

STATE OF INDIANA )  
 ) SS:  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
PacifiCare Life and Health Insurance Company )  
7449 Woodland Drive )  
Indianapolis, Indiana 46278 )

**Examination of PacifiCare Life and Health Insurance  
Company**

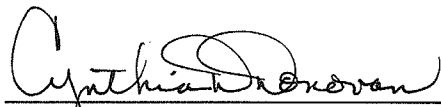
**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **PacifiCare Life and Health Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of **PacifiCare Life and Health Insurance Company** shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

6/29/2011  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 8561**

STATE OF INDIANA ) BEFORE THE INDIANA  
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PacifiCare Life and Health Insurance Company )  
7449 Woodland Drive )  
Indianapolis, Indiana 46278 )

**Examination of PacifiCare Life and Health Insurance  
Company**

### **FINDINGS AND FINAL ORDER**

The Indiana Department of Insurance conducted an examination into the affairs of the **PacifiCare Life and Health Insurance Company** (hereinafter "Company") for the time period January 1, 2005 through December 31, 2009.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on May 4, 2011.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on June 1, 2011 and was received by the Company on June 6, 2011.

On June 20, 2011, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.
2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2009.

3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 29<sup>th</sup> day of  
June, 2011.

  
Stephen W. Robertson  
Insurance Commissioner

**STATE OF INDIANA**

**Department of Insurance**

**REPORT OF EXAMINATION**

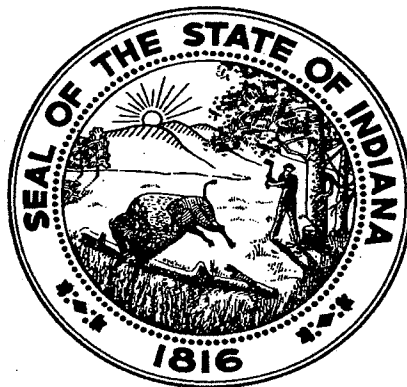
**OF**

**PACIFICARE LIFE AND HEALTH INSURANCE COMPANY**

**NAIC COMPANY CODE 70785**

As of

December 31, 2009



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May 4, 2011

Honorable Joseph Torti, III, Chairman  
Financial Condition (E) Committee, NAIC  
Deputy Director and Superintendent of Insurance  
Department of Business Regulation  
Division of Insurance  
1511 Pontiac Avenue  
Cranston, Rhode Island 02920

Honorable Monica J. Lindeen, Commissioner  
Montana Office of the Commissioner of Securities and Insurance  
Secretary, Western Zone  
840 Helena Avenue  
Helena, Montana 59601

Honorable Stephen W. Robertson, Commissioner  
Indiana Department of Insurance  
Secretary, Midwestern Zone  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204

Dear Superintendent and Commissioners:

Pursuant to the authority vested in Appointment Number 3660, an examination has been made of the affairs and financial condition of:

**PacifiCare Life and Health Insurance Company**  
**7449 Woodland Drive**  
**Indianapolis, IN 46278**

an Indiana domestic, stock, life and health insurance company hereinafter referred to as the "Company". The examination was conducted at the corporate offices of the Company in Cypress, California.

The Report of Examination, reflecting the status of the Company as of December 31, 2009, is hereby respectfully submitted.

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (IDOI) as of the period ending December 31, 2004. The present risk-focused examination was conducted by Huff, Thomas & Company (HuffThomas) and covered the period from January 1, 2005, through December 31, 2009, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

With 83% of the Company's 2009 written premium derived from the State of California, the California Department of Insurance (CA DOI) elected to participate in the examination.

In conducting the risk-focused examination, the IDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by Deloitte & Touche LLP for the years ended December 31, 2006, through December 31, 2009, and by Ernst & Young LLP for the year ended December 31, 2005. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

Jeffrey Beckley, FSA, MAAA, of Actuarial Options, LLC, a consulting actuary appointed by the IDOI, conducted a review of the Company's life and health reserves as of December 31, 2009.

