

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Missouri Life & Health Insurance Guaranty Association as of
December 31, 2006

ORDER

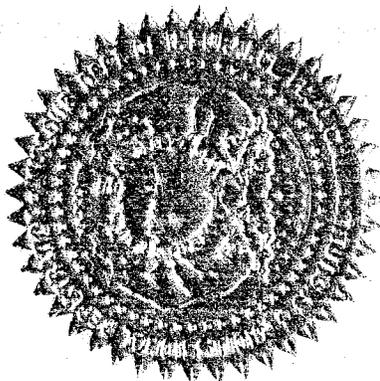
After full consideration and review of the report of the financial examination of Missouri Life & Health Insurance Guaranty Association for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, 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 Missouri Life & Health Insurance Guaranty Association, 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 October 4, 2007.

Handwritten signature of Douglas M. Ommen.

DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration



REPORT OF
FINANCIAL EXAMINATION

**Missouri Life and Health Insurance
Guaranty Association**

as of
December 31, 2006



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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August 3, 2007
Jefferson City, MO

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

Dear Sir:

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

Missouri Life and Health Insurance Guaranty Association

hereinafter referred to as such or as the "Association." The location of the Association's administrative office is 994 Diamond Ridge, Suite 102, Jefferson City, MO 65109. The Association's telephone number is (573) 634-8455. This examination began on June 4, 2007 and concluded August 3, 2007.

SCOPE OF EXAMINATION

Period Covered

The last financial examination of the Association was performed as of December 31, 2003 by an examiner from the state of Missouri. The current financial examination covers the period from January 1, 2004, through December 31, 2006, and was conducted by an examiner from the state of Missouri. This examination also included material transactions and/or events occurring subsequent to December 31, 2006.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration and statutes of the state of Missouri prevailed. The Association is governed by Sections 376.715 to 376.758 RSMo, (Missouri Life and Health Insurance Guaranty Association Act). The examination verified that the Association is complying with the provisions of these statutes.

The workpapers of the Association's independent auditor were made available to the examiner. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments Previous Examination

There were no comments or recommendations included in the prior examination report.

HISTORY

General

The Missouri Life and Health Insurance Guaranty Association, a tax-exempt, non-profit unincorporated legal entity organized under Internal Revenue Code Section 501(c), was established on August 13, 1988, under the provisions of Sections 376.715 to 376.758 RSMo, (Missouri Life and Health Insurance Guaranty Association Act). Per Section 376.740 RSMo, (Plan of operation, required, approval of director—provisions of plan), the purpose of the Association is to protect policyholders against failure in the performance of contractual obligations under life and health insurance policies or annuity contracts because of impairment or insolvency of the insurer issuing such policies or contracts. Further, the Association has a responsibility to assist the Director of the Department of Insurance, Financial Institutions and Professional Registration in detecting and preventing insurer impairments and insolvencies. The Association is authorized to assess its members in order to fulfill its obligations.

Membership

As of December 31, 2006, there were 858 companies licensed to sell life, health or annuity coverage in Missouri. According to Section 376.718 RSMo, (Definitions), all insurers with authority to transact life or health insurance or annuity business in Missouri are members of the Association and must remain members of the Association as a condition of their authority to transact such business in Missouri. Section 376.718 RSMo, (Definitions) exempts the following from the provisions of Sections 376.715 to 376.758 RSMo: health maintenance organizations; fraternal benefit societies; mandatory state pooling plans; mutual assessment companies; entities that operate on an assessment basis and insurance exchanges.

Management and Control

Section 376.722 RSMo (Board of directors, established, members, how selected-expense reimbursement) requires a Board of Directors consisting of not less than five nor more than nine member insurers, serving terms as established in the Plan of Operation. The Association's Plan of Operation stipulates a board of nine members serving staggered terms of three years. At year-end 2006, the Board of Directors consisted of the following members:

<u>Member Insurer</u>	<u>Term ends</u>	<u>Representative</u>
Aetna Life Insurance Company 100 North Riverside Plaza, 19 th Floor Chicago, IL 60606	2007	David M. Stitzel
American Family Mutual Insurance Company 3600 Amazonas Drive Jefferson City, MO 65102	2009	David Monaghan
Blue Cross/Blue Shield of Kansas City One Pershing Square 2301 Main, 8 th Floor Kansas City, MO 64108	2009	Steven R. Bledsoe
Farm Bureau Life Insurance Company 701 South Country Club Drive Jefferson City, MO 65109	2007	Carol Gilmore
Fortis Benefits Insurance Company 2323 Grand Boulevard Kansas City, MO 64108	2008	Donna Bowles Graham
General American Life Insurance Company 501 Boylston Street Boston, MA 02116	2007	Eric C. Dupont
Kansas City Life Insurance Company 3520 Broadway Kansas City, MO 64111	2008	Gary Hoffman
Ozark National Life Insurance Company 501 East Ninth Street Kansas City, MO 64106	2008	David R. Melton
Shelter Life Insurance Company 1817 West Broadway Columbia, MO 65218	2009	Pat McDonald

