



OFFICE OF  
INSURANCE COMMISSIONER

In the Matter of	)	No. 09-40
	)	
The Financial Examination of	)	FINDINGS, CONCLUSIONS,
<b>LIFEWISE ASSURANCE COMPANY</b>	)	AND ORDER ADOPTING REPORT
	)	OF FINANCIAL EXAMINATION
	)	
A Domestic Insurer.	)	

**BACKGROUND**

An examination of the financial condition of **LIFEWISE ASSURANCE COMPANY** (the Company) as of December 31, 2007, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on March 6, 2009. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and the submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

**FINDINGS**

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 13 of the report.



## CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **LIFEWISE ASSURANCE COMPANY** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions and Comments and Recommendations prior to the date of this order. The Instructions and Comments and Recommendations in the report are appropriate responses to the matters found in the examination.

## ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-4.

1. The Company is ordered to comply with RCW 48.05.250 by filing its financial statements in the general form and context approved by the NAIC and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions and affairs and to follow the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). The Company is also ordered to execute a revised or amended custodial agreement that complies with the FCEH. Instruction 2, Examination Report, page 2.
3. The Company is ordered to record all liabilities as required by SSAP No. 5, paragraph 4. The Company must file an accurate NAIC Annual Statement of its financial condition, transactions, and affairs in accordance with RCW 48.05.250. LWAC must also properly account for all transactions in the appropriate year, in accordance with established and accepted accounting principles. Instruction 3, Examination Report, page 2.
4. The Company is ordered to comply with RCW 63.29.070 by complying with appropriate state statutes for reporting and remitting any property considered unclaimed. Instruction 4, Examination Report, page 3.

5. The Company is ordered to comply with RCW 48.74.030(3)(b)(i), SSAP Appendix A-820.5.ai.(a) and Actuarial Guideline A and use an interest rate of 4% in the calculation of reserves for single premium group life insurance issued to the trust group and for life conversion policies. Per SSAP 51, the Company must adjust the reserves for the trust group certificates from the beginning of the year of age to the valuation date. The Company is also ordered to adjust all reserves for immediate payment of claims in accordance with Actuarial Guideline XXXII for the trust group certificates and disabled lives. Instruction 5, Examination Report, page 3.
6. The Company is ordered to use the interest rates prescribed in WAC 284-16-520(2) for claims incurred before January 1, 2001. Instruction 6, Examination Report, page 3.
7. The Company is ordered to use the termination rates in the 1987 Commissioners Group Disability Income Table for LTD claims prescribed by Appendix A-010.29.a.ii of the AP&P. The Company is also ordered to comply with RCW 48.05.250 and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 7, Examination Report, page 3.
8. The Company is ordered to comply with WAC 284-07-350(4)(a) and prepare the Asset Adequacy Analysis in accordance with ASOP No. 22.3.3.1. Instruction 8, Examination Report, page 4.
9. The Company is ordered per ASOP No. 41.3.6 to ensure that documentation identifying the data, assumptions, and methods is available to the actuary opining on reserves. In accordance with RCW 48.03.030(1), this documentation must be made available to the OIC during an examination. Instruction 9, Examination Report, page 4.
10. It is ordered that the Company consider reviewing its internal control over data entry into the disabled lives valuation system to ensure accurate disabled lives data. Comments and Recommendations 1, Examination Report, page 4.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 10th day of April, 2009.

A handwritten signature in black ink, appearing to read "Mike Kreidler". The signature is fluid and cursive, with the first name "Mike" and last name "Kreidler" clearly distinguishable.

MIKE KREIDLER  
Insurance Commissioner

RECEIVED

MAR 25 2009

INSURANCE COMMISSIONER  
COMPANY SUPERVISION

March 23, 2009

James T. Odiorne, CPA, JD  
Deputy Insurance Commissioner  
Company Supervision Division  
P.O. Box 10255  
Olympia, WA 98504-0255

Re: LifeWise Assurance Company Financial Examination --  
Company's Response to Draft Examination Report

Dear Deputy Insurance Commissioner Odiorne:

The purpose of this letter is to furnish you with comments on the Draft Financial Examination Report ("Draft Report") for LifeWise Assurance Company ("LWA" or the "Company"). Exhibit A to this letter provides the Company's responses to each of the Instructions and Comments and Recommendations contained in the Draft Report. For ease of reference, the letter contains the exact verbiage of each finding in italics. Exhibit A also identifies typographical errors and factual inaccuracies in other sections of the Draft Report. This letter is organized to track the order of the sections contained in the Draft Report. In the event that a section is not referenced in the letter, it means that the Company had no comments for that section.