This risk-focused examination was conducted in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition. Examination procedures included the verification and evaluation of assets, determination of liabilities and review of income and disbursement items, minutes, corporate documents, policy and claim files, and other records to the extent deemed necessary.

The comments and recommendations from the previous IDOI examination were reviewed. It was noted the Company has taken corrective action with respect to all prior recommendations.

## HISTORY

The Company was incorporated on March 1, 1967, under the laws of the State of Indiana, as National Public Life Insurance Company and first commenced business on September 1, 1967. On February 19, 1973, it adopted the name of Firstmark Life Insurance Company of Indiana. On December 31, 1976, Firstmark Life Insurance Company of Delaware was merged into Firstmark Life Insurance Company of Indiana, with the Indiana company remaining as the surviving company.

On November 30, 1984, Firstmark Life Insurance Company of Indiana was acquired by Columbia General Life Insurance Company, an Arizona corporation. On December 31, 1984, Columbia General Life Insurance Company was merged into the Company, the survivor, and the name was then changed to Columbia General Life Insurance Company, an Indiana corporation.

On May 1, 1986, PacifiCare Health Systems, a Delaware corporation, which later changed its name to PacifiCare Operations, Inc., and was subsequently merged into PacifiCare Health Plan Administrators,

Inc. (PHPA), acquired Columbia General Life Insurance Company. On September 29, 1993, the present name was adopted. On January 1, 1999, PHPA contributed 1% of the Company's shares to PacifiCare Health Systems, Inc.

PHPA holds 99% of the Company's common stock while PacifiCare Health Systems, LLC (formerly PacifiCare Health Systems, Inc.) holds the remaining 1%. PHPA is a wholly owned subsidiary of PacifiCare Health System, LLC.

On December 20, 2005, PacifiCare Health Systems, Inc. became a wholly owned subsidiary of UnitedHealth Group Incorporated (UHG). UHG is a publicly held company trading on the New York Stock Exchange. Accordingly, UHG is presently the Company's ultimate parent company.

In connection with the Agreement and Plan of Merger by UHG, Point Acquisition, LLC and PacifiCare Health Systems, LLC, signed as of December 19, 2005, the Company has agreed to comply with certain requirements, or undertakings (The Undertakings) as ordered by the CA DOI. The Undertakings are effective January 1, 2006, and generally remain in full force and effect for four years, ending on the fourth anniversary of the merger, unless terminated sooner. The Undertakings generally fall into the following four (4) categories:

- Representations that post-merger business practices within the California marketplace will not be adversely impacted by the merger
- Commitments to invest in healthcare infrastructure and charities in underserved communities within California
- Limitations on financing arrangements with restrictions on dividends to UHG, and
- Financial and other reporting requirements and maintenance of certain financial ratios

### **CAPITAL AND SURPLUS**

As of December 31, 2009, the Company had 2,000 authorized shares of common stock of which 1,500 were issued and outstanding. The Company's common stock has a par value of \$2,000 per share. All issued and outstanding shares were owned 99% by PHPA and 1% by PacifiCare Health Systems, LLC.

#### **Gross Paid-In and Contributed Surplus**

The Company received a \$15,000,000 surplus contribution from its parent in 2006. There were no other contributions during the period under examination.



### DIVIDENDS TO STOCKHOLDERS

The Company paid the following dividends during the examination period:

<u>Year</u>	<u>Amount</u>
2005	\$100,000,000
2006	None
2007	139,500,000
2008	78,275,000
2009	<u>79,000,000</u>
Total	<u>\$396,775,000</u>

### TERRITORY AND PLAN OF OPERATION

The Company is licensed as a life, accident and health insurance company and is engaged in providing various forms of coverage under individual and group accident and health insurance, principally in the State of California. The Company possesses the legal ownership of certain intellectual property for which it receives royalty income from certain affiliated companies. The Company is domiciled in the State of Indiana and commercially domiciled in the State of California with its home office in Cypress, CA. The Company is licensed to transact business in all states, except for New York, and the District of Columbia.

