

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

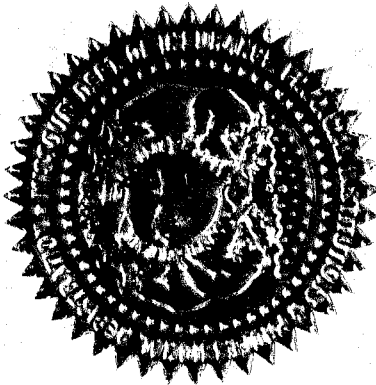
RE: Examination Report of Caterpillar Life Insurance Company as of December 31, 2005

### ORDER

After full consideration and review of the report of the financial examination of Caterpillar Life Insurance Company for the period ended December 31, 2005, 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 Caterpillar 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 7, 2007.



A handwritten signature in black ink, appearing to read "Douglas M. Ommen".

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

REPORT OF  
FINANCIAL EXAMINATION

**CATERPILLAR LIFE INSURANCE COMPANY**

As Of  
December 31, 2005



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

## TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
PERIOD COVERED .....	1
COMMENTS PRIOR EXAMINATION.....	2
HISTORY .....	2
GENERAL.....	2
CAPITAL STOCK.....	2
DIVIDENDS.....	2
MANAGEMENT.....	2
OFFICERS.....	3
CONFLICT OF INTEREST .....	3
CORPORATE RECORDS .....	3
ACQUISITIONS, MERGERS AND MAJOR CORPORATE EVENTS .....	3
SURPLUS DEBENTURES .....	4
AFFILIATED COMPANIES .....	4
HOLDING COMPANY, SUBSIDIARIES AND AFFILIATE .....	4
ORGANIZATIONAL CHART .....	4
INTERCOMPANY TRANSACTIONS .....	4
GENERAL AGENCY AGREEMENT.....	5
MANAGEMENT AGREEMENT .....	5
INVESTMENT MANAGEMENT AGREEMENT .....	5
FIDELITY BOND AND OTHER INSURANCE .....	5
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS .....	6
STATUTORY DEPOSITS .....	6
DEPOSITS WITH THE STATE OF MISSOURI.....	6
DEPOSITS WITH OTHER STATES .....	6
INSURANCE PRODUCTS AND PRACTICES.....	6
TERRITORY AND PLAN OF OPERATIONS.....	7
POLICY FORMS AND UNDERWRITING; ADVERTISING AND SALES MATERIALS; TREATMENT OF POLICYHOLDERS .....	7
REINSURANCE.....	7
ASSUMED .....	7
CEDED .....	7
ACCOUNTS AND RECORDS.....	8
FINANCIAL STATEMENTS .....	8
ASSETS .....	9
LIABILITIES, SURPLUS AND OTHER FUNDS .....	9
STATEMENT OF INCOME.....	10
CAPITAL AND SURPLUS ACCOUNT .....	10
EXAMINATION CHANGES .....	11
NOTES TO FINANCIAL STATEMENTS.....	11
GENERAL COMMENTS OR RECOMMENDATIONS .....	11
SUBSEQUENT EVENTS .....	11
VERIFICATION.....	12
SUPERVISION.....	12

December 29, 2006  
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 Ann Womer Benjamin, Director  
Ohio Department of Insurance  
Secretary of the Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Director  
Department of Insurance, Financial Institutions and Professional Registration  
301 West High Street, Room 630  
Jefferson City, MO 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**

also referred to as “Caterpillar Life” or the “Company.” The Company’s administrative office is located at 2120 West End Avenue, Nashville, Tennessee 37203, telephone number (615) 341-8147. This examination began on August 14, 2006 and concluded December 29, 2006.

**SCOPE OF EXAMINATION**

**Period Covered**

The previous examination of Caterpillar Life Insurance Company was performed as of May 31, 2004. The examination was conducted by an examiner from the state of Missouri.

The current full scope association financial examination covers the period from June 1, 2004 through December 31, 2005. The examination was conducted by examiners from the Department of Insurance, Financial Institutions and Professional Registration (“the Department”) representing the Midwestern Zone of the NAIC. No other zones participated in this examination.

This examination also included material transactions or events occurring after December 31, 2005.

## COMMENTS PRIOR EXAMINATION

None.

## HISTORY

### General

On May 1, 2004, the Department of Insurance, Financial Institutions and Professional Registration approved the acquisition of Maxicare Life and Health Insurance Company by Caterpillar Inc. After the acquisition was completed, the Company's articles of incorporation were amended, changing the name from Maxicare to Caterpillar Life Insurance Company. Caterpillar Inc. funded the Company with a \$10 million contribution: \$600,000 as a statutory deposit with the state of Missouri and the remaining \$9.4 million as working capital.

