



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 10-38
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
PEMCO LIFE INSURANCE COMPANY)	AND ORDER ADOPTING REPORT
)	OF FINANCIAL EXAMINATION

A Domestic Insurer.

BACKGROUND

An examination of the financial condition of **PEMCO LIFE INSURANCE COMPANY** (the Company) as of December 31, 2008, 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 January 22, 2010. 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 12 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 **PEMCO LIFE INSURANCE 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 1-5.

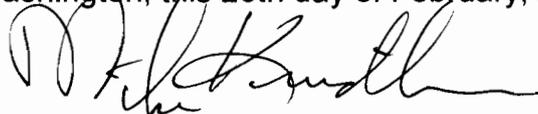
1. The Company is ordered to adhere to WAC 284-07-380, 284-07-390, 284-74-340, RCW 48.74.025 and SSAP No. 61 by preparing a SAO, a Memorandum in Support of the SAO and the requirements documented in WAC 284-74-340 regarding X factors that are consistent and contain all the required disclosures. The Company is also ordered to re-evaluate its X factors to reflect anticipated future mortality as used in the asset adequacy analysis. Instruction 1, Examination Report, page 3.
2. The Company is ordered per RCW 48.31B.025(2)(c)(iii) to disclose in its registration statement all material changes or additions within fifteen days after the end of the month in which it learns of any change or addition. Also, the Company is ordered to comply with WAC 284-07-050(5)(a) by filing its NAIC Quarterly Statement in the general form and context approved by the NAIC. Instruction 2, Examination Report, page 3.
3. 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 3, Examination Report, page 3.
4. 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). Instruction 4, Examination Report, page 4.
5. It is ordered that the Company consider changing the user access levels for the

Genelco System so that there is restricted access between the policy administration, claims and accounting functions. The assigned access should restrict user access to their essential functions. Comments and Recommendations 1, Examination Report, page 4.

6. It is ordered the Company consider reviewing controls and segregation of duties to identify processes to enhance controls and mitigate the risk of errors and inappropriate activity. Comments and Recommendations 2, Examination Report, page 4.
7. Based on the weak controls identified at PLIC, it is ordered that the Company's internal audit department consider evaluating the frequency of internal audits. Comments and Recommendations 3, Examination Report, page 4.
8. The Company is ordered to consider obtaining and reviewing conflict of interest declarations from appropriate personnel and reporting the results to the Company's Board of Directors, as required by the Company's conflict of interest policy pursuant to RCW 48.05.370. Comments and Recommendations 4, Examination Report, page 5.

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 25th day of February, 2010.



MIKE KREIDLER
Insurance Commissioner



PEMCO
Life Insurance

325 Eastlake Avenue East
PO Box 778
Seattle, WA 98111-0778

February 11, 2010

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
State of Washington
Office of the Insurance Commissioner
P.O. Box 40259
Olympia, WA 98504-0259

RE: Report of Examination as of December 31, 2008
PEMCO Life Insurance Company (NAIC# 71803)

Dear Deputy Commissioner Odiorne:

We have received the draft of the referenced report of examination and completed our review of the material presented. We appreciate the input from the OIC with respect to how we conduct our business.

In response to your request for our comments on the draft, the following responses are offered in regards to the INSTRUCTIONS listed on pages 1 through 4. Please include them with the final examination report that will be made publicly accessible.

1. **Actuarial Exceptions**

The Company is instructed to adhere to WAC 284-07-380, 284-07-390, 284-74-340, RCW 48.74.025 and SSAP No. 61 by preparing a SAO, a Memorandum in Support of the SAO and the requirements documented in WAC 284-74-340 regarding X factors that are consistent and contain all the required disclosures. The Company is also instructed to re-evaluate its X factors to reflect anticipated future mortality as used in the asset adequacy analysis.

RESPONSE

As instructed, the Company will reevaluate its X factors to confirm compliance with WAC 284-07-380, 284-07-390, 284-74-340, RCW 48.74.025 and SSAP No. 61. Regarding the Statement of Actuarial Opinion, the tabulation in the SAO has been updated to match exact amounts tested as stated in the Memorandum in Support of the SAO. The SAO tabulation has been updated to include the net deferred and uncollected premiums. Lori Newberg of the firm, Miller and Newberg, Inc., is the Company Board of Director's appointed actuary. Ms. Newberg has affirmed that the Memorandum is her work as provided by RCW 48.74.025(3), WAC 284-07-390(1), and WAC 284-74-340(3). Nevertheless, the Memorandum has also been amended to include Ms. Newberg's signature as the "Appointed Actuary."

2. **Capital Contribution**

The Company is instructed per RCW 48.31B.025(2)(c)(iii) to disclose in its registration statement all material changes or additions within fifteen days after the end of the month in which it learns of any change or addition. Also, the Company is instructed to comply with WAC 284-07-050(5)(a) by filing its NAIC Quarterly Statement in the general form and context approved by the NAIC.

RESPONSE

The Company has updated its processes so that reportable events are timely disclosed by filing an amendment to our Form B registration statement. In addition, the Company has updated its process for internal review of its NAIC financial statements to assist in capturing items that are required to be disclosed.

3. **Custodial Agreement Deficiencies**

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 FECH.

RESPONSE

The Company will work with its Custodian to ensure the Custodial Agreement meets the requirements of RCW 48.13.480 by June 30, 2010.

4. **Annual Statement Error**

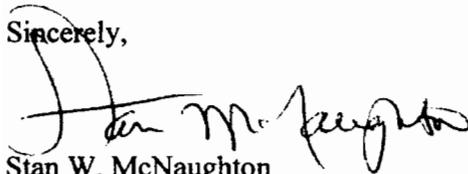
The Company is instructed to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions, and affairs and to follow the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2).

RESPONSE

The Company has reviewed the NAIC Annual Statement Instructions as well as the AP&P and corrected its financial statements. The 2010 annual statement will properly reflect the general insurance expenses as paid and will recognize an amount payable to the parent as instructed.

If you have further questions regarding these items or anything else in regards to our report of examination for the period ended December 31, 2008, please do not hesitate to contact me.

Sincerely,



Stan W. McNaughton
President
PEMCO Life Insurance Company