENT OF REVENUES AND EXPENSES
For the Year Ended December 31, 2013

Revenue	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Net premium income	$ 295,139,926	$ -	$ 295,139,926	
Change in unearned premium reserves and reserves for rate credit	(1,083,111)	-	(1,083,111)	
Fee-for-service	-	-	-	
Risk revenue	-	-	-	
Aggregate write-ins for health care related revenues	-	-	-	
Total revenue	294,056,815	-	294,056,815	
Hospital and Medical:				
Hospital/medical benefits	157,465,587	-	157,465,587	
Other professional services	27,822,471	-	27,822,471	
Outside referrals	18,214,861	-	18,214,861	
Emergency room and out-of-area	11,158,540	-	11,158,540	
Prescription drugs	30,740,127	-	30,740,127	
Aggregate write-ins for other hospital and medical	-	-	-	
Incentive pool, withhold adjustments and bonus amounts	-	-	-	
Subtotal	245,401,586	-	245,401,586	
Less:				
Net reinsurance recoveries	-	-	-	
Total medical and hospital	245,401,586		245,401,586	
Non-health claims	-	-	-	
Claim adjustment expenses	10,878,535	-	10,878,535	
General administrative expenses	37,721,455	-	37,721,455	
Increase in reserves for life and accident and health contracts	(1,927,666)	-	(1,927,666)	
Total underwriting deductions	292,073,910	-	292,073,910	
Net underwriting gain or (loss)	1,982,905	-	1,982,905	
Net investment income earned	2,728,992	-	2,728,992	
Net realized capital gains (losses)	701,183	-	701,183	
Net investment gains (losses)	3,430,175	-	3,430,175	
Net gain or (loss) from agents' or premium balances charged off	-	-	-	
Aggregate write-ins for other income or expense	(25)	-	(25)	
Net income before federal income taxes	5,413,055	-	5,413,055	
Federal income taxes incurred	(822,318)	-	(822,318)	
Net income	$ 4,590,737	$ -	$ 4,590,737	

HEALTH NET HEALTH PLAN OF OREGON, INC.
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2013	2012	2011	2010
Surplus as regards policyholders, December 31, previous year	$ 66,726,172	$ 69,990,980	$ 63,307,359	$ 73,677,286
Net income	4,590,737	10,589,254	21,486,203	16,606,808
Change in net unrealized capital gains or (losses)	(39,326)	-	-	-
Change in net unrealized foreign exchange capital gain or (loss)	-	-	-	-
Change in net deferred income tax	(498,801)	509,048	(524,088)	(171,426)
Change in non-admitted assets	(1,544,581)	499,886	633,922	(258,950)
Change in provision for reinsurance	-	-	-	-
Change in surplus notes	-	-	-	(19,200,000)
Cumulative effects of changes in accounting principles	-	-	-	-
Capital changes:				
Paid in	-	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-	-
Transferred to surplus	-	-	-	-
Surplus adjustments:				
Paid in	(7,998)	125,665	-	(17,596)
Transferred to capital (Stock Dividend)	-	-	-	-
Transferred from capital	-	-	-	-
Distributions to parent (cash)	(16,000,000)	(15,000,000)	(15,000,000)	(7,300,000)
Change in treasury stock	-	-	-	-
Examination adjustment	-	-	-	-
Aggregate write-ins for gains and losses in surplus	69,001	11,339	87,584	(28,763)
Change in surplus as regards policyholders for the year	(13,430,968)	(3,264,808)	6,683,621	(10,369,927)
Surplus as regards policyholders, December 31, current year	$ 53,295,204	$ 66,726,172	$ 69,990,980	$ 63,307,359

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2013, the Plan's long-term bond investments were in a diversified portfolio of US obligations, US federal agency bonds, municipal obligations and corporate issues. The Plan reported a moderate direct exposure in mortgaged-backed and asset-backed securities totaling $27,353,346, equal to 28.5% of total bonds and 31.9% of total invested assets.

The Plan reported Short-term investments in three money market funds. Cash on deposit was held in various accounts at Bank of America, Citibank and Wells Fargo.

