REPORT OF EXAMINATION
OF THE

AUTOMOBILE CLUB
OF SOUTHERN CALIFORNIA
LIFE INSURANCE COMPANY

AS OF
DECEMBER 31, 2009

Filed November 8, 2010

TABLE OF CONTENTS

Los Angeles, California
August 27, 2010

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

AUTOMOBILE CLUB OF SOUTHERN CALIFORNIA
LIFE INSURANCE COMPANY

(hereinafter also referred to as the Company) at the Company's statutory home office and main administrative office located at 3333 Fairview Road, Costa Mesa, California, 92626. The primary location of its books and records is 17900 North Laurel Park Drive, Livonia, Michigan 48152.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

The examination was conducted concurrently with the examination of the Interinsurance Exchange of the Automobile Club (Exchange). The Exchange has a 50% ownership interest in the 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; officers', employees', and agents' welfare and pension plans; business in force by states; accounts and records; and sales and advertising.

COMPANY HISTORY

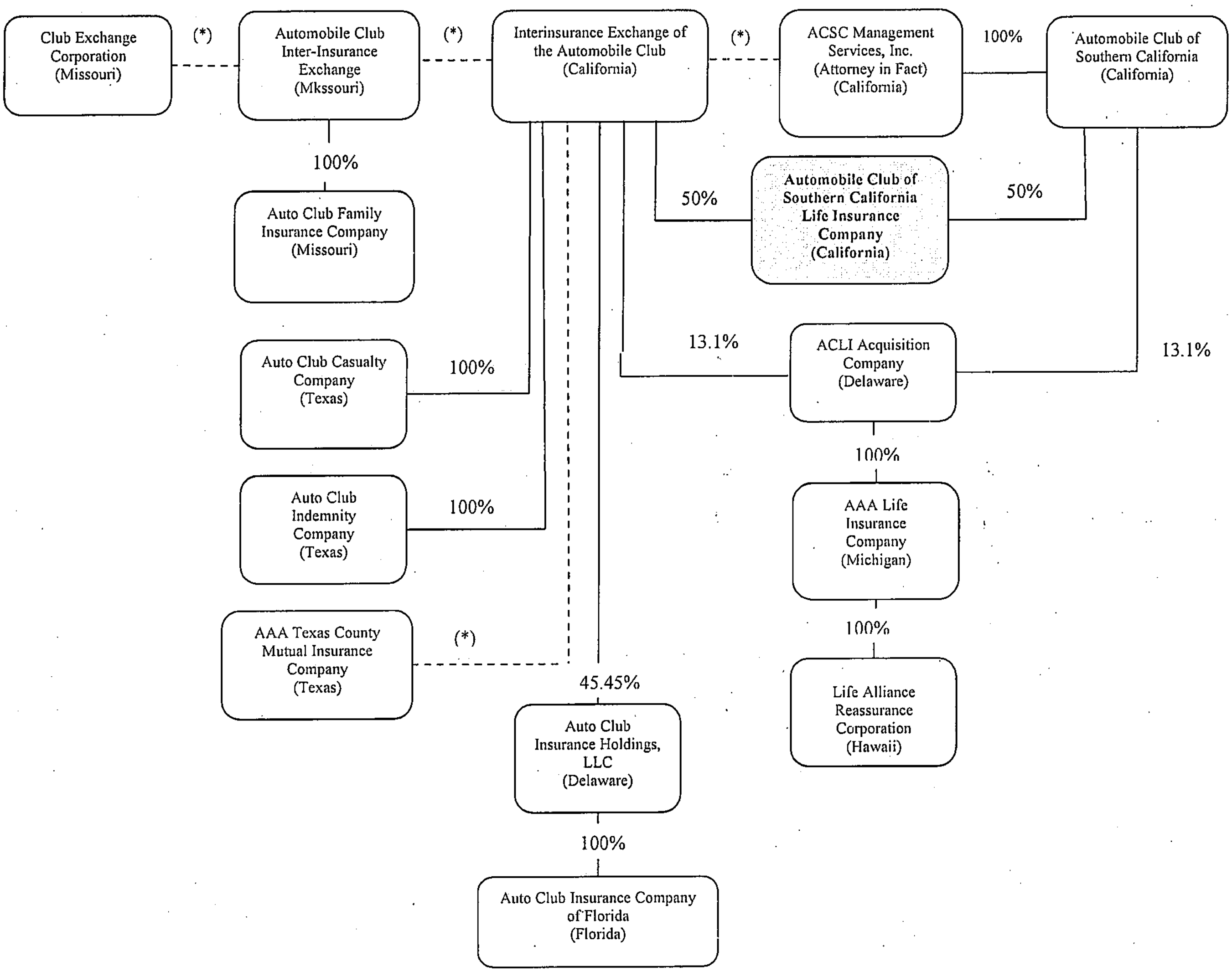
The Company was incorporated under the laws of the State of California in July 1998 and commenced business in December 1999. The Company is owned 50% each by the Automobile Club of Southern California (Club), a California nonprofit mutual benefit corporation and the Interinsurance Exchange of the Automobile Club (Exchange), a California reciprocal insurer. The Club is the ultimate controlling entity of the insurance holding company system that includes the Company and the Exchange.

