

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Caterpillar Life Insurance Company

ORDER

After full consideration and review of the report of the financial examination of Caterpillar Life Insurance Company for the period ended December 31, 2009, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 1st day of April, 2011.

A handwritten signature in black ink, appearing to read "John M. Huff".

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

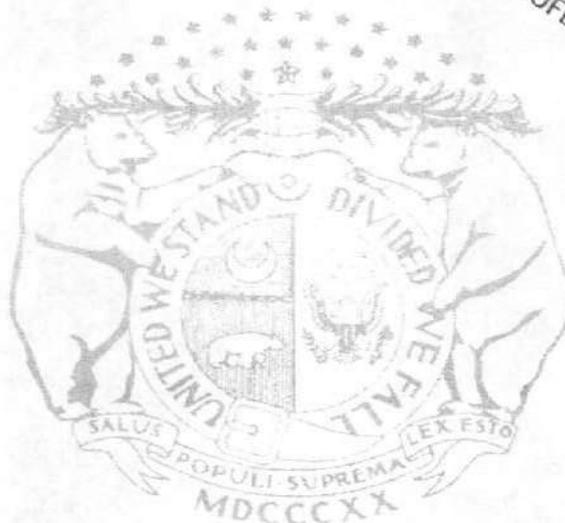


REPORT OF
FINANCIAL EXAMINATION

Caterpillar Life Insurance Company

As of:
DECEMBER 31, 2009

FILED
APR 11 2011
DIRECTOR OF INSURANCE &
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

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December 2, 2010

Honorable Alfred W. Gross, Commissioner
Bureau of Insurance
Virginia State Corporate Commission
Chairman, Financial Condition (E) Committee, NAIC

Honorable Mary Jo Hudson, Director
Department of Insurance
State of Ohio
Secretary, Midwestern Zone, NAIC

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Madam and Sirs:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

Caterpillar Life Insurance Company

hereinafter referred to as such or as "CLIC" or as the "Company." The Company's statutory home office is located at 2120 West End Avenue, Nashville, Tennessee, telephone number (615) 341-8147. This examination began on August 16, 2010 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The last full scope association financial examination of Caterpillar Life Insurance Company was made as of December 31, 2005, by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope financial examination covers the period from January 1, 2006, through December 31, 2009, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating. This examination also included material transactions or events occurring subsequent to December 31, 2009.

Procedures

This examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration ("DIFP") or statutes of the state of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating systems 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. The following key activities were identified: Investments, Treasury, and A&H Reserves.

The examiners relied upon information and workpapers provided by the Company's independent auditor, PricewaterhouseCoopers LLP, for its audit covering the period from January 1, 2009, through December 31, 2009. Such reliance included fraud risk analysis, internal control narratives and tests of internal controls.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings.

SUBSEQUENT EVENTS

Caterpillar Insurance Company (CIC) insures the post-retirement medical exposures of Caterpillar Inc. on an excess basis via a stop-loss insurance policy issued by CIC to a Voluntary Employee Benefit Association (VEBA) trust to cover the risk of loss of Caterpillar Inc. in excess of a certain specified deductible. CIC cedes the business 100% to CLIC. CLIC establishes annual life reserves for this coverage, which in 2009, amounted to approximately \$108 million.

Effective January 1, 2010, Caterpillar Inc. terminated the retiree medical voluntary benefit program for all non-bargained employees and surviving spouses except for employees retiring prior to February 1, 1991. The policy was amended to decrease the individual claim attachment point from \$100 to \$0 and raise the individual maximum claim amount from \$3,000 to \$4,400 as well as delete ineligible members from the Covered group.

COMPANY HISTORY

General

Caterpillar Life Insurance Company was formed when, with approval from the DIFP, Caterpillar Inc., acquired the shell of Maxicare Life and Health Insurance Company on April 30, 2004. An amendment to the Articles of Incorporation was approved on May 18, 2004, to change the name of the Company to Caterpillar Life Insurance Company.

Capital Stock and Paid-In Surplus

The Company is authorized to issue 40,000 shares of common stock at a par value of \$125 per share. The Company reported 20,000 common shares issued and outstanding as of December 31, 2009, resulting in a common capital stock account of \$2.5 million. The Company also reported gross paid in and contributed surplus of \$15,169,067. There were no capital contributions during the examination period.

