

Statutory Financial Examination of

TONGASS TIMBER TRUST

FE 13-03

as of December 31, 2012

Issued by

**STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND
ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE**

NAIC Company Code: 14208
NAIC Group Code: 0000

**FINAL REPORT:
June 3, 2016**

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND
ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
550 WEST 7TH AVENUE, SUITE 1560
ANCHORAGE, AK 99501-3567

Order FE 13-03)
In the Matter of Examination of)
Tongass Timber Trust)

FINDINGS OF FACT

1. A report of examination of Tongass Timber Trust, domiciled in the State of Alaska, has been issued by the State of Alaska, Division of Insurance, to Tongass Timber Trust.
2. The Report of Examination of Tongass Timber Trust (FE 13-03) has been transmitted to Owen Graham, Executive Director of Tongass Timber Trust (Examinee), and Examinee has been accorded at least 30 days opportunity to review and comment on this Report of Examination. A response from the examinee was received on June 23, 2016.
3. The Director of the Division of Insurance has fully considered and reviewed the report, the examinee response and any relevant portions of the examiner's work papers to the extent she considered necessary.

CONCLUSIONS OF LAW

1. The written Report of Examination referred to in Finding of Fact No. 1 was issued in accordance with Alaska Statute (AS) 21.06.150(b).
2. The actions set forth in Finding of Fact No. 2 were conducted in accordance with AS 21.06.150(b).
3. The Director of the Division of Insurance has reviewed the Report of Examination, the examinee response and any other relevant work papers as set forth in Finding of Fact No. 3 to the extent considered necessary in accordance with AS 21.06.150(b).

ORDER

IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the Report of Examination of Tongass Timber Trust (FE 13-03) is approved as filed.

2. Pursuant to AS 21.06.060, the Report of Examination shall be posted on the Division of Insurance website and be available for public inspection.

This order is effective June 23, 2016

Dated this 23rd day of June in Anchorage, Alaska.



Lori Wing-Heier, Director
State of Alaska
Division of Insurance

TABLE OF CONTENTS

Salutation	1
Scope of Examination	1
Summary of Examination Finding.....	2
Significant Finding.....	2
Description of Company	2
Company History	2
Corporate Records	2
Management and Control.....	3
Territory and Plan of Operation.....	3
Reinsurance.....	4
Financial Statements.....	4
Statement of Assets, Liabilities and Surplus.....	4
Statement of Operations.....	5
Reconciliation of Surplus – December 31, 2009 – December 31, 2012.....	6
Analysis of Changes in Financial Statements Resulting from Examination	6
Findings and Recommendations	6
Closing	7
Affidavit.....	8



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Commerce, Community,
and Economic Development

DIVISION OF INSURANCE

550 West Seventh Avenue, Suite 1560
Anchorage, AK 99501-3567
Main: 907.269.7900
Fax: 907.269.7910

June 3, 2016

Lori Wing-Heier, Director
Division of Insurance
Department of Commerce, Community
and Economic Development
State of Alaska
550 West 7th Avenue, Suite 1560
Anchorage, AK 99501-3567

Dear Director Wing-Heier:

In accordance with your instructions and authorizations, and in accordance with statutory requirements, an examination has been made of the financial condition and business affairs of:

Tongass Timber Trust ("the Trust")
111 Stedman Street, Suite 200
Ketchikan, Alaska 99901

(NAIC CoCode 14208)

SCOPE OF EXAMINATION

We have performed our full-scope single-state examination of Tongass Timber Trust. The last examination covered the period of January 1, 2007 through December 31, 2009. This examination covers the three year period January 1, 2010 through December 31, 2012.

We conducted our examination in accordance with the National Association of Insurance Commissioners' (NAIC) *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management

and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following The Trust financial statements.

This examination report includes any significant findings of fact identified, as required by AS 21.06.150, and, general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the company.

SUMMARY OF EXAMINATION FINDINGS

Significant Finding

There were no significant findings of fact identified during this examination.

DESCRIPTION OF COMPANY

Company History

The Trust is an Alaska-domiciled Multiple Employer Welfare Arrangement ("MEWA") employee health and welfare plan organized pursuant to Title 21, Chapter 85, of the Alaska Statutes. The Trust is a nonprofit organization that was formed to provide group health and welfare benefits for workers employed by member firms of the Alaska Forest Association, Inc. the Trust received a Certificate of Authority, #D-10557, from the State of Alaska on June 14th, 2005, authorizing them to transact the business of a Multiple Employer Welfare Arrangement. As of December 31, 2012, the Trust was licensed only in Alaska.