### GROWTH OF THE COMPANY

Comparative financial data, as reported in the Company's filed Annual Statements for the period under examination, was as follows:

Year	Admitted Assets	Liabilities	Capital & Surplus	Premium Income	Net Income
2009	\$ 745,708,546	\$ 65,251,857	\$ 680,456,689	\$ 322,107,216	\$ 120,704,953
2008	778,583,742	135,794,533	642,789,209	433,725,114	148,919,687
2007	896,999,905	344,062,736	552,937,169	1,333,111,914	279,561,615
2006	1,077,260,615	742,986,823	334,273,792	2,793,203,107	176,739,392
2005	375,732,138	228,520,437	147,211,701	678,742,235	149,218,576

Premiums written during the period under examination hit a high point in 2006 and have decreased every year since as many of the policies upon renewal have been transferred to UHG affiliated companies. This transfer is expected to be completed by the end of 2013.

During the period under examination, the Company's earned income from royalties has contributed substantially to net income and is the main component in the build-up of capital and surplus.

## MANAGEMENT AND CONTROL

### Directors

The Company's By-laws specify the number of Directors of the Company shall be five (5). The following is a listing of persons serving as Directors at December 31, 2009:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Steven H. Nelson, Chairman Laguna Beach, California	President and CEO PacifiCare Life and Health Insurance Company and CEO, West Region, UnitedHealth Group
David W. Anderson San Diego, California	CEO, Southern California, UnitedHealth Group
Brandon E. Cuevas Ladera Ranch, California	Chief Financial Officer, PacifiCare Life and Health Insurance Company and CEO, West Region, United Health Group
Daniel Krajnovich Zionsville, Indiana	Executive, United HealthCare Services, Inc.
Gregory E. Wright Santa Ana, California	Regional President, West Division, UnitedHealth Group

### Officers

The Company's By-laws state the officers of the Company shall consist of a President, Vice- President, Secretary, Assistant-Secretary and Treasurer. The Company's officers at December 31, 2009 were:

<u>Name</u>	<u>Office</u>
Stephen H. Nelson	Chairman, President and Chief Executive Officer
Thomas J. Quirk	President (Commercial Services Group)
Nyle B. Cottingham	Vice-President and Regulatory Controller
Payman Pezhman	Secretary
Brandon E. Cuevas	Chief Financial Officer
Robert W. Oberrender	Treasurer

## Corporate Governance

The investment transactions that occurred during January 1, 2005, through September 30, 2005, January 1, 2008, through March 31, 2008, January 1, 2009, through March 31, 2009, and July 1, 2009, through December 31, 2009, were not approved by the Board of Directors or a committee designated by the Board, as required by Indiana Code (IC) IC 27-1-12-2(b)24.

During the period under examination the Company did not have its own audit committee, but relied on the audit committee of the ultimate holding company UHG. On March 16 2010, UHG established a western regional audit committee to provide oversight for the Company and other related entities. The western regional audit committee is composed of two (2) members that qualify as financial experts and a third member that is knowledgeable of operations. None of the audit committee members are independent of UHG.

Based on biographical affidavits of the Directors and Executive Officers and management interviews, we determined that these individuals were qualified and have the required experience necessary to conduct the operations and affairs of the Company.

## CONFLICT OF INTEREST

Directors, officers and certain employees are required to complete a questionnaire which discloses conflicts of interest. It was determined that all Directors and officers serving during the examination period completed the required conflict of interest questionnaire.

## OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. It was noted during the examination the Board members did sign and complete an Oath of Office.

## MARKET CONDUCT AND REGULATORY ACTIONS

The CA DOI performed two (2) market conduct examinations covering the periods July 1, 2005, through June 30, 2006, and June 23, 2006, through May 31, 2007. These examinations were instigated following an abnormal level of consumer complaints received about the Company's claims practices by the CA DOI, which, in one (1) of the examinations, found an estimated 130,000 citations.