Dividends

The Company has paid no dividends.

Acquisitions, Mergers and Major Corporate Events

None.

Surplus Debentures

On August 2, 2004, with the DIFP's approval, the Company issued a \$35 million surplus note to Caterpillar Financial Services Corporation. The note accrues 5.6% interest per annum. During the examination period, with the DIFP's approval, the Company made payments of interest and principal totaling \$8,560,611.92 and \$5,366,778, respectively. At December 31, 2009, the Company reported surplus note liability of \$30,900,866, which consists of accrued interest of \$1,267,643 and principal of \$29,633,222.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. There were no amendments to either during the examination period.

The minutes of the shareholder, board of directors, committee meetings, and relevant Caterpillar Inc. committee meetings were reviewed and appear to properly support and approve the corporate transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a board of directors which per the Articles of Incorporation and resolution of the Board of Directors is fixed at nine members. The Company's nine Directors serving at December 31, 2009, were as follows:

Name and Address

Kent M. Adams
Nashville, TN

Principal Occupation and Business Affiliation

Vice President of Caterpillar Inc.
President of Caterpillar Financial Services Corporation

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Michael D. Reeves Nashville, TN	President of Caterpillar Life Insurance Company
Steven B. Resnick Nashville, TN	CFO & Treasurer of Caterpillar Life Insurance Company
Michael D. Faoro Nashville, TN	Vice President of Caterpillar Life Insurance Company
Brian P. LePage Nashville, TN	Vice President of Caterpillar Life Insurance Company
Jeffrey L. Pridgen Nashville, TN	Vice President of Caterpillar Life Insurance Company
Larry K. Smith Nashville, TN	Vice President of Caterpillar Life Insurance Company
Glen H. Strandquist Nashville, TN	Vice President of Caterpillar Life Insurance Company
Federico Folchi-Vici-D'Arcevia Nashville, TN	Vice President of Caterpillar Life Insurance Company

Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2009, were as follows:

<u>Name</u>	<u>Position</u>
Michael D. Reeves	President
Steven B. Resnick	Vice President and Treasurer
Donald J. Meyers	Vice President, General Counsel and Secretary
Michael D. Faoro	Vice President
Brian P. LePage	Vice President
Jeffrey L. Pridgen	Vice President
Larry K. Smith	Vice President
Federico Folchi-Vici-D'Arcevia	Vice President
Glen H. Strandquist	Vice President
Robin D. Beran	Assistant Treasurer

Committees

In accordance with the bylaws, the board has established various committees with responsibility for managing the Company's affairs between meetings of the board. Annually, the full board reviews and approves the actions of the committees.

Established committees include the following:

Investment Committee:

Kent Adams	President of Caterpillar Financial Services Corporation
Michael Reeves	President of Caterpillar Life Insurance Company
Steven Resnick	Vice President and Treasurer
James Cotton	Investment Portfolio Manager
Donald Meyers	Vice President, General Counsel and Secretary
David Kacynski	Treasurer of Caterpillar Financial Services Corp.
CT Urban	Chief Investment Officer

Reserve Committee:

Michael Reeves	President of Caterpillar Life Insurance Company
Steven Resnick	Vice President and Treasurer
JA Duensing	Treasurer of Caterpillar Financial Services Corp.
Larry Smith	Vice President
Steve Elsesser	Comptroller, Caterpillar Financial Services Corporation
Michael Faoro	Director of Claims

Anti-Fraud Committee:

Michael Faoro	Vice President, Director of Claims
Donald Meyers	Vice President, General Counsel and Secretary
Lori Hazlehurst	Underwriting Specialist
Todd Day	Claims Manager
Larry Beaty	Audit Manager II
Tim Watts	Sr. Regional Insurance Manager