A comparison of the major investments over the past five years shows the following:

	A	B	Ratio	Ratio
			A/	B/
Year	Bonds	Cash and Short-term	Total Assets	Total Assets
2009*	$ 61,037,160	$52,663,576	50.6%	43.7%
2010	104,918,130	(2,002,598)	96.0%	(1.8)%
2011	103,153,601	2,303,219	91.1%	2.0%
2012	109,445,968	3,801,838	90.1%	3.1%
2013*	95,891,143	(10,036,442)	101.3%	(10.6)%

As of December 31, 2013, sufficient assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, thus the Plan was in compliance with ORS 733.580.

The Board approved the investment transactions in each of the years under review, as required by ORS 733.740. The Plan uses General Re-New England Asset Management as its discretionary advisor to actively manage its portfolio.

Effective August 19, 2010, the Plan entered into a custodial agreement with US Bank, NA. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – Actuarial Reserves

A review of the unpaid claims and claim adjustment expense reserves for the Plan was performed by David Ball, FSA, MAAA, life and health actuary for the Oregon Insurance Division. As part of his review, he examined the Actuarial Report Supporting Statements as of December 31, 2013, prepared by David O. Thoen, FSA, MAAA, of the firm Deloitte & Touché LLP.

Mr. Ball reviewed the reconciliation of the data used in the Plan's Actuarial Report to the data in the actuarial work papers and found them to be consistent. He relied on work performed by the examiners who reviewed the underlying data used to create the Annual Statement filing, as well as prepared his own independent calculations. He determined the following:

	My Estimate	Annual Statement
Claims Unpaid	$25,674,133	$27,866,195
Accrued Medical Incentive Pool and Bonus Payments	-	-
Unpaid Claims Adjustment Expenses (CAE)	1,035,799	1,035,799
Aggregate Health Policy Reserves	1,443,892	1,443,892
Aggregate Health Claim Reserves	0	0
Premium Deficiency Reserves	-	-
Total Actuarial Liabilities	$28,153,824	$30,345,886

The appointed actuary opined that the reserves for unpaid claims and CAE carried by the Plan as of December 31, 2013, were reasonable. Mr. Ball's total estimate was less than the appointed actuary's estimate by $2,192,062, a difference of 7.2%, indicating a reserve redundancy. He concurred that the reserves of the Plan were reasonably stated as of December 31, 2013.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no adjustments to surplus as a result of this examination, and the examiners made no recommendations in this report of examination.

CONCLUSION

During the four year period covered by this examination, the surplus of the Plan has decreased from $73,677,286, as presented in the December 31, 2009, report of examination to $53,295,204, as shown in this report. The comparative assets and liabilities are:

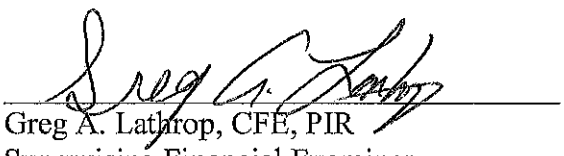
	December 31,		
	2013	**2009**	**Change**
Assets	$94,617,882	$120,647,157	$(26,029,275)
Liabilities	41,322,678	46,969,871	5,647,193
Surplus	$53,295,204	$ 73,677,286	$(20,382,082)

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Plan during the examination process are gratefully acknowledged.

In addition to the undersigned, Timothy R. Hurley, CFE, Michael P. Phillips, CFE, AES, CPA, and Keilei Yambaw, insurance examiners and David N. Ball, FSA, MAAA, life and health actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated on this examination.

Respectfully submitted,



Greg A. Lathrop, CFE, PIR
Supervising Financial Examiner
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Greg A. Lathrop, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Health Net Health Plan of Oregon, Inc., Tigard, Oregon.

2. The Insurance Division of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report. The examination of Health Net Health Plan of Oregon, Inc., was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Greg A. Lathrop, CFE, PIR
Financial Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this 19 day of March, 2015.

Notary Public for the State of Oregon

OFFICIAL SEAL
LINDA J ROTHENBERGER
NOTARY PUBLIC-OREGON
COMMISSION NO. 476327
MY COMMISSION EXPIRES MARCH 22, 2017

My Commission Expires: 3/22/2017