Corporate Records

The bylaws and minutes of the Board of Directors/Trustees of the Trust were reviewed during this examination. All board meeting notices appear to have been given as required by the bylaws. The meeting of March 4, 2010 did not have a quorum; but all other meetings had quorums. All actions of the Trust that required board approval were taken by resolution at a meeting or by resolution without a meeting as permitted by the bylaws.

The Trust agreement requires that at least two Board meetings be held each calendar year. The Trust held more than the minimum number each of the three years in the examination period.

Management and Control

The Trust is a nonprofit health and welfare plan organized as a Multiple Employer Welfare Arrangement (“MEWA”). These employee welfare benefit plans are defined in Section 3(1) of ERISA 20 U.S.C. section 1002(1) and the Trust is organized in Alaska under Alaska Statute Title 21 Chapter 85. Only Employers that are regular members of the Alaska Forest Association may participate; and, this is consistent with the requirement in AS 21.85.030(1) that employers be members of a bona fide association representing a particular industry. The Trust was formed originally in May 1964 to serve the Alaska logging industry.

The Trust has a Board of Trustees that consists of representatives of Employers as well the Executive Director and Benefits Administrator. Directors are chosen by a Nominating Committee and with the approval of the President of the Alaska Forest Association. The table below shows the Board membership each year covered by this examination, as reported in the Financial Statements filed with the State of Alaska.

Tongass Timber Trust

NAME	TITLE	December 31,		
		2010	2011	2012
Keaton Gildersleeve	Chairman	X	X	X
Leo Gellings	Trustee	X	X	X
Robert Byers	Trustee	X	X	X
Jerry Larrabee	Trustee	X	X	X
Linda Lewis	Trustee	X	X	X
George Baggen	Trustee	X	X	X
Owen J. Graham	Executive Director	X	X	X
Juaneta Cannon	Benefits Administrator	X	X	X

Territory and Plan of Operation

The Trust is authorized to transact the business of health insurance. As of December 31, 2012, they were licensed only in Alaska. Employees who reside in Washington State are covered by the purchase of policies from Premera Blue Cross of Washington and Alaska with the applicable contributions; as, Washington requires that self-funded MEWAs be licensed currently.

Based on the lines of business for which the Trust is licensed, and pursuant to the requirements of AS 21.85.060, the Trust is required to maintain minimum policyholders’ surplus (reserves) in the amount recommended by a qualified actuary. At December 31, 2012 the amount was \$367,200 and the Trust had total reserves of \$1,957,644.

Reinsurance

The Trust has reinsured its cumulative and individual risks through an excess-of-loss per-occurrence agreement as recommended by a qualified actuary. As of December 31, 2012, the Trust had a maximum retention per policyholder of \$200,000 per year. They are also reinsured for aggregate claims in excess of \$4,032,835 per year. The Trust does not assume any reinsurance.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Trust with the Alaska Division of Insurance and present the financial condition of the Trust for the period ending December 31, 2012.

**FINANCIAL STATEMENTS
STATEMENT OF ASSETS, LIABILITIES AND SURPLUS
As of December 31, 2012**

	<u>As Reported 12/31/2012</u>	<u>Adjustments</u>	<u>As Adjusted 12/31/2012</u>
<u>Net Admitted Assets</u>			
Bonds	\$ 1,373,529		\$ 1,373,529
Cash, cash equivalents & short term investments	412,950		412,950
Deposit with the Alaska Division of Insurance	200,000		200,000
Uncollected contributions	4,828		4,828
Insurance recoverable for claims etc.	353,862		353,862
Interest and investment income due & accrued	11,974		11,974
Furniture and equipment	5,044		5,044
Prepaid insurance and prepaid expenses	20,946		20,946
Total Admitted Assets	<u>\$ 2,383,133</u>		<u>\$ 2,383,133</u>
<u>Liabilities, Surplus and Other Funds</u>			
<u>Liabilities</u>			
Claims unpaid	\$ 367,200		\$ 367,200
Unearned contributions	1,011		1,011
Other Expenses due or accrued	47,266		47,266
Premium tax payable	10,012		10,012
Total Liabilities	<u>\$ 425,489</u>		<u>\$ 425,489</u>
<u>Surplus</u>			
Earned surplus	1,957,644		1,957,644
Total reserves	<u>\$ 1,957,644</u>		<u>\$ 1,957,644</u>
Total Liabilities and Surplus	<u>\$ 2,383,133</u>		<u>\$ 2,383,133</u>

