

Report of Examination of

Consumers Life Insurance Company
Cleveland, Ohio

As of December 31, 2009

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Cleveland, Ohio
December 17, 2010

Honorable Alfred W. Gross
Commissioner
Chairman, Financial Condition (E) Committee
National Association of Insurance Commissioners
Division of Insurance
State of Virginia
1300 East Main Street
Richmond, Virginia 23219

Honorable Mary Jo Hudson
Director
Secretary, Midwestern Zone
National Association of Insurance Commissioners
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam and Sir:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Consumers Life Insurance Company

an Ohio domiciled, stock, life and accident and health insurance company, hereinafter referred to as the (“Company.”) The examination was conducted at the Company’s home office, located at 2060 East Ninth Street, Cleveland, Ohio.

A report of this examination is hereby respectfully submitted.

Scope of Examination

The Department last examined the Company as of December 31, 2004. The current full scope examination covers the intervening period to and including December 31, 2009.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For each year during the period under examination, the Certified Public Accounting firm of Ernst & Young LLP (“E&Y”) provided an unqualified opinion based on statutory accounting principles. Relevant work performed by E&Y during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

The Department’s actuary was retained to review the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves for life contracts, and to comment on any other statutory matters relating to reserves.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

<u>Name</u>	<u>Principal Occupation</u>
Richard A. Chiricosta	President and Chief Executive Officer Medical Mutual of Ohio
Dennis P. Jancsy	Executive Vice President and Chief Financial Officer Medical Mutual of Ohio

Patrick J. Dugan	Executive Vice President and Chief Legal Officer Medical Mutual of Ohio
Steffany K. Matticola	Vice President, Individual and Small Group Sales and Chief Underwriter Medical Mutual of Ohio
Errol D. Brick	Executive Vice President and Chief Marketing Officer Medical Mutual of Ohio

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

<u>Name</u>	<u>Title</u>
Richard A. Chiricosta	President
Dennis P. Jancsy	Treasurer
Patrick J. Dugan	Secretary

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The following shows a chain of ownership of the insurance companies as of December 31, 2009:

Medical Mutual of Ohio (Ohio)
 Medical Health Insuring Corporation of Ohio (Ohio)
 MMO Agency Management, LLC (Ohio)
 Business Distribution Solution, LLC (Ohio), (52%)
 Talus Brokerage Services, LLC (Ohio), (76%)
 North Bay Insurance Agency, LLC (Ohio)
 Cardinal Brokerage Insurance Agency, LLC (Ohio)
 Celaris Cardinal Insurance Agency, LLC (Ohio)
 Celaris ESP Insurance Agency, LLC (Ohio)
 Employers Select Plan Agency, LLC (Ohio)
 Medical Mutual Life Insurance Agency, Inc. (Ohio)
 Carolina Care Plan, Inc. (South Carolina)
 Consumers Life Insurance Company (Ohio)

Medical Mutual Services, LLC (Ohio)
 Antares Staffing, Inc. (Ohio)
 Antares Staffing West, Inc. (Ohio)
 SuperNet Network, LLC (Ohio)
 Premier Health Systems, Inc. (South Carolina)
 MMO Partners, LLC (Ohio), (50%)
 Antares Staffing East, Inc. (Ohio)
 1st Medical Network, LLC (Georgia)
 Antares Canada, Inc. (Ohio)
 SaveWell.com, Inc. (Delaware), (81%)

Territory and Plan of Operations

The Company was licensed to transact business in the District of Columbia and the following states:

Arizona	Arkansas	Colorado	Delaware
Florida	Georgia	Illinois	Indiana
Iowa	Kansas	Kentucky	Louisiana
Maryland	Michigan	Minnesota	Mississippi
Missouri	Montana	Nebraska	Nevada
New Jersey	New Mexico	North Dakota	Ohio
Oklahoma	Oregon	Pennsylvania	South Carolina
South Dakota	Texas	Utah	Virginia
West Virginia	Wisconsin	Wyoming	

Percentage of Business by Line (based on net premium income)

<u>Description</u>	<u>2009</u>
Accident and health - Group	70.5%
Group - Life insurance	20.5%
Accident and health – Other	8.9%
Ordinary life insurance	<u>0.1%</u>
Total	100.0%

Reinsurance

Certain premiums and benefits are ceded to other insurance companies under various reinsurance agreements.

The Company cedes 80% of its total health business to its parent, Medical Mutual of Ohio, pursuant to a quota share reinsurance treaty.

Effective January 1, 2008, the Company entered into a reinsurance agreement to cede life claims incurred in excess of \$200,000 on any individual life. The Company also entered into reinsurance agreements to cede 100% of the risk for all long-term disability and accidental death and dismemberment claims.

All contracts contained an insolvency clause, errors and omission clause and an arbitration clause, which meet the guidelines prescribed by the NAIC.