The Company was formed for the purpose of reinsuring the life insurance and annuity products sold through the Club's life insurance agency operations and underwritten by AAA Life Insurance Company (AAA Life), an affiliated Michigan insurance company. Prior to the admission of AAA Life as a licensed insurer in California in 2000, the business was underwritten by Auto Club Life Insurance Company (ACL Michigan), also a Michigan insurance company.

During the examination period the Company received capital contributions from its shareholders in the amount of $5.0 million, $17.0 million and $11.2 million in 2009, 2008, and 2007, respectively. The capital contributions are a result of a capital commitment letter whereby the Company's shareholders agreed to contribute, in equal amounts, the necessary capital to maintain the Company's minimum required risk-based capital ratio of 250%.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system:



(*) Contractual or other relationship to operate the Company

Management of the Company is vested in a four-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2009 follows:

Directors

Name and Residence	Principal Business Affiliation
Robert T. Bouttier Laguna Niguel, California	Vice President Automobile Club of Southern California Life Insurance Company
John F. Boyle Coto De Caza, California	Vice President Automobile Club of Southern California Life Insurance Company
David M. Mattingly Trabuco Canyon, California	Vice President and Chief Financial Officer Automobile Club of Southern California Life Insurance Company
Thomas V. McKernan Arcadia, California	President and Chief Executive Officer Automobile Club of Southern California Life Insurance Company

Principal Officers

Name	Title
Thomas V. McKernan	President and Chief Executive Officer
Avery R. Brown	Vice President and Assistant Secretary
David M. Mattingly	Vice President and Chief Financial Officer
John F. Boyle	Vice President
Robert T. Bouttier	Vice President
Sharon B. Neiman	Vice President
Gail C. Louis	Corporate Secretary

Management and Service Agreements

Expense Sharing Agreement: On December 15, 1999, the Company entered into an expense sharing agreement with the following affiliated companies: AAA Life Insurance Company (AAA Life), Auto Club Life Insurance Company (ACL Michigan), ACLI Acquisition Company (ACLI), Pacific Beacon Life Reassurance Company (Hawaii), and AAA Life Re, Ltd (Bermuda).

Under the terms of the agreement, the parties, on an annual basis, agree upon a unit charge to be applied to each new policy written and each policy inforce. The unit charge is based upon expense assumptions used in pricing each product and includes administration, underwriting, and marketing costs and expenses incurred by AAA Life, ACL Michigan, and ACLI for policies reinsured by any party to the agreement. The total expense allocation for each reinsurer is computed as the unit charge for each policy written by ACL, Michigan and AAA Life, and multiplied by the reinsurance percentage set forth in the applicable reinsurance agreement. Adjustments are made on a quarterly basis to assure the estimated expenses reasonably approximate actual expenses.

