

Statutory Financial Examination of

TONGASS TIMBER TRUST

FE 16-05

as of December 31, 2015

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:
December 6, 2019



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

**Department of Commerce,
Community, and Economic
Development**

DIVISION OF INSURANCE
Anchorage Office

550 West Seventh Avenue, Suite 1560
Anchorage, Alaska 99501-3567
Main: 907.269.7900
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**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 16-05)
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 16-05) 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 December 23, 2019.
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 she considered necessary in accordance with AS 21.06.150(b).

ORDER

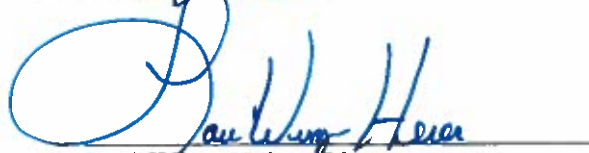
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the Report of Examination of Tongass Timber Trust (FE 16-05) is approved as filed.

2. Pursuant to AS 21.06.060, the Report of Examination shall be kept in the Office of the Director of the Division of Insurance and be open to public inspection.

This order is effective January 16, 2020

Dated this 16th day of January, 2020 in Anchorage, Alaska.



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

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THE STATE
of ALASKA
GOVERNOR MICHAEL J. DUNLEAVY

Department of Commerce, Community,
and Economic Development

DIVISION OF INSURANCE

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Anchorage, AK 99501-3567
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December 6, 2019

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 limited-scope single-state examination of Tongass Timber Trust. The last examination covered the period of January 1, 2010 through December 31, 2012. This examination covers the three-year period January 1, 2013 through December 31, 2015.

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.

Within the limited-scope, all applicable accounts and activities selected 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, 2015, 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 were given as required by the bylaws. All 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. The Trust is also served by the AFA 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 Board of Trustees

| NAME | TITLE | December 31, | | |
|---------------------|------------------------|--------------|------|------|
| | | 2013 | 2014 | 2015 |
| 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, 2015, 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, 2015 the amount recommended by the actuary was \$369,200 and the Trust had total reserves of \$3,173,739.

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, 2015, the Trust had a maximum retention per policyholder of \$200,000 per year. They are also reinsured for aggregate claims in excess of 125% of total expected claims per year, calculated each renewal year. The amount for the final year examined was \$4,032,835. 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, 2015. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered and integral part of the financial statements.

FINANCIAL STATEMENTS
STATEMENT OF ASSETS, LIABILITIES AND SURPLUS
As of December 31, 2015

| | As Reported 12/31/2015 | Adjustments | As Adjusted 12/31/2015 |
|--|---------------------------|-------------|---------------------------|
| <u>Net Admitted Assets</u> | | | |
| Bonds | \$ 2,260,579 | | \$ 2,260,579 |
| Cash, cash equivalents & short-term investments | 1,221,867 | | 1,221,867 |
| Deposit with the Alaska Division of Insurance | 200,000 | | 200,000 |
| Uncollected contributions | 5,087 | | 5,087 |
| Insurance recoverable for claims etc. | 7,313 | | 7,313 |
| Interest and investment income due & accrued | 13,001 | | 13,001 |
| Furniture and equipment | 3,562 | | 3,562 |
| Prepaid insurance and prepaid expenses | 37,532 | | 37,532 |
| Total Admitted Assets | \$3,748,941 | | \$3,748,941 |
| <u>Liabilities, Surplus and Other Funds</u> | | | |
| <u>Liabilities</u> | | | |
| Claims unpaid | \$ 369,200 | | \$ 369,200 |
| Unearned contributions | 133,884 | | 133,884 |
| Other Expenses due or accrued | 35,828 | | 35,828 |
| Premium tax payable | 36,290 | | 36,290 |
| Total Liabilities | \$575,202 | | \$575,202 |
| <u>Surplus</u> | | | |
| Earned surplus | 3,173,739 | | 3,173,739 |
| Total reserves | \$ 3,173,739 | | \$ 3,173,739 |
| Total Liabilities and Surplus | \$ 3,748,941 | | \$ 3,748,941 |