### Capital Stock

The Company's articles of incorporation authorize the issuance of 40,000 shares of common stock with par value of \$125 per share. At year-end 2005; 20,000 shares of common stock were issued and outstanding for a total capital stock balance of \$2,500,000. Caterpillar Inc. owns all of the outstanding shares.

### Dividends

No dividends have been paid or declared during the examination period.

### Management

The management of the Company is vested in a Board of Directors appointed by the sole shareholder, Caterpillar Inc. The Company's by-laws specify a minimum of 9 and a maximum of 24 directors. The directors appointed and serving at December 31, 2005 were as follows:

<u>Name and Address</u>	<u>Affiliation</u>
Kent M. Adams Brentwood, TN	President Caterpillar Financial Services Corporation
David L. Bomberger Peoria, IL	President Caterpillar Investment Management Ltd.
Brian P. LePage Franklin, TN	Vice-President (Chief Actuary) Caterpillar Life Insurance Company

Steven B. Resnick Brentwood, TN	Vice-President (Treasurer) Caterpillar Life Insurance Company
Larry K. Smith Unionville, TN	Vice-President Caterpillar Life Insurance Company
Lavona G. Russell Brentwood, TN	Vice-President (Operations) Caterpillar Life Insurance Company
Jeffrey L. Pridgen Brentwood, TN	Vice-President (Underwriting) Caterpillar Life Insurance Company
James R. Bynum Brentwood, TN	Vice-President Caterpillar Life Insurance Company
Michael D. Reeves Smyrna, GA	President Caterpillar Life Insurance Company

### **Officers**

The officers elected and serving as of December 31, 2005, were as follows:

<u>Name</u>	<u>Office</u>
Michael D. Reeves	President
Donald J. Meyers	Secretary
Steven B. Resnick	Treasurer

### **Conflict of Interest**

The Company has a policy requiring officers, directors, and key employees to complete a signed conflict of interest disclosure statement annually. We reviewed the statements for the years under examination. No material conflicts were disclosed.

### **Corporate Records**

We reviewed the Company's articles of incorporation and by-laws. There were no changes to the articles of incorporation or the by-laws during the examination period.

We also reviewed the board of directors' meetings minutes. The minutes appear to properly support and approve the major corporate transactions and events for the period under examination.

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

None

## Surplus Debentures

On May 1, 2004, the board of directors authorized the issuance of a \$35 million surplus note to Caterpillar Financial Services Corporation subject to the approval of the Department. On July 23, 2004, the Department approved the issuance of the note, which accrues interest at a rate of 5.6% per annum. For the years ending December 31, 2004 and 2005, the Company reported accrued interest of \$827,555 and \$1,987,223 respectively.

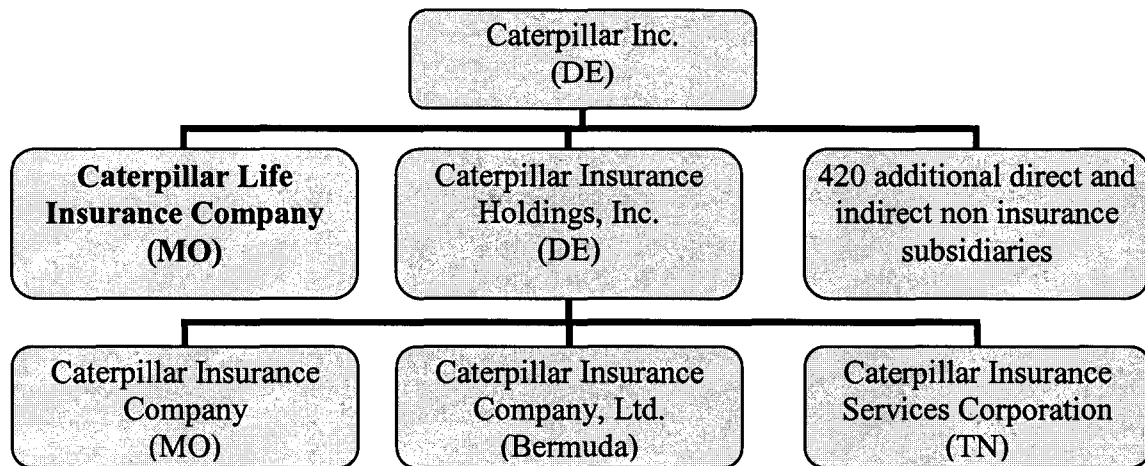
## AFFILIATED COMPANIES

### Holding Company, Subsidiaries and Affiliate

The Company is a member of an insurance holding company system as defined by Section 382.010 RSMo. The ultimate controlling person in the insurance holding company system is Caterpillar, Inc. a publicly traded corporation primarily engaged in manufacturing commercial construction equipment and engines.