The officers elected and serving at December 31, 2006 were:

<u>Name</u>	<u>Office</u>
Pat McDonald, Shelter Life Insurance Company	Chair
Gary Hoffman, Kansas City Life Insurance Company	Vice-Chair

Steven R. Bledsoe, Blue Cross/Blue Shield of Kansas City Secretary/Treasurer

The officers of the Association comprise the Executive Committee. The Board delegates the daily operations of the Association to an Executive Director. Charles Renn has served as Executive Director of the Association since May 1992. In April 2001, the Board approved a joint administration agreement with the Missouri Property and Casualty Insurance Guaranty Association. At that time Mr. Renn became the Executive Director of both entities.

Conflict of Interest

Directors, officers and key employees of the Association execute conflict-of-interest statements annually. The statements for the period under examination were reviewed. There were no material conflicts disclosed.

Corporate Records

In compliance with Section 376.740 RSMo (Plan of operation, required, approval of director—provisions of plan) the Association adopted a Plan of Operation in 1989. The Association amended and restated the Plan of Operations as of January 1, 1993 and again on May 18, 2004. The amendments were filed and approved by the Director of the Department of Insurance, Financial Institutions and Professional Registration.

The minutes of the Annual Membership, Board of Directors and Executive Committee meetings were reviewed for the period under examination. The minutes appear to properly support the transactions and events for the period under examination. The Board reviewed and approved the December 31, 2003 Report of Financial Examination on March 21, 2005.

Surplus Debentures

The Association does not have any surplus debentures issued or outstanding.

Letter of Credit

The Association maintains a \$5,000,000 unsecured revolving line-of-credit with Central Bank of Jefferson City. Interest accrues at a rate that is tied to the JP Morgan Chase Bank prime rate. The line-of-credit was opened April 6, 1989 and has been renewed annually. There were no borrowings under this agreement during the examination period.

AFFILIATED COMPANIES

Holding Company

The Association is not a member of a holding company system nor does it have any subsidiaries or affiliates.

INSOLVENCIES

The Plan of Operation requires that the Annual Report contain a review of the activities of the Association during the preceding year. The Annual Report for 2006 contains brief descriptions of ongoing insolvencies with material or significant activity during the year. A list of open insolvencies by year and state of domicile at year-end 2006 follows:

<u>Company</u>	<u>Domicile</u>	<u>Year</u>
First Columbia Life Ins. Co.	LA	1988
American Mutual Liability Ins. Co.	MA	1989
Diamond Benefits Life Ins. Co.	AZ	1991
Executive Life Ins. Co.	CA	1991
Fidelity Bankers Life Ins. Co.	VA	1991
Midwest Life Ins. Co.	LA	1991
Fidelity Mutual Life Ins. Co.	PA	1992
American Integrity Ins. Co.	PA	1993
Consumers United Life Ins. Co.	DE	1993
Kentucky Central Life Ins. Co.	KY	1993
National Heritage Life Ins. Co.	DE	1994
Confederation Life Ins. Co., U.S.	MI	1996
American Standard Life Ins. Co.	OK	1997
American Western Life Ins. Co.	UT	1997
Centennial Life Ins. Co.	KS	1998
Universe Life Ins. Co.	ID	1998
First National Life Ins. Co. of America	MS	1999
International Financial Services Life Ins. Co.	MO	1999
American Chambers Life Ins. Co.	OH	2000
Reliance Insurance Co.	PA	2001
Legion Insurance Co.	PA	2003
Life & Health Ins. Co. of America	PA	2004
London Pacific Life & Annuity Co.	NC	2004
Shelby Casualty Insurance Company	TX	2006

INSOLVENCY ASSESSMENTS

Class "A" Administrative Assessments

Class "A" assessments are made in accordance with Section 376.735.2(1) RSMo (Assessments against members, when due, classes—amounts, how determined) to fund the administrative, legal and other expenses of the Association. Class "A" assessments may be made on a pro-rata or non-pro-rata basis as determined by the Board of Directors. The following is a summary of the Class "A" assessments levied during the current examination period:

Year	Type	Amount	Members	Assessment
2004	Non-pro-rata	\$150	866	\$129,900

2005	Non-pro-rata	\$150	868	\$130,200
2006	Non-pro-rata	\$150	858	\$128,700

The Plan of Operation requires that Class “A” assessments be approved by a majority of the Board of Directors. A review of the Board of Director meeting minutes for the period under examination indicated that all of the assessments levied during the current examination period were approved by the Board.

Class “B” Assessments

Class “B” assessments are made in accordance with Section 376.735.2(2), RSMo, (Assessments against members, when due, classes—amounts, how determined) to fund the Association’s obligations regarding specific impaired or insolvent insurers. Class “B” assessments may only be levied on a pro-rata basis and require the approval of a majority of the Board of Directors. There have been no Class “B” assessments during the current period under examination.

