

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF
ACADEME, INC.
MOUNTLAKE TERRACE, WASHINGTON

NAIC CODE 65105
December 31, 2012

Order No. 14-86
Academe, Inc.
Exhibit A

SALUTATION

Seattle, Washington
January 29, 2014

The Honorable Mike Kreidler, Commissioner
State of Washington Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

Academe, Inc.
of
Mountlake Terrace, Washington

hereinafter referred to as "Academe," or the "Company" at its home office located at 7001 220th Street SW, Mountlake Terrace, WA 98043. This report is respectfully submitted showing the financial condition and related corporate matters of the Company as of December 31, 2012.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Academe, Inc., of Mountlake Terrace, Washington. This report shows the financial condition and related corporate matters as of December 31, 2012.



Patrick H. McNaughton
Chief Examiner

5-2-14

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2008 through December 31, 2012 and comprises a risk focused review of the books and records of the Company. The examination followed statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination through the end of field work on January 29, 2014.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following section of this report. In addition, the Company's Certified Public Accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2012 NAIC FCEH which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess the Company's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and to provide assurance on the Company's financial statements as of the examination date.

INSTRUCTIONS

None

COMMENTS AND RECOMMENDATIONS

None

COMPANY PROFILE

Company History

MSC Life Insurance Company (MSCL) was incorporated on June 1, 1992. MSCL sold primarily group stop-loss coverage for self-insured groups administered by its parent, Medical Service Corporation of Eastern Washington (MSC), or later Premera Blue Cross (PBC). MSCL was authorized to do business only in the state of Washington. On March 17, 2003, MSCL changed its name to LifeWise Health Plan of Arizona (LWAZ) and on September 16, 2003, received a Certificate of Authority from the Arizona Department of Insurance to sell life and disability insurance. On February 19, 2009, LWAZ announced that it would cease sales of new group and individual health policies and make an orderly exit from the Arizona market. Policyholders were given the opportunity to purchase alternative replacement coverage through Blue Cross Blue Shield of Arizona (BCBSAZ), which also purchased certain of the Company's

assets. LWAZ continued to service policyholders that elected to remain with the company through the required run-out period, then ceased all operations in Arizona. On October 1, 2010, LWAZ legally changed its name to Academe, Inc.

Territory and Plan of Operations

Academe is licensed to transact business in the state of Washington. Academe surrendered its Certificate of Authority in Arizona and the Arizona Department of Insurance issued the order accepting the Certificate of Authority on January 28, 2011. Academe is not actively offering policies.

Growth of Company

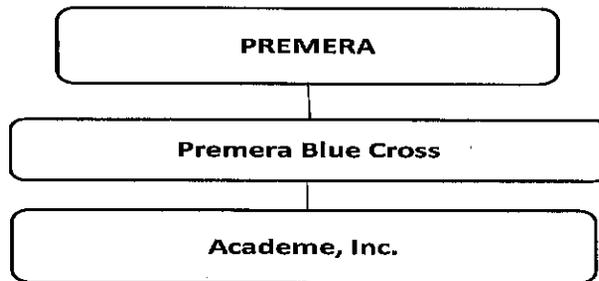
The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the five year period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
2012	\$5,646,034	\$41,908	\$5,604,126
2011	5,749,056	138,427	5,610,629
2010	6,067,176	354,277	5,712,899
2009	9,122,861	3,471,609	5,651,252
2008	22,226,520	12,792,715	9,433,805

<u>Year</u>	<u>Total Revenue</u>	<u>Total Underwriting Deductions</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income (Loss)</u>
2012	\$0	\$20,391	\$4,357	(\$6,503)
2011	0	172,324	8,598	(104,988)
2010	1,171,040	1,556,392	2,644	37,119
2009	20,185,044	28,128,608	402,135	(2,857,958)
2008	51,950,381	66,808,576	1,044,865	(8,558,089)

Affiliated Companies

The following is an abbreviated organization chart as of December 31, 2012:



The Company is a wholly owned subsidiary of Premera Blue Cross (PBC). PBC is a Washington non-profit corporation, and is registered as a health care service contractor in the state of Washington and a hospital and medical service corporation in the state of Alaska. PBC is primarily engaged in the business of providing basic medical, hospital, major medical, comprehensive, and other prepaid health care benefits for its subscribers in the states of Washington and Alaska. PREMERA, an upstream non-profit holding company, is the sole voting member of PBC.

