REPORT ON EXAMINATION

of the

SILVERSCRIPT INSURANCE COMPANY
445 GREAT CIRCLE ROAD
NASHVILLE, TENNESSEE

as of

DECEMBER 31, 2010

RECEIVED
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Dept. of Commerce & Insurance
Company Examinations

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

EXHIBIT
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Nashville, Tennessee
October 25, 2012

The Honorable Joseph Torti, III
Chair, NAIC Financial Condition
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Deputy Director and
Superintendent of Insurance
1511 Pontiac Avenue, Building 69-2
Cranton, Rhode Island 02920

The Honorable Julie M. McPeak
Commissioner of Commerce & Insurance
State of Tennessee
500 James Robertson Parkway
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The Honorable Sharon B. Clark
Secretary, Southeastern Zone, NAIC
Commissioner of Insurance
P.O. Box 517
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Secretary, Northeastern Zone, NAIC
Commissioner of Insurance
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The Honorable Ted Nickel
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The Honorable Eleanor Kitzman
Secretary, Western Zone, NAIC
Commissioner of Insurance
P.O. Box 149104
Austin, Texas 78714

Dear Superintendent and Commissioners:

Pursuant to your instructions and in accordance with the Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review has been made concerning the conditions and affairs of the

SILVERSCRIPT INSURANCE COMPANY
NASHVILLE, TENNESSEE

hereinafter generally referred to as the "Company" and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee and commenced on October 17, 2011. The examination was conducted under the association plan of the NAIC by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee (TDCI).

SCOPE OF EXAMINATION

The multi-state examination of SilverScript Insurance Company has been performed. The last exam was completed as of November 30, 2005. This examination covers the

period from November 30, 2005 through December 31, 2010, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires planning and performing 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 system 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.

During the course of the examination, assets were verified and valued and liabilities were determined or estimated as of December 31, 2010. The Company's financial condition and its degree of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Company's operations, practices and compliance with statutes and regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process including the following items:

Previous Examination Comments
Company History
Dividends or Distributions
Growth of Company
Charter and Bylaws
Management and Control
Corporate Records
Holding Company System
Agreements with Parent, Subsidiaries and Affiliates
Fidelity Bond and Other Insurance
Employee Benefits and Pension Plans
Territory and Plan of Operation
Market Conduct Activities
Loss Experience
Reinsurance Agreements
Commitment and Contingent Liabilities
Statutory Deposits
Accounts and Records
Loss Reserves
Subsequent Events
Financial Statements

These will be discussed as follows:

PREVIOUS EXAMINATION COMMENTS

The previous examination of the Company was conducted as of November 30, 2005. This was the Company's organizational examination. The comments in the comments and recommendation section of the organizational examination were not to address deficiencies in the Company. No previous issues existed from the organizational examination to address during this first full scope examination.

COMPANY HISTORY

The Company was incorporated on May 11, 2005 under the Tennessee Business Corporation Act as a for-profit corporation. The Charter of Incorporation was filed with the Tennessee Secretary of State on May 11, 2005. The Company was issued a Certificate of Authority effective May 22, 2006, to transact business as an accident and health insurer in the state of Tennessee. The Company began to transact business January 1, 2006.

At incorporation, the Company was authorized to issue ten million (10,000,000) shares of common capital stock with a par value of one dollar ($1) per share. Two million seven hundred fifty thousand shares were issued and outstanding. All common shares were held by the parent company, SilverScript, Inc. In 2007, the parent changed names from SilverScript, Inc. to SilverScript, L.L.C. In 2009, the Company's parent changed names from SilverScript, L.L.C. to CVS Caremark Part D Services, L.L.C. In 2010 during a holding company structure change, the parent Company converted from Accendo Holding Company to Part D Holding Company, L.L.C.

The Company was formed exclusively to provide benefits as a prescription drug plan ("PDP") under the federal government's Medicare Part D program, which is administered by the Centers for Medicare and Medicaid Services ("CMS"). The Company offers Part D service plans to eligible participants in all 50 states, the District of Columbia, and Puerto Rico.

On March 22, 2007, CVS Corporation acquired Caremark, Inc. The acquisition changed the Company's ultimate controlling parent from Caremark Rx, Inc. to CVS Caremark Corporation.

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period of examination:

Year	Direct Premiums Written	Net Admitted Assets	Liabilities	Retained Earnings	Capital & Surplus
2006	$518,050,317	$177,592,596	$122,177,041	$578,542	$55,415,555
2007	$438,579,710	$234,153,660	$165,835,585	$29,663,502	$68,318,075
2008	$542,403,110	$354,194,562	$291,006,521	$52,670,107	$63,188,041
2009	$1,209,570,001	$439,036,068	$294,142,361	$19,530,094	$144,893,707

2010	$903,925,374	$361,971,473	$222,333,553	$30,975,703	$139,637,920

Dividends or Distributions

No dividends or distributions were made during the period of examination.

