REPORT ON EXAMINATION

of the

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

Nashville, Tennessee

as of

December 31, 2008

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

Nashville, Tennessee

RECEIVED

APR 29 2011

Dept. of Commerce & Insurance
Company Examinations

EXHIBIT

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Nashville, Tennessee
April 29, 2011

Commissioner Julie Mix McPeak
Tennessee Department of Commerce and Insurance
Davy Crockett Tower, Fifth Floor
500 James Robertson Parkway
Nashville, Tennessee 37243-0565

Commissioner:

Pursuant to your instructions and in accordance with Tennessee Insurance Laws and Regulations, and Resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination was made of the condition and affairs of:

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION
Nashville, Tennessee

(hereinafter referred to as the Association) as of December 31, 2008, and a report thereon is hereby respectfully submitted.

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee and commenced on March 15, 2010. The examination was conducted by duly authorized representatives of the Tennessee Department of Commerce and Insurance. The last previous examination contained no criticism; hence there are no matters to report with respect to corrective measures or Department requirements arising as a result of such examination.

SCOPE OF EXAMINATION

The period covered hereunder is from December 31, 2003, the date of the last examination, to the close of business on December 31, 2008, the date of this examination. During the course of the examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2008. The financial condition of the Association and its amount 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 applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus.

An examination was also made into the following matters:

History and Organization
Charter and Bylaws
Management and Control
Corporate Records
Fidelity Bonds and Other Insurance
Territory
Plan of Operation
Market Conduct Activities
Reinsurance
Retirement Plan and Other Employee Benefits
Loss Experience
Accounts and Records
Statutory Deposits
Litigation
Financial Statement

They are discussed in detail as follows:

HISTORY AND ORGANIZATION

The Association was organized pursuant to and operates in accordance with the Tennessee Life and Health Insurance Guaranty Association Act, effective July 1, 1989. Under the provisions of this Act, the Commissioner of Insurance appointed nine members to the Board of Directors. These nine members then submitted a Plan of Operation to the Commissioner of Insurance, which was approved effective July 1, 1989.

CHARTER AND BYLAWS

No Charter or Bylaws are required to be filed as the Association was organized and operates in accordance with the Tennessee Life and Health Insurance Guaranty Association Act, and the Association filed its Plan of Operation as required in 1989.

MANAGEMENT AND CONTROL

The Board of Directors is elected by member insurers as provided in Tenn. Code Ann. § 56-12-206. Regular meetings and special meetings of the Board of Directors may be held upon the request of any two Board members. The Plan of Operation also states that the Board shall meet annually in the month of October, and also upon notice from the Commissioner of any insolvency of a member insurer.

The majority of the Board shall constitute a quorum for the transaction of business and the acts of a majority of the Board members present at a meeting shall be the acts of the Board. The following were duly appointed Directors at December 31, 2008:

Name	Representative/Address
(1) American General Life and Accident Insurance Company	Sharon K. Roberson Chief Counsel Nashville, TN
(2) Tennessee Farmers Life Insurance Company	Edward K. Lancaster General Counsel and Secretary Columbia, TN
(3) Plateau Insurance Company	William Dickson Williams President Crossville, TN
Blue Cross Blue Shield of Tennessee	J. Barclay Phillips Director and Associate General Counsel Nashville, TN
Unum Group	Elizabeth H. Simon Assistant Vice President and Senior Counsel Chattanooga, TN
Connecticut General Life Insurance Company	John Sorrow President, Mid South Region Chattanooga, TN
Prudential Insurance Company Of America	Michael A. Jennings Vice President, Government Affairs Jacksonville, FL
State Farm Life Insurance Company	Jeff Shay Vice President – Operations Murfreesboro, TN
Protective Life Insurance Company	Barrie Balzli Stokes Associate Counsel Birmingham, AL

(1) Chairman of the Board
(2) Vice Chairman of the Board
(3) Secretary/Treasurer of the Board

During the period under review, the Board held seven meetings. Additionally, on the date specified in the Plan of Operation, the Association held five annual meetings.

The Association, at its annual board meeting, considers the appointment for the following

year of an individual to serve as the administrator for the Association's activities. Mr. Dan Elrod, a partner with the law firm Miller & Martin, PLLC has served in this capacity since the inception of the Association and has been approved to serve for the next year. Mr. Elrod is retained on an annual basis pursuant to Board approval of a letter of engagement. The Association reimburses the law firm for time spent by Mr. Elrod and his assistant, Ms. Renee Birdwell, related to the Association. The law firm also provides office space to the Association for $200 per month.

CORPORATE RECORDS

Minutes of the meetings of the members and Board of Directors of the Association were reviewed for the period under examination. In general, such minutes appear to be in proper order and accurately report the proceedings of each respective meeting.

FIDELITY BOND AND OTHER INSURANCE

The Association did not have employee dishonesty coverage for the period under examination. However, the administrative staff of the Association is covered by the Professional Liability policy of their employer, Miller & Martin PLLC, attorneys at law, Nashville, Tennessee.