### Organizational Chart

The organizational chart below represents the companies within the insurance holding company system of the larger Caterpillar, Inc. group, all subsidiaries are wholly owned. A complete list of all companies within the holding company system is included within the annual statement.



### Intercompany Transactions

During the period under examination the Company was party to the following intercompany management and services agreements.

### General Agency Agreement

On May 1, 2004, the Company entered into a General Agency Agreement with Caterpillar Insurance Services Corporation. Under the agreement, Caterpillar Insurance Services Corporation solicits, receives and accepts proposals and binds contracts for insurance under all lines which the Company is authorized to write. Caterpillar Insurance Services Corporation also collects and remits premium to the Company. Fees related to this agreement are paid under the Management Agreement described below.

### Management Agreement

On June 1, 2005, the Company, Caterpillar Insurance Company, Caterpillar Insurance Company Ltd. and Caterpillar Product Services Corporations (collectively, the “members”) entered into a Management Agreement with Caterpillar Insurance Services Corporation, Caterpillar Insurance Holdings Inc., Caterpillar Financial Services Corporation and Caterpillar Inc. (collectively, the “providers”). Under the agreement, the providers furnish the members with necessary services including, but not limited to, financial management, warranty administration, risk management and reinsurance, actuarial services, human resources, internal audit, information technology, communication services, purchasing services and mailing and central processing facilities. Members pay the providers a monthly fee equal to the cost of the services provided. The allocation of shared expenses is consistent with provisions of Regulation 30 of the New York Insurance Department.

### Investment Management Agreement

On May 1, 2004, the Company appointed Caterpillar Investment Management Ltd. as investment manager with full and complete discretionary power and authority to manage the Company’s investments. Caterpillar Investment Management Ltd.’s authority includes, but is not limited to, selection of investments per the investment policy; sale of assets and reinvestment of proceeds; selection of brokers; and establishment of terms and conditions for making investments. The investment management fee, payable quarterly, is based upon the market value of assets, with separate fee schedules for fixed income and equity investments. Fees paid under this agreement were \$92,480 in 2004 and \$253,092 in 2005.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a Crimeguard policy purchased by Caterpillar Inc. with a limit of \$25 million and a deductible of \$5 million. The limit exceeds the NAIC suggested minimum. However, the high deductible creates a gap between the NAIC suggested minimum and the Company’s coverage.

The Company is also a named insured on an Executive and Organization Liability policy purchased by its parent. The policy provides an aggregate limit of liability of \$20 million with a \$2.5 million deductible (\$10 million deductible for securities claims).



## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. Services are provided to the Company under agreements described in “Intercompany Transactions”. Employees providing the services receive benefits typical of the industry: medical benefits (including vision and dental care), retirement benefits, a 401(k) plan, incentive compensation, life insurance, disability insurance, family and medical leave, vacation, paid holidays, educational assistance, employee assistance and flexible spending accounts.

### STATUTORY DEPOSITS

#### Deposits with the State of Missouri

The funds on deposit with the Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2005, as reflected below, were sufficient in par and market value to meet the minimum requirement of \$600,000 in accordance with Section 376.290 RSMo – Security Deposits.

<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U.S. Treasury Note	<u>\$1,500,000</u>	<u>\$1,488,990</u>	<u>\$1,500,400</u>

#### Deposits with other states

The Company also has funds on deposit with various other states. Those funds on deposit as of December 31, 2005, 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	\$ 202,085	\$ 205,254
New Mexico	US Treasury Note	210,000	206,367	210,319
Oklahoma	US Treasury Note	310,000	304,637	310,471
Totals		<u>\$ 725,000</u>	<u>\$ 713,089</u>	<u>\$ 726,044</u>

## **INSURANCE PRODUCTS AND PRACTICES**

### **Territory and Plan of Operations**

Caterpillar is licensed by the state of Missouri as a life and health insurer under Chapter 376 RSMo (Life, Health and Accident Insurance Laws). At year-end 2005, the Company was also licensed in the following jurisdictions:

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

During the examination period, the Company engaged in only one line of business, group accident and health. The Company provides stop loss coverage related to Caterpillar Inc. retiree medical benefits.

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

The Department has a separate market conduct staff that performs a review of these issues and generates a market conduct report. There has been no market conduct examination of Caterpillar since its inception.

## **REINSURANCE**

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.

### **Assumed**

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 did not assume any additional premium in 2005.

### **Ceded**

None.