In closing, we appreciate the opportunity to provide you these comments and we respectfully ask that the Draft Report be modified in accordance with the information provided herein before it is adopted and made public. If you have any questions, I would be happy to discuss them with you.

Sincerely,



Sharilyn Campbell  
Vice President, Finance, & Treasurer

Enclosure

cc: Ted Wise, President & CEO  
Kitti Cramer, Deputy General Counsel  
Vernon E. Stoner, Chief Deputy Insurance Commissioner  
Patrick H. McNaughton, Chief Examiner

EXHIBIT A  
LIFEWISE ASSURANCE COMPANY RESPONSE TO  
DRAFT FINANCIAL EXAMINATION REPORT

**INSTRUCTIONS**

**1. Annual Statement Errors**

a. **Schedule of Assets, Liabilities, Surplus and other Funds** – The Company reported deferred premiums for life conversions as a liability on the NAIC Annual Statement, page 3, line 1. Deferred premiums should be reported on page 2, line 13.1.

b. **General Interrogatories** - The Company did not answer General Interrogatory #23.1 correctly. If securities are loaned to others, they are considered not in exclusive control of the Company and the Company should answer yes to No. 23.1. The amount loaned should be reported on line 23.21.

**The Company is instructed to comply with RCW 48.05.250 by filing its financial statements in the general form and context approved by the NAIC and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.**

LWA Response: The Company has complied with these findings for its 2008 Annual Statement, and will continue to do so in the future.

**2. Custodial Agreement Deficiencies**

The Company responded in its 2007 NAIC Annual Statement General Interrogatories 26.01 that its custodial agreement with the Bank of New York complied with the FCEH. However, it did not contain several provisions required by the FCEH. For example, the custodial agreement does not require indemnification to the company for loss due to custodial negligence in regards to foreign securities and securities that are not in the custodian's possession. RCW 48.05.250 requires a company to file a true statement of its financial condition, transactions, and affairs.

**The Company is instructed to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions and affairs and to follow the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). The Company is also instructed to execute a revised or amended custodial agreement that complies with the FCEH.**

LWA Response: After completion of the exit conference, the Company continued to work with the OIC regarding this finding. Based on that analysis, the Company believes that its custodial agreement contained two provisions that were not consistent with the FCEH 2007 requirements, and the example provided was not one of the two provisions. The Company respectfully requests that the OIC remove that example from this finding. Following the exam period, a new statute was enacted, RCW 48.23.480, that specifically outlines the required terms and conditions for custodial agreements. That statute became effective on June 12, 2008. The Company agrees to amend our existing custodial agreement to comply with that law.

**3. Pending Claims**

During completeness testing of claims, it was discovered that several pended claims were not included in the unpaid claim liability as of the end of 2007. In addition, one claim that was denied several years ago was still included in the unpaid claim liability as of the year end. This is not in compliance with SSAP No. 5, paragraph 4.

EXHIBIT A  
LIFEWISE ASSURANCE COMPANY RESPONSE TO  
DRAFT FINANCIAL EXAMINATION REPORT

*The Company is instructed per SSAP No. 5, paragraph 4 and record all liabilities, as required by SSAP No. 5, paragraph 4. The Company should file an accurate NAIC Annual Statement of its financial condition, transactions, and affairs and accrue for all loss reserves on a timely basis in accordance with RCW 48.05.250. LWAC should also properly account for all transactions in the appropriate year, in accordance with established and accepted accounting principles.*

LWA Response: The Company does not disagree this finding.

