

REPORT OF EXAMINATION  
OF THE  
CAREAMERICA LIFE INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2015

Filed on April 3, 2017

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San Francisco, California  
February 10, 2017

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 as of December 31, 2011. This examination covered the period from January 1, 2012 through December 31, 2015.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, 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 Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

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

## COMPANY HISTORY

### Capitalization

The Company is authorized to issue 14,000 shares of common stock at \$350 par value. As of December 31, 2015, there were 7,267 shares issued and outstanding.

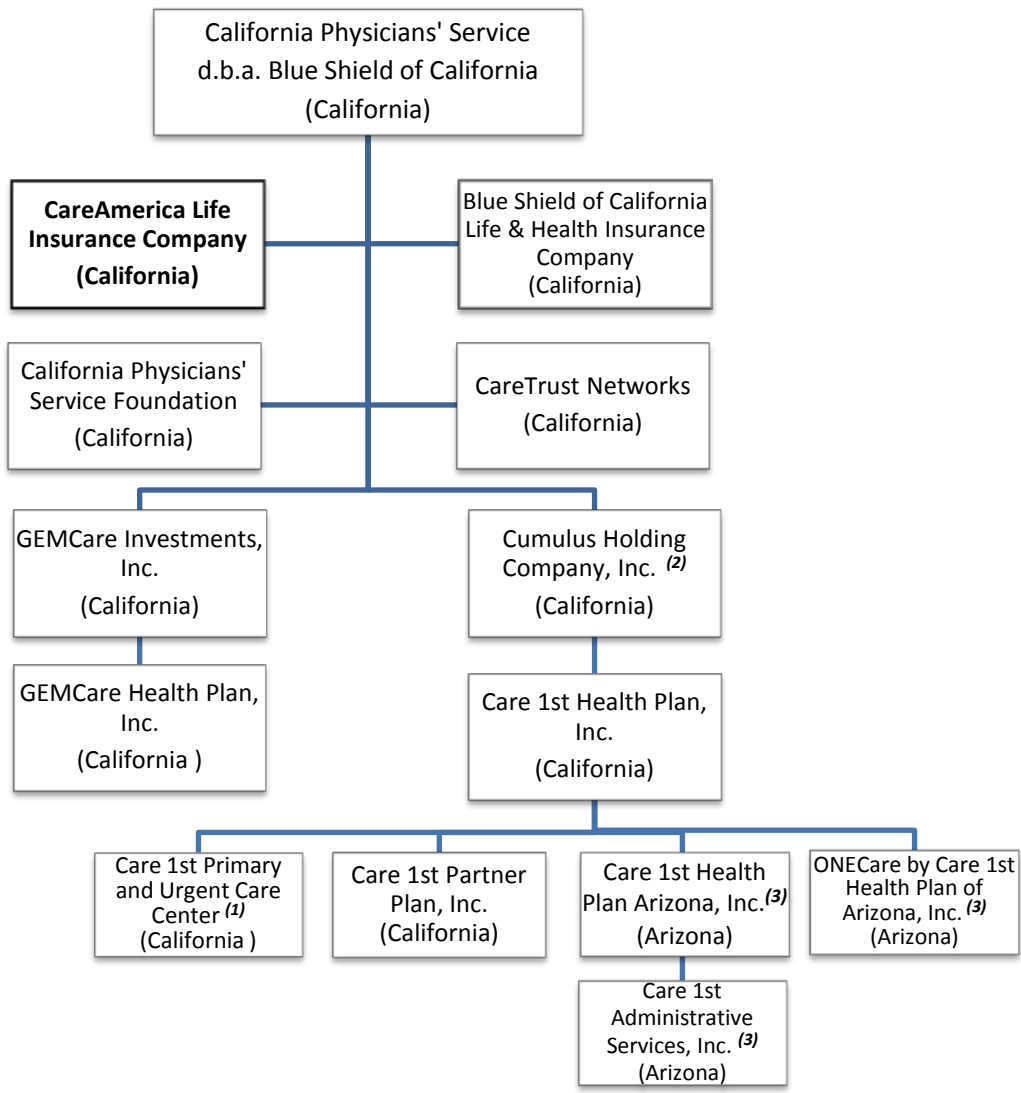
### Dividends

In July 2012, the Company paid an ordinary cash dividend to its parent, California Physicians' Service, d.b.a. Blue Shield of California (BSC), in the amount of \$2,300,000. The Company provided proper notification to the California Department of Insurance (CDI) on July 3, 2012.

In September 2013, the Company paid an ordinary cash dividend to its parent, BSC, in the amount of \$2,000,000. The Company provided proper notification to the CDI on August 13, 2013.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system, of which California Physicians' Service (d.b.a. Blue Shield of California) is the ultimate controlling entity. The following organizational chart depicts the relationships of the companies within the holding company system as of December 31, 2015 (all ownership is 100%):



- (1) Effective June 28, 2016, Care 1<sup>st</sup> Primary and Urgent Care Center was dissolved.
- (2) Effective August 19, 2016, Cumulus Holding Company, Inc changed its name to FullSpan Holding Company, Inc.
- (3) ONECare by Care 1<sup>st</sup> Health Plan of Arizona, Inc., Care 1<sup>st</sup> Health Plan Arizona, Inc., and Care 1<sup>st</sup> Administrative Services, Inc. were sold on December 31, 2016.

