

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Reliable Life Insurance Company

ORDER

After full consideration and review of the report of the financial examination of Reliable 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 10th day of May, 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

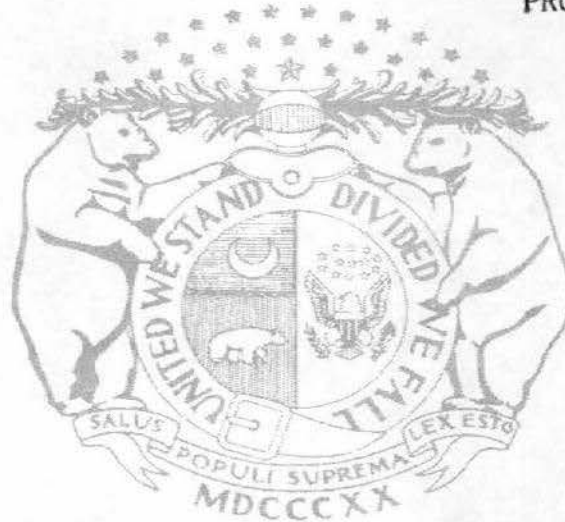
REPORT OF
FINANCIAL EXAMINATION

The Reliable Life Insurance Company
FILED

As of:
DECEMBER 31, 2009

MAY 20 2011

DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



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

JEFFERSON CITY, MISSOURI

Table of Contents

SCOPE OF EXAMINATION	1
Period Covered.....	1
Procedures.....	1
SUMMARY OF SIGNIFICANT FINDINGS	2
SUBSEQUENT EVENTS	2
COMPANY HISTORY	2
General.....	2
Capital Stock.....	3
Dividends	3
Mergers and Acquisitions	4
CORPORATE RECORDS	4
Committees	5
Conflict of Interest	5
Surplus Debentures	5
MANAGEMENT AND CONTROL	5
Holding Company.....	5
Organizational Structure	5
Intercompany Transactions.....	6
FIDELITY BOND AND OTHER INSURANCE	7
PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS	8
TERRITORY AND PLAN OF OPERATION; TREATMENT OF	
POLICYHOLDERS	8
Territory and Plan of Operation.....	8
Treatment of Policyholders.....	8
GROWTH OF COMPANY	8
LOSS EXPERIENCE	9
REINSURANCE	9
Assumed Reinsurance	9
Ceded Reinsurance.....	9
ACCOUNTS AND RECORDS	9
General.....	9
Independent Auditor	10
Independent Actuaries	10
Information Systems	10
STATUTORY DEPOSITS	10
Deposits with the State of Missouri.....	10
Deposits with Other States.....	10
FINANCIAL STATEMENTS	11
BALANCE SHEET	12

INCOME STATEMENT	13
CAPITAL AND SURPLUS.....	14
COMMENTS ON FINANCIAL STATEMENTS.....	14
SUMMARY OF RECOMMENDATIONS.....	14
ACKNOWLEDGEMENT.....	15
VERIFICATION.....	15
SUPERVISION	15

March 17, 2011
St. Louis, MO

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

Lady and Gentlemen:

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

The Reliable Life Insurance Company

hereinafter referred to as "Reliable" or the "Company." The Company's office is located at 12115 Lackland Road; St. Louis, Missouri 63146; telephone number (314) 819-4300. Examination fieldwork began on March 15, 2010 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

This examination covers the period from January 1, 2005 through December 31, 2009, and was conducted by examiners from the state of Missouri in conjunction with examiners from the state of Illinois. This examination also considered material transactions or events occurring subsequent to December 31, 2009.

Procedures

This examination was conducted as a coordinated examination with the state of Illinois acting as the lead state. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. 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. Key activities were: Treasury, Premiums, Reinsurance, and Claims.

The examiners relied upon information and workpapers provided by the Company's independent auditor, Deloitte & Touche, Chicago, Illinois, 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

The Company is operating in a manner that produced no significant concerns. Premium volume has declined; however, this is attributed to the overall weakened national economy. Nearly all risk has been transferred to the Company's parent through reinsurance transactions.