**4. Reporting and Remitting Unclaimed Property to State**

*RCW 63.29.070 requires reporting and remitting to the state any funds held or owing under any life insurance policy if unclaimed for more than 3 years. Our review of the claim liability at December 31, 2007 identified several claims that should have been reported and remitted to the state custodian for unclaimed property. Failure to report and remit unclaimed property in a timely manner is also a compliance issue that may expose the Company to fines and/or penalties.*

*The Company is instructed to comply with RCW 63.29.070 by complying with appropriate state statutes for reporting and remitting any property considered unclaimed. It is recommended that the Company also revise its Unclaimed Property Procedure to include funds held or owing under life insurance policies.*

LWA Response: The Company does not disagree with the finding and is updating its Unclaimed Property Procedure to include reporting and remitting of funds held or owing under life insurance policies for beneficiaries for which the Company could not obtain any addresses.

**5. Life Reserves**

a. *The Company currently uses a 4.5% interest rate for life insurance issues of 2006 and later with guarantees for over twenty years for the trust group certificates and life conversion policies. Per RCW 48.74.030(3)(b)(i), SSAP Appendix A-820.5.a.i.(a) (rates as per Appendix C) the Company should use 4%.*

b. *The Company currently calculates the reserves for the trust group certificates as the initial reserves without bringing them up to the valuation date as required by SSAP 51.*

c. *All reserves should be adjusted for immediate payment of claims in accordance with policy provisions, as required by Actuarial Guideline XXXII. The Company is not making such an adjustment to reserves for disabled lives and for the trust group certificates issued before 1995.*

*The Company is instructed to comply with RCW 48.74.030(3)(b)(i), SSAP Appendix A-820.5.a.i.(a) and Actuarial Guideline A and use an interest rate of 4% in the calculation of reserves for single premium group life insurance issued to the trust group and for life conversion policies. Per SSAP 51, the Company should adjust the reserves for the trust group certificates from the beginning of the year of age to the valuation date. The Company is also instructed to adjust all reserves for immediate payment of claims in accordance with Actuarial Guideline XXXII for the trust group certificates and disabled lives.*

EXHIBIT A  
LIFEWISE ASSURANCE COMPANY RESPONSE TO  
DRAFT FINANCIAL EXAMINATION REPORT

LWA Response: The Company does not disagree that it was using the 4.5% interest rate instead of the 4% interest rate, and agrees to use the proper rate in the future. Although the Company believes that its previous annual statements appropriately accounted for the one single premium group life policy at issue in this finding, we agree to comply with this finding.

**6. Interest Rates – Long Term Disability (LTD) claims**

*Interest rates used in the valuation of LTD claims incurred before January 1, 2001 should comply with WAC 284-16-520(2). For claims reinsured with four separate reinsurers, the Company used interest rates not in compliance with this regulation.*

***The Company is instructed to use the interest rates prescribed in WAC 284-16-520(2) for claims incurred before January 1, 2001.***

LWA Response: The Company does not disagree with this finding and will use the correct interest rate in the future.

**7. Termination Rates – LTD**

*For LTD claim durations after the first two years, the company should use the termination rates in the 1987 Commissioners Group Disability Income Table. For claims reinsured with one reinsurer, the company is using a table based on the reinsurer's experience, which does not meet the requirements of Appendix A-010.29.a.ii of the AP&P.*

***The Company is instructed to use the termination rates in the 1987 Commissioners Group Disability Income Table for LTD claims prescribed by Appendix A-010.29.a.ii of the AP&P. The Company is instructed to comply with RCW 48.05.250 and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.***

LWA Response: The Company does not disagree with this finding and will require its long term disability reinsurers to use two years for the calculation of termination rates.