CHARTER AND BYLAWS

Charter:

The original Charter of the Company was approved by the TDCI on May 5, 2011. An Articles of Amendment was filed with the Secretary of State on August 31, 2009 and approved by the TDCI on August 28, 2009 changing the statutory address.

The Charter provides for the operation of a life and accident and health insurance company that is for profit, and establishes its location in Nashville, Tennessee. The Charter in effect at the examination date states that:

> The purpose for which the Corporation is organized is to engage in the business of insurance as a principal. The kinds of insurance the Company shall be formed to transact are accident and life and health insurance, as such terms are defined as applicable under Tennessee law, and to engage in other lawful business under the laws of the State of Tennessee.

Bylaws:

The Bylaws in effect at December 31, 2010 have not been amended during the examination period. The Bylaws are such as those generally found in corporations of this type and contain no unusual provisions.

An annual meeting of the shareholders of the Company shall be held at such time and place, either within or without the State of Tennessee, as may be designated from time to time by the Board of Director within thirteen months subsequent to the last annual meeting.

The business and affairs of the Company shall be managed under the direction of a Board of Directors. The number of directors shall be no less than three (3) members or nor more than fifteen (15). They shall be elected by a majority of the votes cast at the annual meetings of the shareholder or at a special meeting for that purpose.

The officers for the Company shall include President, Vice-President, Secretary, Treasurer and such other officers as the Board of Directors shall from time to time deem necessary and if elected by the shareholders at any annual or special meeting, a Chairman of the Board. One person may hold any two (2) or more principal offices except the offices of President and Secretary.

MANAGEMENT AND CONTROL

The Bylaws of the Company provide that all corporate powers shall be exercised by or under the authority of and the business and affairs of the Company managed under the direction of the Board of Directors. The following persons were serving as members of the Board of Directors at December 31, 2010:

Name	Title/Position
Joseph C. LaPine	Vice President, Medicare Part D
James G. Maritan	Vice President, Medicare Part D Business Development
Lloyd D. McDonald	Vice President and General Manager, Medicare Prescription Drug Programs
Todd D. Meek	Vice President, Medicare Part D Compliance
Mark S. Weeks	Senior Vice President and Controller

The following officers were serving at December 31, 2010:

Name	Title/Position
Lloyd D. McDonald	President, SIC/Vice President and General Manager, Medicare Prescription Drug Programs
Charles D. Krause	Secretary and Treasurer, SIC/Vice President, Medicare Finance
Brian J. Januzik	Vice President, SIC/Vice President, Actuarial Services
Michele W. Buchanan	Assistant Secretary, SIC/Senior Legal Counsel
Terence M. Corrigan	Assistant Treasurer, SIC/Vice President, Tax
Michael A. McNelis	Vice President, SIC/Vice President, Medicare Plan Operations

The Bylaws allow the Directors to create one or more committees which may consist of a single member. The Bylaws state that all committees so created shall have such powers as the Board of Directors may delegate to such committee. On December 26, 2006, the Board approved and adopted the creation of the Medicare D Compliance Committee. As of December 31, 2010, the Company's members of the Medicare Part D Compliance Committee were:

Voting Members

Name	Title
Todd Meek	Chair, VP Medicare Compliance, Medicare Compliance Officer
Diane Nobles	Chief Compliance Officer
Lloyd McDonald	President, SilverScript Insurance Company
Jeff Jackson	Senior VP Client Operations
Dena Rus	Senior VP Medicare Program Services
Michael McNelis	VP Plan Operations
Joseph LaPine	VP for Medicare, Part D
Jeff Low	Director, Medicare Operations
Mark Weeks	SVP Controller

Judy Weitzman	VP Medical Affairs
David Lorber	VP Medical Affairs

Non-Voting Members

Name	Title
Gary Purk	SVP Medicare Process Improvement and Quality
Patrick Jeswald	Director, Business Practices & Compliance
Vonnetta Graham	Director, Business Practices & Compliance
Amy Burnham	Supervisor, Compliance & Integrity

As of December 9, 2010 the Medicare Part D Compliance Committee consisted of four sub-committees. The sub-committees existing were as follows:

Delegation Oversight and Monitoring - Todd Meek, interim chair
Market Conduct - Joe LaPine, chair
Beneficiary Access and Services - Lloyd McDonald, chair
Fraud, Waste, and Abuse - Patrick Jeswald, chair

The composition of the four sub-committees was not confirmed as of December 31, 2010.

Investment transactions for the period under review were approved by the Board of Directors.

Pecuniary Interest:

Directors and officers of the Company are required to complete an Executive Disclosure Form for Conflicts of Interests and Outside Directorships annually. The disclosure forms were reviewed without exception. A check for compliance with Tenn. Code Ann. § 56-3-103 found that no director or officer of the Company had a pecuniary interest in the investment or disposition of Company funds.