During the examination period, the Company paid the following fees to AAA Life under this agreement: $16.4 million in 2007, $20.0 million in 2008, and $20.6 million in 2009. The Company submitted this agreement for approval to the California Department of Insurance and it is still being reviewed as of the date of this report.

Investment Management Agreement: The Company has investment management agreements with BlackRock Financial (BF), Dwight Asset Management Company (DA), and Neuberger Berman Fixed Income, LLC (formerly known as Lehman Brothers Asset Management, LLC). All three managers are non-affiliated and act as the Company's investment management advisors for the Company's cash, cash equivalents and fixed income securities. The investment or reinvestment of the Company's securities is administered pursuant to the Company's investment guidelines. As compensation, the investment managers receive a percentage of the market value of the investments.

The Company paid investment management fees under the terms of these agreements as follows: $435, 807 in 2007, $472,621 in 2008, $573,893 in 2009.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact life and accident and health insurance only in the State of California. The Company does not directly underwrite any life insurance risks or directly issue any life or annuity products. During the examination period, the Company primarily assumed life insurance and annuity products from AAA Life Insurance Company and Auto Club Life Insurance Company, affiliated Michigan insurance companies. All premiums assumed by the Company are generated through the life insurance agency operations of the Automobile Club of Southern California.

LOSS EXPERIENCE

The Company has reported net operating losses since its inception with the exception of 2004. The following schedule reflects net operating loss and net loss from 2007 through June 30, 2010 as reported by the Company:

Year	Net Operating (Loss)/Gain	Net (Loss)/Gain
2007	$ (4,359,384)	$ (4,767,727)
2008	$ (6,175,002)	$ (13,516,367)
2009	$ (1,736,599)	$ (3,083,910)
2010*	$ (3,770,791)	$ (3,200,606)
Totals	$ (16,041,776)	$ (24,568,610)

(*) Through June 30, 2010

In total, through June 30, 2010 the Company reported net operating losses and net losses of $16.0 million and $24.6 million, respectively. The Company has stated its operating losses and net losses are primarily because of the continued growth in new business production and the first year cost associated with new business production. The Company expects operating losses to diminish in the future as the size of its renewal block of business increases. Initially, the Company projected operating losses in its business plan until 2005; however, more recent projections have indicated that losses will continue through 2012.

In order to maintain adequate capital position, the Company has received $ 33.2 million in capital contributions during the examination period from its parent companies under the terms of a commitment letter. The California Department of Insurance (CDI) requested the commitment letter from the parent companies. As stated in the Company History section, under the terms of the commitment letter, the Interinsurance Exchange of the Automobile Club, and the Automobile Club of Southern California each committed to pay 50% of the capital contributions to the Company, required to maintain a minimum risk-based capital ratio of 250%. The current commitment letter was submitted to the CDI on July 26, 2007. The commitment letter will expire on December 31, 2011 and will be renewed if necessary.

REINSURANCE

Assumed

On December 15, 1999, the Company entered into a retroactive reinsurance agreement to assume 80% of the life and annuity sales produced by the Automobile Club of Southern California (Club) agency operations and written by Auto Club Life Insurance Company (ACL Michigan), a Michigan domiciled insurer. The reinsurance transactions are co-insurance agreements for traditional insurance products and modified co-insurance agreements for interest-sensitive products. This agreement was approved by the California Department of Insurance (CDI) on October 8, 2002.

Effective May 1, 2010, the Company amended the agreement to reinsure both traditional insurance products and interest-sensitive products on a co-insurance basis. The amendment did not require prior approval.

In January 2000, the Company entered into a reinsurance arrangement with AAA Life, a Michigan domiciled insurer, to assume 80% of the California business underwritten by AAA Life. This reinsurance arrangement effectively replaced the Company's arrangement with ACL.

The reinsurance agreement is co-insurance, in 2005 the assuming rate increased from 80% to 90%. The CDI approved the assuming rate increase on February 18, 2005.

