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

Filed June 21, 2013

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Los Angeles, California
May 16, 2013

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

SAFEHEALTH LIFE INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 18210 Crane Nest Drive, 3rd Floor, Tampa, Florida 33647. The Company's statutory office and main administrative office is located at 95 Enterprise, Suite 200, Aliso Viejo, California 92656.

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, 2006. This examination covers the period from January 1, 2007 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.

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; pension, stock ownership and insurance plans; accounts and records; growth of company; loss experience; and statutory deposits.

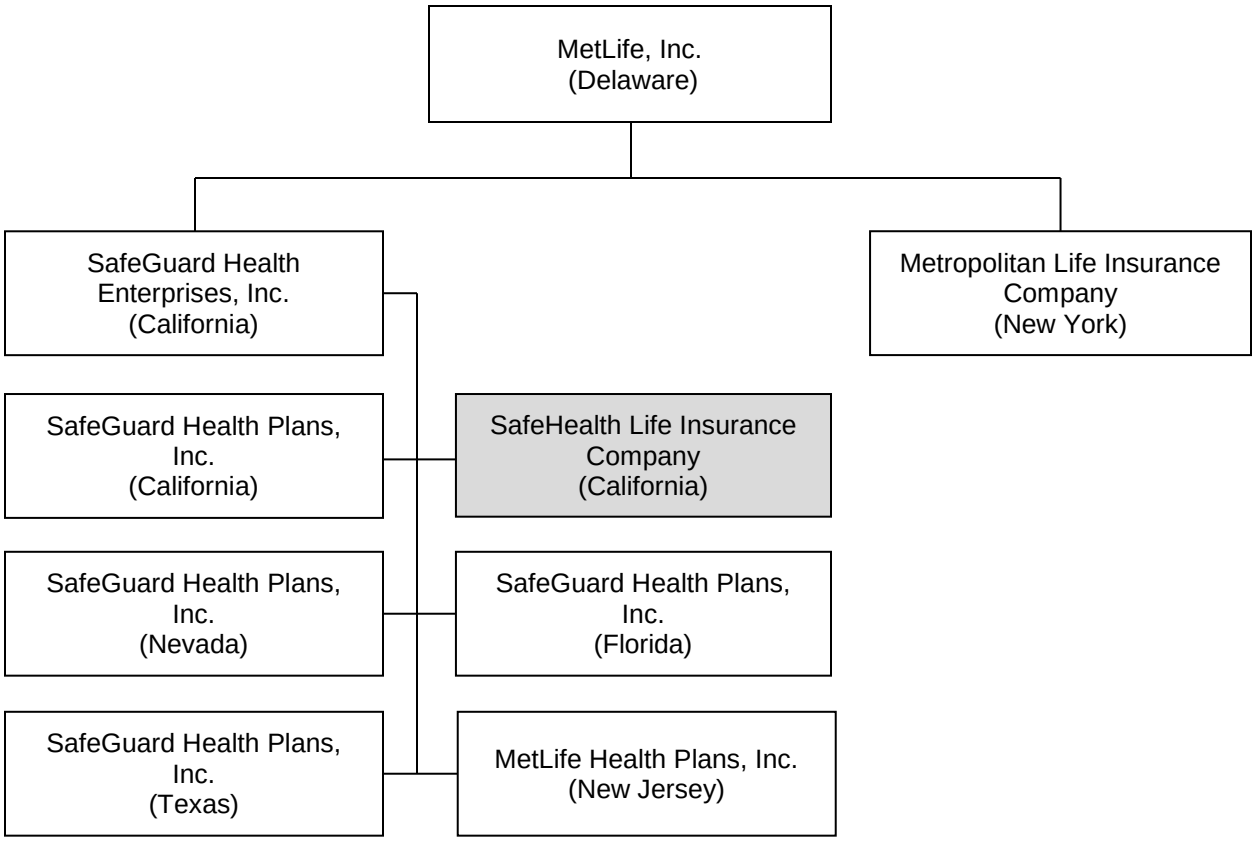
COMPANY HISTORY

The Company is a wholly-owned subsidiary of SafeGuard Health Enterprises, Inc. (Enterprises), a Delaware corporation. On February 1, 2008, Soap Acquisition Corporation (Soap), a wholly-owned subsidiary of MetLife, Inc. (MetLife), a Delaware corporation, acquired Enterprises. Soap was then merged with and into Enterprises, with Enterprises, the surviving entity, becoming a wholly-owned subsidiary of MetLife.

