

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Healthy Alliance Life Insurance Company as of December 31, 2007

### ORDER

After full consideration and review of the report of the financial examination of Healthy Alliance Life Insurance Company for the period ended December 31, 2007, 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 Healthy Alliance Life Insurance Company, 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 March 11, 2009.



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

REPORT OF  
FINANCIAL EXAMINATION

**HEALTHY ALLIANCE LIFE INSURANCE  
COMPANY**

As Of  
December 31, 2007

**FILED**  
MAR 21 2009  
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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February 2, 2009  
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Chair of the NAIC Financial Condition (E) Committee

Honorable Merle Scheiber, Director  
South Dakota Division of Insurance  
Secretary of the Midwestern Zone, NAIC

Honorable Kip Stetzler, Acting Director  
Missouri Department of Insurance, Financial Institutions  
and Professional Registration  
301 West High Street, Room 530  
Jefferson City, MO 65101

Dear Gentlemen:

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

### **HEALTHY ALLIANCE LIFE INSURANCE COMPANY**

hereinafter referred to as such or as "HALIC" or as the "Company." The Company's statutory home office is located at 1831 Chestnut Street, St. Louis, Missouri 63103, telephone number (314) 923-4444. This examination began on February 25, 2008 and concluded on the above date.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The last full scope association financial examination of the Company was made as of December 31, 2004 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 association financial examination covers the period from January 1, 2005 through December 31, 2007 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, 2007.

### **Procedures**

This examination was conducted using the 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 (Department) or statutes of the state of Missouri prevailed.

### **PRIOR EXAMINATION COMMENTS**

Listed below are the comments taken from the prior examination report as of December 31, 2004. The Company's responses and the item's current status are also indicated.

#### *Comment: Conflict of Interest*

"It was noted that the Company could not provide documentation to show that all officers and directors had completed conflict of interest disclosure statements for the years 2002 and 2004. We recommend that the Company require officers, directors and key employees to complete conflict of interest disclosure statements on an annual basis. The Company should retain copies of these statements in their corporate records to illustrate that this procedure is being performed."

#### Company response:

"The Company agrees with the recommendation above and enhanced the process in 2003. Annually, the Company completes a Conflict of Interest (COI) disclosure survey to ascertain if any conflicts exist with the insurer's Directors, Officers, and key employees. These COIs are initially reviewed by the Company's Ethics and Compliance department. The Company will continue to annually distribute these respective COI surveys to employees, officers and directors. The exceptions noted by the DOI for the 2004 review occurred since the exam was conducted during the timeframe of when the 2004 COI disclosure surveys were beginning to be collected. These exceptions were not related to the Company's documented process."

#### Current findings:

With one exception, the Company was able to provide conflict of interest disclosure statements for all directors and officers for the current examination period.

#### Comment: Corporate Records

"The Company was unable to provide examiners with copies of or access to all board of directors minutes and shareholder minutes. The Company is directed to ensure that appropriate action is taken to address this weakness both in documenting the approval of these prior acts and ensuring future acts are approved by the board of directors / shareholder as required in the Company's own governing documents."

Company response:

"The Company agrees with the recommendation above. The Company will ensure that documentation of the approval of the items noted in examination is approved by the board of directors/shareholders. In addition all future acts requiring board of directors/shareholders (approval) will be obtained and documented by Corporate Legal department in accordance with the Company's governing documents."

Current findings:

The Company provided copies of board of director and shareholder meetings minutes for the current examination period. The minutes appear to properly document the review and approval of corporate events.

Comment: Premium Tax Credit

"Examination of the company's Missouri premium tax returns for tax years 2001 - 2004 discovered improper examination fee credits take by the company on their 2001 and 2002 returns. The Company overstated the credit taken related to financial examination fees by \$22,509.24 on their 2001 Missouri premium tax return and by \$90,495.01 on their 2002 Missouri premium tax return. We direct the company to file amended premium tax returns with the state of Missouri for tax years 2001 and 2002 to report the correct amounts for 2000 financial examination fee credits taken. We further recommend that the company attach a copy of the applicable financial examination fee allocation agreement form to all premium tax returns filed where the financial examination fee credit is claimed."