On January 28, 2008, the CA DOI issued an "Order to Show Cause" against the Company as a result of the market conduct violations. The Company, however, did not disclose in its 2008 Annual Statement the existence of any details of this pending legal action (other than that "various other legal and regulatory actions occurring in the normal course of business") even though the 2008 Annual Statement would have been prepared over a year later.

On June 3, 2009, the Company filed a Notice of Defense to the Order to Show Cause denying all material allegations and asserting certain defenses. The matter has been the subject of an administrative hearing before a California administrative law judge since December, 2009. The CA DOI amended its Order to Show Cause three (3) times in 2010 to allege a total of 992,936 violations, the large majority of which relate to an alleged failure to include certain language in standard claims correspondence during a four (4) month period in 2007.

The Company's ultimate parent company, UHG, in Note 13 to its December 31, 2010, consolidated financial statements, as included in its 2010 10-K filing with the Securities and Exchange Commission, noted:

"Although we believe that the CA DOI has never issued an aggregate penalty in excess of \$8 million, the CA DOI alleges in press reports and releases that the Company could theoretically be subject to penalties of up to \$10,000 per violation. The Company is vigorously defending against these claims. After the Administrative law Judge issues a ruling at the conclusion of the administrative proceeding, the California Insurance Commissioner may accept, reject or modify the Administrative Law Judge's ruling, issue his own decision, and impose a fine or penalty. The Commissioner's decision is subject to challenge in court."

## **CORPORATE RECORDS**

### **Articles of Incorporation**

The Company's Articles of Incorporation were not amended during the examination period.

### **Bylaws**

The Company's Code of By-laws were not amended during the examination period.

### **Minutes**

The Board of Directors meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. It was noted that the annual meetings and other regular board meetings were held in accordance with the Company's Code of By-laws, although not all investment transactions were approved during the exam period.

## **AFFILIATED COMPANIES**

### **Organizational Structure**

The Holding Company Registration statement filed with the IDOI identifies UHG, a publicly held corporation traded on the New York Stock Exchange, as the ultimate controlling entity. The organizational chart shows the Company's relationship to other UHG entities.

### Affiliated Agreements

As of December 31, 2009, the Company operated under the following significant intercompany agreements which have been filed with the IDOI:

#### Master License Agreements

Effective December 31, 1997, the Company entered into a Master License Agreement with PacifiCare of California (PCC). The Company grants PCC a nonexclusive and nontransferable license of, any right to use certain PacifiCare intellectual property. The IDOI did not disapprove this agreement on April 15, 1998. Effective January 1, 2007, the Company entered into the First Amendment to the agreement to reduce the royalty fees from 1.75% to 0.75%. The IDOI did not disapprove the Amendment on December 1, 2006. The fees associated with this agreement totaled \$52,293,975 for the year ended December 31, 2009.

Effective October 1, 1998, the Company also entered into Master License Agreements with a number of PacifiCare affiliated companies. Pursuant to the agreements, the Company grants the affiliate a nonexclusive and nontransferable license of, and right to use, certain PacifiCare intellectual property. The IDOI did not disapprove the agreements with each affiliate on November 3, 1999, and the First Amendment to the agreement with PacifiCare Life Assurance Company (PLAC) on October 17, 2003. Effective January 1, 2007, the Company entered into First Amendments (Second Amendment for PLAC) to the agreements to reduce royalty fee from 1.75% to 0.75%. The IDOI did not disapprove the First Amendments (Second Amendment for PLAC) on December 1, 2006. The fees associated with these agreements totaled \$61,320,290 for the year ended December 31, 2009.

#### Asset Transfer Agreement

Effective January 1, 2008, the Company entered into the Asset Transfer Agreement with United Healthcare Insurance Company (UHIC). Pursuant to this agreement, the Company transferred its assets relating to its Medicare business to UHIC for net book value, assumed to be zero (\$0) given assumed liabilities offsetting assumed assets, pursuant to a novation agreement approved by Center for Medicare and Medicaid Services (CMS) for UHIC to assume the Company's Medicare business. In the agreement, the Company also granted UHIC the non-exclusive right and license to use certain trademarks and service marks owned by the Company in exchange for royalty payments. The IDOI did not disapprove the agreement on November 29, 2007. The royalty fees associated with this agreement totaled \$16,837,497 for the year ended December 31, 2009.