The Association did not have Directors and Officers Liability or Errors and Omissions Coverage for the period under examination. Tenn. Code Ann. § 56-12-216 provides:

a) There shall be no liability on the part of and no cause of action of any nature shall arise against any member insurer, the association or it agents or employees, the board of directors, or the commissioner or his representatives for any actions taken by them in the performance of their powers and duties under this part.

b) Such immunity shall extend to the participation in any organization of one or more state associations of similar purposes and to any such organization and its agents or employees.

TERRITORY

The Association is composed of all insurance companies authorized to write life, annuity or accident and health business in Tennessee. The Association provides coverage to Tennessee residents who are insured by, or beneficiaries of, insurance policies issued by member companies. The Association's responsibility to Tennessee residents with respect to insolvent companies is determined by line of business as follows:

Life
Annuity

Health
Life and annuity contracts issued in connection with plans qualified under Internal Revenue Code, Section 403 (b).

PLAN OF OPERATION

The operations of the Association are governed by the Tennessee Life and Health Insurance Guaranty Association Act (Tenn. Code Ann. § 56-12-201, et seq.) (the "Act") and its Plan of Operation adopted pursuant to the Act and approved by the Commissioner. The Association is composed of all insurance companies authorized to write life, annuity or accident and health business in Tennessee. The Association is governed by a Board of Directors composed of nine member companies elected by the members and approved by the Commissioner. The Board of Directors has created an Executive Committee, Nominating Committee and Audit Committee to facilitate the administration of the Association. The Association provides coverage to Tennessee residents who are insured by, or beneficiaries of, insurance policies issued by member companies.

The obligations of the Association to provide coverage are triggered upon a finding of insolvency and an order of liquidation with respect to a member company. The Act also provides limited, discretionary authority for the Association to provide coverage in the event a member company becomes impaired, but to date, the Association has not exercised this discretionary authority, and has provided coverage only in the event of insolvency and liquidation.

The limits of coverage provided by the Association to Tennessee residents are as follows:

$300,000 in life insurance death benefits
$100,000 in cash surrender or present value in annuity benefits
$100,000 in health insurance benefits
$300,000 aggregate limit for all benefits with respect to any one life

The Association's responsibility to Tennessee residents with respect to insolvent companies is determined by line of business as follows:

Life
Annuity
Health
Life and annuity contracts issued in connection with plans qualified under Internal Revenue Code, Section 403 (b).

The Association's responsibilities to provide coverage to Tennessee residents are funded by pro rata assessments of member companies. Each member's share of an assessment is determined according to the following pro-ration formula:

Member company's Tennessee premium for the three years prior

to the date of insolvency for the affected line of business – divided by Tennessee premium for all companies for the affected line of business

The Association's capacity to assess member companies is limited by calendar year to two percent of each company's average annual premium for the three years prior to the date of insolvency.

In providing coverage to Tennessee residents, the Association is authorized to pay claims, reinsure the business of the insolvent company and to issue substitute coverage. The Association is also authorized to participate in other organizations with respect to multi-state insolvencies. The Association is a member of the National Organization of Life and Health Guaranty Associations (NOLHGA), which is an umbrella organization composed of the state life and health guaranty associations. NOLHGA coordinates the efforts of its members in dealing with multi-state insolvencies. All of the insolvencies affecting the Association during the current examination period have been multi-state and only one of the insolvencies, Franklin American Life Insurance Company, was a company domiciled in Tennessee. In most instances, the Association has met its obligation to Tennessee residents by participating financially in assumption reinsurance arrangements pursuant to which financially sound companies have reinsured the policy obligations of the insolvent companies.

Insolvencies and Impairments as of 12/31/2008

Insolvent/Impaired Company Name	Date of Insolvency/Impairment
American Chambers Life Insurance Company	05/08/00
Benicorp Insurance Company	10/05/07
Diamond Benefits Life/Life Assurance Co. of PA	12/88 and 01/10/91
Executive Life Insurance Company (CA)	12/06/91
Executive Life Insurance Company of New York	1991 – rehab
First National Life Insurance Company of America	06/29/99
Franklin America Life Insurance Company	10/25/99
Guarantee Security Life Insurance Company	08/12/91
International Financial Service Life Insurance Company	11/30/99
Kentucky Central Life Insurance Company	08/18/94 (affirmed 05/11/95)
Legion/Villanova Insurance Companies	04/01/02 – rehab
Life and Health Insurance Company of America	07/02/04
Lincoln Memorial Life Insurance Company	08/11/08
Midwest Life Insurance Company	08/26/91
National Heritage Life Insurance Company	11/21/95
Shelby Casualty Insurance Company	08/01/06
Standard Life Insurance Company of Indiana	12/18/08
States General Life Insurance Company	03/09/05 - rehab
Universal Life Insurance Company	February, 2006

MARKET CONDUCT ACTIVITIES

A review of market conduct activities is not within the scope of the examination performed and not applicable to the Association. The Association writes no policies.

REINSURANCE

A review of reinsurance activities as related to an insurance company is not within the scope of the examination performed and not applicable to the Association.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Association has no employees and as such offers no retirement plan or other employee benefits.