SUBSEQUENT EVENTS

There were no significant subsequent events.

COMPANY HISTORY

General

The Company was incorporated as Reliable Life & Accident Insurance Company on December 12, 1911, and was issued a Certificate of Authority as a stock life company. The Company began operations on January 22, 1912. In 1936, the Company changed its name to The Reliable Life Insurance Company.

The Company was acquired by Unitrin, Inc. on May 29, 1998. Unitrin, Inc. is a publicly held company with shares trading on the New York Stock Exchange and has subsidiaries engaging in life and health insurance, property and casualty insurance, and consumer finance.

On March 5, 2001, all common stock of the Company was purchased by United Insurance Company of America ("United"), a wholly owned subsidiary of Unitrin, Inc.

Effective December 31, 2003, Clayton Reinsurance Ltd., a Missouri domestic property and casualty insurer and wholly owned subsidiary of Reliable, was merged into the Company.

On January 13, 2005, the Texas Department determined that Reliable Life and Unitrin, Inc. were both affiliated with the Texas domestic insurer, Capitol County Mutual Fire ("Capitol County") through a management agreement between Reliable Life and Capitol County. Capitol County is the parent of Missouri domestic insurer, Old Reliable Casualty Company ("Old Reliable"). The Missouri Department of Insurance, Financial Institutions and Professional Registration had not previously considered Old Reliable affiliated with the Unitrin Group as Old Reliable and Capitol County had always maintained an independent board of directors, although certain officers were shared in common with Reliable Life. Effective March 31, 2005, the independent board of directors of Capitol County and Old Reliable were replaced with eight directors of Reliable Life and one Unitrin director.

Effective December 28, 2005, ownership of Reliable Life was transferred from United Insurance Company of America to Unitrin, Inc., the ultimate controlling entity in the holding company system.

Effective October 31, 2008, The Reliable Life Insurance Company of Texas was merged into the Company. Later that year, as of December 31, 2008, Clayton Reinsurance Ltd. was dissolved.

On December 1, 2009, Unitrin, Inc. was granted an Order of Exemption for the Form A filing to transfer all stock of Reliable Life from Unitrin, Inc. to United Insurance Company of America. As a result of the transfer, United will be Reliable Life's immediate parent and Unitrin, Inc. will remain the ultimate controlling entity in the holding company system. The transfer occurred on December 31, 2009.

Capital Stock

The Company has 21,000,000 shares of \$1.00 par value common stock authorized with 4,000,000 shares issued and outstanding. All shares are owned by United Insurance Company of America.

The Company also has 6,000,000 shares of \$1.00 par value preferred stock authorized, but none has been issued.

Dividends

The Company has paid the following stockholder dividends from inception to date:

<u>Year of Dividend</u>	<u>Amount</u>
Prior to 2005	\$ 95,361,292
2005	40,000,000
2006	12,100,000
2007	12,600,000
2008	15,100,000
2009	47,642,944
Total	\$ 222,804,236

Mergers and Acquisitions

Merger activity was discussed in the Company History section above.

CORPORATE RECORDS

Minutes of the meetings of the Board of Directors and annual meetings of the stockholder were reviewed for the years 2005 through 2009. Those minutes document evidence of the overall guidance provided by the Board of Directors.

As of December 31, 2009, the following nine members comprised the Board of Directors:

<u>Name</u>	<u>Position</u>
John Boschelli	Treasurer Unitrin Services Company
Christopher Moses	Vice President, Treasurer Unitrin Services Company
Richard Roeske	Vice President, Controller and Assistant Treasurer Unitrin Services Company
Samuel Fitzpatrick	Assistant Vice President and Assistant Secretary Unitrin Services Company
Thomas Myers	Senior Vice President and Treasurer United Insurance Company of America
Dennis Sandelski	Tax Director Unitrin Services Company
Edward Konar	Vice President Unitrin, Inc.