FIDELITY BOND & OTHER INSURANCE

Missouri Life and Health Insurance Guaranty Association is a named insured on a business policy providing coverage against losses due to dishonest or fraudulent employee acts with a limit of liability of \$500,000. The Company is also protected against loss from various hazards and perils by additional coverages, some of which are described below:

- | | |
|----------------------------|---------------------------|
| Building Personal Property | Tenant Legal Liability |
| Umbrella Liability | Business Auto Liability |
| Fire Damage | Medical Expense Liability |
| General Liability | Employer’s Liability |
| Workers’ Compensation | |

EMPLOYEE BENEFITS

The Association has a staff of five full-time employees. The Association provides employees with a benefit package including paid vacation, paid sick leave, paid holidays, health and dental insurance, life insurance and long-term disability insurance.

The Association sponsors a 401(k) plan covering full-time employees with at least one year of service. The Board of Directors contributes to the plan on a discretionary basis. For each year under examination, the Association contributed 8% of an employee’s gross salary to the retirement plan. The Association does not maintain any other post-employment or post-retirement benefit plans.

ACCOUNTS AND RECORDS

The Association prepares its financial statements on a modified cash basis. Trial balances for the period under examination were traced to the annual statement without material exception.

The Association is audited annually by an independent accounting firm. The Association's auditor for the years under examination was Williams Keepers, LLC, CPA. CPA workpapers for the most recent audit were reviewed and used in the examination process as deemed appropriate.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Association as of December 31, 2006, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (The failure of any column of numbers 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 in relation to the financial statements, and therefore were only communicated to the Association and noted in the workpapers for each individual Annual Statement item.

CLASS "A" ASSETS

Cash in Bank	\$	(13,098)
Petty Cash		50
Due from Class B		2,855
Due from MOPCIGA		30,378
Investments		133,000
Prepaid Expenses		2,244
Property and Equipment		4,485
Total Assets	\$	<u>159,914</u>

CLASS "A" LIABILITIES AND NET ASSETS

Total Liabilities	\$	-
Total Net Assets	\$	<u>159,914</u>
Total Liabilities and Net Assets	\$	<u>159,914</u>

CLASS "A" SUMMARY OF OPERATIONS

REVENUES

Assessment Income	\$ 130,650
Interest Income	4,073
Miscellaneous Income	161
Allocations to Estates	34,951
Allocations to MOPCIGA	<u>289,355</u>
Total Revenues	<u>\$ 459,190</u>

EXPENSES

Uncollectible Assessments	\$ 1,500
General & Administrative	2,436
Rent	4,155
Utilities	633
Audit Fees	16,600
Legal Fees	20,158
Computer Support	639
Depreciation Expense	478
Dues, Fees & Subscriptions	2,590
Employee Benefits	51,526
Insurance	860
Printing	702
Postage	928
Salary Expense / Joint Employees	9,742
Salaries	335,015
Office Supplies	969
Telephone and Fax	1,932
Taxes - Employer's FICA	12,927
Tax - Unemployment	462
Travel Expense	<u>10,301</u>
Total Expenses	<u>\$ 474,553</u>
Net Income / (Loss)	<u>\$ (15,363)</u>

CLASS "A" CHANGE IN NET ASSETS

Net Assets, prior year	\$ 175,278
Net Income / (Loss)	<u>(15,364)</u>
Net Assets, current year	<u>\$ 159,914</u>

CLASS "B" ASSETS

Cash & Cash Equivalents	\$	417,939
Accounts Receivable		232,502
Other Short-Term Investments		11,674,406
Long-Term Investments		<u>23,255,000</u>
Total Assets:	\$	<u>35,579,847</u>

CLASS "B" LIABILITIES AND NET ASSETS

Accounts Payable	\$	2,855
Funds Held for Others		93
Notes Payable		1
Estimated Claims Payable		<u>26,915,174</u>
Total Liabilities	\$	26,918,123
Total Net Assets:	\$	<u>8,661,724</u>
Total Liabilities and Net Assets:	\$	<u>35,579,847</u>

CLASS "B" SUMMARY OF OPERATIONS

REVENUES

Premium Income	\$ 355,937
Investment Income	1,205,652
Liquidation Distributions	<u>3,706,746</u>
Total Revenues	<u>\$ 5,268,335</u>

EXPENSES

Policyholder Claims	\$ 486,417
Assumption Reinsurance Ceding Costs	1,723,334
Change in Estimated Claims	(1,247,827)
Professional / Consult Fees	23,302
NOLHGA Expenses	148,882
General & Administrative	<u>35,921</u>
Total Expenses	<u>\$ 1,170,029</u>
Net Income / (Loss)	<u>\$ 4,098,306</u>

CLASS "B" CHANGE IN NET ASSETS

Net Assets, prior year	\$ 4,563,418
Net Income / (Loss)	<u>4,098,305</u>
Net Assets, current year	<u>\$ 8,661,723</u>

NOTES TO FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