Control:

At December 31, 2010, one hundred percent (100%) of the outstanding shares of the Company were owned by Part D Holdings, L.L.C., a Delaware corporation. Part D in turn is wholly owned by Caremark Rx, L.L.C., a Delaware corporation. Caremark Rx, L.L.C. is wholly owned by CVS Pharmacy, Inc., a Rhode Island corporation. CVS Pharmacy, Inc. is wholly owned by the ultimate parent, CVS Caremark Corporation, a Delaware corporation.

A holding company organizational chart is included at the last page of this examination report.

CORPORATE RECORDS

The minutes of the meetings of the Shareholders and Board of Directors were reviewed for the period under examination. They were found to be complete as to necessary detail and appear to properly reflect the actions of the respective bodies. The minutes of the meeting of the Medicare Part D Compliance Committee provided were reviewed for the period under examination. The Company did not provide the minutes for 2007, 2008, and 2010 (with the exception of 10/12/10 and 12/9/10).

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company is a member of an insurance holding company system, as defined by Tenn. Code Ann. § 56-11-101, et seq. "Insurance Company Holding Act of 1986". The Company files a Holding Company Registration Statement annually as required by Tenn. Code Ann. § 56-11-105. The required Forms B and C were filed by the Company April 30, 2010.

Management Services Agreement:

As a Form D filing on December 16, 2005, the Company filed a management and services agreement with the TDCI. Under the agreement between the Company and CVS Caremark Part D Services, L.L.C. (formerly SilverScript, L.L.C.), the Company pays Caremark Part D Services, L.L.C. a management fee for sales, accounting, tax, legal, information technology, compliance, claims processing services and other administrative services. The management fee is assessed on a per-member, per-month basis. The agreement was approved by the TDCI on January 16, 2007.

During the examination period, the Company amended the management and services agreement seven times. On January 6, 2012, the TDCI approved the seven amendments. The 1st amendment was effective January 1, 2006. The 2nd and 3rd amendments were effective January 1, 2007. The 4th and 5th amendments were effective January 1, 2008. The 6th amendment was effective January 1, 2009. The 7th amendment was effective January 1, 2010.

Tax Sharing Agreement:

On August 13, 2008, the TDCI approved an income tax sharing agreement, executed May 21, 2008, between the Company and the ultimate parent, CVS Caremark Corporation. The agreement applies to the taxable year ending December 31, 2008 and all subsequent periods for which the Company is includible on the consolidated federal income tax return of the parent. Under this agreement, CVS Caremark Corporation and the Company shall settle payments prior to the close of the calendar year in which the tax return is filed. If any adjustments are made by the Internal Revenue Service ("IRS"), the Company shall pay to parent or the parent shall pay to Company the amount of deficiency or overpayment, plus any interest and penalties demanded or refunded by the IRS.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured under certain insurance policies being carried by its ultimate parent, CVS Caremark Corporation. The following is a summary of the various bonds and insurance policies that provided the enumerated coverages to the Company at December 31, 2010:

Type of Coverage	Limits of Liability
1. Crime coverage	$ 2,000,000 single loss limit
2. General liability (commercial/druggists)	$28,000,000 combined general aggregate $ 4,500,000 each occurrence/personal adv. inj. $ 1,000,000 fire damage $ 4,000,000 each occurrence
3. Automobile liability	$ 2,000,000 combined limit/any auto; hired; non-owned; self-insured physical damage
4. PBM E&O - Primary	$10,000,000 primary
5. Workers compensation liability	
A. Workers compensation	Tennessee statutory limit
B. Employers liability	
a. Bodily injury by accident	$ 2,000,000 each accident
b. Bodily injury by disease	$ 2,000,000 disease each employee
c. Bodily injury by disease	$ 2,000,000 disease policy limit

Minimum fidelity coverage suggested in the National Association of Insurance Commissioners' Examiners Handbook for an insurer of the Company's size and premiums volume is $1,500,000 to $1,750,000. The Company had fidelity coverage which exceeds the minimum suggested coverage. Each policy was issued by an insurance company authorized to transact business in Tennessee.

RETIREMENT PLANS AND OTHER EMPLOYEE BENEFITS

The Company has no employees, retirement plans, or other employee benefits. The Company pays CVS Part D Services, L.L.C., an affiliate, for business and administrative functions under a management services agreement.

TERRITORY AND PLAN OF OPERATION

Territory:

The Company is licensed to transact the business life, accident, and health in all 50 states, the District of Columbia, and Puerto Rico. Certificates of Authority for each jurisdiction were reviewed and found to be valid.

The following table shows the premiums by state for the year ending December 31, 2010 as reported in Schedule T of the Company's Annual Statement:

Alabama	4,257,773
Alaska	1,075,786
Arizona	3,689,029
Arkansas	4,378,150
California	14,173,744
Colorado	7,740,274
Connecticut	26,758,350
Delaware	1,555,772
District of Columbia	1,144,657
Florida	13,596,372
Georgia	7,668,745
Hawaii	1,163,960
Idaho	7,651,270
Illinois	27,289,740
Indiana	17,988,142
Iowa	18,610,579
Kansas	15,680,796
Kentucky	10,474,263
Louisiana	41,826,605
Maine	1,581,553
Maryland	9,732,779
Massachusetts	74,203,746
Michigan	18,415,100
Minnesota	15,996,819
Mississippi	7,383,128
Missouri	12,261,030
Montana	5,555,744
Nebraska	7,971,738
Nevada	2,390,832
New Hampshire	3,055,551
New Jersey	108,907,828
New Mexico	10,594,644
New York	114,016,007
North Carolina	21,138,782
North Dakota	2,132,232
Ohio	29,026,063
Oklahoma	6,354,201
Oregon	13,285,532
Pennsylvania	38,956,439
Rhode Island	8,701,612
South Carolina	10,984,342
South Dakota	2,966,458
Tennessee	8,189,132
Texas	30,073,190
Utah	7,015,983
Vermont	9,606,391
Virginia	12,338,888

Washington	35,023,271
West Virginia	16,587,105
Wisconsin	29,996,753
Wyoming	1,771,939
Puerto Rico	352,641
U.S. Virgin Islands	3,914
Total	$903,295,374

Plan of Operation:

The target market for Medicare Part D Prescription Drug plans is Medicare-eligible members who are seeking prescription drug coverage under the Medicare Part D program. The Company has historically targeted, and will continue to target, the sub-segment of this population which is low income subsidy and dual eligible auto-assigned Medicare beneficiaries. CMS randomly auto assigns dual eligible beneficiaries to qualifying Part D plans through a bid process.

The secondary target group is health plans, including Medicare Supplement providers that do not offer their own PDP products. Health plans not willing to accept the risk or administrative burden of offering their own PDPs often choose to offer PDP benefits through a stand-alone PDP sponsor to the commercial clientele which decide to carve out the prescription drug benefits for retirees.

MARKET CONDUCT ACTIVITIES

Underwriting, Rates and Policy Forms:

The Company receives CMS reimbursement rates and uses CMS forms. The rates and forms are not required to be filed with the TDCI. The Company uses CMS guidelines as it only writes Medicare business. The Company does not maintain its own underwriting manual.

Complaints:

The Company maintains a log for complaints which have been received from insureds, complainants, and other interested third parties. Inquiries made to consumer services and review of complaints indicated no regulatory concerns with the Company under the period of examination.

Advertising:

The Company uses an internet website as the sole means of advertisement.

Privacy Policy:

The Company maintains a written privacy statement which complies with Tenn. Comp.

R & Regs. 0780-1-72-.06.

LOSS EXPERIENCE

The loss experience of the Company during the examination period is as follows:

Year	Earned Premiums	Medical and Hospital Expenses	Loss Ratio	Administration Expenses	Loss Experience Ratio
2006	$489,203,841	$361,420,999	73.88%	$53,185,773	84.75%
2007	438,579,710	338,150,839	77.10%	26,376,680	83.16%
2008	542,403,110	646,413,904	120.18%	34,563,954	125.55%
2009	1,205,675,186	1,084,495,487	89.95%	57,326,316	94.70%
2010	899,690,864	821,341,070	91.29%	110,942,526	103.62%

REINSURANCE AGREEMENT

The Company has a catastrophic reinsurance feature with CMS for the Medicare Part D program for drug costs.

Reinsurance Ceded:

The Company entered into a reinsurance agreement in effect from January 1, 2009 through December 31, 2009, and continuously in force thereafter until terminated, with Hartford Life and Accident Company, an unaffiliated authorized insurance company. The Company cedes and the reinsurer accepts risks on an automatic and facultative basis. The Company automatically cedes risks under contracts with the following criteria:

1. Issued to Qualified Employer Groups
2. Issued within the guidelines agreed upon between the parties
3. Are not SilverScript Open PDP Products

The reinsurer has a quota share of 50% and a broker's commission of 0% to 7%. The agreement was amended May 1, 2009 to clarify and revise certain terms, fees, and rates applicable to the agreement.

The reinsurance agreement was found to contain acceptable clauses for insolvency and arbitration. The Company's reinsurance agreements appear to effectuate proper transfer of risk in accordance with SSAP No. 61 and NAIC guidelines.

COMMITMENT AND CONTINGENT LIABILITIES

From the examination data made available, it appears that the only matters of law in which the Company was involved during the period under review were those rising out of the normal course of business. The outcome of such actions should not have a material effect on the financial position of the Company.

STATUTORY DEPOSITS

In compliance with statutory and other requirements, the Company maintained the following deposits with the named jurisdictions or custodians as of December 31, 2010:

Deposits Which Are for the Benefit of all Policyholders:

Jurisdiction	Description of Security	Par Value	Book/Adjusted Carrying Value	Market Value
Tennessee – Dept. of Insurance	US Treasury Note 1.375% Cusip # 912828KG4	$200,000	$201,813	$202,484
Tennessee – Dept. of Insurance	US Treasury Note 1.75% Cusip # 912828LH1	$1,300,000	$1,325,785	$1,326,715
Tennessee – Dept. of Insurance	US Treasury Note 0.875% Cusip # 912828KL3	$100,000	$100,106	$100,227
Virginia – Dept. of Insurance	Federated Money Mkt Oblig Trust 0.0% Cusip # 609068DF5	$510,000	$510,000	$510,000
Total deposits which are for the benefit of all policyholders:		$2,110,000	$2,137,704	$2,139,426

Deposits Which are Not for the Benefit of All Policyholders:

Jurisdiction	Description of Security	Par Value	Book/Adjusted Carrying Value	Market Value
California – Dept. of Managed Health Care	U.S Treasury Note 0.0%, Due 12-15-11 Cusip # 9127952T7	$60,000	$59,855	$59,849
California – State of California	Certificate of Deposit 0.20%, Due 2-17-11 Cusip # 0605C02E1	$1,850,000	$1,850,000	$1,850,000
California – Dept. of Insurance	Certificate of Deposit 0.56%, Due 2-17-11 Cusip # 0605C0Z21	$2,000,000	$2,000,000	$2,000,000

Georgia – Dept. of Insurance	Wells Fargo Adv Tr Pl Mm Ins 0.01%, Due 1-1-11 Cusip # 94975H296	$35,008	$35,008	$35,008
Massachusetts – Dept. of Insurance	US Treasury Note 0.0%, Due 2-10-11 Cusip # 912795V40	$120,000	$119,975	$119,888
Nevada – Dept. of Insurance	Cetificate of Deposit 0.57%, Due 2-17-11 Cusip # 0605C0W81	$200,000	$200,000	$200,000
New Hampshire – Dept. of Insurance	US Treasury Note 0.0%, Due 2-10-11 Cusip # 912795V40	$520,000	$519,824	$519,948
North Carolina – Dept. of Insurance	First American Treas Oblig FD Instl 0.01%, Due 1-1-11 Cusip # 31846V419	$620,007	$620,007	$620,007
Puerto Rico – Dept. of Insurance	PR Cmwlth Hwy 5.5%, Due 7-1-12 Cusip # 745190AP3	$500,000	$525,713	$524,490
Total deposits which are not for the benefit of all policyholders:		$5,905,015	$5,930,382	$5,929,190
Total Deposits		$8,015,015	$8,068,086	$8,068,616

The Company maintains a $100,000 surety bond pledged with the New Mexico Department of Insurance.

Deposits with said jurisdictions or custodians were verified by direct correspondence with the custodian of such deposit with no exceptions.

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including verification of postings, extensions and footings. General ledger trial balances were reconciled with the Annual Statements for the years 2006, 2007, 2008, 2009, and 2010.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

The Company is audited annually as part of the audit conducted for the holding company system, of which it is a member, by an independent accounting firm. The audit was performed by Ernst & Young, LLP for the year ending December 31, 2010.

The Company's Risk-Based Capital Report was reviewed and found to be in compliance with Tenn. Code Ann. § 56-46-101, *et seq.*

The Company's books and records are maintained primarily at the CVS Caremark

Corporation headquarters location, One CVS Drive, Woonsocket, R.I. 02895. The Company's corporate records are located in Nashville, TN. The examination was conducted at the statutory home office at 445 Great Circle Road in Nashville, TN. The Company's records were made available through Company provided equipment via VPN access through a site made accessible for the examination.

SUBSEQUENT EVENTS

During the examination period, the Company amended the management and services agreement seven times. On January 6, 2012, the TDCI approved the seven amendments. The 1st amendment was effective January 1, 2006. The 2nd and 3rd amendments were effective January 1, 2007. The 4th and 5th amendments were effective January 1, 2008. The 6th amendment was effective January 1, 2009. The 7th amendment was effective January 1, 2010. The 8th amendment was effective January 1, 2011. Future agreements and amendments shall be filed with the TDCI in accordance with Tenn. Code Ann. § 56-11-106(a)(2)(D) and on Form D in accordance with Tenn. R. & Reg. 0780-1-67-.16.

On December 31, 2011, the Company owned a bond and two money market mutual funds with a total book adjusted carrying value of $316,068,113 held through Merrill Lynch, Pierce, Fenner & Smith, Inc. which should be non-admitted. Related information to this issue is in the "Recommendation" section of this report. This amount would overstate capital and surplus reported by the Company in the 2011 Annual Statement by $134,362,244.

An emergency rule was filed June 29, 2012 and effective through December 26, 2012 for Tenn. Comp. R. & Regs., 0780-1-46. This emergency ruling includes broker dealers as eligible custodians if the requirements of the emergency rule are met.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2010, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Assets	Non-admitted Assets	Net Admitted Assets
Bonds	$2,153,417	525,713	$1,627,704
Common stocks	510,000	0	510,000
Cash and short-term investments	38,145,457	30,712,489	7,432,968
Subtotals, cash and invested assets	40,808,874	31,238,202	9,630,672
Investment income due and accrued	32,646	0	32,646
Uncollected premiums and agents' balances in the course of collection	11,464,789	6,864,072	4,600,717
Accrued retrospective premiums	22,902,494	0	22,902,494
Amounts receivable relating to uninsured plans	282,529,880	646,294	281,883,586
Current federal and foreign income tax recoverable and interest thereon	8,107,301	0	8,107,301
Net deferred tax asset	3,197,979	0	3,197,979
Aggregate write-ins for other than invested assets	437,876	0	437,876
Totals	$369,481,839	$38,748,568	$330,733,271

LIABILITIES, SURPLUS AND OTHER FUNDS

Claims unpaid		$58,888,790
Premiums received in advance		326,914
General expenses due or accrued		456,381
Remittances and items not allocated		127,267
Payable to parent, subsidiaries, and affiliates		151,221,741
Funds held under reinsurance treaties with authorized reinsurers		482,698
Liability for amounts held under uninsured plans		10,829,762
Total liabilities		$222,333,553
Aggregate write-ins for special surplus funds	0	
Common capital stock	2,750,000	
Gross paid in and contributed surplus	124,750,000	
Unassigned funds (surplus)	(19,100,282)	
Surplus as regards policyholders		$108,399,718
Totals		$330,733,271

STATEMENT OF REVENUES AND EXPENSES

UNDERWRITING INCOME		
Net premium income		$899,690,864
Change in unearned premium reserves for rate credits		25,722,260
Total revenues		$925,413,124
Hospital and Medical		
Prescription drugs	821,341,070	
Less:		
Net reinsurance recoveries	2,546,492	
Total hospital and medical	818,794,578	
Claims adjustment expenses	100,342,227	
General administrative expenses	10,600,299	
Total underwriting deductions	929,737,104	
Net underwriting gain or (loss)		($4,323,981)
Net investment income earned	107,252	
Net investment gains (losses)		$107,252
Net gain (loss) from agents' or premium balances charged off	(18,383,180)	
Net income or (loss) after capital gains tax and before federal and foreign income taxes		($22,599,909)
Federal and foreign income taxes incurred		($8,074,512)
Net income		$(14,525,397)

CAPITAL AND SURPLUS ACCOUNT

GAINS AND LOSSES IN SURPLUS

Surplus as regards policyholders, December 31 previous year		$144,893,707
Net income	(14,525,397)	
Change in net deferred income tax	(4,526,964)	
Change in non-admitted assets	(17,381,628)	
Change in surplus as regards policyholders for the year		(36,493,989)
Surplus as regards policyholders, December 31 current year		$108,399,718

RECONCILIATION OF CAPITAL AND SURPLUS FOR THE PERIOD UNDER EXAMINATION

	2006	2007	2008	2009	2010
Surplus as regards policyholders, December 31, previous year	$28,078,542	$55,415,555	$68,318,075	$63,188,041	$144,893,707
Net income	29,084,959	23,006,606	(33,140,013)	12,125,510	(14,525,397)
Net unrealized capital gains or (losses)	0	0	0	0	0
Change in net deferred income tax	0	5,579,820	(1,525,864)	3,670,986	(4,526,964)
Change in non-admitted assets	(1,747,947)	(15,683,906)	4,535,843	(8,410,930)	(17,441,628)
Surplus adjustments:					
Paid in	0	0	25,000,000	75,000,000	0
Dividends to stockholders	0	0	0	0	0
Aggregate write-ins for gains or (losses) in surplus	0	0	0	(679,900)	0
Net change for the year	27,337,012	12,902,520	(5,130,034)	81,705,666	(36,493,989)
Surplus as regards policyholders, December 31, current year	$55,415,554	$68,318,075	$63,188,041	$144,893,707	$108,399,718

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Bonds **$1,627,704**

The above amount reflects a reduction of $525,713 to the amount stated in the annual statement. On December 31, 2010, the Company held a bond in the amount of $525,713 with Merrill Lynch, Pierce, Fenner & Smith, Inc., a registered broker dealer (CRD #7691) and a wholly owned subsidiary of Bank of America Corporation. Assets held through a broker dealer do not qualify as admitted assets in accordance with Tenn. Code Ann. § 56-3-112. On December 31, 2010, the bond was not being held under a custodial agreement. Assets not held under a properly executed custodial agreement do not qualify as admitted assets in accordance with Tenn. Comp. R. & Regs., 0780-1-46.

Common stocks **$510,000**

The above amount reflects an increase of $510,000 from the amount stated in the annual statement. This is the amount of a money market mutual fund which does not appear on the 2010 NAIC SVO Mutual Fund List as a "filing exempt" or "class 1" rated fund. The 2010 NAIC Annual Statement Instructions requires money market mutual funds which are not rated as "filing exempt" or "class 1" to be considered common stock and are to be listed as mutual funds or money market mutual funds. On the annual statement, the money market mutual fund is listed as a short-term investment on Schedule DA.

Cash and short-term investments **$7,432,968**

The above amount reflects a reduction of $31,162,489 from the amount stated in the annual statement. On December 31, 2010, the Company held two money market mutual funds in the amount of $30,652,489 with Merrill Lynch, Pierce, Fenner & Smith, Inc., a registered broker dealer (CRD #7691) and a wholly owned subsidiary of Bank of America Corporation. Assets held through a broker dealer do not qualify as admitted assets in accordance with Tenn. Code Ann. § 56-3-112. On December 31, 2010, the money market mutual funds were not being held under a custodial agreement. Assets not held under a properly executed custodial agreement do not qualify as admitted assets in accordance with Tenn. Comp. R. & Regs., 0780-1-46.

On December 31, 2010, the Company listed on Schedule DA of the annual statement a money market mutual fund in the amount of $510,000 not rated as "filing exempt" or "class 1" on the 2010 NAIC SVO Mutual Fund List. The 2010 NAIC Annual Statement Instructions requires money market mutual funds which are not rated as "filing exempt" or "class 1" to be considered common stock and are to be listed as mutual funds or money market mutual funds.

The Company on Schedule E, Part 1 in the annual statement lists a $60,000 which was not confirmed on any deposit accounts held by the Company as of year-end 2010. This unconfirmed cash amount will be non-admitted for the purposes of this examination.

SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION" AS THEY AFFECT SURPLUS

The following depicts the change in surplus as outlined in the previous section of this report:

Item	Surplus	
	Increase	Decrease
Bonds		$525,713
Common stocks	$ 510,000	
Cash and short-term investments		$31,222,489
Totals	$ 510,000	$31,748,202
Net change in surplus		$31,238,202

COMMENTS AND RECOMMENDATIONS

Comments

- The Evaluation of Controls in Information Technology was conducted and given an assessment of Weak. An overall assessment of Weak conveys that the Company's IT risk management processes are not functioning, not in place, or, in this case, not evidenced to be in place.

- The independent auditor should disclose consent to make available for review all workpapers and communications obtained as part of the audit. The independent auditor did not include this language in its 2010 qualification letter. The qualification letters prepared for audit years 2006-2009 included this disclosure.

Recommendations

- The Company's primary location of books and records is Woonsocket, Rhode Island. The maintaining of such records outside of Tennessee for this Company is in violation of Tenn. Code Ann. § 56-2-104(a)(5)(A).

  It is recommended that the Company comply with Tenn. Code Ann. § 56-2-104(a)(5)(A) by maintaining the primary location of books and records within Tennessee.

- During the course of examination, significant delays were experienced in receiving information from the Company. Instances existed in which the Company was unable or unwilling to provide information or fulfill requests. Of the most significant in nature during the examination, the Company did not provide a completed ITPQ and all supporting documentation. The Company did not provide all compliance committee minutes, and the Company CEO was not made available for an interview.

  Appropriate assessments of controls for review and planning purposes were not made since the ITPQ was incomplete and supporting documents were not made available. The Company reported that no committees were in existence. During the examination, it was discovered that the Company has had a compliance committee since 2006. Some minutes were subsequently provided. The minutes that continued to be withheld from review were declared to have been prepared under attorney-client privilege.

  It is recommended that the Company comply with Tenn. Code Ann. § 56-1-411(b)(1) by providing free and convenient access to all books, records, securities, documents, and any and all papers relating to the property, assets, business, and affairs of the company. The officers, directors, and agents of the company, corporation, or association, or person shall facilitate the examination and aid in the examination so far as it is in their power to do so.

It is recommended that the Company make records and personnel available during the examination process to use techniques pursuant to the NAIC Financial Condition Examiners Handbook and Practices and Procedures Manual in accordance with Tenn. Code Ann. § 56-1-411(c)(2).

- During the course of examination the independent auditor initially withheld requested documents deemed proprietary. The documents were subsequently provided after a delayed period.

  It is recommended that in future examinations the Company and independent auditor not delay making all workpapers available for review by complying with Tenn. Comp. R. & Regs., 0780-1-65.14.