Scott Renwick	Senior Vice President, General Counsel, and Secretary Unitrin, Inc.
Francis Sodaro	Vice President – Planning and Analysis Unitrin Services Company

Officers serving at December 31, 2009 were:

<u>Name</u>	<u>Position</u>
Edward J. Konar	President
James R. Camillo	Secretary
Thomas D. Meyers	Treasurer

Committees

Committee assignments as of December 31, 2009 were as follows:

Investment Committee: John Boschelli and Edward Konar

Executive Committee: Francis Sodaro and Edward Konar

Audit Committee: The Board of Directors appointed the audit committee of Unitrin, Inc. to serve as the audit committee of the Company.

Conflict of Interest

Members of the senior management of this company and related entities provided signed conflict of interest disclosures. No instances of conflict of interest situations were reported.

Surplus Debentures

The Company had no surplus debentures.

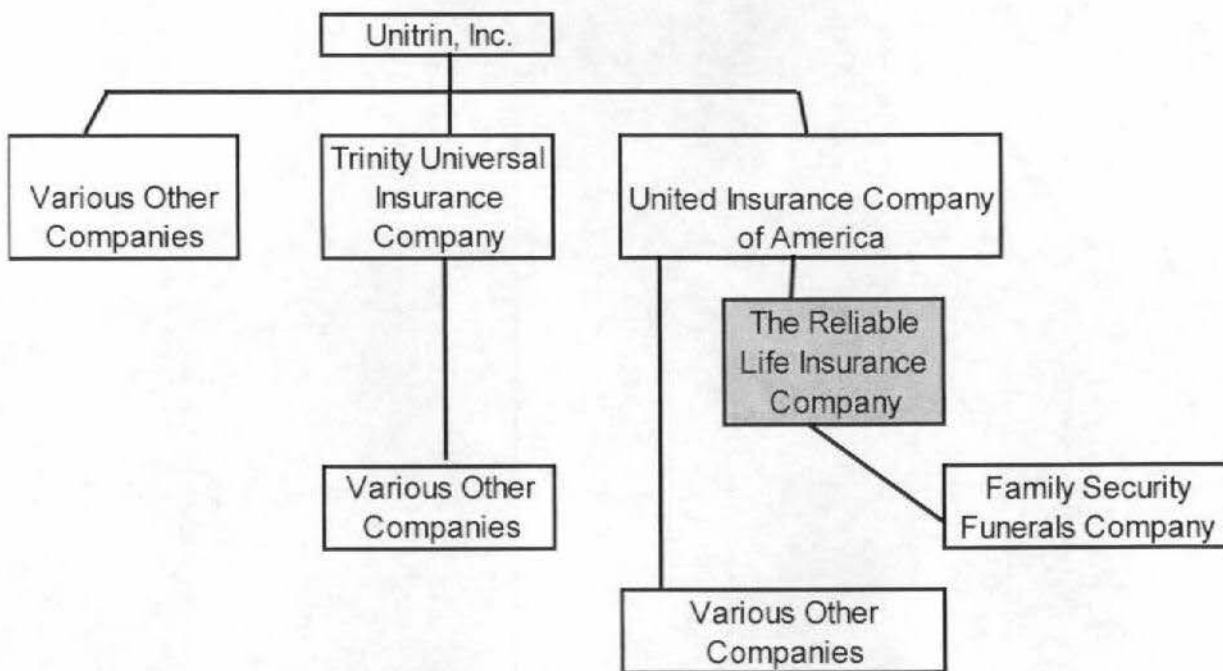
MANAGEMENT AND CONTROL

Holding Company

Reliable is a member of an insurance holding company system as defined by Chapter 382 RSMo (Insurance Holding Companies). Relationships are discussed in the Company History section above.

Organizational Structure

The following organizational chart shows the structure of the Company's ownership:



Intercompany Transactions

Reliable was a party to the following affiliated agreements at December 31, 2009:

Management Services Agreement

Parties: The Reliable Life Insurance Company and Capitol County Mutual Fire Insurance Company ("CCMF").

Effective: Effective January 13, 2005.

Terms: Reliable is responsible for the management of CCMF business subject to the oversight of the board of directors of CCMF. Services include but are not limited to, investment services, sales and sales personnel, accounting, claims administration, actuarial services, legal services, data processing and computer services, underwriting services, records maintenance, policy issue, reporting requirements and tax return processing and preparation. The monthly fee charged by Reliable is based on actual costs.

Rate(s): Fees earned during 2009 were \$12.1 million compared to \$16.9 million during 2008.

Insurance Administrative Agreement

Parties: The Reliable Life Insurance Company and United Insurance Company of America ("United").

Effective: Effective August 1, 2007.

Terms: United is responsible for providing administrative services including underwriting services for the issuance of the life and accident and health policies, printing and control of all policies and related forms, rating and issuance of all policies, binders and endorsements, administration and servicing of business after issuance, data processing support, maintenance of a phone center, defense, adjust, settle, and pay all new and existing claims, compile statistical data, legal support, and provide all agent licensing and field management services. The monthly fee charged to Reliable is based on actual costs incurred, with identifiable direct expenses billed directly and shared expenses allocated based on premium volume.

Rate(s): Reliable incurred fees of \$27.7 million for 2009 and \$54.7 million for 2008.

Computer Services Agreement

Parties: The Reliable Life Insurance Company and Unitrin Services Company ("USC").

Effective: Effective July 1, 2004.

Terms: Under the terms of the original agreement, Unitrin Services Company agrees to provide data processing, equipment acquisition, software acquisition, consulting, and miscellaneous services on behalf of Reliable. In return for services provided, Reliable reimburses USC for direct and indirect costs incurred. USC bills Reliable monthly based on projected expenses and direct expenses plus an administrative charge not to exceed 6%. Payment is required within thirty days of the receipt of the invoice. The difference between the amounts paid based on the initial budget and the actual allocated expense is settled at the end of the year. The agreement was amended to revise the term effective August 1, 2001, from three years to an indefinite term. The agreement was again amended in 2004, changing fees to an actual cost basis, changing projections for costs from annually to semi-annually, and changing miscellaneous language in the agreement.

Rate(s): Reliable incurred no fees during 2009 and 2008

FIDELITY BOND AND OTHER INSURANCE

The Company has a fiduciary liability policy with a limit of \$25,000,000 and a \$750,000 deductible. This coverage is provided for all companies within the holding company system and exceeds the National Association of Insurance Commissioners' suggested minimum guidelines.

The Company is also adequately insured through policies providing coverage for personal property, general liability, automobile liability, workers compensation and employer liability, and directors' and officers' liability.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's staffing needs are met by employees of affiliates. These employees are provided a variety of standard benefits through Unitrin, Inc.'s benefit plans. Unitrin, Inc. sponsors certain contributory and non-contributory qualified defined pension plans, a 401-K savings plan and defined benefit postretirement plans that provide certain medical and life insurance benefits for retired and active employees. The Company is allocated its share of the net expenses under these plans.

TERRITORY AND PLAN OF OPERATION; TREATMENT OF POLICYHOLDERS

Territory and Plan of Operation

The Company is licensed in 48 states, the District of Columbia, and the US Virgin Islands. The Company is not licensed in the states of Louisiana and New York. The Company is licensed in Missouri under Chapter 376 RSMo (Life and Accident Insurance) to write life, accident and health insurance and annuities.

The Company's sales force provides marketing for Capitol County Mutual Fire Insurance Company and its subsidiary, Old Reliable Casualty Company. In addition, the Company's agency sales force services the home service policies of The Reliable Life Insurance Company of Texas and United Insurance Company of America.

The Company primarily writes low face amount, whole life insurance policies. The Company also writes, to a lesser extent, individual term policies, interest sensitive whole life policies, and single premium whole life insurance policies. In addition, the Company writes a small amount of individual and group accident and health business.

Treatment of Policyholders

The Missouri Department of Insurance, Financial Institutions and Professional Registration has a market conduct staff which performs a review of these issues and generates a separate market conduct report. No market conduct examination occurred during this examination period.

