

**STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS SERVICES
INSURANCE DIVISION**



REPORT OF FINANCIAL EXAMINATION

OF

**REGENCE LIFE AND HEALTH INSURANCE COMPANY
PORTLAND, OREGON**

NAIC COMPANY CODE 97985

AS OF

DECEMBER 31, 2011

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**REGENCE LIFE AND HEALTH INSURANCE COMPANY
PORTLAND, OREGON**

NAIC COMPANY CODE 97985

AS OF

DECEMBER 31, 2011

TABLE OF CONTENTS

SALUTATION	3
SCOPE OF EXAMINATION.....	4
COMPANY HISTORY	5
<i>Capitalization.....</i>	<i>5</i>
<i>Dividends and Other Distributions.....</i>	<i>5</i>
CORPORATE RECORDS	6
<i>Board Minutes.....</i>	<i>6</i>
<i>Articles of Incorporation.....</i>	<i>7</i>
<i>Bylaws</i>	<i>7</i>
MANAGEMENT AND CONTROL	7
<i>Board of Directors</i>	<i>7</i>
<i>Officers.....</i>	<i>8</i>
<i>Conflict Of Interest.....</i>	<i>8</i>
<i>Insurance Company Holding System</i>	<i>8</i>
INTERCOMPANY AGREEMENTS.....	12
<i>Amended Regence Administrative Services Agreement.....</i>	<i>12</i>
<i>Administrative Services Agreement.....</i>	<i>12</i>
<i>The Regence Group & Subsidiaries Consolidated Federal Income Tax Agreement.....</i>	<i>13</i>
FIDELITY BOND AND OTHER INSURANCE.....	13
TERRITORY AND PLAN OF OPERATION.....	14
GROWTH OF THE COMPANY.....	15
LOSS EXPERIENCE	15
REINSURANCE	16
<i>Assumed</i>	<i>16</i>
<i>Ceded.....</i>	<i>16</i>
ACCOUNTS AND RECORDS.....	17
STATUTORY DEPOSITS.....	17
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS.....	18
SUBSEQUENT EVENTS.....	18
FINANCIAL STATEMENTS.....	18
NOTES TO FINANCIAL STATEMENTS	23
<i>Note 1 – Invested Assets.....</i>	<i>23</i>
<i>Note 2 – Actuarial Reserves.....</i>	<i>23</i>
SUMMARY OF COMMENTS AND RECOMMENDATIONS	24
CONCLUSION	24
ACKNOWLEDGMENT	25
AFFIDAVIT	26

SALUTATION

December 11, 2012

Joseph Torti, III
Deputy Director and Superintendent of Insurance
Chairman, NAIC Financial Condition (E) Committee
Rhode Island Division of Banking Regulation
Division of Insurance
1511 Pontiac Avenue
Cranston, RI 02920

Honorable Louis Savage, Commissioner
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Superintendent and Commissioner:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

REGENCE LIFE AND HEALTH INSURANCE COMPANY
100 SW Market Street
Portland, Oregon 97201

NAIC Company Code 97985

hereinafter referred to as the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our examination of Regence Life and Health Insurance Company, now known as LifeMap Assurance Company, conducted in conjunction with the Utah Department of Insurance as part of the multi-state examination of insurers under Cambia Health Solutions, Inc. The Oregon Insurance Division was designated as the lead state. The examination was conducted in conjunction with the examination of three domestic subsidiary health care service contractors, Regence BlueCross BlueShield of Oregon, Regence HMO Oregon and Regence Health Maintenance of Oregon, Inc. A separate report of examination will be prepared for each entity. The last examination of this life and health insurer was completed as of December 31, 2008. The current examination covers the period of January 1, 2009 to December 31, 2011.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1), which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, annual statement instructions, and Oregon statutes and administrative rules.

All accounts and activities of the Company were considered in accordance with the risk focused examination process.

COMPANY HISTORY

Medical Health Company, Inc, was incorporated by Oregon Physicians' Services on September 22, 1964, as a for-profit stock health care service contractor in Oregon. Effective September 17, 1982, the Company changed its name to Greater Northwest Insurance Company, and on December 17, 1982, converted from a health care service contractor to a stock life and health insurer with the approval of the Oregon Insurance Division. On April 24, 1984, the Company changed its name to Oregon Pacific States Insurance Company. Upon the completion of the affiliation agreement on June 1, 1995, the Company was renamed Regence Life and Health Insurance Company. Subsequent to this examination date, the Company changed its name to LifeMap Assurance Company. See Subsequent Event portion of this examination report.

