



OFFICE OF  
INSURANCE COMMISSIONER

In the Matter of )

No. 14-72

The Financial Examination of )  
**LIFEWISE ASSURANCE COMPANY** )

) FINDINGS, CONCLUSIONS,  
) AND ORDER ADOPTING REPORT  
) OF FINANCIAL EXAMINATION  
)

A Domestic Insurer.

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**BACKGROUND**

An examination of the financial condition of **LIFEWISE ASSURANCE COMPANY**, (the Company) as of December 31, 2012, 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 (see Exhibit A) was transmitted to the Company for its comments on March 26, 2014. The Company's response to the report is attached to this order (see Exhibit B) 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 1-3.

1. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in accordance with the AP&P, and WAC 284-07-050(2)(a) 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 calculate the long term disability (LTD) claim reserves in accordance with WAC 284-16-450(1)(b) and WAC 284-16-510(1)(b) which only allows modifications to the permitted tables during the first two years. The Company is also ordered to use the appropriate interest rate for LTD claims in accordance with WAC 284-16-520(2). Instruction 2, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.74.030(3)(b)(i) and SSAP Appendix A-820.5.a.i.(a) in setting the valuation rate of interest for the group conversion policies. Instruction 3, Examination Report, page 3.
4. The Company is ordered to consider that the actuary calculate reserves using the claimant data provided from all reinsurers and establish a properly documented valuation basis including calculation formulae and testing for adequacy, in the context of the Company's business. Comment and Recommendation 1, Examination Report, page 3.

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 12th day of May, 2014.

A handwritten signature in black ink, appearing to read "Mike Kreidler". The signature is fluid and cursive, with a large initial "M".

MIKE KREIDLER  
Insurance Commissioner

**LIFEWISE**

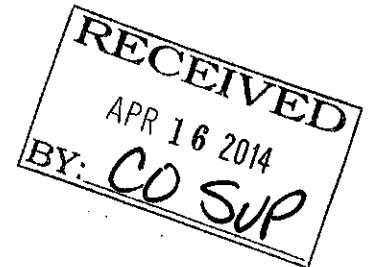
**ASSURANCE COMPANY**

Life | Disability | Stop Loss

VIA OVERNIGHT MAIL

April 14, 2014

William R. Michels, MBA, CPA, CFE  
Deputy Insurance Commissioner  
Company Supervision Division  
5000 Capitol Blvd.  
Tumwater, WA 98501



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

Dear Deputy Insurance Commissioner Michels:

The purpose of this letter is to furnish you with comments on the Draft Financial Examination Report ("Draft Report") for LifeWise Assurance Company ("LWAC" or the "Company") transmitted to the Company on March 26, 2014. Exhibit A to this letter provides the Company's responses to each of the Instructions, 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,

A handwritten signature in black ink that reads "Sharilyn Campbell".

Sharilyn Campbell  
Vice President, Finance, & Treasurer

Order No. 14-72  
LifeWise Assurance Company  
Exhibit B

EXHIBIT A  
LIFEWISE ASSURANCE COMPANY RESPONSE TO  
DRAFT FINANCIAL EXAMINATION REPORT

**INSTRUCTIONS**

**1. NAIC Annual Statement Errors, Omissions, and Misclassifications**

*The examination team found instances in which the Company's filing of the 2012 NAIC Annual Statement did not conform to the NAIC Annual Statement Instructions and the AP&P. While the Company needs to correct these errors; the following items were not material to the financial statements and no adjustments were necessary. The following errors were noted:*

**a. Aggregate write-ins for other than invested assets** - *The Company reported a miscellaneous receivable of \$716,000 that represents the ceding commissions due to LWAC pursuant to Exhibit B of the coinsurance reinsurance contract between LWAC and US Able Life Insurance Company (US Able) as Aggregate write-ins for other than invested assets, page 2, line 25. This item should be recorded on page 2, line 16.3, other amounts receivable under reinsurance contracts.*

**b. Aggregate write-ins for other than invested assets** - *The Company reported \$201,000 that represents commissions that LWAC pays to agents monthly but gets reimbursed on a quarterly basis from US Able as Aggregate write-ins for other than invested assets, page 2, line 25. This item should be recorded on page 2, line 16.3, other amounts receivable under reinsurance contracts.*

**c. Schedule D - Part 1 - The Company incorrectly completed Schedule D - Part 1** *by including incorrect Securities Valuation Office (SVO) ratings for four mortgage backed securities. According to the Publicly Traded Securities Valuation of Securities (VOS) Database published by the SVO, all four bonds had a 6FE rating as of December 31, 2012, which means that those bonds should be carried at the lower of amortized value or fair value. Because the difference between amortized value and fair value was below our materiality threshold, no adjustment was necessary.*

***The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in accordance with the AP&P, and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.***

LWAC Response: The Company does not disagree with this instruction, and has complied with the instruction for all three parts.