GROWTH OF COMPANY

The Company has experienced some decline in premium volume in recent years, although the overall premium level would be considered stable. The decline was attributed to the general weakness in the nation's economy over the past few years. Net

income has been stable. The reinsurance transactions the Company engaged in during 2009 have substantially reduced the level of risk to the Company.

LOSS EXPERIENCE

The Company reinsured nearly all the risk in its book of business during 2009. Prior to the reinsurance transactions, the loss experience was consistent from one year to the next. Losses have been maintained at levels which allowed the Company to remain profitable. The reserving process has consistently been identified as adequate.

REINSURANCE

Premiums written by The Reliable Life Insurance Company since 2006 were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct Written	\$111,856,983	\$110,150,160	\$109,800,952	\$110,140,743
Assumed from Affiliates	3,388,238	3,092,233	2,605,331	(78,856)
Assumed from Non-Affiliates	0	0	0	(78)
Ceded to Affiliates	0	0	0	119,144,439
Ceded to Non-Affiliates	<u>192,495</u>	<u>70,281</u>	<u>167,579</u>	<u>199,526</u>
Net Written Premiums	<u>\$115,052,726</u>	<u>\$113,172,112</u>	<u>\$112,238,704</u>	<u>(\$9,282,156)</u>

Assumed Reinsurance

Reliable has a small amount of life, accident and health business assumed from its parent company, United Insurance Company of America ("United"). This assumed business is retroceded back to United through the Recapture and Termination Agreement with United effective May 1, 2009. At December 31, 2009, the Company carried no loss reserves for assumed reinsurance business.

Ceded Reinsurance

Reliable cedes 100% of its past, existing and future life, accident and health business to its parent, United Insurance Company of America. This 100% cession agreement was mandated by Unitrin, Inc., and the agreement effectively eliminates all pricing, underwriting, and loss reserving risks for the Company. As a result, the Company carries no loss or LAE reserves as of December 31, 2009.

ACCOUNTS AND RECORDS

General

The Company uses a modified commercial package (Life/70) for policy and claims administration, and Oracle Finance for the general ledger software system.

Independent Auditor

The Company is audited by the accounting firm of Deloitte & Touche, LLP. Workpapers from the most recent audit were used in the course of this examination as deemed appropriate.

Independent Actuaries

Reserves and related actuarial items reported in the financial statements were certified by the Company's chief actuary, Gary D. Bleitner, FSA, MAAA.

The reserving process of the Company was evaluated by Chang H. Park, actuary with the Illinois Department of Insurance. There were no significant findings identified in his review.

Information Systems

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the Missouri Department of Insurance, Financial Institutions and Professional Registration conducted a review of the Company's information systems. No materially significant issues were identified.

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, had sufficient par and market values to meet the deposit requirement for the state of Missouri per Section 376.290 RSMo (Trust Deposits) and Section 375.460 RSMo (Deposits with director):

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Bond	\$ 5,000,000	\$ 5,349,219	\$ 5,331,813

Deposits with Other States

The Company has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2009, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Arkansas	US Treasury Bond	\$ 100,000	\$ 119,594	\$ 108,003
Georgia	US Treasury Bond	60,000	71,756	64,802
Illinois	US Treasury Bond	20,000	27,731	22,807
Massachusetts	US Treasury Bond	100,000	138,656	114,037
New Hampshire	US Treasury Bond	110,000	152,522	125,440
New Mexico	US Treasury Bond	100,000	119,594	108,003
North Carolina	US Treasury Bond	110,000	152,522	125,440
North Carolina	US Treasury Bond	290,000	323,531	307,087
Texas	US Treasury Bond	4,250,000	4,546,836	4,532,041
Virginia	US Treasury Bond	<u>105,000</u>	<u>125,573</u>	<u>113,403</u>
	TOTALS	<u>\$ 5,245,000</u>	<u>\$ 5,778,315</u>	<u>\$ 5,621,063</u>

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 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 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.