Capitalization

The Company was authorized under Article IV of its Articles of Incorporation to issue 55,000 shares of common stock of \$60.00 par value per share. At December 31, 2011, the Company reported 29,465 issued and outstanding shares, representing common capital stock equal to \$1,767,900. No additional capital or paid-in surplus had been contributed to the Company during the period under examination. The Company's issued and outstanding shares of common stock are owned by Regence BlueShield (75%), Regence BlueCross BlueShield of Utah (12%), Regence BlueCross BlueShield of Oregon (11%), and Regence BlueShield of Idaho, Inc., (2%).

Dividends and Other Distributions

During the period under examination, the Company did not declare or pay any cash dividend or make any distributions to its shareholders.

CORPORATE RECORDS

Board Minutes

In general, the review of the Board meeting minutes of the Company indicated the minutes support the transactions of the Company and clearly describe the actions taken by its directors. A quorum, as defined by the Company's Bylaws, met at all of the meetings held during the period under review.

Neither the Company's Articles nor its Bylaws authorize any standing committee, but the Board may appoint special committees for specific purposes and for a limited duration. Instead, the Company relies on appointed committees of the ultimate controlling entity, Cambia. There are six committees authorized to assist in the management of Cambia, as follows:

- Organizational & Governance Committee
- Investment Committee
- Audit & Compliance Committee
- Personnel & Compensation Committee
- Health Strategies Committee
- Direct Health Solutions Committee (formerly New Business Ventures)

The actions of the various committees are summarized and reported to the Board of Directors during their regular meetings.

The minutes indicated the compensation of Cambia's CEO is approved through the Personnel & Compensation Committee, which is then approved by the Board. Compensation of other senior officers, including the Company's president, are indirectly approved through the

Board's approval of an annual budget. This process complies with the provisions of ORS 732.320(3).

Articles of Incorporation

During the period under examination, no changes were made to the Company's Articles of Incorporation. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

The Company's Bylaws were last restated and amended on April 25, 2009. The Company's Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws, in Article III – Section 1, state the business affairs of the corporation shall be managed by its Board of Directors. Article III – Section 2 states the number of directors shall not be less than five (5) nor more than nine (9). As of December 31, 2011, the Company was governed by a six member Board of Directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Mark B. Ganz Portland, Oregon	President and CEO Cambia Health Solutions	2004
Robert A. Hatch Salt Lake City, Utah	President Regence BlueCross BlueShield of Utah	2010
M. Jonathan Hensley Seattle, Washington	President Regence BlueShield	2007
Scott D. Kreiling Boise, Idaho	President Regence BlueShield of Idaho	2010

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Vincent P. Price Portland, Oregon	Chief Financial Officer Cambia Health Solutions	2010
Jared L. Short Portland, Oregon	President Regence Insurance Holding Corporation	2009

Officers

Principal officers serving at December 31, 2011, were as follows:

<u>Name</u>	<u>Title</u>
William C. Barr	President
Michael T. Mudrow	Secretary
Daniel J. Mallea	Treasurer
Lisa T. Murphy	Assistant Secretary

Conflict Of Interest

The Company's Board adopted a formal statement of policy concerning conflict of interest for all directors, officers and employees. Board members, senior officers and key employees are required to annually sign a conflict of interest declaration. From a review of the completed conflict of interest questionnaires, the Company's personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