The Company is overseen by a one-member Board of Directors elected annually. A list of the Board member and principal officers serving as of December 31, 2015 is as follows:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Paul S. Markovich San Francisco, California	President and Chief Executive Officer California Physicians' Service

Principal Officers

<u>Name</u>	<u>Title</u>
Kenneth Wood*	President and Chief Executive Officer
Seth A. Jacobs, Esq.	Secretary
Michael Stuart	Controller
Emily R. Glidden	Treasurer
Andrea DeBerry	Assistant Secretary

*\*Effective May 3, 2016, Kenneth Wood resigned as the President and Chief Executive Officer, and was replaced by Jeffrey Smith on the same date.*

*Note: Effective February 23, 2016, Devin Gensch was elected as an additional Assistant Secretary.*

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 services, facilities, information systems, administrative and operational support on an

actual cost basis. This Agreement was approved by the California Department of Insurance (CDI) on December 29, 2004. This Agreement had been revised twice with each revision submitted to and approved by the CDI on December 21, 2005 and May 25, 2010. The total fees incurred by the Company for services under this Agreement were: \$1,032,272; \$607,725; \$545,743; and \$100,388 for 2012, 2013, 2014, and 2015, respectively.

Tax Allocation Agreement: Effective July 21, 2011, the Company entered into a Tax Allocation Agreement with BSC and its affiliates, Blue Shield of California Life & Health Insurance Company and CareTrust Networks, for the purpose of filing a consolidated federal income tax return. The Agreement provides for separate income tax return calculations with credit for net losses that can be used on a consolidated basis. The Agreement was filed with the CDI on May 11, 2011, and approved on August 14, 2012.

Effective July 31, 2014, GEMCare Investments, Inc. and GEMCare Health Plan, Inc. were added to the Tax Allocation Agreement. Effective January 1, 2016, as a result of additional acquisition, the following entities were also added as parties to the Agreement: (i) Cumulus Holding Company, Inc.; (ii) Care 1st Health Plan, Inc.; (iii) Care 1st Health Plan Arizona, Inc.; (iv) ONECare by Care 1st Health Plan of Arizona, Inc.; (v) Care 1st Administrative Services, Inc.; and (vi) Care 1st Primary and Urgent Care Center.

#### TERRITORY AND PLAN OF OPERATION

The Company is a California domiciled life and health insurance company with licenses in Arizona, Louisiana, Nevada, New Mexico, North Dakota, and Oregon. Previously, the Company's primary source of business was group life, and had active business in Arizona and California.

Effective November 5, 2013, the Company entered into a Rewrite Agreement with its affiliate, Blue Shield of California Life & Health Insurance Company (BSL) as part of the

Company's exit from the California group life market. The Company transferred its group life and accidental death and dismemberment business to BSL beginning April 2014 upon contract renewal through 2015. Pursuant to the Rewrite Agreement, policy coverage terminates on the due date of the premium upon 31 days advance written notice to the policyholders and participating employers. The Agreement allows BSL to offer new group life insurance coverage directly to the existing participating employers on a going forward basis. The Rewrite Agreement was approved by the California Department of Insurance (CDI) on July 24, 2013. As a result of its exit from the California group life market, the Company had only \$79,004 direct premiums from ordinary life written in Arizona during 2015.

Effective August 15, 2014, the Company withdrew its status as an accredited reinsurer in Connecticut.

#### REINSURANCE

##### Assumed

The Company has no assumed reinsurance.

##### Ceded

The Company did not cede any reinsurance during the examination period.

#### CORPORATE RECORDS

##### Insurance Holding Company System Annual Registration Statement

Effective January 1, 2013, statements that the Board of Directors is responsible for overseeing corporate governance and internal controls and that the insurer's officers or senior management have approved, implemented, and continue to maintain and



monitor corporate governance and internal control procedures are required to be included in the Insurance Holding Company System Annual Registration Statement (Form B) filed with the California Department of Insurance (CDI) pursuant to California Insurance Code (CIC) Section 1215.4(b)(6). It was noted that the Form B filings on April 22, 2013; April 15, 2014; April 1, 2015; and April 12, 2016 did not include the required statements. It is recommended that the Company include the required statements in its future Form B filings in accordance with CIC Section 1215.4(b)(6).

### Annual Statement Instructions

Pursuant to the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions, the Appointed Actuary must report to the Company's Board of Directors or the Audit Committee each year on the items within the scope of the Actuarial Opinion and the minutes of the Board of Directors shall indicate as such. During the course of the examination, it was noted that the Appointed Actuary did not report to the Board of Directors or the Audit Committee those items within the scope of the Actuarial Opinion, nor was there indication in the Board minutes that such report by the Appointed Actuary was made. It is recommended that the Company implement procedures to ensure future compliance with the NAIC Annual Statement Instructions.

## FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2015. The accompanying comments to the amounts reported in the annual statements should be considered as an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2015

Summary of Operations and Capital and Surplus Account for the Year Ended  
December 31, 2015

Reconciliation of Capital and Surplus from December 31, 2011 through  
December 31, 2015

Statement of Financial Condition  
as of December 31, 2015

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 26,545,849	\$	\$ 26,545,849	
Cash and short-term investments	1,623,767		1,623,767	
Receivable for securities	17,809		17,809	
Investment income due and accrued	84,350		84,350	
Uncollected premiums and agents' balances				
In the course of collection	6,137		6,137	
Current federal and foreign income tax recoverable and interest thereon	363,786		363,786	
Aggregate write-ins for other than invested assets	<u>31,804</u>	<u>                    </u>	<u>31,804</u>	
 Total assets	 <u>\$ 28,673,504</u>	 <u>\$</u>	 <u>\$ 28,673,504</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for life contracts			\$ 51,655	(1)
Contract claims: Life			1,252,754	(1)
Contract claims: Accident and health			111,163	(1)
Interest maintenance reserve			483,054	
Commission to agents due and accrued			1,534	
General expenses due and accrued			41,200	
Taxes, licenses and fees due and accrued			36,928	
Net deferred tax liability			911,705	
Asset valuation reserve			63,355	
Payable to parent, subsidiaries and affiliates			24,985	
Aggregate write-ins for liabilities			<u>1,607</u>	
 Total liabilities			 2,979,941	
Common capital stock		\$ 2,543,450		
Gross paid-in and contributed surplus		2,987,900		
Unassigned funds (surplus)		<u>20,162,213</u>		
 Capital and surplus			 <u>25,693,563</u>	
 Total liabilities, surplus and other funds			 <u>\$ 28,673,504</u>	

Summary of Operations and Capital and Surplus Account  
for the Year Ended December 31, 2015

Summary of Operations

Premiums and annuity considerations	\$ 69,666
Net investment income earned	479,192
Amortization of interest maintenance reserve	<u>166,732</u>
 Total	 <u>715,590</u>
 Death benefits	 880,900
Disability benefits and benefits under accident and health contracts	76,913
Increase in aggregate reserves for life and accident and health contracts	(16,755)
Commissions on premiums, annuity considerations and deposit-type contract funds	16,615
General insurance expenses	113,543
Insurance taxes, licenses and fees, excluding federal income taxes	<u>55,837</u>
 Total	 <u>1,127,053</u>
 Net loss from operations before federal income taxes	 (411,463)
Federal and foreign income taxes incurred	<u>182,982</u>
 Net loss from operations after federal income taxes	 (228,481)
Net realized capital losses	<u>(5,930)</u>
 Net loss	 <u>\$ (234,411)</u>

Capital and Surplus Account

Capital and surplus, December 31, 2014	\$ 25,857,254
Net loss	\$ (234,411)
Change in net unrealized capital losses	(47)
Change in net deferred income tax	24,285
Change in nonadmitted assets	33,023
Change in asset valuation reserve	<u>13,459</u>
 Net change in capital and surplus for the year	 <u>(163,691)</u>
 Capital and surplus, December 31, 2015	 <u>\$ 25,693,563</u>

Reconciliation of Capital and Surplus  
from December 31, 2011 through December 31, 2015

Capital and surplus, December 31, 2011 per examination			\$ 24,138,172
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 6,851,032	\$	
Change in net unrealized capital gains		47	
Change in net deferred income tax		1,344,520	
Change in nonadmitted assets	251,060		
Change in asset valuation reserve		23,923	
Cumulative effect of changes in accounting principles	121,788		
Dividends to Stockholders		<u>4,300,000</u>	
Total gains and losses	<u>\$ 7,223,880</u>	<u>\$ 5,668,490</u>	
Net increase in capital and surplus			<u>1,555,390</u>
Capital and surplus, December 31, 2015 per examination			<u>\$ 25,693,562</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

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

A life actuary from the California Department of Insurance performed an actuarial evaluation of the Company's reserves as of December 31, 2015. Based on the evaluation, the Company's reserves were found to be reasonably stated and have been accepted for purposes of this examination.

### SUBSEQUENT EVENTS

On May 2, 2016, the Company declared a \$17,000,000 extraordinary dividend payable to its parent, Blue Shield of California. The distribution was subsequently made on June 30, 2016. The California Department of Insurance approved this extraordinary dividend on June 24, 2016.

### SUMMARY OF COMMENTS AND RECOMMENDATIONS

#### Current Report of Examination

Corporate Records - Insurance Holding Company System Annual Registration Statement (page 6): It is recommended that the Company include the required statements in its future Insurance Holding Company System Annual Registration Statement filings in accordance with California Insurance Code Section 1215.4(b)(6).

Corporate Records - Annual Statement Instructions (page 7): It is recommended that the Company implement procedures to ensure future compliance with the National Association of Insurance Commissioners Annual Statement Instructions in regard to the presentation by the Appointed Actuary to the Board of Directors or the Audit Committee.

### Previous Report of Examination

Reinsurance (Page 5): It was 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 issue is no longer applicable since the Company does not have ceded reinsurance.

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,

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Mei Gu, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California

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Kyo Chu, CFE  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
State of California