Company response:

"The Company agrees with the recommendation above. The Company has filed amended premium tax returns for tax years 2001 and 2002 as noted in the financial examination. In addition, the Company will include all the applicable financial examination allocation agreement form to all future premium tax returns filed with the State of Missouri where a financial examination fee credit is claimed."

Current findings:

At the direction of the Department, the Company did not file amended premium tax returns for 2001 and 2002. The Company did submit payment for the overstated financial examination fees credits. The Company's 2005 Missouri premium tax return did not include the examination fee allocation agreement (see Accounts and Records below). There were no financial examination fees credits reported on the 2006 or 2007 Missouri premium tax returns.

## HISTORY

### General

Healthy Alliance Life Insurance Company was formed in January 1992. The Company was domiciled in the state of Missouri with an initial capitalization of \$1.5 million. The Company's ultimate parent was Blue Cross Blue Shield of Missouri, Inc. In November of 1993, the Company merged with Transcontinental Life Insurance Company, an

Arizona-domiciled insurer. The surviving entity was Healthy Alliance Life Insurance Company, a Missouri-domiciled life, accident and health insurance company.

In 1994, Blue Cross and Blue Shield of Missouri, Inc. reorganized. The reorganization included the formation and initial public offering of RightCHOICE Managed Care, Inc. (RightCHOICE). Following a settlement with the Department in 1998 related to the reorganization, Blue Cross and Blue Shield of Missouri, Inc. was dissolved and its in-force business was assumed by the Company and by HMO Missouri, Inc., an affiliate. RightCHOICE remained as the Company's ultimate parent.

On January 31, 2002, RightCHOICE completed a merger with WellPoint Health Networks, Inc. (WellPoint), a California-based corporation, and RWP Acquisition Corporation, a wholly owned subsidiary of WellPoint. RightCHOICE and RWP Acquisition Corporation then merged with the surviving entity named RightChoice Managed Care, Inc. (RightCHOICE). The Department approved the merger on January 16, 2002.

On November 30, 2004, WellPoint completed a merger with Anthem, Inc., an Indiana-based corporation. The merger created the nation's largest health insurer. Anthem, Inc., the surviving corporate parent, was renamed WellPoint, Inc.; its common stock is traded on the New York Stock Exchange (symbol:WLP). WellPoint has Blue Cross or Blue Cross and Blue Shield operations in fourteen states.

### **Capital Stock**

Healthy Alliance Life Insurance Company is authorized to issue 2,000,000 shares of \$1.25 par value common stock. There were 2,000,000 shares issued and outstanding on December 31, 2007, for a balance of \$2.5 million in the Company's capital stock account. All 2,000,000 shares are owned by RightCHOICE Managed Care, Inc., an indirect subsidiary of WellPoint, Inc., the ultimate parent.

### **Dividends**

The Company has declared and paid dividends to its shareholder as follows:

<u>Year</u>	<u>Cash</u>
2005	87,000,000
2006	48,000,000
2007	<u>67,200,000</u>
Total	<u>\$202,200,000</u>



## Management

The board of directors, consisting of at least nine members, manages the Company's affairs as prescribed by the Articles of Incorporation. Directors serving at December 31, 2007 were as follows.

<u>Director</u>	<u>Affiliation</u>
Carter Beck Manchester, NH	Vice-President and Counsel WellPoint, Inc.
David Henley St. Peters, MO	Assistant Secretary HealthLink HMO, Inc.
Dennis Matheis St. Louis, MO	President and General Manager Healthy Alliance Life Insurance Co.
John Cannon Indianapolis, IN	Executive Vice-President and Counsel WellPoint, Inc.
Joseph Murray St. Charles, MO	Assistant Secretary Healthy Alliance Life Insurance Co.
Kathleen Zorica St. Louis, MO	Vice-President, Individual Business Healthy Alliance Life Insurance Co.
Nancy Purcell Carmel, IN	Secretary Healthy Alliance Life Insurance Co.
Ruth Hollenback St. Louis, MO	Vice President, Health Services WellPoint, Inc.
Wayne DeVeydt Indianapolis, IN	Chief Financial Officer Healthy Alliance Life Insurance Co.

