



STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Sarah Palin, Governor
Emil Notti, Commissioner
Linda S. Hall, Director

Division of Insurance

ORDER NUMBER R 07-06

July 25, 2007

**DETERMINATION OF IMPAIRMENT BY THE
DIVISION OF INSURANCE OF THE
ALASKA STATE MEDICAL ASSOCIATION HEALTH CARE PLAN**

The Alaska State Medical Association Health Care Plan (Doc Plan) is a Multiple Employer Welfare Arrangement (MEWA) that is regulated by the Division of Insurance (Division) pursuant to AS 21.85.010 - 21.85.500 and other applicable sections of the insurance code. The Doc Plan was created in order to provide health insurance benefits to plan participants (participating doctors' offices and their employees). Because of financial difficulties, the trustees of the Doc Plan have decided to terminate the plan. A notice of termination was sent to the plan participants on April 27, 2007 stating that the Doc Plan would terminate as of October 31, 2007. The Doc Plan also notified the Division of the decision to terminate the plan. Although the plan will terminate on October 31, claims incurred by plan participants on or before that date may be paid thereafter, with a final cut off of all claims 90 days later - January 29, 2008.

The latest financial statement filed with the Division shows the Doc Plan to be statutorily insolvent as of March 31, 2007. Information provided by the Doc Plan more recently indicates that the plan may not be completely insolvent at this time. However, there is no doubt that the Doc Plan is in serious financial trouble and is clearly impaired under AS 21.09.175 and AS 21.90.900(20). A very real possibility, if not likelihood, exists that the Doc Plan will not

have sufficient assets to pay claims incurred between now and October 31, 2007. Information provided by the Doc Plan shows that premium is not sufficient to cover claims and the remaining cash of the plan is being depleted.

The Doc Plan had deposited \$200,000 with the Division as required under AS 21.85.030. With the Doc Plan's latest financial statement showing it to be statutorily insolvent as of March 31, 2007, that deposit is available to pay claims, pursuant to AS 21.85.030(a)(9)(A). However, the deposit is the funding source of last resort and the Division will only allow it to be used accordingly. Additionally, trustees of the Doc Plan had included the fund deposit in their calculation and planning for final pay out of medical claims because as a 501(c)(9) plan, all assets of the plan must be used for trust purposes and cannot revert to plan sponsors or contributing employers.

This determination of impairment gives the Division the authority to limit or change the Doc Plan's business practices including deferral of some administration expenses and to change premium rates to increase its reserves and surplus. To respond to the Division's concerns, trustees of Doc Plan have agreed to work with some of its service providers to defer a portion of their billings and to increase the rate of premium payments by participating physician offices.

Both the Doc Plan trustees and the Division agree that the payment of claims should take priority. THEREFORE, to increase the likelihood that the Doc Plan will be able to meet its financial obligation to pay participant/beneficiary medical claims incurred through October 31, 2007, the Division requested and the Doc Plan trustees have agreed to take the below-described action as follows:

1. The Alaska State Medical Association (ASMA) and the Doc Plan have agreed that the plan will defer paying its \$1,000 monthly service fee to ASMA until after all claims have been paid.

2. The plan will defer paying 50 percent of its monthly legal fees billed by its attorneys, Jermain, Dunnagan & Owens, P.C. (JDO), until after all claims have been paid. JDO is in agreement with this action.

3. The plan will defer paying its quarterly fee of \$4,500 (\$1,500 per month) to its plan consultant Bruce Gale of Alaska USA Insurance. Mr. Gale and Alaska USA Insurance are in agreement with this action.

4. In order to increase its reserves and surplus to pay claims, the Doc Plan trustees took action at their meeting on July 11, 2007. The trustees passed a resolution to give notice to all physician/employer offices of Doc Plan that there would be a 25 percent premium rate increase, effective September 1, 2007. This notice will be mailed before the first of August.

5. The Division and Doc Plan trustees will continue to monitor closely the Doc Plan's ratio of available cash to claims liability. The plan will continue to file weekly financial, claims payment, and additional reports with the Division.

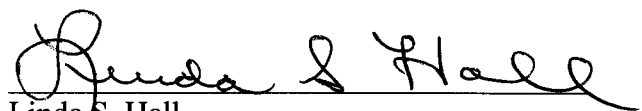
In conjunction with the Doc Plan's efforts to insure the existence of sufficient funds to pay legitimate medical claims, the Division will seek authority from the Alaska Department of Revenue and the Alaska Attorney General to permit the Doc Plan to defer the premium tax and penalty payments currently owed by the plan without penalty, pursuant to AS 43.05.070, until all claims are paid. Additionally, the Division will suspend the time for the Doc Plan to respond to the Division's recent financial exam report of the plan, until after all claims are paid.

Upon a determination by the Division that the Doc Plan is unable to pay medical claims and necessary administration claims, such as TPA's service in processing incurred but unpaid claims, the Division will release funds from the \$200,000 deposit to the plan's TPA claims administrator to pay such claims or needed administration expense. The claims or bills that are paid out of the deposit will be on an individually identified and approved basis by the Division.

The Doc Plan will provide the Division with whatever information may be necessary for the Division to determine whether proposed payments should be made using the deposit.

The Doc Plan trustees have agreed and recognize the requirement to continue to report to the Division information regarding the collection of premium, the change in number of participants, payment of claims and expenses, and notice of significant claims pending. In addition to statutorily required financial reports required to be filed with the Division as of June 30, 2007, due on August 30, 2007 and as of September 30, 2007, due on November 30, 2007, a balance sheet must be filed with the Division as of October 31, 2007, due on November 30, 2007 and as of January 31, 2008, due on March 2, 2008. Although the balance sheet as of January 31, 2008 is due on March 1, 2008, a full financial statement as required by statute as of December 31, 2007, will also be due on March 1, 2008. The administration expenses to prepare and produce these final calculations and balance sheets may be available expenses payable from the depository funds.

This order takes effect July 25, 2007.


Linda S. Hall
Director