Financial Statements

The financial condition and the results of its operations for the five year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Summary of Operations
Statement of Changes in the Capital and Surplus Account

**Statement of Assets
December 31, 2009**

Admitted Assets

Bonds	\$ 18,009,383
Cash and short term investments	<u>4,658,333</u>
Total cash and invested assets	22,667,716
Investment income due and accrued	238,918
Uncollected premiums and agents' balances in the course of collection	463,214
Amounts recoverable from reinsurers	5,901,059
Amounts receivable relating to uninsured plans	2,321
Guaranty funds receivable or on deposit	675,684
Health care and other amounts receivable	180,724
Aggregate write-ins for other than invested assets:	
State tax recoverable	<u>918,389</u>
Total assets	<u>\$ 31,048,025</u>

**Statement of Liabilities, Surplus and Other Funds
December 31, 2009**

Liabilities

Aggregate reserve for life contracts	\$ 44,005
Aggregate reserve for accident and health contracts	2,601,000
Life contract claims	2,796,700
Accident and health contract claims	341,000
Premium and annuity considerations for life and accident and health contracts received in advance	2,782,456
Other amounts payable on reinsurance	4,354,274
Interest maintenance reserve	62,857
Commissions to agents due or accrued-life and annuity contracts	952,927
General expenses due or accrued	337,537
Taxes, licenses and fees due or accrued, excluding federal income taxes	1,267,608
Amounts withheld or retained by company as agent or trustee	14,043
Remittances and items not allocated	8,534
Asset valuation reserve	5,902
Payable to parent, subsidiaries and affiliates	<u>576,453</u>
Total liabilities	<u>16,145,296</u>

Capital and Surplus

Common capital stock	1,600,000
Gross paid-in and contributed surplus	25,925,250
Unassigned funds	<u>(12,622,521)</u>
Total capital and surplus	<u>14,902,729</u>
Total liabilities, capital and surplus	<u>\$ 31,048,025</u>

Summary of Operations
As of December 31, 2009

Premium and annuity considerations for life and accident and health contracts	\$ 42,291,493
Net investment income	472,465
Amortization of interest maintenance reserve	16,425
Aggregate write-in for miscellaneous income:	
Other expense, net of other income	<u>(102,984)</u>
Totals	<u>42,677,399</u>
Death benefits	5,785,523
Disability benefits and benefits under accident and health contracts	15,186,412
Increase in aggregate reserves for life and accident and health contracts	<u>(1,290,270)</u>
Totals	19,681,665
Commissions on premiums, annuity considerations, and deposit-type contract funds	10,069,247
General insurance expenses	13,518,593
Insurance taxes, licenses, and fees, excluding federal income taxes	<u>1,584,683</u>
Totals	<u>44,854,188</u>
Net gain from operations before dividends to policyholders and federal income taxes	(2,176,789)
Federal income taxes incurred	=
Net income or (loss)	<u>\$ (2,176,789)</u>

Statement of Changes in the Capital and Surplus Account
(In thousands)

<u>Capital and Surplus</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital & surplus, prior year end	\$ 17,104	\$ 17,065	\$ 8,029	\$ 8,322	\$ 9,260
Net income (loss)	(2,177)	(4,646)	(2,867)	(263)	(806)
Change in net deferred income tax	(5,487)	3,154	(627)	456	352
Change in non-admitted assets	5,469	(3,469)	530	(486)	(484)
Change in asset valuation reserve	(6)	-	-	-	-
Surplus adjustment: Paid in	-	5,000	12,000	-	-
Net change in capital and surplus	<u>(2,201)</u>	<u>39</u>	<u>9,036</u>	<u>(293)</u>	<u>(938)</u>
Capital and surplus, current year end	<u>\$ 14,903</u>	<u>\$ 17,104</u>	<u>\$ 17,065</u>	<u>\$ 8,029</u>	<u>\$ 8,322</u>

Notes to Financial Statements

Investments

The Company's investment portfolio consists primarily of investment grade bonds and is in compliance with Section 3907.14 of the ORC. The investments were valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Aggregate reserves for life and accident and health contracts

The Company had an outside actuary, John C. Lloyd, FSA, MAAA, certify the aggregate reserves for life and accident and health contracts for the years covered by the examination. The Department's actuaries, Peter A. Weber, ASA, MAAA, and Mary Miller, FCAS, MAAA, reviewed the detailed calculations for the life and accident and health reserves, respectively, as of December 31, 2009.

On the basis of the above-mentioned analysis, it was determined that the aggregate reserves for life and accident and health contracts are adequate and consistent with requirements in Ohio law as of December 31, 2009.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

Total Admitted Assets	<u>\$ 31,048,025</u>
Liabilities	\$ 16,145,296
Capital and Surplus	<u>14,902,729</u>
Total Liabilities, Capital and Surplus	<u>\$ 31,048,025</u>

Acknowledgement

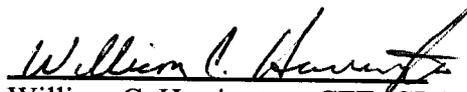
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: Kim Somogyi, CPA; Louis F. Radecky, CPA (inactive); Edward J. Nagorny, CFE, CPA, JD; Floyd D. Meeks, AES, CFE, CPA; Dominik R. Ilc, AES, CFE; Vicky L. Hugo, AES, CFE, CPA; Jackie Bradley, CFE; Jeff A. Lehr, CFE; Mary D. Miller, FCAS, MAAA; Peter A. Weber, ASA, MAAA and Bradley Schroer.

Respectfully,



Jeffery A. Becker, CFE
Examiner-in-Charge
Office of Risk Assessment
Ohio Department of Insurance



William C. Harrington, CFE, CPA (inactive)
Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

Jeffery A. Becker 1/24/11 William C. Harrington 1/26/2011
Jeffery A. Becker, CFE Date William C. Harrington, CFE, CPA (inactive) Date

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffery A. Becker, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 24 day of January, 2011.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~
My Commission Expires

State of Ohio
County of Franklin

Personally appeared before me the above named William C. Harrington, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 26 day of January, 2011.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~
My Commission Expires