#### Management and Administrative Services Agreement

Effective January 1, 1999, the Company entered into a Management and Administrative Services Agreement and the First and Second Amendments to the Agreement with PacifiCare Health Plan Administrators, Inc. (PHPA). PHPA provides comprehensive management and administrative services for Company operations, subject to the ultimate control and direction of the Company's Directors. The IDOI did not disprove this agreement on January 8, 1999, the First Amendment on April 17, 2001, and the Second Amendment on November 15, 2003. The fees associated with the services provided by PHPA to the Company totaled \$10,035,168 for the year ended December 31, 2009.

Effective September 1, 2006, PHPA and American Security Life Insurance Company (AMS) entered into an Assignment and Assumption Agreement of the Management and Administrative Services Agreement, with the Company's consent, pursuant to which PSPA assigned to AMS, and AMS assumed from PHPA, the management and administration of the Company's Individual (none of which was Medicare) insurance operations "Individual Operations". The IDOI did not disapprove the Assignment and Assumption Agreement on August 31, 2006. The fees associated with the services provided by AMS to the Company for the Individual Operations pursuant to the Assignment and Assumption of the Management and Administrative Services Agreement totaled \$6,256,706 for the year ended December 31, 2009.

#### Agreement for Combined Billings and Disbursements Operations

The Company was a party to a Business Administration Agreement with other UHG companies, effective December 1, 2006. This agreement was filed with the IDOI pursuant to a Form D filing on November 20, 2006, and not disapproved by the IDOI on December 21, 2006. There were no fees associated with this agreement for the year ended December 31, 2009.

#### First Restated Tax Sharing Agreement

The Company files a federal tax return as part of a consolidated tax group with its ultimate parent company, UHG. The Company is required to pay to UHG its federal tax liability computed on a separate company basis using the same methods and elections used with determining the group's tax liability. In addition, the Company will be reimbursed in each year to the extent that the use of the Company's operating loss deduction or credit, or operating loss deduction or credit carryover, results in either a reduction in the group's tax for a consolidated return year or a refund obtained by the parent with respect to any given consolidated return year. The tax liability allocated to the Company for the year ended December 31, 2009 was \$57,205,054.

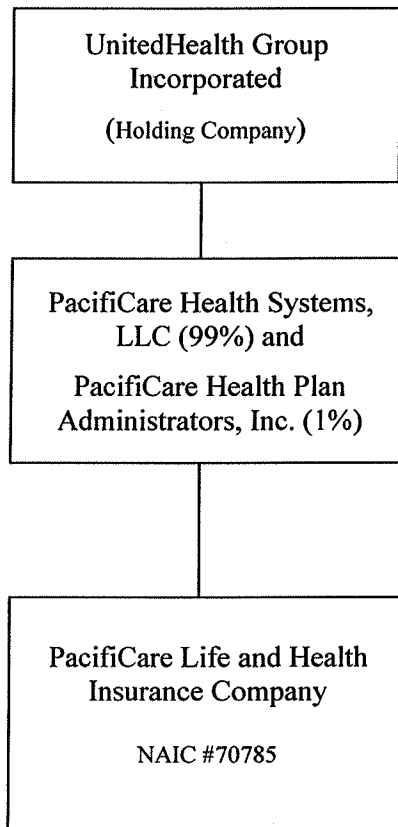
#### Revolving Credit Agreement

The Company has a revolving Credit Agreement with its majority shareholder, PHPA, whereby the Company agrees to make loans up to an aggregate principal amount of \$100 million. Funding for the agreement was to be derived from royalty fees generated from the Company's affiliates' use of the Company's intellectual property. There were no amounts owing to the Company from PHPA as at December 31, 2009, under this agreement.