The officers appointed and serving as of December 31, 2007 were as follows:

<u>Name</u>	<u>Office</u>
Dennis Matheis	President
Robert Kretschmer	Treasurer
Nancy Purcell	Secretary
Wayne DeVeydt	Chief Financial Officer
Joseph Murray	Assistant Secretary

## Conflict of Interest

Per corporate policy, conflict of interest disclosure statements are executed annually by all Company directors and officers. Disclosure statements covering the years under examination were reviewed; no material conflicts were indicated.

The Company was unable to provide a conflict of interest disclosure statement for one director for the years 2005 and 2006. The Company should ensure that, in accordance with corporate policy, all officers and directors complete conflict of interest disclosure statements on an annual basis.

### **Corporate Records**

The Articles of Incorporation and the Bylaws were reviewed. There were no amendments to the Articles of Incorporation or the Bylaws during the examination period.

The minutes of the meetings of the shareholder and of the board of directors were reviewed for the period under examination. The minutes appeared to properly document and approve corporate events and transactions.

### **Acquisitions, Mergers and Major Corporate Events**

None.

### **Surplus Debentures**

None.

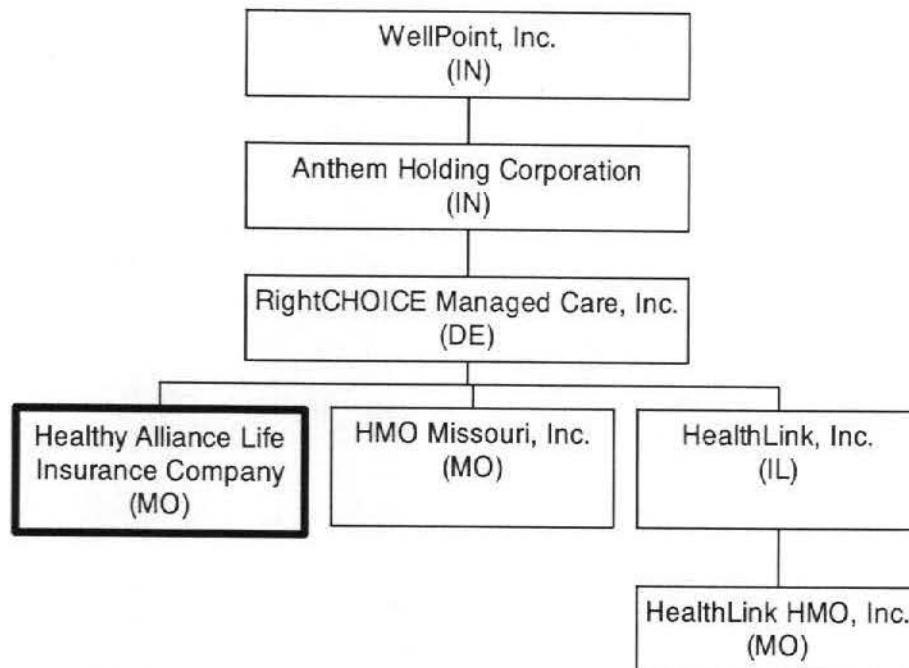
## **AFFILIATED COMPANIES**

### **Holding Company, Subsidiaries and Affiliates**

The Company is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions), with WellPoint, Inc. designated as the ultimate controlling entity in the insurance holding company system. WellPoint, Inc. is a publicly held corporation headquartered in Indianapolis, Indiana. The common stock of WellPoint, Inc. is traded on the New York stock exchange under the symbol WLP. No one party owns 10% or more of the voting securities of WellPoint, Inc.

### **Organizational Chart**

The following is a portion of the WellPoint, Inc. organizational chart. Only companies directly related to HALIC, other Missouri domestic insurers, and companies with which HALIC has direct management or reinsurance contracts are included. All companies are 100% owned by their immediate parent.



## Affiliated Transactions

### Master Service Agreement and Addendum

The Company is party to a master service agreement among WellPoint and its direct and indirect subsidiaries. The companies provide administrative, consulting and other services to each other. The receiving company pays the providing company reasonable compensation. WellPoint and the companies either trace the service costs directly to the end-user or they utilize an allocation methodology. The amended and restated agreement, retroactively effective January 1, 2006, was submitted to the Department and was non-disapproved on April 5, 2006.