- The following inaccuracies were reported in the Company's 2010 Annual Statement:

  1) The Company responded yes to item 27 in the general interrogatories.
  2) On Schedule DA, four securities are listed without cusip numbers.
  3) On Schedule DA, two securities listed in Exempt Money Market Mutual Funds list Bank of America as vendor instead of Merrill Lynch, Pierce, Fenner, and Smith.
  4) On Schedule DA, a security listed in Exempt Money Market Mutual Funds should be listed in Class One Money Market Mutual Funds.
  5) On Schedule DA, the security listed in Class One Money Market Mutual Funds should be listed on Schedule D, Part 2, Section 2 as common stock owned as a mutual fund or money market mutual fund. Additionally, this security should appear on Schedule D, Part 3 with SunTrust listed as the vendor.
  6) On Schedule E, Part 1, two certificates of deposit totaling $3,850,000 are listed without being labeled SD which indicates a special deposit.
  7) On Scheduled E, Part 3, two certificates of deposit totaling $3,850,000 should be listed that appear on Scheduled E, Part 1.

  It is recommended that the Company comply with Tenn. Code Ann. § 56-1-501(b) and Tenn. Code Ann. § 56-1-501(g) when completing the Annual Statement.

- The Company held securities in an account with Merrill Lynch, Pierce, Fenner, and Smith, Inc., a broker-dealer and a wholly owned subsidiary of Bank of America Corporation, without a properly executed custodial agreement. The securities should be held in a qualified institution under a properly executed custodial agreement to be an admitted asset.

  It is recommended that the Company comply with Tenn. Code Ann. § 56-3-112, Tenn. Code Ann. § 47-8-102, and Tenn. Comp. R. & Regs., 0780-1-46 and maintain Company securities in a qualifying institution under a properly executed custodial agreement.

- The Company on Schedule E, Part 1in the Annual Statement lists a $60,000 which was not confirmed on any deposit accounts held by the Company as of year-end 2010. This unconfirmed cash amount will be non-admitted for the purposes of this examination.

CONCLUSION

The customary insurance examination practices and procedures, as established by the NAIC, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such manner, it was determined that as of December 31, 2010, the Company had net admitted assets of $330,733,271 and liabilities, exclusive of capital, of $222,333,553. Thus, there existed for the additional protection of the policyholders, the amount of $108,399,718 in the form of capital stock, gross paid-in and contributed surplus and unassigned funds (surplus).

In addition to the undersigned, Michael Bacon and James T. Pearce, Insurance Examiners for the State of Tennessee, Michael A. Mayberry, FSA, MAAA, of the contracting actuarial firm, Lewis and Ellis, Inc., Richardson, Texas, and Dave Gordon, CISA, CIA, CFE, zone examiner representing the Delaware Insurance Department participated in this examination.

Respectfully submitted,

Bryant Cummings, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of SilverScript Insurance Company dated October 25, 2012, and made as of December 31, 2010, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Bryant Cummings, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me this

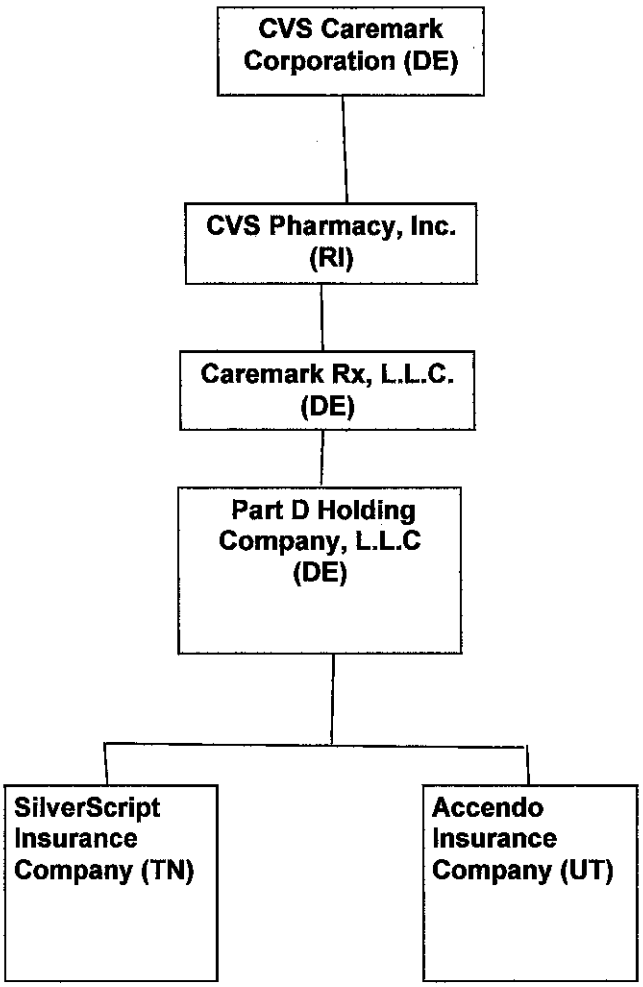
25th day of October, 2012

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 03/03/2014

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY

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