#### Case Management, Claims Administration and Utilization Review

PacifiCare Behavioral Health of California, Inc., PacifiCare Behavioral Health, Inc. and PacifiCare Dental and Vision Administrators (subsequently acquired by Dental Benefit Providers, Inc.) provided case management, claims administration, and utilization review services to the Company. The costs related to this agreement for the year ended December 31, 2009, were \$8,114,000 paid to PacifiCare Dental and Benefit Administrators and \$2,842,000 paid to PacifiCare Behavioral Health, Inc.

Organizational Chart



**FIDELITY BOND AND OTHER INSURANCE**

The Company protected itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond. The Company is insured for losses up to \$10 million with no deductible. The fidelity bond coverage limit was adequate to meet the prescribed minimum coverage specified by the NAIC.

Other significant insurance coverages in force as at December 31, 2009, included Crime, General Liability, Umbrella Liability, and Directors' & Officers' Liability. All other coverages were determined to be adequate as at December 31, 2009.

## STATUTORY AND SPECIAL DEPOSITS

The Company reported the following special deposits with various states as of December 31, 2009:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Indiana	\$ 1,006,076	\$ 1,033,320
North Carolina	106,863	106,820
South Carolina	100,168	104,801
Virginia	374,323	379,043
Total for all Policyholders	<u>\$ 1,587,430</u>	<u>\$ 1,623,984</u>
All Other Special Deposits:		
Florida	\$ 200,000	\$ 200,000
Georgia	35,942	37,718
Massachusetts	503,038	516,660
Nevada	250,000	250,000
New Hampshire	998,195	1,010,780
North Carolina	302,158	316,056
South Carolina	50,000	50,000
Total Other Special Deposits	<u>\$ 2,339,333</u>	<u>\$ 2,381,214</u>

## RESERVES

Allen J. Sorbo, FSA, MAAA, was the Company's Appointed Actuary as of December 31, 2009. Mr. Sorbo provided the Company's actuarial opinion for the years ended December 31, 2007, 2008, and 2009. John F. Fritz, FSA, MAAA, provided the actuarial opinion for the years ended December 31, 2005, and 2006.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining reserves and related items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used and such tests of the calculations as considered necessary.

The December 31, 2009, actuarial opinion prepared by the Company stated the balances of reserves 1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles 2) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and



are in accordance with all other contract provisions 3) meet the requirements of the insurance law and regulations of the state of Indiana and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed 4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the Annual Statement of the preceding year-end and 5) include provision for all actuarial reserves and related statement items which ought to be established.

During the examination, it was determined by the IDOI consulting actuary, Jeff Beckley, FSA, MAAA, that the significant actuarial items in the Company's 2009 Annual Statement were materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the IDOI.

### **ACCOUNTS AND RECORDS**

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balance prepared from the Company's general ledger for the year ended December 31, 2009, was agreed to the 2009 Annual Statement without exception. The Annual Statement for the years ended December 31, 2005, through December 31, 2009, were agreed to each year's independent audit report with no exceptions noted. The Examiners determined that the Company's accounting procedures, practices, and account records were satisfactory.

**PACIFICARE LIFE AND HEALTH INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

Assets

	<b>As of December 31, 2009</b>			
	<b>Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
<b>Assets:</b>				
Bonds	\$ 513,294,348	\$ -	\$ 513,294,348	\$ 579,048,171
Cash (\$27,027,871), cash equivalents \$0 and short-term investments \$226,489,585	199,461,714	-	199,461,714	152,937,450
Receivables for securities	12,426	-	12,426	19,968
Subtotals, cash and invested assets	\$ 712,768,488	\$ -	\$ 712,768,488	\$ 732,005,589
Investment income due and accrued	5,988,275	-	5,988,275	6,431,639
Uncollected premiums and agents' balances in the course of collection	2,646,478	-	2,646,478	9,252,568
Amounts receivable from uninsured plans	-	-	-	4,068
Current federal and foreign income tax recoverable and interest thereon	1,753,037	-	1,753,037	17,417,385
Net deferred tax asset	2,209,396	-	2,209,396	3,238,345
Receivables from parent, subsidiaries and affiliates	16,007,053	-	16,007,053	4,491,269
Health care and other amounts receivable	946,320	-	946,320	1,762,261
Aggregate write-ins for other than invested assets	3,389,499	-	3,389,499	3,980,618
<b>Total Assets</b>	<b>\$ 745,708,546</b>	<b>\$ -</b>	<b>\$ 745,708,546</b>	<b>\$ 778,583,742</b>