Insurance Company Holding System

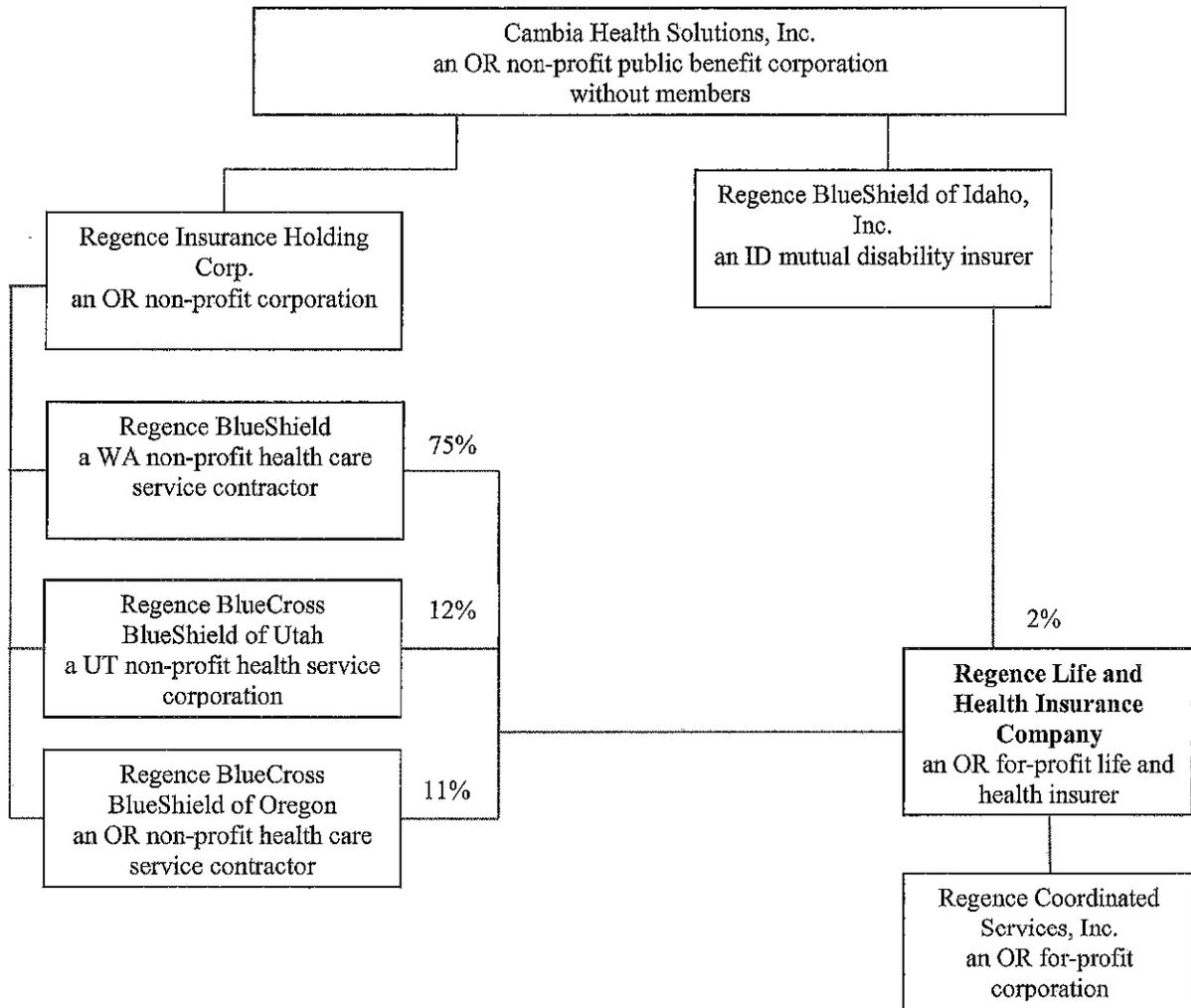
The Company is part of an insurance company holding system whereby Cambia Health Solutions, Inc. is the ultimate controlling entity.

On April 17, 1995, a public benefit corporation was formed under the name Entrust, which changed its name to The Benchmark Group on June 27, 1995. It was formed as a public benefit holding company and administrative services company. On June 1, 1995, four

entities entered into an Agreement of Affiliation with The Benchmark Group; BlueCross BlueShield of Oregon (State of Oregon), King County Medical Blue Shield (State of Washington), Pierce County Medical Bureau, Inc. (State of Washington), and Medical Service Bureau of Idaho, Inc. On March 28, 1997, The Benchmark Group changed its name to The Regence Group (TRG). Effective August 1, 1997, BlueCross BlueShield of Utah became an affiliate of TRG. On November 4, 2011, TRG changed its name to Cambia Health Solutions, Inc. (Cambia).