## **ACCOUNTS AND RECORDS**

The Company's financial statements for the years ending December 31, 2004 and December 31, 2005, were audited by PricewaterhouseCoopers LLP, Certified Public Accountants. Reserves and related actuarial items as of December 31, 2005, were reviewed and certified by Brian P. LePage, ACAS, MAAA, Vice-President and Chief Actuary of the Company.

The Department retained Lewis and Ellis, Inc. as consulting actuary to review the adequacy of the Company's reserves and related liabilities. They found the reserves to be adequately stated.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2005, 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.

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 Company and noted in the workpapers for each individual annual statement item.

## ASSETS

	Assets	Non-admitted Assets	Net Admitted Assets
Bonds	\$ 132,692,790	\$ -	\$ 132,692,790
Common stocks (stocks)	17,694,402	-	17,694,402
Cash and short-term investments	7,261,144	-	7,261,144
Investment income due and accrued	719,682	-	719,682
Net deferred tax asset	3,158,911	2,895,888	263,023
Prepaid expenses	<u>25,903</u>	<u>25,903</u>	<u>-</u>
Totals	<u>\$ 161,552,832</u>	<u>\$ 2,921,791</u>	<u>\$ 158,631,041</u>

## LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for accident and health contracts	\$	102,251,844
Accident and health contract claims		964,888
Interest maintenance reserve		25,058
General expenses due or accrued		40,250
Current federal and foreign income taxes		330,570
Asset valuation reserve		3,079,467
Payable to parent; subsidiaries and affiliates		<u>57,793</u>
Total liabilities	\$	106,749,870
Common capital stock	\$	2,500,000
Surplus notes		37,814,778
Gross paid in and contributed surplus		15,169,067
Unassigned funds (surplus)		<u>(3,602,674)</u>
Total common stock and surplus	\$	51,881,171
Totals	\$	<u>158,631,041</u>

## STATEMENT OF INCOME

Net investment income	\$ 6,732,584
Amortization of Interest Maintenance Reserve	<u>11,631</u>
Totals	6,744,215
Benefits under accident and health contracts	1,701,801
Increase in aggregate reserves	<u>1,149,067</u>
Totals	2,850,868
General insurance expenses	162,631
Insurance taxes; licenses and fees;	<u>74,746</u>
Totals	237,377
Net gain from operations	3,655,970
Federal and foreign income taxes incurred	(647,552)
Net realized capital gains	<u>563,878</u>
Net income	<u><u>\$ 4,867,400</u></u>

## CAPITAL AND SURPLUS ACCOUNT

Capital and surplus; December 31; prior year	\$ 39,053,157
Net income	4,867,400
Change in net unrealized capital gains or (losses)	322,032
Change in net deferred income tax	(1,250,914)
Change in nonadmitted assets and related items	1,488,034
Change in asset valuation reserve	(267,605)
Change in surplus notes	1,987,223
Paid in (surplus adjustments)	7,669,067
Accrued surplus note interest	<u>(1,987,223)</u>
Net change in capital and surplus for the year	12,828,014
Capital and surplus; December 31; current year	<u><u>\$ 51,881,171</u></u>

**EXAMINATION CHANGES**

None.

**NOTES TO FINANCIAL STATEMENTS**

None.

**GENERAL COMMENTS OR RECOMMENDATIONS**

None.

**SUBSEQUENT EVENTS**

None.


**ACKNOWLEDGEMENT**

The assistance and cooperation extended by Caterpillar Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, John Rehagen, AFE, and Michael Gruner, AFE, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration participated in this examination.

**VERIFICATION**

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

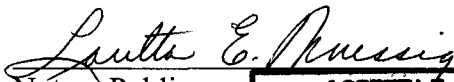
I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony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

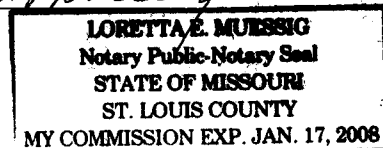
  
\_\_\_\_\_  
Thomas J. Cunningham, CPA, CFE  
Examiner-in-Charge  
Department of Insurance, Financial Institutions  
and Professional Registration

Sworn to and subscribed before me this 21<sup>st</sup> day of December, 2006.

My commission expires:

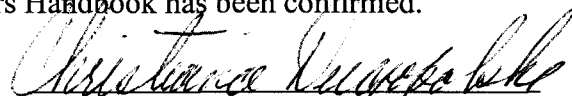
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Notary Public



**SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers 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.

  
\_\_\_\_\_  
Christiana Dugopolski, CPA, CFE  
Audit Manager  
Department of Insurance, Financial Institutions  
and Professional Registration