The Company paid an extraordinary cash dividend of $2.99 million and $10 million to Enterprises in 2007 and 2009, respectively. In 2008, Enterprises made a cash capital contribution of $5 million to the Company. In 2011, the Company returned the $5 million cash capital contribution to Enterprises. The California Department of Insurance approved the aforementioned dividend and return of capital transactions.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. The following abridged chart is limited to the entities the Company had interrelationships with during the examination period within the holding company system (all ownership is 100%):



The three members of the board of directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2011:

Directors

Name and Residence	Principal Business Affiliation
Todd B. Katz Montebello, New York	Director SafeGuard Health Plans, Inc.
Robert C. Love(*) Warren, New Jersey	Director SafeGuard Health Plans, Inc.
Michael H. Schwartz New Providence, New Jersey	Director and President SafeGuard Health Plans, Inc.

(*) Resigned effective May 30, 2012 and was replaced by Frank Cassandra.

Principal Officers

Name	Title
Michael H. Schwartz	President
Paul E. Piechnik	Chief Financial Officer
Ronald I. Brendzel	Senior Vice President and General Counsel
William D. Cammarata[(a)]	Senior Vice President
Dennis L. Gates	Senior Vice President
Andy Laderman(b)	Senior Vice President

[(a)] Resigned effective October 8, 2012.
[(b)] Resigned effective August 17, 2012.

Management Agreements

Services Agreement: Effective January 1, 2009, the Company, SafeGuard Health Enterprises, Inc. (Enterprises), and Enterprises' other subsidiaries are parties to a Services Agreement. Under the terms of this agreement, Enterprises and Enterprises' other subsidiaries agree to provide administrative services that support all business activities of the Company. Enterprises charges the Company service fees at cost. The service fees paid by the Company totaled $4,127,718; $4,015,385; and $4,362,594 for 2009, 2010, and 2011, respectively. The agreement was approved by the California Department of Insurance (CDI) on June 12, 2009.

Tax Sharing Agreement: The Company, Enterprises, MetLife Inc. (MetLife), and certain other affiliates are parties to an Agreement to Apportion Consolidated Federal Income Tax Liability and Benefits of Consolidated Returns (Tax Agreement) as amended January 1, 2009. Under the terms of the Tax Agreement, the allocation of taxes is based upon separate tax return calculations with all settlements of inter-company tax balances made within 30 days after the filing of the consolidated federal income tax return. In 2009, the Company paid MetLife $1,112,962 in connection with the Tax Agreement. The Company received $141,486 and $128,057 of federal income tax benefit from MetLife for 2010 and 2011, respectively. The agreement was approved by the CDI on November 18, 2009.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company was licensed to transact life and accident and health insurance in the following 20 states:

Arizona	Kansas	Ohio
California	Kentucky	Oregon
Colorado	Maryland	South Carolina
Delaware	Missouri	Texas
Florida	Nevada	Utah
Georgia	New Mexico	Wisconsin
Illinois	Pennsylvania	

The Company primarily offers managed indemnity and preferred provider organization dental and vision products. Its main markets are small and mid-sized employer organizations, governmental entities, multiple employer trusts and to a lesser extent, large corporate employers.

In 2011, the Company wrote $10.86 million of direct premiums. Of the direct premiums written, 63.17% or $6.86 million was written in California, 30.20% or $3.28 million in Texas, 5.80% or $0.63 million in Florida, and 0.83% or $0.09 million in the remaining states.

During the examination period, the direct premiums written decreased from $83.3 million in 2007 to $10.9 million in 2011. The significant decrease was primarily due to the transfer of the Company's dental business to Metropolitan Life Insurance Company (MLIC), a wholly-owned subsidiary of MetLife, Inc. (MetLife). On February 1, 2008, MetLife indirectly acquired SafeGuard Health Enterprises, Inc. and its subsidiaries including the Company. Subsequent to the acquisition, MetLife began converting dental insurance policies previously underwritten by the Company to the dental insurance policies underwritten by MLIC. The Company is no longer writing new dental insurance policies. However, the Company continues to write new and renewal vision insurance policies.

REINSURANCE

Assumed

The Company does not assume any insurance.

Ceded

The Company does not cede any reinsurance.