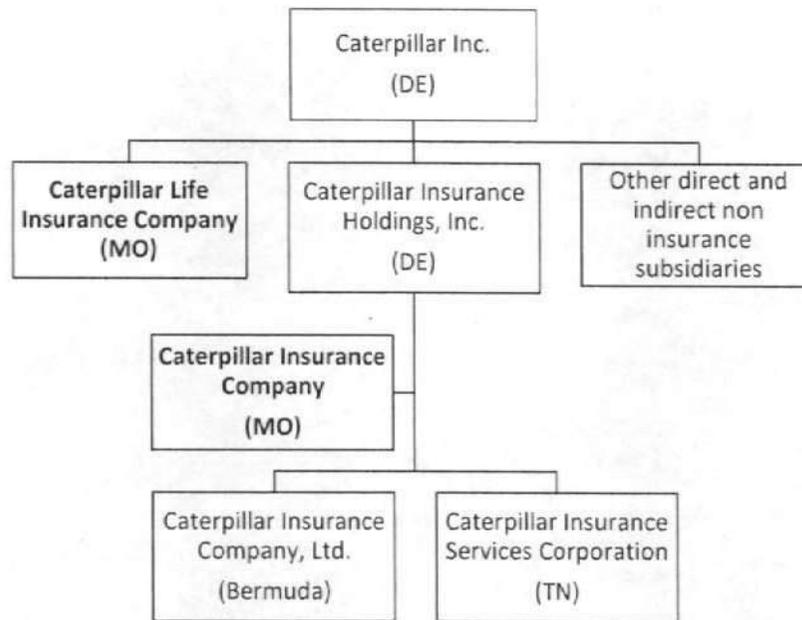
The Company does not have an audit committee. To comply with Sections 375.1025-1062 RSMo, the Company relies on the Audit Committee of Caterpillar Inc., the ultimate parent. That committee comprised three independent directors at December 31, 2009.

Holding Company, Subsidiaries and Affiliates

The Company is part of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is a wholly owned subsidiary of Caterpillar Inc., a Delaware holding company. Caterpillar, Inc., the ultimate parent, is the world's largest manufacturer of construction and mining equipment, diesel and natural gas engines and industrial gas turbines.

Organization Chart

The following organizational chart depicts an abbreviated portion of the holding company system at December 31, 2009, including the Company. All subsidiaries shown are wholly owned. A complete list of all companies within the holding company system is included within the annual statement.



Affiliated Transactions

The Company enters into various agreements with affiliates. Active agreements are discussed below:

1) **Management Agreement**

Parties: Caterpillar Insurance Company (CIC), CLIC, Caterpillar Insurance Co. Ltd, Caterpillar Product Services Corporation, Caterpillar Insurance Services Corporation, Caterpillar Insurance Holdings, Inc., and Caterpillar Inc., are all receivers of services. Caterpillar Financial Services Corporation, Caterpillar S.A.R.L, Caterpillar America C.V., and Caterpillar North America C.V., are all providers of services.

Effective: January 1, 2009, non-disapproved by DIFP on May 2, 2008

Terms: The providers of services will provide various administrative, management and accounting services to the receivers of services.

Rate(s): Fees charged under the Agreement are equal to the cost incurred to render such services to the other parties.

2) **Promissory Note**

Parties: CLIC and Caterpillar Inc.

Effective: August 1, 2004, non-disapproved by DIFP on May 4, 2004

Terms: Note issued by Caterpillar, Inc. to CLIC in the amount of \$12 million, payable upon demand by CLIC.

Rate(s): 5.6% per annum

3) **Promissory Note**

Parties: CLIC and Caterpillar Paving Products, Inc.

Effective: August 1, 2004, non-disapproved by DIFP on May 4, 2004
Terms: Note issued by Caterpillar Paving Products, Inc. to CLIC in the amount of \$12 million, payable upon demand by CLIC.
Rate(s): 5.6% per annum

4) Promissory Note

Parties: CLIC and Solar Turbines, Inc.
Effective: August 1, 2004, non-disapproved by DIFP on May 4, 2004
Terms: Note issued by Solar Turbines, Inc. to CLIC in the amount of \$12 million, payable upon demand by CLIC
Rate(s): 5.6% per annum

5) General Agency Agreement

Parties: CLIC and Caterpillar Insurance Services Corporation ("CISC")
Effective: May 1, 2004, non-disapproved by DIFP on April 30, 2004
Terms: CISC will provide all usual and customary services of an insurance agent on all insurance contracts placed with CLIC.
Rate(s): Fees related to this agreement shall be paid for under the Management Agreement between CLIC, Caterpillar Inc., and other affiliates.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on an employee theft policy purchased by its parent, Caterpillar, Inc., which provides \$25 million in coverage with a \$5 million deductible. This coverage exceeds the minimum amount of fidelity insurance recommended by the NAIC.