### Out-of-Network Agreement

The Company entered into an out-of-network agreement with HMO Missouri, Inc. effective January 15, 1997. The agreement was submitted to the Department on September 20, 2002 and non-disapproved February 13, 2003. This arrangement allows HMO Missouri, Inc. to offer a point-of-service product with expanded out-of-network benefits. The Company receives a per-member-per-month fee which is determined quarterly. The fee, which is based on underwriting and actuarial standards employed by the parties and reflects historical claims experience, is payable monthly.

### Stop-Loss Agreement

The Company provides stop-loss coverage to some HMO Missouri, Inc. administrative services only (“ASO”) plan sponsors. The coverage is provided in accordance with the applicable ASO agreement between the plan sponsor and HMO Missouri, Inc. Fee

calculations are based on underwriting principles used to price similar health insurance products. The effective date of coverage is determined by the date of the underlying ASO agreement. This agreement was non-disapproved by the Department on October 1, 2002.

#### Tax Sharing Agreement

The Company entered into a Tax Sharing Agreement with eligible WellPoint, Inc. subsidiaries effective December 31, 2005. The Department non-disapproved the agreement on September 19, 2006. The RightChoice Managed Care, Inc. subsidiaries participate in the filing of a consolidated federal income tax return with WellPoint, Inc. and its other subsidiaries. The consolidated tax liability allocated to the companies is limited to their separate tax return tax liability. Companies are reimbursed for any deductions, net operating losses and credits used by the consolidated group. Estimated tax payments and settlements are made through the intercompany accounts of subsidiaries.

#### Guarantee and Conversion Agreement

The Company is party to an agreement with WellPoint, Inc. dated November 30, 2004 under which WellPoint, Inc. agrees to guarantee, to the full extent of its assets, all of the contractual and financial obligations of HALIC. In the event that HALIC ceases operations, WellPoint, Inc. or one of its licensed affiliates will provide coverage to the policyholders of HALIC without consideration of health status. The Department approved this agreement on November 21, 2008.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a \$20,000,000 financial institution bond issued to its ultimate parent, WellPoint, Inc. The amount of coverage meets the suggested minimum amount recommended by the NAIC.

The Company is also a named insured on policies issued to WellPoint, Inc. for the following types of coverage: directors and officers liability; managed care professional liability; commercial property; general liability; auto liability; fiduciary liability; umbrella liability; workers compensation and employers liability and computer crime. The Company's coverage appears to be adequate.

### **EMPLOYEE BENEFITS**

The Company has no employees. Services are provided by affiliates under an administrative services agreement described under "Affiliated Transactions." WellPoint, Inc. employees are provided benefits including group health, vision and dental coverage, group life insurance, short- and long-term disability, a 401(k) plan, vacation and sick leave, an employee assistance plan and tuition reimbursement. Employee benefits costs are included in intercompany charges from affiliates.

## STATUTORY DEPOSITS

### Deposits with the State of Missouri

The funds on deposit with the Department as of December 31, 2007, as reflected below, were sufficient in par and market value to meet the \$600,000 deposit requirement for the state of Missouri in accordance with Section 376.290 RSMo "Trust deposits." Missouri is holding a deposit for Idaho in accordance with Idaho Code, Title 41, Chapter 3 "Deposit Requirements, Foreign and Alien Insurers." The Special Deposits with the Missouri Department of Insurance are held for the benefit of all policyholders, claimants and creditors of the Company.

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Note	\$ 400,000	\$ 399,968	\$ 397,272
US Treasury Note	<u>681,000</u>	<u>704,889</u>	<u>692,902</u>
Totals	<u>\$ 1,081,000</u>	<u>\$ 1,104,857</u>	<u>\$ 1,090,174</u>

### Deposits with Other States

The Company also has funds on deposit with other states in which it is licensed to satisfy their statutory deposit requirements. Those funds on deposit with other states, as of December 31, 2007, were as follows:

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Arkansas	US Treasury Note	\$ 110,000	\$ 109,991	\$ 109,242
New Mexico	US Treasury Note	110,000	109,991	109,242
North Carolina	US Treasury Note	320,000	319,975	317,793
North Carolina	US Treasury Note	110,000	109,991	109,242
Virginia	US Treasury Note	<u>250,000</u>	<u>251,987</u>	<u>248,043</u>
Totals		<u>\$ 900,000</u>	<u>\$ 901,935</u>	<u>\$ 893,562</u>

## INSURANCE PRODUCTS AND RELATED PRACTICES

### **Territory and Plan of Operation**

The Company is a licensed insurer in the District of Columbia and 35 states, although it writes new business only in Missouri. The Company is licensed in Missouri under Chapter 376 RSMo (Life and Accident Insurance) to write life, accident and health insurance.

The Company participates in the Blue Cross Blue Shield Association's BlueCard® PPO program. The BlueCard®, a national PPO network that allows members of Blue Cross and/or Blue Shield plans access to the networks of other Blue Cross and/or BlueShield plans.

The Company underwrites the following products marketed by RightCHOICE Managed Care, Inc., which does business as Anthem Blue Cross and Blue Shield:

- Blue Access – a preferred provider organization (PPO) product; various deductibles, co-insurance, copayment, benefit coverage and stop loss options are available. This product is available to groups and individuals.
- Blue Access Choice – a PPO product available in the 10-county St. Louis metropolitan sales area; various deductibles, co-insurance, copayment and stop loss options are available. This product is available to groups and individuals.
- BlueCard – A national PPO network that allows members of Blue Cross and/or Blue Shield plans access to the networks of other Blue Cross and/or Blue Shield plans.
- HSA-Compatible High Deductible Health Plans – A PPO product, available to individuals and groups; various deductibles, co-insurance, copayment and stop loss options are available. Health Savings Accounts are a consumer-driven strategy for managing the rising costs of health care expenses. The HSA-Compatible Medical Plan is a qualified high-deductible health plan. Coupled with a health savings account, it allows members to set aside money in a tax-exempt account to cover qualified medical expenses that are not covered by their health plan. Some of these products are administered by Lumenos, an affiliated WellPoint company.
- HRA-Compatible High Deductible Health Plans – A PPO product, available to groups; various deductibles, co-insurance, copayment and stop loss options are available. Health Reimbursement Accounts are a consumer-driven strategy for managing the rising costs of health care expenses. The HRA-Compatible Medical Plan is a qualified high-deductible health plan. Coupled with a health reimbursement account, it allows companies to set aside money in an account for members in order to cover qualified medical expenses that are not covered by their health plan. Some of these products are administered by Lumenos, an affiliated WellPoint company.
- HIA-Compatible High Deductible Health Plans – A PPO product administered by Lumenos, an affiliated WellPoint company, available to groups and individuals; various deductibles, co-insurance, copayment and stop loss options are available. Health Incentive Accounts are a consumer-driven strategy for managing the rising costs of health care expenses. Members earn health care dollars for their Health Incentive Account (HIA) by taking steps that can help achieve their health potential. Funds in the Health Incentive Account are available for members to cover qualified medical expenses that are not covered by their health plan.
- Hospital Surgical – a PPO product available to groups. Various deductibles, coinsurance, copayments and stop loss options are available. Available with Blue Access or Blue Access Choice networks.

- Standardized Medicare Supplemental – Medicare supplemental products sold to individuals or groups that cover Medicare deductibles, co-insurance and benefits to some degree.
- Pre-Standardized Medicare Supplemental – Medicare supplemental products sold to individuals or groups that cover Medicare deductibles, co-insurance and benefits to some degree. Available only to existing members.
- Medicare Advantage – Medicare products sold to individuals that are a replacement for Medicare. Offered on various networks, depending on the member's location.
- Medicare Part D – Prescription Drug products that meet Medicare requirements. These products are underwritten by an affiliated WellPoint Company.
- FEP PPO – HALIC contracts with the Office of Personnel Management (OPM) to administer a PPO product for Federal Government employees. The Federal Employee Program is considered “underwritten” as HALIC is at risk for a small portion of the losses should they exceed premiums.
- ASO/ASC Business – HALIC administers various Administrative Only and Administrative Service Contract plans on behalf of employer groups.
- Short-term medical – a bridge product which provides coverage from one to 12 months for individuals between jobs or fulfilling their employer's waiting period.
- Life Products – Products administered and underwritten by an affiliated WellPoint company and offering various life insurance options.
- Dental Blue – Products administered and underwritten by an affiliated WellPoint company and offering various deductibles, co-insurance, copayment, and benefit coverages.
- Blue View Vision – Products administered and underwritten by an affiliated WellPoint company and offering various deductibles, co-insurance, copayment, and benefit coverages.