**PACIFICARE LIFE AND HEALTH INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus and Other Funds**

	<b>As of December 31, 2009</b>			
	<b>Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
<b>Liabilities:</b>				
Aggregate reserve for life contracts	\$ 1,681,678	\$ -	\$ 1,681,678	\$ 2,007,333
Aggregate reserve for accident and health contracts	731,522	-	731,522	1,070,840
Accident and health (contract claims)	49,230,235	-	49,230,235	66,879,458
Premiums and annuity considerations for life and accident and health contracts received	4,186,180	-	4,186,180	10,875,050
Interest maintenance reserve	4,520,324	-	4,520,324	5,316,244
Commissions to agents due or accrued	981,638	-	981,638	1,240,623
General expenses due or accrued	1,487,519	-	1,487,519	3,115,339
Remittances and items not allocated	112,899	-	112,899	-
Asset valuation reserve	1,291,983	-	1,291,983	1,543,317
Payable to parent, subsidiaries and affiliates	-	-	-	40,335,365
Liability for amounts held under uninsured plans	-	-	-	2,786,906
Aggregate write-ins for liabilities	1,027,879	-	1,027,879	624,058
<b>Total liabilities</b>	<b>\$ 65,251,857</b>	<b>\$ -</b>	<b>\$ 65,251,857</b>	<b>\$ 135,794,533</b>
Common capital stock	\$ 3,000,000	\$ -	\$ 3,000,000	\$ 3,000,000
Gross paid in and contributed surplus	18,057,274	-	18,057,274	18,057,274
Unassigned funds (surplus)	659,399,415	-	659,399,415	621,731,935
Surplus	677,456,689	-	677,456,689	639,789,209
<b>Capital and surplus, December 31, current year</b>	<b>\$ 680,456,689</b>	<b>\$ -</b>	<b>\$ 680,456,689</b>	<b>\$ 642,789,209</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 745,708,546</b>	<b>\$ -</b>	<b>\$ 745,708,546</b>	<b>\$ 778,583,742</b>

**PACIFICARE LIFE AND HEALTH INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Summary of Operations**

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Premiums and annuity considerations for life and accident and health contracts	\$ 322,107,216	\$ -	\$ 322,107,216	\$ 433,725,114
Net investment income	24,161,327	-	24,161,327	28,197,404
Amortization of Interest Maintenance Reserve	1,129,120	-	1,129,120	721,542
Aggregate write-ins for miscellaneous income	132,880,912	-	132,880,912	121,658,882
<b>Totals</b>	<b>\$ 480,278,575</b>	<b>\$ -</b>	<b>\$ 480,278,575</b>	<b>\$ 584,302,942</b>
Death benefits	\$ 1,500	\$ -	\$ 1,500	\$ 73,259
Annuity benefits	212,675	-	212,675	123,259
Disability benefits and benefits under accident and health contracts	252,856,531	-	252,856,531	289,149,349
Surrender benefits and withdrawals for life contracts	2,663	-	2,663	7,502
Interest and adjustments on contract or deposit-type fund contracts	50,543	-	50,543	52,716
Increase in aggregate reserves for life and accident and health contracts	(664,973)	-	(664,973)	(4,786,840)
<b>Totals</b>	<b>\$ 252,458,939</b>	<b>\$ -</b>	<b>\$ 252,458,939</b>	<b>\$ 284,619,245</b>
Commissions on premiums, annuity considerations and deposit-type contract funds	15,158,922	-	15,158,922	22,074,749
General insurance expenses	27,555,032	-	27,555,032	29,297,949
Insurance taxes, licenses and fees, excluding federal income taxes	7,492,041	-	7,492,041	10,879,207
Aggregate write-ins for deductions	-	-	-	4,813
<b>Totals</b>	<b>\$ 302,664,934</b>	<b>\$ -</b>	<b>\$ 302,664,934</b>	<b>\$ 346,875,963</b>
Net gain from operations before dividends to policyholders and federal income taxes	\$ 177,613,641	\$ -	\$ 177,613,641	\$ 237,426,979
Dividends to policyholders	-	-	-	-
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 177,613,641	\$ -	\$ 177,613,641	\$ 237,426,979
Federal and foreign income taxes incurred	57,205,054	-	57,205,054	83,352,325
Net gain from operations after dividends to policyholders and federal income tax and before realized capital gains or (losses)	\$ 120,408,587	\$ -	\$ 120,408,587	\$ 154,074,654
Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax of \$(1,168,484) (excluding taxes of \$179,415 transferred to the IMR)	296,366	-	296,366	(5,154,967)
<b>Net income</b>	<b>\$ 120,704,953</b>	<b>\$ -</b>	<b>\$ 120,704,953</b>	<b>\$ 148,919,687</b>