The Company is also a named insured on policies that provide the following liability coverages: general and excess, auto, directors and officers, aircraft, fiduciary, and employment practices. The Company's insurance coverages appear adequate.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. Services are provided by affiliates under service agreements described under "Affiliated Transactions." Affiliates' employees are provided benefits typical of the industry including group health and dental coverage, group life insurance, short- and long-term disability, a flexible spending account, a 401(k) plan, a non-contributory defined benefit pension plan, paid time off, an employee assistance plan and tuition reimbursement. Employee benefit costs, including retirement costs, are included in intercompany charges from affiliates.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Missouri under Chapter 376 RSMo (Life, Health and Accident Insurance Laws) to write accident and health insurance; and life, annuities, and endowments. At year end 2009, the Company was also licensed in the following twenty-five states and the District of Columbia:

Alaska	Kentucky	Oklahoma
Arizona	Louisiana	Oregon
California	Maryland	South Carolina
Delaware	Michigan	South Dakota
District of Columbia	Montana	Tennessee
Georgia	Nebraska	Texas
Illinois	Nevada	Utah
Indiana	New Mexico	Wyoming
Kansas	North Dakota	

During the examination period, the Company engaged in only one line of business, group accident and health, assumed from Caterpillar Insurance Company. CIC underwrites retiree medical exposures of Caterpillar Inc. CIC insures the post-retirement medical exposures on an excess basis via a stop-loss insurance policy issued by CIC to a Voluntary Employee Benefit Association (VEBA) trust to cover the risk of loss of Caterpillar Inc. in excess of a certain specified deductible. CIC cedes the business 100% to CLIC. CLIC establishes annual life reserves for this coverage, which in 2009, amounted to approximately \$108 million.

Effective January 1, 2010, Caterpillar Inc. terminated the retiree medical program except for employees retiring prior to February 1, 1991. The policy was amended to decrease the individual claim attachment point from \$100 to \$0 and raise the individual maximum claim amount from \$3,000 to \$4,400 as well as delete ineligible members from the Covered group.

The Company is exploring opportunities to offer other benefits programs to Caterpillar Inc., employees in the United States.

GROWTH OF COMPANY

The Company has never written direct premium. As noted above the Company's only business has been the reinsurance from Caterpillar Insurance Company of the Caterpillar, Inc. retirees/dependants medical benefits, which are currently in run-off. There has been little variance in total assets, liabilities, or surplus during the examination period.

LOSS EXPERIENCE

The following exhibit reflects the Company's loss experience over the last five years.

<u>Year</u>	<u>Loss Reserves</u>	<u>Benefits Paid</u>	<u>Contract Claims</u>
2009	107,581,951	1,885,841	567,321
2008	106,038,851	1,907,823	539,239
2007	104,018,381	2,256,107	579,310
2006	104,993,727	1,651,852	294,033
2005	102,251,844	22,309	964,888

REINSURANCE

Assumed

The Company assumes reinsurance under one treaty with its affiliate. During the period under examination there was no direct business nor was there any reinsurance ceded.

On May 1, 2004, the Company entered into a quota share agreement with Caterpillar Insurance Company, an affiliate. Under the agreement, the Company assumed 100% of the retiree medical and long-term disability business written by Caterpillar Insurance Company. In 2004, the Company assumed \$103.8 million in premium and established reserves of \$102.7 million. The Company subsequently has assumed no additional premium. Its carried reserve was \$107.6 million at December 31, 2009.

Ceded

None

ACCOUNTS AND RECORDS

General

The Company's financial statements were prepared using J.D. Edwards general ledger software supported by PeopleSoft / Oracle.

Reserves and related actuarial items as of December 31, 2009, were reviewed and certified by Gregory J. Roemelt, FSA, MAAA, of Towers Watson.

The Company is implementing a new more flexible policy and claims administration application from Tata Consultancy Services, which is expected to be fully implemented in 2011, to replace the IS4W (Insurance Solutions for Windows) system currently in place.

Independent Auditor

The Company's financial statements for the period January 1, 2006 to December 31, 2009, were audited by PricewaterhouseCoopers LLP, Certified Public Accountants. The workpapers and reports of the most recent independent audit were reviewed for this examination. These workpapers and reports were used in the course of this examination as deemed appropriate.