EXHIBIT A  
LIFEWISE ASSURANCE COMPANY RESPONSE TO  
DRAFT FINANCIAL EXAMINATION REPORT

**2. Long Term Disability Reserves**

*The Company relies on two reinsurance companies to calculate the reserves for long term disability (LTD) claims. The following two areas of reserve calculations were not in compliance with Washington State requirements. The impact was immaterial and no examination adjustments were necessary:*

*a. The reinsurers calculated the LTD claim reserves by making modifications to the tables permitted by WAC 284-16-450(1)(b). One of the reinsurers made modifications to the reserves beyond two years. WAC 284-16-450(1)(b) allows modifications to the tables in the first two years at the option of the insurer. After two years, no further table modifications are permitted.*

*b. The reserves are calculated using an interest rate that is referenced from single premium immediate annuities instead of from life insurance as required by WAC 284-16-520(2) for LTD policies. This was also a finding on the previous examination. (See Follow Up on Previous Examination Findings, Finding No. 1.)*

***The Company is instructed to calculate the LTD claim reserves in accordance with 284-16-450(10)(b), and WAC 284-16-510(1)(b) which only allows modifications to the permitted tables during the first two years. The Company is also instructed to use the appropriate interest rate for LTD claims in accordance with WAC 284-16-520(2).***

LWAC Response: The Company does not disagree and will ensure that the tables will only be modified for the first two years in accordance with WAC 284-16-450(1)(b) and WAC 284-16-510(1)(b), and that the appropriate interest rate will be used in accordance with WAC 284-16-520(2).

**3. Life Conversions**

*For life conversions in 2006 and later, the Company values its obligations at 4.5 percent. Per RCW 48.74.030(3)(b)(i), and SSAP Appendix A-820.5.a.i.(a), the Company should use 4 percent. A half percent interest rate disparity did not have a material impact on the financial statements. This was also a finding on the previous examination. (See Follow Up on Previous Examination Findings, Finding No. 2.)*

***The Company is again instructed to comply with RCW 48.74.030(3)(b)(i), and SSAP Appendix A-820.5.a.i.(a) in setting the valuation rate of interest for the group conversion policies.***

LWAC Response: The Company does not disagree that the 4% interest rate should have been used for life conversions affected in 2006 and later, and we will work with Milliman to change the interest rate in 2014.

EXHIBIT A  
LIFEWISE ASSURANCE COMPANY RESPONSE TO  
DRAFT FINANCIAL EXAMINATION REPORT

**COMMENTS AND RECOMMENDATIONS**

**1. Long Term Disability Reserves**

*The Company relies on reinsurance companies to calculate the reserves for long term disability policies. The opining actuary should review reserves calculation for compliance with Washington State requirements. (See Instruction No. 2.)*

***It is recommended that the opining actuary calculates reserves using the claimant data provided from all reinsurers and establish a properly documented valuation basis including calculation formulae and testing for adequacy, in the context of the Company's business.***

LWAC Response: The Company respectfully states that we believe our current process for calculating the reserves of Long Term Disability policies works well and will continue to rely on reinsurance company calculations and their expertise to establish best practice liabilities. We will have our outside actuary perform a more robust review of these calculations.

**COMPANY PROFILE**

**Capitalization.** In the first sentence, the company name "Ucentris" should be replaced with "Connexion."

**Intercompany Agreements.** For the description of the General Agency Agreement, the company name "Ucentris," which appears twice, should be changed to "Connexion." After the date "October 1, 2010", should appear, "as amended January 1, 2012".

**Conflict of Interest.** In the second sentence, "Compliance & Ethics committee" should be replaced with, "Compliance and Ethics department."