### **Policy Forms & Underwriting; Advertising & Sales Materials and Treatment of Policyholders**

The Department has a Market Conduct staff that performs a review of these issues and generates a separate Market Conduct report. The most recent Missouri Market Conduct examination was completed on August 26, 2004. The examination disclosed several non-compliance issues subject to penalty, none of which had a material effect on the financial condition of the Company.

## REINSURANCE

### General

Premiums reported during the examination period were as follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Direct premiums	\$1,409,679,319	\$1,499,164,372	\$1,478,128,680
Reinsurance assumed	9,842,278	10,144,138	12,693,686
Reinsurance ceded	<u>(12,401,227)</u>	<u>(12,690,960)</u>	<u>(11,766,955)</u>
Net written premiums	<u>\$1,407,120,370</u>	<u>\$1,496,617,550</u>	<u>\$1,479,055,411</u>

During the current examination period, the Company reported the fees associated with its out-of-network agreement (see "Affiliated Transactions") as reinsurance premiums assumed. The Company and the Department have agreed that, on a prospective basis beginning in third quarter 2008, the Company will discontinue reporting its out-of-network fees as reinsurance and will report them as direct premium.

### Ceded

#### MSTA Agreement

The Company cedes 100% of Missouri State Teachers Association ("MSTA") contracts written in western Missouri to Blue Cross Blue Shield of Kansas City under an agreement effective July 1, 2003. This agreement allows the Company to offer a statewide program to MSTA. In 2007, the Company ceded \$11.3 million in premium under this agreement.

## ACCOUNTS AND RECORDS

### Independent Auditor

The Company's financial statements are audited annually by Ernst & Young, LLP. The 2007 audit work papers were reviewed and included in the examination to the extent deemed appropriate.

### Independent Actuary

Claims related reserves and other actuarial items are reviewed and certified by Tim P. Deno, FSA, MAAA, Vice-President and Corporate Valuation Actuary for WellPoint, Inc. Consulting actuary Karen Elsom, FSA, MAAA of Lewis & Ellis, Inc. was retained by the Department to review the adequacy of reserves and other related liabilities. The consulting actuary found the reserves to be adequately stated.

### Information Systems

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems. No material exceptions were noted.



### **Premium Tax Return**

The prior examination report directed the Company to file a copy of its financial examination fee allocation agreement with its premium tax return each year (see Prior Examination Comments above). For 2005 the Company neglected to include a copy of the examination fee allocation agreement with its premium tax return. The Company is again directed to include a copy of the examination fee allocation agreement with its premium tax return.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2007 and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. The failure of any column to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on 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	\$ 377,617,225	\$ -	\$ 377,617,225
Preferred stocks	2,661,337	-	2,661,337
Cash, cash equivalents and short-term investments	19,130,319	-	19,130,319
Other invested assets	6,678,068	3,117,222	3,560,846
Investment income due and accrued	4,144,663	-	4,144,663
Uncollected premiums and agents' balances in the course of collection	19,390,470	7,845,416	11,545,054
Deferred premiums; agents' balances and installments booked but deferred and not yet due	26,555,863	-	26,555,863
Amounts recoverable from reinsurers	4,931,493	-	4,931,493
Other amounts receivable under reinsurance contracts	396,746	-	396,746
Amounts receivable relating to uninsured plans	8,804,901	163,855	8,641,046
Net deferred tax asset	19,375,296	4,999,049	14,376,247
Guaranty funds receivable or on deposit	3,329,786	-	3,329,786
Electronic data processing equipment and software	22,728,226	18,919,945	3,808,281
Furniture and equipment	5,358,513	5,358,513	-
Receivables from parent, subsidiaries and affiliates	38,880,636	22,983,085	15,897,551
Health care and other amounts receivable	13,956,204	3,887,446	10,068,758
Company owned life insurance	1,424,699	1,424,699	-
Prepaid expenses	9,500	9,500	-
FEP assets held by agent	34,863,899	-	34,863,899
Totals	<u>\$ 610,237,844</u>	<u>\$ 68,708,730</u>	<u>\$ 541,529,114</u>