**PACIFICARE LIFE AND HEALTH INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Capital and Surplus Account**

	<b>As of December 31, 2009</b>			
	<b>Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
<b>Capital and Surplus Account:</b>				
Capital and surplus, December 31, prior year	\$ 642,789,209	\$ -	\$ 642,789,209	\$ 552,937,169
Net income	\$ 120,704,953	\$ -	\$ 120,704,953	\$ 148,919,687
Change in net deferred income tax	(2,502,021)	-	(2,502,021)	(202,225)
Change in nonadmitted assets	1,144,513	-	1,144,513	16,841,647
Change in asset valuation reserve	251,334	-	251,334	(338,183)
Dividends to stockholders	(79,000,000)	-	(79,000,000)	(78,275,000)
Aggregate write-ins for gains and losses in surplus	(2,931,299)	-	(2,931,299)	2,906,114
<b>Net change in capital and surplus for the year</b>	<b>\$ 37,667,480</b>	<b>\$ -</b>	<b>\$ 37,667,480</b>	<b>\$ 89,852,040</b>
<b>Capital and surplus, December 31, current year</b>	<b>\$ 680,456,689</b>	<b>\$ -</b>	<b>\$ 680,456,689</b>	<b>\$ 642,789,209</b>

## **COMMENTS ON THE FINANCIAL STATEMENTS**

There were no recommended adjustments to surplus as of December 31, 2009, based on the results of this examination.

## **OTHER SIGNIFICANT FINDINGS**

It is recommended, for all future periods, that the Company have all investment transactions approved by the Board of Directors or a committee designated by the Board, in compliance with IC 27-1-12-2(b)24.

## **SUBSEQUENT EVENTS**

On December 12, 2010, the CA DOI blocked the payment of a dividend payable, totaling \$120,000,000, to PacifiCare Health System, LLC and PHPA, the Company's parent companies. This dividend was declared by the Company's Board of Directors on December 6, 2010, and payable on December 24, 2010. The dividend has been included as a "Dividend to stockholders declared and unpaid" of \$120 million in the 2010 Annual Statement. In a press release on December 12, 2010, the Company stated that it was "reviewing the decision".

## **MANAGEMENT REPRESENTATION**

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-In Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Huff, Thomas & Company and the California Department of Insurance, hereinafter collectively referred to as the "Examiners" performed an examination of the **PacifiCare Life and Health Insurance Company**, as of **December 31, 2009**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2010 NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of **PacifiCare Life and Health Insurance Company**, as of **December 31, 2009**, as determined by the undersigned.

Neeraj Gupta  
Neeraj Gupta, CFE  
Huff, Thomas & Company

State of: California  
County of: Orange

On this 3<sup>rd</sup> day of May, 2011, before me personally appeared, Neeraj Gupta, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notorial seal in said County and State, the day and year last above written.

My commission expires Dec 4, 2012

N. Towner

Notary Public