**8. Asset Adequacy Analysis**

*WAC 284-07-350(4)(a) specifies standards for asset adequacy analysis which requires the asset adequacy analysis to conform to the standards of practice promulgated by the Actuarial Standards Board. The actuarial memorandum that was submitted by LAC in support of the Statement of Actuarial Opinion did not include an Asset Adequacy Analysis that adhered to the standards defined in Actuarial Standard of Practice 22, 3.3.1, which requires the Company to identify a block of assets supporting the reserves.*

***The Company is instructed to comply with WAC 284-07-350(4)(a) and prepare the Asset Adequacy Analysis in accordance with Actuarial Standard of Practice 22, 3.3.1.***

EXHIBIT A  
LIFEWISE ASSURANCE COMPANY RESPONSE TO  
DRAFT FINANCIAL EXAMINATION REPORT

LWA Response: Although The Company believes that the Asset Adequacy Analysis provided previously for the period ending December 31, 2007 complied with the ASOP numbers cited above, the Company's consulting actuary agrees to perform the following tests for Asset Adequacy Analysis for December 31, 2008 and future periods: (a) identification of specific blocks of assets supporting the reserves; (b) consideration of reinvestment risk to cover the long liabilities if the assets are materially longer or shorter in duration; and (c) quantification of the expected redundancy in the booked reserves and what is considered a moderately adverse drop in asset value.

**9. Reserve Documentation**

*In accordance with ASOP No. 41.3.6, the actuary responsible for opining on the reserves should access to documentation identifying the data, assumptions, and methods used in calculating reserves, with sufficient clarity that another actuary qualified in the same practice area could evaluate the reasonableness of the actuary's work. In accordance with RCW 48.03.030(1), the company, when it is being examined, should make that documentation freely accessible to the commissioner. The reserves for the Company's LTD business are calculated by the reinsurers. The OIC actuary was not able to examine the reserve calculations for the block reinsured by one of the reinsurers and the Company did not provide the calculations for the block reinsured by another reinsurer in a timely manner.*

***The Company is instructed per ASOP No. 41.3.6 to ensure that documentation identifying the data, assumptions, and methods is available to the actuary opining on reserves. In accordance with RCW 48.03.030 (1), this documentation should be made available to the OIC during an examination.***

LWA Response: The Company does not disagree with this finding.

**COMMENTS AND RECOMMENDATIONS**

**1. Disabled Lives Valuation System**

*The disabled life valuation system contains incorrect data such as, ages at disablement, expiry ages, and reserve factors were entered incorrectly. This problem has affected the accuracy of the adjustments for disabled lives.*

***It is recommended that the Company review its internal control over data entry into the disabled lives valuation system to ensure accurate disabled lives data.***

LWA Response: The Company does not disagree with the finding and has implemented an updated process to address this issue.

**COMPANY PROFILE**

**Territory and Plan of Operation.** The Draft Report did not list Utah as one of the states where the Company has been granted a certificate of authority.

**Growth of Company.** The title to the graph at the top of page 6 should read "Ordinary Life and Group Life Insurance in Force by State."

EXHIBIT A  
LIFEWISE ASSURANCE COMPANY RESPONSE TO  
DRAFT FINANCIAL EXAMINATION REPORT

**AFFILIATED COMPANIES**

On the organization chart, Ucentris Insured Solutions should be listed as “Ucentris Insured Solutions, Inc.”

**MANAGEMENT AND CONTROL**

**Board of Directors (BOD).** Kevin Roddy was also a director as of December 31, 2007.

**Officers.** Kevin Roddy was the President and Chief Executive Officer as of December 31, 2007, not Brian E. Ancell.

**ACCOUNTING RECORDS AND INFORMATION SYSTEMS**

The Company believes that the second sentence should be amended to read, “For the years 2006 and 2007, the Company was audited annually by the certified public accounting firm of KMPG, LLP. For the years, 2003 through 2005, the Company the Company was audited annually by the certified public accounting firm of Ernst & Young.”

**SUBSEQUENT EVENTS**

The Company believes that a significant subsequent event was omitted from the Draft Report. Theodore E. Wise became President and Chief Executive Officer of the Company in October 2008.

**FINANCIAL STATEMENTS**

On page 12, the “Change in Asset Valuation Reserve” should be \$61,249 instead of \$61,248. In addition, the final line entry on that page should read “Capital and Surplus, December 31, 2007” not “Capital and Surplus, December 31, 2002” and the amount in the “Balance Per Company” and the “Balance Per Examination” columns should both be \$39,394,503.