As of December 31, 2009, the Company had assumed premiums of approximately $145.6 million, aggregate reserves of $443.5 million and amounts payable on paid and unpaid claims of $5.6 million under the terms of these quota share reinsurance agreements.

Ceded

The Company does not have any ceded reinsurance.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2009

Reconciliation of Capital and Surplus
from December 31, 2006 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 456,609,661	$	$ 456,609,661	
Preferred stocks	946,840		946,840	
Common stocks	2,532		2,532	
Cash and short-term investments	7,055,481		7,055,481	
Contract loans	1,808,008	477,700	1,330,308	
Other invested assets	1,789,075		1,789,075	
Investment income due and accrued	6,063,704		6,063,704	
Premium and agents' balance in course of collection	1,410,444		1,410,444	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	18,572,149		18,572,149	
Reinsurance:				
Other amounts receivable under reinsurance contracts	5,424,611		5,424,611	
Net deferred tax asset	17,925,253	15,977,218	1,948,035	
Total assets	$ 517,607,758	$ 16,454,918	$ 501,152,840	
Liabilities, Capital and Surplus				
Aggregate reserve for life contracts			$ 437,100,142	(1)
Aggregate reserve for accident and health contracts			2,768,691	(1)
Liability for deposit-type contracts			3,662,391	(1)
Contract claims:				
Life			4,489,511	(1)
Accident and health			1,100,913	(1)
Premiums and annuity considerations for life and accident and health contracts received in advance			201,767	
Interest maintenance reserve			814,779	
Commissions and expense allowances payable on reinsurance assumed			71,327	
Current federal and foreign income taxes			79,255	
General expenses due or accrued			537,230	
Unearned investment income			45,950	
Miscellaneous liabilities:				
Asset valuation reserve			534,583	
Payable to parent, subsidiaries and affiliates			1,583,555	
Total liabilities			452,990,094	
Common capital stock		$ 2,600,000		
Gross paid-in and contributed surplus		96,900,000		
Unassigned surplus		(51,337,254)		
Capital and surplus			48,162,746	
Total liabilities, capital and surplus			$ 501,152,840	

Summary of Operations and Capital and Surplus Account for the Year Ended December 31, 2009

Summary of Operations

Premiums and annuity considerations	$ 145,572,813	
Net investment income	23,307,646	
Amortization of interest maintenance reserve	248,805	
Aggregate write-ins for miscellaneous income	2,018,296	
Total		$ 171,147,560
Death benefits	$ 12,185,706	
Annuity benefits	7,060,973	
Disability benefits and benefits under accident and health policies	1,498,363	
Surrender benefits and withdrawals for life contracts	34,287,976	
Group conversions	61,646	
Interest and adjustments on contract or deposit-type contract funds	60,376	
Increase in aggregate reserves for life and accident and health contracts	84,851,414	
Commissions and expense allowances on reinsurance assumed	12,622,436	
General insurance expenses	21,284,497	
Insurance taxes, licenses and fees, excluding federal income taxes	656,486	
Decrease in loading on deferred and uncollected premiums	(1,685,714)	
Total		172,884,159
Net loss from operations before federal income taxes		(1,736,599)
Federal and foreign income taxes incurred		752,221
Net loss from operations after federal income taxes		(2,488,820)
Net realized capital losses		(595,090)
Net loss		$ (3,083,910)

Capital and Surplus Account

Capital and surplus, December 31, 2008		$ 37,559,607
Net loss	$ (3,083,910)	
Change in net unrealized capital gains	280,706	
Change in net deferred income tax	(1,421,207)	
Change in nonadmitted assets and related items	2,238,809	
Change in reserve on account of change in valuation basis	8,570,627	
Change in assets valuation reserve	(507,372)	
Cumulative effect of changes in accounting principles	(474,514)	
Surplus adjustment Paid in	5,000,000	
Net change in capital and surplus for the year		10,603,139
Capital and surplus, December 31, 2009		$ 48,162,746

