

REPORT OF EXAMINATION
OF THE
CAREAMERICA LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2020

Filed on January 7, 2022

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Sacramento, California
December 10, 2021

Honorable Ricardo Lara
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). The Company's home office is located at 601 12th Street, Oakland, California 94607.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2015. This examination covered the period of January 1, 2016 through December 31, 2020.

This 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. The examination also included identifying and evaluating significant risks that could cause the Company'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 includes 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 an adjustment was identified during the course of the

examination, the impact of such adjustment would 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

Dividends

In June 2016, the Company paid an extraordinary dividend to California Physicians' Service d.b.a Blue Shield of California (BSC) in the amount of \$17 million. The California Department of Insurance approved this transaction in June 2016.

Capitalization

The Company is authorized to issue 14,000 shares of common stock with a par value of \$350 per share. As of December 31, 2020, there were 7,267 shares issued and outstanding.

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 (BSC) is the ultimate controlling entity. The following organizational chart depicts the relationships of the companies within the holding company system as of December 31, 2020 (all ownership is 100%):

California Physicians' Service d.b.a. Blue Shield of California (California)
 Blue Shield of California Life & Health Insurance Company (California)
CareAmerica Life Insurance Company (California)
 Altais (California)
 Altais Clinical Service
 California Physicians' Service Foundation (California)
 FullSpan Holding Company, Inc. (California)
 Blue Shield of California Promise (California)

The Company is overseen by a one-member Board of Director, elected annually. The Board member and principal officers serving as of December 31, 2020 is as follows:

Board of 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>
Patrice Bergman	President and Chief Executive Officer
Mike Stuart	Vice President
Seth Jacobs, Esq. ⁽¹⁾	Secretary
Emily R. Glidden	Treasurer
Michael Gebhart ⁽²⁾	Controller
Timothy D. Gustafson ⁽³⁾	Actuary
Craig Laidig	Assistant Secretary
Devin Gensch	Assistant Secretary

⁽¹⁾Effective August 1, 2021, Seth Jacobs, Esq. retired as the Secretary, and was replaced by Hope Scott effective August 2, 2021.

⁽²⁾Effective April 2, 2021, Michael Gebhart resigned as Controller, and was replaced by Michelle Mortensen effective April 3, 2021.

⁽³⁾Timothy D. Gustafson was replaced by Ian Lebbly effective October 26, 2021.

Management Agreements

Effective January 1, 2005, the Company entered into Administrative Services Agreement (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 operations 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 \$152,236, \$37,438, (\$24,378), (\$112,154), (\$249) for 2016, 2017, 2018, 2019, and 2020, 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.

Amended and Restated Tax Sharing Agreement: Effective December 31, 2019, the Company entered into an Amended and Restated Tax Sharing Agreement with BSC and its affiliates, Blue Shield of California Life & Health Insurance Company, FullSpan Holding Company, Inc., Blue Shield of California Promise Health Plan, and Altais, for the purpose of filing a consolidated federal income tax return. It was noted that the Company failed to file the Amended and Restated Tax Sharing Agreement with CDI for prior approval pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). It is recommended that the Company file the Agreement with CDI for prior approval as required by CIC Section 1215.5(b)(4). It was also noted that the Agreement was not disclosed in the Company's 2020 Form B filing pursuant to CIC Section 1215.4(b)(3)(H). It is recommended that the Company disclose the Agreement as required by CIC Section 1215.4(b)(3)(H).

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.

The Company is in runoff. The Company's only remaining source of business is the coverage of individual term life insurance policies. Historically, the Company's primary

source of business was the underwriting of group life insurance policies. On April 30, 2014, the Company entered into an agreement (the "Rewrite Agreement") with the Blue Shield of California Life & Health Insurance Company (BSL) to transfer its group life and accidental death and dismemberment insurance business to BSL beginning in April 2014 upon contract renewal through 2015. Currently, the Company has active business in Arizona and California, but the Company does not actively market the business. The premium written in 2020 amounted to \$37,750.

REINSURANCE

Assumed

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

Ceded

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

CORPORATE RECORDS

An Annual Information Statement is required to be filed by the Company annually in order to establish the Company's continuing qualification to hold a California Certification of Authority. The Company is responsible for providing updated information in the Annual Information Statement filed with the California Department of Insurance (CDI). It was noted that the Company amended and restated its Bylaws effective May 26, 2016. However, such information was not reflected in the Annual Information Statements filed with the CDI from 2017 to 2020. It is recommended that the Company provide updated and accurate information in the Annual Information Statement filings.

FINANCIAL STATEMENTS

The following 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, 2020. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements reported by the Company.