Intercompany Agreements

The Company was a party to various intercompany agreements with PBC and affiliates. Significant agreements in force at December 31, 2012 are listed below.

Intercompany Agreement (Allocation of Costs)

The agreement allocates operating expense to the lines of business/affiliates based on a system of cost accounting.

Restated Intercompany Tax Sharing Agreement

All affiliates within the PREMERA holding company are allocated their proportional share of tax liability, which is calculated as if the entities had filed separate returns.

Funding and Billing Services Agreement

The agreement is used to charge the Company for billing and collection services performed by an affiliate.

MANAGEMENT AND CONTROL

Board of Directors

Directors of the Company as of December 31, 2012:

Jeffrey Roe	Chair
Majd El-Azma	
Kirsten Kemp	
Kent Marquardt	
James Messina	

Officers

Officers of the Company as of December 31, 2012:

Jeffrey Roe	President
Sharilyn Campbell	Treasurer
John Pierce	Secretary
David Braza	Senior Vice President

Conflict of Interest

The Company requires the annual completion of a conflict of interest statement by officers, directors, and key employees. All are required to disclose to the Compliance & Ethics department or corporate counsel relevant outside interests, memberships, associations, and affiliations. Our review did not disclose any material exceptions.

Fidelity Bond and Other Insurance

Academe is a named insured on a financial institution fidelity bond insurance policy. The aggregate amount of coverage meets the recommended guidelines of the NAIC.

Officers', Employees', and Agents' Welfare and Pension Plans

Academe has no employees. Any work performed on behalf of Academe is done by employees of PBC.

CORPORATE RECORDS

The corporate records were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. The minutes supported the transactions of the Company and actions taken by the officers.

MORTALITY AND LOSS

Academe is a dormant company and reports no reserves.

REINSURANCE

Academe does not have any reinsurance contracts.

STATUTORY DEPOSITS

The Company had no statutory deposits as of December 31, 2012.

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to a Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. For the years 2008, 2009, and 2010, the Company was audited by the certified public accounting firm of KPMG, LLP. The Company received an unqualified opinion for all years under review. The Company was exempt from an annual CPA audit in the years 2011 and 2012; however, the parent company, PBC, is audited annually by the certified public accounting firm of Deloitte & Touche LLP and received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

The Company's information technology (IT) environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and Related Technology (COBIT) Framework domains:

- Plan and Organize
- Acquire and Implement
- Deliver and Support
- Monitor and Evaluate

The IT systems and controls were evaluated to gain an understanding of general IT control risks and assess the effectiveness of these controls. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels.

SUBSEQUENT EVENTS

None

FINANCIAL STATEMENTS

The following financial statements show the financial condition of Academe, Inc. as of December 31, 2012:

Assets, Liabilities, Surplus and Other Funds
Statement of Revenue and Expenses
Five Year Reconciliation of Surplus