Reconciliation of Capital and Surplus from December 31, 2006 through December 31, 2009

	Gain in Surplus	Loss in Surplus	
Capital and surplus, December 31, 2006 per Examination			$ 25,995,563
Net loss	$	$ 21,368,004	
Change in net unrealized capital loss		40,358	
Change in net deferred income tax	6,132,232		
Change in nonadmitted assets		4,379,777	
Change in reserve on account of change in valuation basis	8,570,627		
Change in asset valuation reserve	526,977		
Cumulative effect of changes in accounting principles		474,514	
Change in surplus adjustments: Paid in	33,200,000		
Totals	$ 48,429,836	$ 26,262,653	
Net increase in capital and surplus			22,167,183
Capital and surplus, December 31, 2009, per Examination			$ 48,162,746

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Reserve for Life Contracts
(1) Aggregate Reserve for Accident and Health Contracts
(1) Liability for Deposit-Type Contracts
(1) Contract Claims - Life
(1) Contract Claims - Accident and Health

The California Department of Insurance (CDI), pursuant to California Insurance Code (CIC) Section 733(g), retained an independent actuary for the purpose of providing an actuarial evaluation of the Company's above captioned reserves. Based on the independent actuary's work performed and the review of their work by a Life Actuary from the CDI, the Company's December 31, 2009 reserves were determined to be reasonably stated and have been accepted for purposes of this examination.

The Company's life insurance reserves arise from reinsurance assumed from Auto Club Life Insurance Company (ACL Michigan) and AAA Life Insurance Company (AAA Life). For issues of 2004 and earlier, the Company reinsures 80% of the net retention of the writing companies for business produced by the Company's affiliated agencies. The coinsurance percentage rose to 90% for issues of 2005 and later. Traditional life and group life are reinsured on a coinsurance basis. The reinsurance of interest sensitive products issued by AAA was transferred from a modified coinsurance basis to a coinsurance basis in 2004. The Company assumes interest sensitive products written by ACL on a modified coinsurance basis.

Effective May 1, 2010, the Company amended the reinsurance agreement with ACL to reinsure both traditional insurance products and interest-sensitive products on co-insurance basis. The amendment did not require prior approval.

The Company's reported reserves as of December 31, 2009 were as follows:

Life Insurance	$ 85,293,092
Annuities	351,441,703
Accidental Death	35,051
Disability – Active Lives	283,208
Disability – Disabled Lives	47,088
Total	$437,100,142

The life reserves consist of the following:

Traditional Ordinary Assumed	$ 59,216,168
Universal Life Assumed	24,396,690
Group Assumed	2,045,581
Total	$ 85,658,439

The annuity reserves largely pertain to single premium deferred annuities assumed from AAA ($344,972,141). The reserve held amounts to 78.9% of the account value.

It was noted during the review that the certain X factors were changed in 2009 resulting a reserve decrease of approximately $8.6 million. Neither the actuarial opinion nor the X factor memorandum makes any mention of this change of assumption. It is recommended that the change of assumption should be disclosed in the actuarial opinion and discussed in the X memorandum.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Aggregate Reserves for Life Contracts (Page 13): It is recommended that the change of assumption should be disclosed in the actuarial opinion and discussed in the X memorandum.

Previous Report of Examination

Aggregate Reserve for Life Contracts (Page 12): It was recommended that the Company request that the affiliated direct writing company change its ceded reserve calculation to coincide with the direct reserve calculation. Based upon information received after the on-site examination was completed, the Company indicated that their new 2007 valuation system now has the ability to calculate the reserve credit correctly. This was implemented effective with financial statements beginning September 30, 2007.

It was noted during the review that the interest rate printed on the policyholder statements is sometimes incorrect, though the correct interest rate was being credited to the contract. The Company was aware of this problem and, subsequent to the on-site examination, has made the necessary system changes so that the correct interest rate is printed on policyholder statements.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees of the Automobile Club of Southern California and AAA Life Insurance Company during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Hilary C. Solomon, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California