Statement of Financial Condition as of December 31, 2020

Summary of Operations and Capital and Surplus Account for the Year Ended
December 31, 2020

Reconciliation of Capital and Surplus from December 31, 2014 through
December 31, 2020

Statement of Financial Condition
as of December 31, 2020

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 10,254,318	\$	\$ 10,254,318	
Cash and cash equivalents	924,325		924,325	
Receivables for securities	1,208		1,208	
Investment income due and accrued	47,246		47,246	
	<hr/>		<hr/>	
Total assets	\$ 11,227,097	\$	\$ 11,227,097	

Liabilities, Surplus, and Other Funds

				<u>Notes</u>
Aggregate reserve for life contracts			\$ 29,124	(1)
Contract Claims: Life			37,321	(1)
Premiums and annuity considerations for life and accident and health contracts received in advance less discount; including accident and health premiums			43	
Interest Maintenance Reserve			139,114	
Commissions to agents due or accrued			1,500	
General expenses due or accrued			9,055	
Taxes, licenses and fees due or accrued, excluding federal income taxes			2,093	
Current federal and foreign income taxes			46,883	
Net deferred tax liability			408,462	
Asset valuation reserve			37,598	
Payable to parent, subsidiaries and affiliates			44,364	
			<hr/>	
Total liabilities			755,558	
Common capital stock		2,543,450		
Gross paid-in and contributed surplus		2,987,900		
Unassigned funds (surplus)		4,940,190		
			<hr/>	
Total surplus			\$ 10,471,540	
			<hr/>	
Total liabilities, surplus, and other funds			\$ 11,227,097	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2020

Underwriting Income

Premiums and annuity considerations	\$	37,750
Net investment income		257,163
Amortization of Interest Maintenance Reserve		<u>49,468</u>
Totals		344,381

Deductions:

Death benefits	\$	752
Increase in aggregate reserves for life and accident and health contracts		185
General insurance expenses and fraternal expenses		24,148
Insurance taxes, licenses and fees, excluding federal income taxes		<u>50,456</u>
Totals		<u><u>75,541</u></u>

Net gain from operations after dividends to policyholders, refund to members and federal income taxes	268,840
Federal and foreign income taxes incurred	89,766
Net realized capital loss	(19,391)
Net income	<u><u>\$ 159,683</u></u>

Capital and Surplus Account

Capital and surplus, December 31, 2019	\$	10,263,167
Net income	\$	159,683
Change in net deferred income tax		47,754
Change in asset valuation reserve		<u>936</u>
Net change in capital and surplus for the year		<u>208,373</u>
Capital and surplus, December 31, 2020	<u><u>\$</u></u>	<u>10,471,540</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2015 through December 31, 2020

Surplus as regards policyholders, December 31, 2015			\$ 25,693,563	<u>Notes</u>
	Gain in Surplus	Loss in Surplus		
Net income	\$ 1,597,683	\$		
Change in net unrealized capital gains	154,536			
Change in asset valuation reserve	25,757			
Dividends to stockholders		17,000,000		
Total gains and losses	<u>\$ 1,777,976</u>	<u>\$ 17,000,000</u>		
Net decrease			<u>17,000,000</u>	
Capital and surplus, December 31, 2020			<u>\$ 10,471,540</u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Reserve for Life Contracts Contract Claims: Life

Pursuant to California Insurance Code Section 733(g), California Department of Insurance actuary performed an actuarial review of the aggregate reserves for the above liability accounts. Based on the review, the Company's reserves as of December 31, 2020 were found to be reasonably stated and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared the outbreak of SAR-CoV-2, named the coronavirus 2019 (COVID-19), a pandemic. The COVID-19 pandemic continues to evolve, and the virus and efforts to prevent its spread have continued to have a global impact. The Company has proactively taken actions to minimize these effects and will continue to monitor the COVID-19 pandemic, as well as resulting legislative and regulatory changes that may impact the business.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements – (page 3): It is recommended that the Company file the Amended and Restated Tax Sharing Agreement with the California Department of Insurance for prior approval as required by California Insurance Code (CIC) Section 1215.5(b)(4). It is also recommended that the Company disclose the Amended and Restated Tax Sharing Agreement as required by CIC Section 1215.4(b)(3)(H).

Corporate Records – (page 7): It is recommended that the Company provide updated and accurate information in the Annual Information Statement filings. This is a repeat finding.

Previous Report of Examination

Corporate Records - Insurance Holding Company System Annual Registration Statement (page 8): It was recommended that the Company include the required statements in its future Insurance Holding Company System Annual Registration Statement filings in accordance with CIC Section 1215.4(b)(6). The Company is now in compliance.

Corporate Records – Annual Statement Instructions (page 8): It was 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. The Company is not in compliance.

ACKNOWLEDGMENT

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

Respectfully submitted,

_____/S/_____

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

_____/S/_____

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