BALANCE SHEET
As of December 31, 2009

Line	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$12,047,968	\$0	\$12,047,968
Cash and short-term investments	19,347,105	0	19,347,105
Other invested assets	895,336	789,086	106,250
Investment income due and accrued	413,773	0	413,773
Uncollected premiums	(27,746,914)	0	(27,746,914)
Amounts recoverable from reinsurers	10,689,373	0	10,689,373
Amounts receivable under reinsurance contracts	3,846,796	0	3,846,796
Federal income tax	1,648,960	0	1,648,960
Net deferred tax asset	809,853	532,291	277,562
Guaranty funds receivable or on deposit	330,391	0	330,391
Electronic data processing equipment and software	16,025	0	16,025
Furniture and equipment	319,859	319,859	0
Aggregate write-ins for other than invested assets	<u>1,268,995</u>	<u>369,031</u>	<u>899,963</u>
Total Assets	<u>\$23,887,520</u>	<u>\$2,010,266</u>	<u>\$21,877,254</u>
Liabilities			
General expenses due or accrued			\$1,241,616
Taxes, licenses and fees			344,776
Remittances and items not allocated (miscellaneous liabilities)			641,491 4,526,704
Aggregate write-ins for liabilities			<u>4,466,604</u>
Total Liabilities			11,221,191
Capital and Surplus			
Common capital stock			4,000,000
Gross paid in and contributed surplus			6,000,000
Aggregate write-ins for special surplus funds			104,581
Unassigned funds (surplus)			<u>551,482</u>
Total Capital and Surplus			<u>10,656,063</u>
Total Liabilities and Capital and Surplus			<u>\$21,877,254</u>

INCOME STATEMENT
For Year Ending December 31, 2009

Premiums and annuity considerations	(\$9,282,156)	
Net investment income	18,075,149	
Amortization of Interest Maintenance Reserve (IMR)	39,079	
Commissions and expense allowances on reinsurance ceded	840	
Aggregate write-ins for miscellaneous income	77,340	
Totals	<u>8,910,252</u>	
Death benefits	5,384,473	
Matured endowments	410,896	
Annuity benefits	134,152	
Disability benefits and benefits under accident and health contracts	86,212	
Coupons, guaranteed annual pure endowments and similar benefits	363	
Surrender benefits and withdrawals for life contracts	3,630,117	
Interest and adjustments on contract or deposit-type contract funds	(215,865)	
Payments on supplementary contracts with life contingencies	93	
Increase in aggregate reserves for life and A&H contracts	(652,318,581)	
Totals	<u>(642,888,140)</u>	
Commissions on premiums	7,627,584	
Commissions and expense allowances on reinsurance assumed	2,613	
General insurance expenses	10,555,212	
Insurance taxes, licenses and fees	1,715,269	
Increase in loading on deferred and uncollected premiums	(22,453,502)	
Aggregate write-ins for deductions - amounts paid for coinsurance	638,647,965	
Totals	<u>(6,792,999)</u>	
Net gain from operations before dividends to policyholders	<u>15,703,252</u>	
Dividends to policyholders	<u>1,720</u>	
Net gain from operations after dividends to policyholders	<u>15,701,532</u>	
Federal income taxes incurred	<u>1,990,730</u>	
Net gain from operations	<u>13,710,803</u>	
Net realized capital gains or (losses)	<u>(3,324,064)</u>	
Net income	<u>\$10,386,739</u>	

CAPITAL AND SURPLUS
Changes for 2009

Capital and surplus, December 31, 2008		\$ 56,363,028
Net income	10,386,739	
Change in net unrealized capital gains (losses)	(294,152)	
Change in net deferred income tax	(38,503,529)	
Change in nonadmitted assets	33,002,035	
Change in asset valuation reserve	1,240,306	
Change per examination	0	
Paid in (surplus adjustments)	(4,000,000)	
Dividends to stockholders	(47,642,944)	
Aggregate write-ins for gains and losses in surplus	104,581	
Net change in capital and surplus for the year	<u>(45,706,964)</u>	
Capital and surplus, December 31, 2009		<u>\$ 10,656,064</u>

COMMENTS ON FINANCIAL STATEMENTS

None

SUMMARY OF RECOMMENDATIONS

None