FINANCIAL STATEMENTS
STATEMENT OF OPERATIONS
As of December 31, 2012

	<u>As Reported</u> <u>12/31/2012</u>	<u>Adjustments</u>	<u>As Adjusted</u> <u>12/31/2012</u>
<u>Underwriting Income</u>			
<u>Revenue</u>			
Contributions earned	\$ 3,573,836		\$ 3,573,836
Total Revenue	<u>\$ 3,573,836</u>		<u>\$ 3,573,836</u>
<u>Deductions</u>			
Claims incurred	\$ 3,501,855		\$ 3,501,855
Administrative & Soliciting	769,076		769,076
Total underwriting deductions	<u>\$ 4,270,931</u>		<u>\$ 4,270,931</u>
Net underwriting gain or (loss)	<u>\$ (697,095)</u>		<u>\$ (697,095)</u>
<u>Investment Income</u>			
Net investment income earned	\$ 31,164		\$ 31,164
Net realized capital gains or (losses)	(6,897)		(6,897)
Net investment gain or (loss)	<u>\$ 24,267</u>		<u>\$ 24,267</u>
Net gain (loss)	<u>\$ (672,828)</u>		<u>\$ (672,828)</u>
<u>Reserves Account</u>			
Reserves, December 31, prior year	<u>\$ 2,625,915</u>		<u>\$ 2,625,915</u>
<u>Gains and (Losses) in Reserves</u>			
Net income (loss)	\$ (672,828)		\$ (672,828)
Change in net unrealized capital gains (losses)	4,557		4,557
Change in reserves for the year	<u>\$ (668,271)</u>		<u>\$ (668,271)</u>
Reserves for the period ended December 31, 2012	<u><u>\$ 1,957,644</u></u>		<u><u>\$ 1,957,644</u></u>

FINANCIAL STATEMENTS
RECONCILIATION OF SURPLUS
As of December 31, 2009 through December 31, 2012

	<u>RESERVES</u>
	<u>TOTAL</u>
Balance at December 31, 2009	\$ 4,135,047
Net gain (loss) – 2010	(410,478)
Change in net unrealized capital gains or (losses)	<u>63,417</u>
Balance at December 31, 2010	<u>\$ 3,787,986</u>
Net gain (loss) – 2011	(1,210,056)
Change in net unrealized capital gains or (losses)	<u>47,985</u>
Balance at December 31, 2011	<u>\$ 2,625,915</u>
Net gain (loss) – 2012	(672,828)
Change in net unrealized capital gains or (losses)	<u>4,557</u>
Balance at December 31, 2012	<u><u>\$ 1,957,644</u></u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS
RESULTING FROM THE EXAMINATION

No adjustments to the financial statements filed as of December 31, 2012 were made as a result of the examination.

FINDINGS AND RECOMMENDATIONS

There were no significant findings or recommendations as a result of this examination.

CLOSING

This examination was conducted in accordance with practices and procedures promulgated by the NAIC. This examination also includes a compliance review of applicable Alaska Statutes and Regulations.

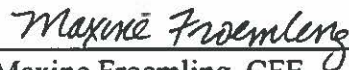
In addition to the undersigned, Richard Foster, Financial Examiner II from the Alaska Division of Insurance participated in the examination.

We wish to express our appreciation for the courteous cooperation and assistance extended to us by the management and staff of Tongass Timber Trust during the course of this examination.

This report is respectfully submitted,



Wallace Thomas
Insurance Examiner I

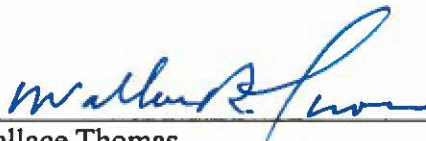


Maxine Froemling, CFE
Chief Financial Examiner

AFFIDAVIT

Anchorage, Alaska)
June 21, 2016)
)
STATE OF ALASKA)
THIRD JUDICIAL DISTRICT)

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2012, of Tongass Timber Trust, an Alaska-domiciled insurer holding Certificate of Authority #D-10557, is true to the best of my knowledge and belief.

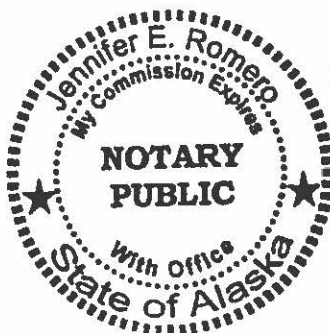



Wallace Thomas
Insurance Financial Examiner



Maxine L. Froemling, CFE
Chief Financial Examiner

Subscribed and sworn to before me this 23rd day of June, 2016.





Notary Public for the State of Alaska
My commission expires: With office