Academe, Inc.
Assets, Liabilities, Capital and Surplus
December 31, 2012

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
ASSETS			
Bonds	\$249,373	\$0	\$249,373
Cash	4,591,216		4,591,216
Short term investments	780,080		780,080
Investment income due and accrued	3,012		3,012
Receivable from parent, subsidiaries, and affiliates	3,642		3,642
Aggregate write-ins for other than invested assets	18,711		18,711
Total assets	<u>\$5,646,034</u>	<u>\$0</u>	<u>\$5,646,034</u>
LIABILITIES			
General expenses due or accrued	\$170	\$0	\$170
Current federal and foreign income tax payable	6,216		6,216
Amounts due to parent, subsidiaries and affiliates	19		19
Aggregate write-ins for liabilities	35,503		35,503
Total liabilities excluding Separate Accounts	<u>41,908</u>	<u>0</u>	<u>41,908</u>
Total liabilities	<u>41,908</u>	<u>0</u>	<u>41,908</u>
Common capital stock	2,400,000		2,400,000
Gross paid in and contributed surplus	51,769,664		51,769,664
Unassigned funds (surplus)	(48,565,538)		(48,565,538)
Total capital and surplus	<u>\$,604,126</u>	<u>0</u>	<u>5,604,126</u>
Total liabilities, capital and surplus	<u>\$5,646,034</u>	<u>\$0</u>	<u>\$5,646,034</u>

Academe, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2012

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Member months	0		0
Net premium income	\$0	\$0	\$0
Total revenues	<u>0</u>	<u>0</u>	<u>0</u>
Hospital and Medical			
Hospital/medical benefits	0	0	0
Other professional services	0	0	0
Subtotal	<u>0</u>	<u>0</u>	<u>0</u>
Less:			
Claims adjustment expenses	4,195		4,195
General administrative expenses	16,196		16,196
Total underwriting deductions	<u>20,391</u>	<u>0</u>	<u>20,391</u>
Net underwriting gain (loss)	(20,391)	0	(20,391)
Net investment income earned	4,357		4,357
Net realized capital gains (losses)	0		0
Net investment gains or (losses)	<u>4,357</u>		<u>4,357</u>
Aggregate write-ins for other income or (expenses)	<u>7,921</u>		<u>7,921</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	(8,113)	0	(8,113)
Federal and foreign income taxes incurred	<u>(1,610)</u>		<u>(1,610)</u>
Net income or (loss)	<u>(\$6,503)</u>	<u>\$0</u>	<u>(\$6,503)</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>			
Capital and surplus, prior reporting year	<u>\$5,610,629</u>	<u>\$0</u>	<u>\$5,610,629</u>
Net income or (loss)	<u>(6,503)</u>		<u>(6,503)</u>
Net change in capital and surplus	<u>(6,503)</u>	<u>0</u>	<u>(6,503)</u>
Capital and surplus, end of reporting period	<u>\$5,604,126</u>	<u>\$0</u>	<u>\$5,604,126</u>

Academe, Inc.
Five Year Reconciliation of Surplus
As of December 31,

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and surplus, prior reporting period	<u>\$5,610,629</u>	<u>\$5,712,899</u>	<u>\$5,651,252</u>	<u>\$9,433,805</u>	<u>\$18,759,380</u>
Net Income or (loss)	(6,503)	(104,988)	37,119	(2,857,958)	(8,558,089)
Change in net unrealized capital gains (losses)					(6,102)
Change in net deferred income tax				(1,612,492)	(333,542)
Change in non-admitted assets		2,718	24,528	687,897	(254,719)
Aggregate write-ins for gains or (losses) in surplus					(173,123)
Net change in capital and surplus	<u>(6,503)</u>	<u>(102,270)</u>	<u>61,647</u>	<u>(3,782,553)</u>	<u>(9,325,575)</u>
Capital and surplus, end of reporting period	<u>\$5,604,126</u>	<u>\$5,610,629</u>	<u>\$5,712,899</u>	<u>\$5,651,252</u>	<u>\$9,433,805</u>

NOTES TO THE FINANCIAL STATEMENTS

The Company has no special consents, permitted practices, or orders from the state of Washington.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Academe, Inc., during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Timothy F. Hays, CPA, JD, Investment Specialist; Susan Campbell, CPA, CFE, FLMI, ARA, Life Field Supervising Examiner and Reinsurance Specialist; Cynthia Clark, CPA, Financial Examiner; Charles Kreske, AFE, Financial Examiner, and Jim Gill, CPA, MBA, Financial Examiner, all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,

Constantine Arustamian

Constantine Arustamian, CPA, CFE, CIE, CPCU, ARC, ARM, ARE, AIS, AIAF, API
Examiner-in-Charge
State of Washington