LOSS EXPERIENCE

A review of loss experience as derived from the annual statement of an insurance company is not within the scope of the examination performed and not applicable to the Association.

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary. General ledger trial balances were reconciled with copies of annual statements for the years 2004, 2005, 2006, 2007, and 2008. Accounting records conform to generally accepted accounting practices and appear to properly reflect the operations during the period under examination and the status of the Association at the date of examination.

The Association uses a customized software system, Sage/MAS90, modified to conform to Government Accounting Practices. This system has the capability of calculating assessments to member Companies; however, the Association contracts with Thornwaite and Company for the calculations. It is the policy of the Association to prepare its financial statement on the basis of cash receipts and disbursements without regard to any revenue or expense accruals which may exist at year end.

All original books and records are located at the office of the administrator. The physical address of the administrator is:

Tennessee Life and Health Insurance Guaranty Association
c/o Miller & Martin PLLC
1200 One Nashville Place
150 4th Avenue, South
Nashville, Tennessee 37219-2433

An audit of the Association is conducted annually by Faulkner, Mackie & Cochran, P.C., Nashville, Tennessee.

STATUTORY DEPOSITS

The Association is not required to make any statutory deposits; therefore this section is not applicable.

PECUNIARY INTEREST, TENN. CODE ANN. § 56-3-103

Members of the Board of Directors are not compensated by the Association for their services as board members, but may be reimbursed for expenses incurred by them as members of the Board, subject to approval by the Board. All members of the Board of Directors of the Association are requested to execute a Conflict of Interest Policy Statement annually.

LITIGATION

As of December 31, 2008, the Association had no pending litigation, other than that arising out of the normal course of business, which would adversely affect the financial condition of the Company.

FINANCIAL STATEMENT

There follows a comparative financial statement covering the years 2004 – 2008 as developed by this examination:

FUND BALANCE

	2004	2005	2006	2007	2008
ASSETS:					
Cash and cash equivalents	$2,453,330	$ 713,277	$ 749,265	$ 1,831,527	$12,430,114
Investments	33,519,795	34,700,684	37,877,940	36,551,403	26,262,539
Interest in note receivable	-	-	63,000	63,000	-
Total Assets	35,973,125	35,413,961	38,690,918	38,445,930	38,692,653
LIABILITIES:	0	0	0	0	0
TOTALS	$35,973,125	$35,413,961	$38,690,918	$38,445,930	$38,692,653

SUMMARY OF OPERATIONS

RECEIPTS:	2004	2005	2006	2007	2008
Assessments	$ 4,038,694	$ 411,950	$ 8,396	$ -	$ 399,413
Interest	493,210	760,332	1,023,061	1,451,768	2,152,858
Estate Settlements	1,222,706	532,866	3,068,118	330,752	1,967,677
Premiums/Other	-	-	47,638	-	137,598
Total Receipts	5,754,610	1,705,148	4,147,213	1,782,520	4,657,546
DISBURSEMENTS:					
Claims Paid	1,259,841	1,970,832	1,247,499	2,468,864	3,514,066
Class B assessment refunds	4,630,537	-	-	-	-
Return of prior estate settlements	-	-	-	106,353	-
Outside Services	274,384	309,696	185,818	78,491	85,626
Fees related to specific insolvencies	-	-	-	157,265	219,417
Dues	44,971	44,443	46,365	48,609	48,907
Other	17,323	13,808	17,979	15,776	20,732
Total Disbursements	$6,227,056	$2,338,779	$1,497,661	$2,875,358	$3,888,748
Excess (deficiency) of receipts over disbursements	(472,446)	(633,631)	2,649,552	(1,092,838)	768,798
Fund balance at beginning of year	36,508,715	35,973,125	35,413,961	38,690,205	38,445,930
Change in unrealized depreciation of investments	(63,144)	74,467	626,692	848,563	(522,075)
Fund balance at year end	$35,973,125	$35,413,961	$38,690,205	$38,445,930	$38,692,653

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Differences in various items were noted during the course of examination; however, none were considered to produce a material effect on the fund balance, either singly or in the aggregate.

COMMENTS AND RECOMMENDATIONS

Although minor differences were noted during the course of this examination, none affected the operations of the Association or the fund balance at December 31, 2008.

Based on the results of this examination, it appears that the Association is in compliance with the Tennessee Life and Health Guaranty Association Act (Tenn. Code Ann. § 56-12-201, et seq.)

CONCLUSION

The customary examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of the Tennessee Life and Health Insurance Guaranty Association, Nashville, Tennessee.

In such manner, it was determined that, as of December 31, 2008, the Association had admitted assets of $38,692,653 and that all of such funds were available for payment of claims and related expenses. The courteous cooperation extended by the Association during the course of the examination is hereby acknowledged.

Respectfully submitted,

Rhonda Bowling-Black, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

Mike Bacon
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of the Tennessee Life and Health Insurance Guaranty Association dated April 29, 2011, and made as of December 31, 2008, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Rhonda Bowling-Black

Rhonda Bowling-Black, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me

this 29th day of

April, 2011

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 03/03/2014

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY