

REPORT OF EXAMINATION
OF THE
CAREAMERICA LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2011

Filed: June 10, 2013

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION	1
COMPANY HISTORY	2
MANAGEMENT AND CONTROL:.....	2
Management Agreements.....	3
TERRITORY AND PLAN OF OPERATION.....	4
REINSURANCE:	5
Assumed.....	5
Ceded	5
FINANCIAL STATEMENTS:	6
Statement of Financial Condition as of December 31, 2011	7
Summary of Operations and Capital and Surplus Account for the Year Ended December 31, 2011	8
Reconciliation of Capital and Surplus from December 31, 2008 through December 31, 2011	9
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	10
Aggregate Reserve for Life Contracts.....	10
Contract Claims: Life.....	10
Contract Claims: Accident and Health	10
SUMMARY OF COMMENTS AND RECOMMENDATIONS:	10
Current Report of Examination	10
Previous Report of Examination	10
ACKNOWLEDGMENT	11

San Francisco, California
April 19, 2013

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CAREAMERICA LIFE INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 50 Beale Street, San Francisco, California 94105.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2011. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination was conducted concurrently with the Company's affiliate, Blue Shield of California Life & Health Insurance Company.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; mortality and loss experience; statutory deposits; and accounts and records.

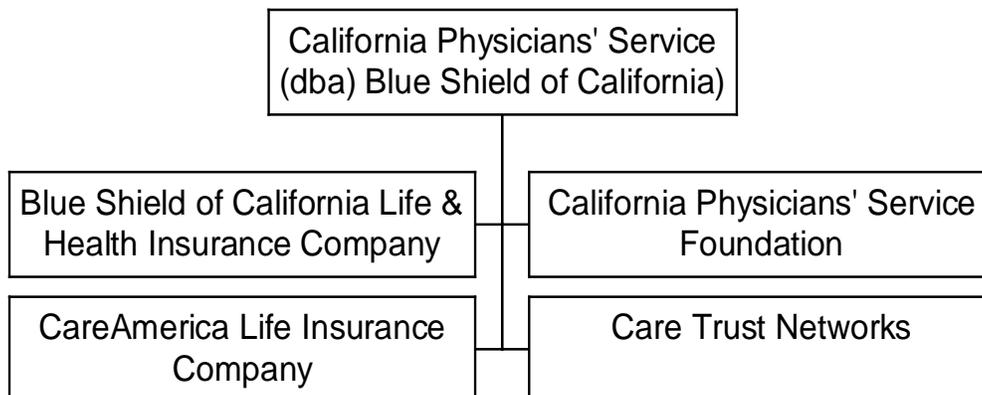
COMPANY HISTORY

The Company paid the following ordinary cash dividends to its parent, California Physicians' Service (dba Blue Shield of California) during the examination period:

<u>Year</u>	<u>Amount</u>
2009	\$ 2,400,000
2011	<u>\$ 2,300,000</u>
	<u>\$ 4,700,000</u>

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which California Physicians' Service (dba Blue Shield of California) is the ultimate controlling entity. All companies are domiciled in California and ownership is 100%. The following organizational chart depicts the relationships of the companies within this holding company system as of December 31, 2011 (all ownership is 100%):



The Company is managed by a one-member board of directors elected annually. A listing of the board member and principal officers serving as of December 31, 2011 follows:

Director

Name and Residence

Principal Business Affiliation

Bruce G. Bodaken ⁽¹⁾
Tiburon, California

Chairman, President, and Chief Executive Officer
California Physicians' Service

Principal Officers

Name

Title

Duncan Ross ⁽²⁾
Seth A. Jacobs, Esq.
Emily R. Glidden
Christopher Gorecki
Andrea DeBerry
Timothy Gustafson

President and Chief Executive Officer
Secretary
Treasurer
Controller
Assistant Secretary
Actuary

The following changes in management occurred subsequent to the examination date:

⁽¹⁾ Replaced by Paul Markovich effective January 1, 2013

⁽²⁾ Replaced by Lou Lombardo effective January 1, 2013

Management Agreements

Administrative Services Agreements: Effective January 1, 2005, the Company entered

into an Administrative Services Agreement with its parent, Blue Shield of California (BSC). Under the terms of the agreement, BSC provides the Company with personnel, facilities, information systems, and administrative and operational support on an actual cost basis. This agreement was approved by the California Department of Insurance (CDI) on December 29, 2004. Two amendments were approved by the CDI on December 21, 2005 and May 25, 2010.

Tax Allocation Agreement: Effective January 1, 2010, the Company entered into a tax allocation agreement with BSC, Blue Shield of California Life & Health Insurance Company, and CareTrust Networks, for the purpose of filing a consolidated federal income tax return. The agreement was filed with the CDI on May 11, 2011. The agreement provides for separate income tax return calculations with credit for net losses that can be used on a consolidated basis, and replaced an earlier agreement that was in effect since of January 1, 1987. The CDI approved the new agreement on August 14, 2012.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write life and health insurance in the following states: Arizona, California, Louisiana, Nevada, New Mexico, North Dakota, and Oregon. It is also an accredited reinsurer in Connecticut, where it assumed group life and health business totaling \$1,486,759, or 40% of its gross premiums. Direct premiums written were in Arizona (6%) and California (94%) only. Direct premium written in 2011 by line was as follows: Ordinary life \$123,638 (6%); group life \$1,920,816 (87%); group accident and health of \$149,935 (7%); and individual accident and health \$1,494 (less than 1%). The Company markets through agents, brokers, and directly through the distribution system of its parent company, Blue Shield of California.

REINSURANCE

Assumed

The Company had the following assumed agreements in place at December 31, 2011:

Type of Contract	Ceding Company	Ceding Retention	Company's Assumed Limit
Quota Share Life and Accidental Death and Dismemberment (AD&D)	United HealthCare Insurance Company	10%	90% of Group Term Life and AD&D coverage issued to regional trusts associated with the Printers' Industries Consolidated Trust (PICT)
Quota Share Specific and Aggregate Stop Loss ⁽¹⁾	United HealthCare Insurance Company	0%	100% of Specific and aggregate stop loss coverage issued to PICT

(1) This agreement was terminated effective January 1, 2012.

Ceded

The Company and its affiliate, Blue Shield of California Life & Health Insurance Company (BSCLH), were covered by the following reinsurance agreements. The Company ceded no premiums or losses under either treaty during the examination period. No business was ceded under the excess life and accidental death and dismemberment (AD&D) reinsurance contract because the Company's policy face values were below the reinsurance retention. It was noted that the Company's policies in force were covered by the catastrophe life and AD&D reinsurance contract; however, the Company did not record any ceded premium under this contract during the examination period. The premium was immaterial and paid for by the Company's affiliate, BSCLH. It is recommended the Company record ceded premium according to Statement of Statutory Accounting Principles No. 61, which requires a reduction of premium income for ceded premium. The reinsurer was authorized.

Type of Contract	Reinsurer	Company Retention	Reinsurer's Limit
Excess Life and AD&D Automatic Group	Swiss Re Life & Health America Inc.	\$150,000 per person	\$1 million per person excess of \$150,000
Catastrophe Life and AD&D	Swiss Re Life & Health America Inc.	\$2 million per accident	\$10 million excess of \$2 million per accident, limited to \$20 million per year.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2011

Summary of Operations and Capital and Surplus Account for the Year Ended December 31, 2011

Reconciliation of Capital and Surplus from December 31, 2008 through December 31, 2011

Statement of Financial Condition
as of December 31, 2011

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 25,031,194	\$	\$ 25,031,194	
Cash and short-term investments	1,064,571		1,064,571	
Contract loans	27,672		27,672	
Receivable for securities	2,240		2,240	
Investment income due and accrued	127,737		127,737	
Uncollected premiums and agents' balances				
In the course of collection	462,644		462,644	
Current federal and foreign income tax recoverable	80,378		80,378	
Net deferred tax asset	<u>432,816</u>	<u>372,850</u>	<u>59,966</u>	
 Total assets	 <u>\$ 27,229,252</u>	 <u>\$ 372,850</u>	 <u>\$ 26,856,402</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for life contracts			\$ 86,034	(1)
Contract claims: Life			479,304	(1)
Contract claims: Accident and health			669,045	(1)
Premiums and annuity considerations for life and accident and health received in advance			12,068	
Provision for experience rating refunds			159,213	
Interest maintenance reserve			916,574	
Commission to agents due and accrued			14,212	
Commissions and expense allowances payable on reinsurance assumed			29,452	
General expenses due and accrued			50,136	
Taxes, licenses and fees due and accrued			32,750	
Asset valuation reserve			39,432	
Payable to parent, subsidiaries and affiliates			180,000	
Payable for securities			50,005	
Aggregate write-ins for liabilities			<u>5</u>	
 Total liabilities			 2,718,230	
Common capital stock		\$ 2,543,450		
Gross paid-in and contributed surplus		2,987,900		
Unassigned funds (surplus)		<u>(18,606,822)</u>		
 Capital and surplus			 <u>24,138,172</u>	
 Total liabilities, capital and surplus			 <u>\$ 26,856,402</u>	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2011

Summary of Operations

Premiums and annuity considerations	\$ 3,682,643
Net investment income earned	835,053
Amortization of Interest Maintenance Reserve	212,954
Aggregate write-ins for miscellaneous income	<u>78</u>
 Total	 <u>4,730,728</u>
 Death benefits	 777,447
Disability benefits and benefits under accident and health contracts	1,062,577
Increase in aggregate reserves for life and accident and health contracts	4,945
Commissions on premiums, annuity considerations and deposit-type contract funds	179,033
Commissions and expense allowances on reinsurance assumed	134,591
General insurance expenses	405,315
Insurance taxes, licenses and fees, excluding federal income taxes	108,387
Aggregate write-ins for deductions	<u>(2)</u>
 Total	 <u>2,672,293</u>
 Net gain from operations before federal income taxes	 2,058,435
Federal and foreign income taxes incurred	<u>628,611</u>
 Net income	 <u>\$ 1,429,824</u>

Capital and Surplus Account

Capital and surplus, December 31, 2010	\$ 25,021,591
Net income	\$ 1,429,824
Change in net deferred income taxes	(17,308)
Change in nonadmitted assets	17,442
Change in asset valuation reserve	(13,375)
Dividends to stockholders	(2,300,000)
Aggregate write-ins for gains and losses in surplus	<u>(1)</u>
Net change in capital and surplus for the year	<u>(883,419)</u>
 Capital and surplus, December 31, 2011	 <u>\$ 24,138,172</u>

Reconciliation of Capital and Surplus
from December 31, 2008 through December 31, 2011

Capital and surplus, December 31, 2008 per Examination			\$ 24,122,652
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 4,802,202	\$	
Change in net unrealized capital gains	2,290		
Change in net deferred income tax		617,149	
Change in nonadmitted assets	567,608		
Change in asset valuation reserve		39,431	
Dividends to stockholders	<u> </u>	<u>4,700,000</u>	
Total gains and losses	<u>\$ 5,372,100</u>	<u>\$ 5,356,580</u>	
Net increase in capital and surplus			<u>15,520</u>
Capital and surplus, December 31, 2011, per Examination			<u>\$ 24,138,172</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Reserve for Life Contracts
Contract Claims: Life
Contract Claims: Accident and Health

Pursuant to California Insurance Code Section 733(g), the California Department of Insurance (CDI) retained an independent actuary to perform an actuarial review of the aggregate reserves for life contracts, contract claims: life, and contract claims: accident and health. A CDI actuary reviewed and concurred with the work performed. Based on the review, the Company's December 31, 2011 reserves for the above liabilities were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Reinsurance (Page 5): It is recommended the Company record ceded premium according to Statement of Statutory Accounting Principles No. 61, which requires a reduction of premium income for ceded premium.

Previous Report of Examination

Account and Records (Page 6): It was recommended the Company make appropriate changes to strengthen its information systems controls. The Company has complied with this recommendation.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and Blue Shield of California's employees during the course of this examination.

Respectfully submitted,

_____/s/_____

Isabel Spiker, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California