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, 2006 through December 31, 2011

Statement of Financial Condition
as of December 31, 2011

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 7,778,986	$	$ 7,778,986	
Cash and short-term investments	3,023,037		3,023,037	
Investment income due and accrued	112,774		112,774	
Premiums and agents' balances in course of collection	414,721	743	413,978	
Net deferred tax asset	1,468,060	1,062,651	405,409	
Guaranty funds receivable or on deposit	13,490		13,490	
Receivables from parent, subsidiaries and affiliates	255,761	941	254,820	
Aggregate write-ins for other than invested assets	722,039	722,039		
Total assets	$ 13,788,868	$ 1,786,374	$ 12,002,494	
Liabilities, Capital and Surplus				
Claims unpaid			$ 834,928	(1)
Unpaid claims adjustment expenses			41,746	(1)
Aggregate health policy reserves			860,000	(1)
Premiums received in advance			3,288	
General expenses due or accrued			743,508	
Current federal and foreign income tax payable and interest thereon			4,229	
Amounts due to parent, subsidiaries and affiliates			432,070	
Aggregate write-ins for other liabilities			264,603	
Total liabilities			3,184,372	
Aggregate write-ins for special surplus funds		$ 110,057		
Common capital stock		2,875,000		
Gross paid-in and contributed surplus		12,170,013		
Unassigned funds (surplus)		(6,336,948)		
Surplus as regards policyholders			8,818,122	
Total liabilities, capital and surplus			$ 12,002,494	

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

Statement of Revenue and Expenses

Underwriting Income		
Net premium income	$ 10,868,325	
Change in unearned premium reserves and reserve for rate credits	17,911	
Aggregate write-ins for other health care related revenues	43,324	
Total revenues		$ 10,929,560
Deductions:		
Other professional services	$ 6,427,382	
Claims adjustment expense	381,440	
General administrative expenses	5,075,813	
Increase in reserves for life and accident and health contracts	860,000	
Total underwriting deductions		12,744,635
Net underwriting loss		(1,815,075)
Investment Income		
Net investment income earned	$ 293,668	
Net realized capital gains	32,426	
Net investment gain		326,094
Aggregate write-ins for other income		27,471
Net loss		$ (1,461,510)

Capital and Surplus Account

Capital and surplus, December 31, 2010		$ 14,856,901
Net loss	$ (1,461,510)	
Change in net deferred income tax	622,221	
Change in nonadmitted assets	(233,955)	
Surplus adjustments:		
Paid-in	(5,000,000)	
Aggregate write-ins for losses in surplus	34,465	
Change in surplus as regards policyholders for the year		(6,038,779)
Capital and surplus, December 31, 2011		$ 8,818,122

Reconciliation of Capital and Surplus
from December 31, 2006 through December 31, 2011

Capital and surplus, December 31, 2006 per Examination			$ 15,302,919
	Gain in Surplus	Loss in Surplus	
Net income	$ 2,440,789	$	
Change in net deferred income tax	1,036,937		
Change in nonadmitted assets	3,163,413		
Change in asset evaluation reserve	12,601		
Dividends to stockholders		12,990,000	
Aggregate write-ins for losses in surplus		148,537	
Total gains and losses	$ 6,653,740	$ 13,138,537	
Net decrease in surplus as regards policyholders			(6,484,797)
Capital and surplus, December 31, 2011 per Examination			$ 8,818,122

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Claims Unpaid
Unpaid Claims Adjustment Expenses
Health Policy Reserves

A life and health actuary from the California Department of Insurance performed actuarial analysis of the Company's Claim Unpaid, Unpaid Claims Adjustment Expenses, and Health Policy reserves. Based on the analysis, the Company's reserves as of December 31, 2011 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Management and Control – Management Agreements (Page 4): It was recommended that the Company submit all unapproved affiliated agreements to the California Department of Insurance (CDI) for approval pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). The Company has complied with this recommendation.

Corporate Records (Page 6): It was recommended that the Company implement procedures to ensure future compliance with CIC Sections 735. It was also recommended that the Company implement procedures to ensure that the authorization and approval of investments is documented in its board minutes to comply with CIC Sections 1200 and 1201. The Company has complied with this recommendation.

Reinsurance – Assumed (Page 8): It was recommended that the Company fully disclose any reinsurance agreements and transactions in effect. The Company has complied with this recommendation.

Accounts and Records (Page 9): It was recommended that the Company implement controls to detect errors and properly review its statutory financial statements before they are submitted to the CDI. The Company has complied with this recommendation.

Cash (Page 14): It was recommended that the Company establish and implement written escheat procedures, transfer stale checks to an escheatable account, and escheat unclaimed property to the State of California Controller's Office as required by the California Unclaimed Property Act. The Company has complied with this recommendation.

Receivable from Parent, Subsidiaries and Affiliates (Page 14): It was recommended that the Company comply with CIC Section 1215.5(b)(1)(B) and timely settle intercompany balances. The Company has complied with this recommendation.

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/_____
Tony L. Tran, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California