## LIABILITIES, CAPITAL AND SURPLUS

Aggregate reserve for life contracts	\$ 165,207
Aggregate reserve for accident and health contracts	44,554,971
Liability for deposit-type contracts	1,548,298
Life claims	146,677
Accident and health claims	155,092,314
Premiums and annuity considerations received in advance	23,513,807
Provision for experience rating refunds	3,465,949
Interest maintenance reserve	1,869,584
Commissions to agents due or accrued	5,860,003
General expenses due or accrued	8,050,556
Taxes, licenses and fees due or accrued	2,615,587
Current federal and foreign income taxes	6,949,658
Amounts withheld or retained by company as agent or trustee	1,229,759
Remittances and items not allocated	12,808,015
Asset valuation reserve	212,727
Payable to parent, subsidiaries and affiliates	45,566,259
Liability for amounts held under uninsured plans	3,977,847
Miscellaneous liability	188,640
Awaiting escheat funds	4,417,384
Insurance guaranty fund payable	1,400,000
Accrued retroactive premium	796,000
Prepaid admin fees	2,019,120
FEP contract redetermination liability	753,673
Performance guaranty liability	343,800
Total liabilities	<u>\$ 327,545,835</u>
Common capital stock	\$ 2,500,000
Gross paid in and contributed surplus	83,957,343
Unassigned funds (surplus)	<u>127,525,936</u>
Total capital and surplus	\$ 213,983,279
Total liabilities, capital and surplus	<u><u>\$ 541,529,114</u></u>

## INCOME STATEMENT

Premiums and annuity considerations for life and accident and health contracts	\$ 1,479,055,411
Net investment income	20,752,278
Amortization of interest maintenance reserve (IMR)	(254,986)
Commissions and expense allowances on reinsurance ceded	953,513
Performance guaranty reserves	<u>(225,500)</u>
Total Income	1,500,280,716
Death benefits	1,414,198
Disability benefits and benefits under accident and health contracts	1,187,237,603
Interest and adjustments on contract or deposit-type contract funds	61,712
Increase in aggregate reserves for life and accident and health contracts	580,244
Commissions on premiums, annuity considerations and deposit-type contract funds	53,258,054
General insurance expenses	114,631,824
Insurance taxes, licenses and fees; excluding federal income taxes	12,973,341
Regulatory fine	1,519
Gain on sale of fixed assets	<u>(137)</u>
Total Expenses	1,370,158,358
Net gain from operations	130,122,358
Federal and foreign income taxes incurred	(45,204,019)
Net realized capital (losses)	<u>(1,888,842)</u>
Net income	<u>\$ 83,029,497</u>

## CAPITAL AND SURPLUS

Capital and surplus, December 31, prior year	\$ 222,798,400
Net income	83,029,497
Change in net deferred income tax	11,497,358
Change in nonadmitted assets and related items	(36,825,688)
Change in asset valuation reserve	683,711
Dividends to stockholders	<u>(67,200,000)</u>
Net change in capital and surplus for the year	(8,815,122)
Capital and surplus, December 31, current year	<u>\$ 213,983,278</u>

## **EXAMINATION CHANGES**

None

## **NOTES TO FINANCIAL STATEMENTS**

None

## **GENERAL COMMENTS OR RECOMMENDATIONS**

### **Conflict of Interest**

Page 6

The Company was unable to provide a conflict of interest disclosure statement for one director for the years 2005 and 2006. The Company should ensure that, in accordance with corporate policy, all officers and directors complete conflict of interest disclosure statements on an annual basis.

