

Report of Examination of

**Loyal American Life Insurance Company**  
Austin, Texas

As of December 31, 2013

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Columbus, Ohio  
February 27, 2015

Honorable Mary Taylor  
Lieutenant Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Lieutenant Governor/Director:

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

**Loyal American Life Insurance Company**

an Ohio domiciled, stock, life insurance company, hereinafter referred to as the “Company.”

**Scope of Examination**

The Department last examined the Company as of December 31, 2011. The Department’s current examination covers the period of January 1, 2012, through December 31, 2013.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“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 all years under examination, the Certified Public Accounting firm of PricewaterhouseCoopers LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

## **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:

<b>Name</b>	<b>Principal Occupation</b>
Eric P. Palmer	Chief Financial Officer, Cigna Health and Life Insurance Company
Frank Sataline, Jr.	Senior Vice President, Cigna Health and Life Insurance Company
Paul A. Severt	Chief Financial Officer, Cigna Supplemental Benefits
Bradley A. Wolfram	President, Cigna Supplemental Benefits
Brian C. Evanko	Vice President, Cigna Health and Life Insurance Company

### **Officers**

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

<b>Name</b>	<b>Title</b>
Bradley A. Wolfram	President
Brenda W. Hardison	Secretary
Byron K. Buescher	Treasurer
James M. Garvin, III	Appointed Actuary
Tracy E. Maples	Chief Actuary
Paul A. Severt	Chief Financial Officer
Michael K. Brown	Vice President
David L. Chambers	Vice President
Scott R. Lambert	Vice President
Eric P. Palmer	Vice President
Maureen H. Ryan	Assistant Treasurer
Barry R. McHale	Assistant Treasurer

## **Insurance Holding Company System**

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Company is a wholly owned subsidiary of Cigna Health and Life Insurance Company, domiciled in Connecticut, and an indirect wholly owned subsidiary of Cigna Corporation (“Cigna”), the ultimate controlling person in the holding company system. Cigna is a publicly held company whose subsidiaries provide insurance, health care, investment and financial services. The Company and other affiliated companies were acquired by Cigna from Great American Financial Resources, Inc. on August 31, 2012.

## **Territory and Plan of Operations**

The Company is licensed to transact business in forty-nine states, the District of Columbia and the U.S. Virgin Islands. The Company’s product portfolio includes life, annuity, Medicare supplement and guaranteed renewable limited benefit health insurance products. New sales consist primarily of Medicare supplement insurance and some limited benefit health insurance. The Company also offers a simplified issue whole-life policy, but has not yet recorded any sales of this product.

## **Reinsurance**

On August 31, 2012, all of the Company’s net risk on life and annuity policies in force was ceded to a former affiliate on a 100% coinsurance basis. At the same time, the Company assumed from former affiliates all of the net risk on their supplemental health business, including Medicare supplement, on a 100% coinsurance basis.

The Company’s simplified issue whole-life product is reinsured on a 40% coinsurance basis.

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 two-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, Liabilities, Surplus and Other Funds**  
**December 31, 2013**

<b>Assets</b>	
Bonds	\$ 217,517,110
Common stocks	8,426,687
Cash and short-term investments	<u>(2,620,556)</u>
Subtotal, cash and invested assets	223,323,241
Investment income due and accrued	2,674,518
Uncollected premiums and agents' balances	(5,677,714)
Amounts recoverable from reinsurers	4,614,854
Other amounts receivable under reinsurance contracts	1,034,288
Net deferred tax asset	17,465,182
Guaranty funds receivable or on deposit	180,214
Electronic data processing equipment and software	8,387
Receivables from parent, subsidiaries and affiliates	414,142
Aggregate write-ins for other than invested assets	<u>1,488</u>
Total assets	<u><u>\$ 244,038,600</u></u>

**Liabilities**

Aggregate reserve for accident and health contracts	\$ 118,764,588
Liability for deposit-type contracts	9,157
Life contract claims	39,615
Accident and health contract claims	27,559,193
Premiums and annuity considerations received in advance	2,812,068
Other amounts payable on reinsurance	1,776,192
Interest Maintenance Reserve	6,248,716
Commissions to agents due or accrued	910,660
Commissions and expense allowances on reinsurance assumed	1,144
General expenses due or accrued	4,710,129
Taxes, licenses and fees due or accrued	700,178
Current federal and foreign income taxes	1,757,067
Amounts withheld or retained by company as agent or trustee	17,566
Remittances and items not allocated	861,168
Asset valuation reserve	1,150,909
Payable to parent, subsidiaries and affiliates	3,074,642
Aggregate write-ins for liabilities	<u>2,123,978</u>
Total liabilities	<u>172,516,970</u>

**Capital and Surplus**

Common capital stock	5,640,000
Gross paid in and contributed surplus	74,994,712
Unassigned funds	<u>(9,113,082)</u>
Total capital and surplus	<u>71,521,630</u>
Total liabilities, capital and surplus	<u>\$ 244,038,600</u>

**Summary of Operations**  
**For the Year Ended December 31, 2013**

Premiums and annuity considerations	\$ 259,984,934
Net investment income	6,854,804
Amortization of Interest Maintenance Reserve	1,536,050
Commissions and expense allowances on reinsurance ceded	5,696,204
Aggregate write-ins for miscellaneous income	<u>451,404</u>
Total	<u>274,523,396</u>
Disability benefits and benefits under accident and health contracts	170,274,964
Interest and adjustments on contract or deposit-type contract funds	(195)
Increase in aggregate reserves	<u>2,403,146</u>
Total	<u>172,677,915</u>
Commissions on direct business	22,861,401
Commissions and expense allowances on reinsurance assumed	18,043,613
General insurance expenses	32,862,943
Insurance taxes, licenses and fees	7,263,516
Increase in loading on deferred and uncollected premiums	(40,245)
Aggregate write-ins for deductions	<u>1,728</u>
Total	<u>253,670,871</u>
Net gain from operations before federal income taxes	20,852,525
Federal and foreign income taxes incurred	<u>6,625,581</u>
Net gain from operations before realized capital gains/(losses)	14,226,944
Net realized capital gains/(losses)	<u>104,783</u>
Net income	<u>\$ 14,331,727</u>

**Statement of Changes in the Capital and Surplus Account**  
**As of and For the Year Ended December 31**  
(In thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and surplus, prior year end	\$ 78,247	\$ 40,807	\$ 37,884	\$ 33,330	\$ 37,698
Net income (loss)	14,332	(22,199)	2,828	10,622	2,253
Change in net unrealized capital gains (losses)	(11,010)	(4,584)	78	1,034	332
Change in net deferred income tax	3,289	59,994	852	(269)	1,972
Change in non-admitted assets	2,007	(52,372)	268	1,463	(2,277)
Change in AVR	(177)	205	92	(400)	412
Cumulative effect of changes in accounting principles	0	0	0	(1,280)	(619)
Surplus adjustments	(15,166)	61,833	(1,419)	(6,941)	(1,749)
Dividends to stockholders	0	0	0	0	(5,000)
Aggregate write-ins	<u>0</u>	<u>(5,437)</u>	<u>226</u>	<u>325</u>	<u>309</u>
Net change in capital and surplus	<u>(6,725)</u>	<u>37,440</u>	<u>2,923</u>	<u>4,554</u>	<u>(4,368)</u>
Capital and surplus, current year end	<u>\$ 71,522</u>	<u>\$ 78,247</u>	<u>\$ 40,807</u>	<u>\$ 37,884</u>	<u>\$ 33,330</u>

**Notes to Financial Statements**

**Investments**

The Company's investments were in compliance with ORC Section 3907.14 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

**Aggregate Reserve for Accident and Health Contracts**

The Company's Board of Directors appointed James M. Garvin, III, FSA, MAAA, Actuarial Director of the Company, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Garvin prepared an Actuarial Memorandum supporting the Opinion in connection with the preparation of the Company's 2013 Annual Statement.

Thomas S. Botsko, ACAS, MAAA, the Department's Actuary, reviewed the Actuarial Memorandum and performed other procedures as considered necessary to evaluate the reserves. On the basis of his analysis, Mr. Botsko concluded the reserves presented in the 2013 Annual Statement appear reasonable.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

Total Admitted Assets	<u>\$244,038,600</u>
Liabilities	\$172,516,970
Capital and Surplus	<u>71,521,630</u>
Total Liabilities, Capital and Surplus	<u>\$244,038,600</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 aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, AES, CFE, CISA, CIDM, CISSP, and Ryan S. Gibson, AES, CFE, CISA, FLMI.

Respectfully,



Kevin J. Rupp, CFE  
Examiner-In-Charge  
Ohio Department of Insurance



William C. Harrington, CFE  
Chief Examiner  
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, 2013.

Kevin J. Rupp  
Examiner-In-Charge

4/20/15  
Date

W. J. [Signature]  
Chief Examiner

4/21/15  
Date

State of Ohio  
County of Franklin

Personally appeared before me the above named, Kevin J. Rupp, 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 knowledge and belief.

Subscribed and sworn to before me this 20 day of April, 2015.

Kimberly Ann Lowry  
(Notary Public)

3-28-2016  
My Commission Expires

State of Ohio  
County of Franklin

**KIMBERLY ANN LOWRY**  
**NOTARY PUBLIC • STATE OF OHIO**  
Recorded in Franklin County  
My commission expires Mar. 28, 2016

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 knowledge and belief.

Subscribed and sworn to before me this 20 day of April, 2015.

Kimberly Ann Lowry  
(Notary Public)

3-28-2016  
My Commission Expires

**KIMBERLY ANN LOWRY**  
**NOTARY PUBLIC • STATE OF OHIO**  
Recorded in Franklin County  
My commission expires Mar. 28, 2016