FINANCIAL STATEMENTS
STATEMENT OF OPERATIONS
As of December 31, 2012

| | <u>As Reported</u> <u>12/31/2015</u> | <u>Adjustments</u> | <u>As Adjusted</u> <u>12/31/2015</u> |
|---|---|--------------------|---|
| <u>Underwriting Income</u> | | | |
| <u>Revenue</u> | | | |
| Contributions earned | \$ 4,114,150 | | \$ 4,114,150 |
| Total Revenue | <u>\$ 4,114,150</u> | | <u>\$ 4,114,150</u> |
| <u>Deductions</u> | | | |
| Claims incurred | \$ 3,223,960 | | \$ 3,223,960 |
| Administrative & Soliciting | 740,998 | | 740,998 |
| Total underwriting deductions | <u>\$ 3,964,958</u> | | <u>\$ 3,964,958</u> |
| Net underwriting gain or (loss) | <u>\$ 149,192</u> | | <u>\$ 149,192</u> |
| <u>Investment Income</u> | | | |
| Net investment income earned | \$ 32,058 | | \$ 32,058 |
| Net realized capital gains or (losses) | (13,360) | | (13,360) |
| Net investment gain or (loss) | <u>\$ 18,698</u> | | <u>\$ 18,698</u> |
| <u>Other Income</u> | | | |
| Other Income | \$ 577,429 | | \$ 577,429 |
| Net gain (loss) | <u>\$ 745,319</u> | | <u>\$ 745,319</u> |
| <u>Reserves Account</u> | | | |
| Reserves, December 31, prior year | \$ 2,440,696 | | \$ 2,440,696 |
| <u>Gains and (Losses) in Reserves</u> | | | |
| Net income (loss) | \$ 745,319 | | \$ 745,319 |
| Change in net unrealized capital gains (losses) | (12,276) | | (12,276) |
| Change in reserves for the year | <u>\$ 733,043</u> | | <u>\$ 733,043</u> |
| Reserves for the period ended December 31, 2012 | <u><u>\$ 3,173,739</u></u> | | <u><u>\$ 3,173,739</u></u> |

FINANCIAL STATEMENTS
RECONCILIATION OF SURPLUS
As of December 31, 2012 through December 31, 2015

| | <u>RESERVES</u> <u>TOTAL</u> |
|--|---------------------------------|
| Balance at December 31, 2012 | \$ 1,957,644 |
| Net gain (loss) – 2013 | 30,796 |
| Change in net unrealized capital gains or (losses) | <u>(66,071)</u> |
| Balance at December 31, 2013 | <u>\$ 1,922,369</u> |
| Net gain (loss) – 2014 | 486,069 |
| Change in net unrealized capital gains or (losses) | <u>32,258</u> |
| Balance at December 31, 2014 | <u>\$ 2,440,696</u> |
| Net gain (loss) – 2015 | 745,319 |
| Change in net unrealized capital gains or (losses) | <u>(12,276)</u> |
| Balance at December 31, 2015 | <u><u>\$ 3,173,739</u></u> |

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS
RESULTING FROM THE EXAMINATION

No adjustments to the financial statements filed as of December 31, 2015 were made as a result of the examination.

FINDINGS AND RECOMMENDATIONS

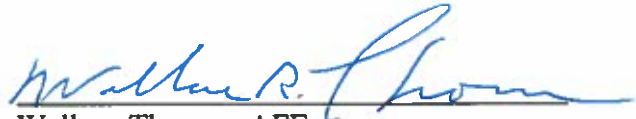
There were no significant findings or recommendations as a result of this examination.

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.

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 this examination.

This report is respectfully submitted,

A handwritten signature in blue ink, appearing to read "Wallace R. Thomas", written over a horizontal line.

Wallace Thomas, AFE
Insurance Examiner II

A handwritten signature in blue ink, appearing to read "David Phifer", written over a horizontal line.

David Phifer, CFE
Chief Financial Examiner

AFFIDAVIT

Anchorage, Alaska)
January 16, 2020)
STATE OF ALASKA)
THIRD JUDICIAL DISTRICT)

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2015, 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, AFE
Insurance Financial Examiner II



David Phifer, CFE
Chief Financial Examiner

Subscribed and sworn to before me this 16th day of January, 2020.



Notary Public for the State of Alaska

My commission expires: with office