### **Premium Tax Return**

Page 12

The prior examination report directed the Company to file a copy of its financial examination fee allocation agreement with its premium tax return each year. For 2005 the Company neglected to include a copy of the examination fee allocation agreement with its premium tax return. The Company is again directed to include a copy of the examination fee allocation agreement with its premium tax return.

## **SUBSEQUENT EVENTS**

None


## ACKNOWLEDGEMENT

The assistance and cooperation extended by Healthy Alliance Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Richard Stamper, CFE, Arthur Palmer, CFE, Karen Milster, CPA, CFE, Amy Snyder and Andrew T. Balas, CPA, CFE, AES, examiners for the Department of Insurance, Financial Institutions and Professional Registration participated in this examination. Consulting actuary Karen Elsom, FSA, MAAA, of Lewis and Ellis was retained by the Department to review the adequacy of reserves and other related liabilities.

## VERIFICATION

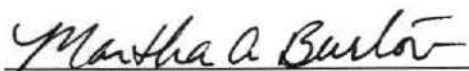
State of Missouri     )  
                                  ) ss  
County of St. Louis    )

I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

  
\_\_\_\_\_  
Thomas J. Cunningham, CPA, CFE  
Examiner-in-Charge  
DIFP/Insurance


Sworn to and subscribed before me this 2 day of February 2009.  
My commission expires:

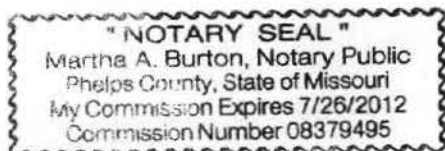
7/26/2012

  
\_\_\_\_\_  
Martha A. Burton  
Notary Public

## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting work papers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
\_\_\_\_\_  
Michael R. Shadowens, CFE  
Audit Manager  
DIFP/Insurance





March 5, 2009

Mr. Frederick G. Heese, CPA, CFE  
Chief Financial Examiner and Acting Division Director  
Department of Insurance  
Harry S. Truman State Office Building  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

VIA UNITED PARCEL SERVICE

Re: Healthy Alliance Life Insurance Company  
Financial Examination Report Dated February 2, 2009

RECEIVED  
MAR 06 2009  
INSURANCE SOLVENCY  
&  
COMPANY REGULATION

Dear Mr. Heese:

Please find enclosed the responses for Healthy Alliance Life Insurance Company (the Company) to the recommendations made by your office with respect to the financial examination report for the year ended December 31, 2007.

We have reviewed the report and accept the report as is, including the recommendations on page 17 of the report. We wish to have our responses included in the report as a public document.

Please contact me at 414-459-6833 or at [brenda.buss@bcbswi.com](mailto:brenda.buss@bcbswi.com) if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Brenda J. Buss".

Brenda J. Buss  
Director, Regulatory Reporting  
Anthem Blue Cross and Blue Shield  
Phone: 414-459-6833  
Fax: 414-459-5689

Enclosure

CC: Jim Kallas                      Dennis Matheis                      Beth Cox  
    Ron Penczek                    Doug Bahr  
    Joseph Murray                Anne Honisch

## Healthy Alliance Life Insurance Company

### Examination Report as of December 31, 2007 Responses to Recommendations

1. **Conflict of Interest-** The Company was unable to provide a conflict of interest disclosure statement for one director for the years 2005 and 2006. The Company should ensure that, in accordance with corporate policy, all officers and directors complete conflict of interest disclosures on an annual basis.

**Response:** The Company agrees with the recommendation. The conflict of interest statement was not collected for the one director as this director did not have any direct reports. The enterprise-wide Conflict of Interest policy was since updated.

The revised Conflict of Interest policy requires all new and rehired associates, any associate who has a change of status, and annually all management and "certain other associates" to complete a conflict of interest survey. The language regarding "certain other associates" is included in our policy to address associates on subsidiary Boards who are not in a management job band.

2. **Premium Tax Return:** The prior examination report directed the Company to file a copy of its financial examination fee allocation agreement with its premium tax return each year. For 2005 the Company neglected to include a copy of the examination fee allocation agreement its premium tax return. The Company is again directed to include a copy of the examination fee allocation agreement with its premium tax return.

**Response:** The Company agrees with the recommendation and will include a copy of the examination fee allocation agreement with the premium tax return each year.