Independent Actuaries

Pursuant to a contract with the DIFP, Leon L. Langlitz, FSA, MAAA; and D. Patrick Glenn, ASA, ACAS, MAAA of Lewis & Ellis, Inc., reviewed the underlying actuarial assumptions and actuarial methods used in determining policy reserves and the contract claims liability.

They concluded that the actuarial items included in the review are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles; they are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract

provisions; they meet the requirements of the insurance laws and related rules and regulations of the state of Missouri; they are computed on the basis of assumptions consistent in all material respects with those used in computing the corresponding items in the Annual Statement of the preceding year; and they include provision for all actuarial reserves and related statement items which ought to be established.

Information Systems

In conjunction with this examination, Andrew Balas, AES, Information Systems Financial Examiner with the DIFP, conducted a review of the Company's information systems. His evaluation did not identify any significant weaknesses.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2009, are reflected below. These deposits had sufficient par and market values to meet the deposit requirement for the state of Missouri per Section 376.290 RSMo (Deposit and transfer of securities.).

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Notes	\$ 1,500,000	\$ 1,501,410	\$ 1,503,635

Deposits with Other States

The Company also has funds on deposit with other states to satisfy their statutory deposit requirements. Those funds on deposit as of December 31, 2009, were as follows:

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Nevada	US Treasury Note	\$ 205,000	\$ 205,832	\$ 205,248
New Mexico	US Treasury Note	210,000	210,074	210,392
Oklahoma	US Treasury Note	310,000	310,109	310,578
Totals		\$ 725,000	\$ 726,015	\$ 726,218

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2009, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 131,169,323	\$ -	\$ 131,169,323
Common Stock	16,314,541		16,314,541
Cash, cash equivalents and short-term investments	12,465,637	-	12,465,637
Receivables for securities	1,153	-	1,153
Negative IMR	88,633	88,633	
Investment income due and accrued	757,363		757,363
Net deferred tax asset	2,142,016	2,089,052	52,964
	<u>\$ 162,938,666</u>	<u>\$ 2,177,685</u>	<u>\$ 160,760,981</u>
Total Assets	<u>\$ 162,938,666</u>	<u>\$ 2,177,685</u>	<u>\$ 160,760,981</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	Current Year
Aggregate reserve for accident and health contracts	\$ 107,581,951
Contract claims: Accident and health	567,321
General expenses due or accrued	141,243
Current federal and foreign income taxes	396,482
Asset Valuation Reserve	3,162,943
Payable to parent, subsidiaries and affiliates	30,586
Total liabilities	<u>\$ 111,880,527</u>
Common capital stock	\$ 2,500,000
Surplus notes	30,900,866
Gross paid in and contributed surplus	15,169,067
Unassigned funds (surplus)	310,521
Total Capital and Surplus	<u>\$ 48,880,454</u>
Total Liabilities, Capital and Surplus	<u>\$ 160,760,981</u>

STATEMENT OF INCOME

	Current Year
Net investment income	\$ 5,813,687
Amortization of IMR	(54,316)
Total	\$ 5,759,371
Disability benefits and benefits under accident and health contracts	\$ 1,885,841
Increase in reserves for life and accident and health contracts	1,543,100
Total	\$ 3,428,941
General insurance expenses	457,513
Taxes, licenses and fees	59,700
Total	\$ 3,946,154
Net gain from operations before dividends and FIT	\$ 1,813,217
Dividends to policyholders	-
Net gain from operations after dividends and before taxes	\$ 1,813,217
Federal and foreign income tax	1,164,508
Net gain from operations after dividends and taxes and before capital gains	\$ 648,709
Net capital gains	(1,155,212)
Net income	\$ (506,503)

CAPITAL AND SURPLUS

	Current Year
Surplus as regards policyholders; December 31 prior year	\$ 46,857,584
Net income	\$ (506,503)
Change in net unrealized capital gains	2,872,634
Change in net deferred income tax	318,918
Change in nonadmitted assets	546,838
Change in AVR	(1,209,016)
Rounding	(1)
Net change in capital and surplus for the year	\$ 2,022,870
Capital and surplus, December 31 current year	\$ 48,880,454

COMMENTS ON THE FINANCIAL STATEMENTS

There are no comments on the Company's financial statements.

GENERAL COMMENTS OR RECOMMENDATIONS

There are no general comments or recommendations.