Since the last examination, Cambia has restructured itself into three separate divisions; Health Insurance Services, Shared Services, and Direct Health Solutions. Health Insurance Services contains all the entities' health insurance companies. Shared Services provides administrative and operational services to all divisions within the holding company, including administrative, insurance, enterprise risk management, personnel, legal, regulatory, human resources, and other such services as needed. Direct Health Solutions, a division within Cambia, manages health-related entities that are not traditional health insurance companies. Shared Services is a division within Cambia, but it is not a separate entity. In certain cases, Direct Health Solutions will act as a venture capital group to provide financing and resources in exchange for ownership interest in companies that provide health-related applications or services.

The following abbreviated organizational chart shows the relationship between Cambia's subsidiaries and the Company:



Descriptions of the other related entities are as follows:

Cambia Health Solutions, Inc. (Cambia) is an Oregon nonprofit public benefit corporation acting as the holding company and management company for its affiliated entities. As of December 31, 2011 it was the sole voting member of Regence BlueCross BlueShield of Oregon, Regence Blue Shield and Regence BlueCross BlueShield of Utah. Cambia Health Solutions manages Regence BlueShield of Idaho, Inc., under a Management and Administrative Service Agreement amended on December 28, 2007. Under an Agreement of Affiliation, it retains the authority to approve elections to the governing Board of Directors of each affiliate and thus would be considered the ultimate controlling entity of the insurance holding company system.

Regence Insurance Holding Corporation (RIHC) is a holding company formed by Cambia in 2011 to control the entities' health insurance companies and to direct and coordinate marketing campaigns. Cambia is the sole member of RIHC, which in turn is the Sole Member of the direct parents of the Company, as follows:

Regence BlueShield (RBS), a Washington domiciled nonprofit corporation. Originally incorporated as King County Medical Service Corporation in 1933, it adopted its current name on April 16, 1998.

Regence BlueCross BlueShield of Utah (RBCBSU), a Utah domiciled nonprofit corporation. RBCBSU was formed by the merger of Blue Cross of Utah and Blue Shield of Utah effective January 1, 1982.

Regence BlueCross BlueShield of Oregon (RBCBSO), an Oregon domiciled nonprofit corporation. RBCBSO was formed by the merger of Oregon Physicians' Service and Northwest Hospital Service in March, 1983.

In addition, the Company has one wholly owned subsidiary in the holding company structure, as follows:

Regence Coordinated Services, Inc., an Oregon for profit corporation formed on March 15, 1999, as a life and health insurance agency. It is the surviving entity in a merger with Medical Service Life Agency, Inc. (Idaho), Combined Services Northwest, Inc. (Washington), and GS Insurance Agency, Inc. (Utah), effective April 1, 1999. Still operating today is CSN Acquisition Corporation (Washington) which was incorporated on March 31, 1999 and Group Services Inc. (Utah) which was incorporated on April 17, 1974.

INTERCOMPANY AGREEMENTS

The following agreements are in place between the Company, its parent and its subsidiaries within the insurance company holding system:

Amended Regence Administrative Services Agreement

Effective December 28, 2007, Cambia entered into a cost-sharing agreement with each of the Regence plans in Oregon, Utah and Washington, including their subsidiary companies. Under the terms of the agreement, Cambia will provide all operational, administrative, and management services reasonably necessary to transact business. These services include managerial, legal, financial, actuarial, underwriting, accounting, human resources, billing, membership, claims adjudication, customer service, reporting, regulatory compliance, and all applicable technical, clerical and communication support, as well as all necessary equipment, materials, office space and general supplies. Reimbursement will be made using a cost allocation method describe in the contract, and it is the intent that Cambia receive full compensation for the cost of its services and general overhead and taxes, and that no profit be derived from the agreement. This complies with the provisions of ORS 732.215. Reconciliations will be performed monthly, and settlement of expenses shall be made 90 days after the month end.

Administrative Services Agreement

Effective October 3, 2011, the Company shall provide operational, administrative and/or management services to Asuris Northwest Health, an affiliated health care service contractor domiciled in the State of Washington. Services include financial, accounting, data network/telecommunications, marketing, advertising, billing, banking, claims adjudication, reporting, regulatory compliance, information technology services, and applicable technical, clerical and communication services. Fees equaling 16.6% of monthly premiums collected

for Asuris insurance products shall be paid to the Company for services provided by LifeMap for administering voluntary dental products. Fees will be billed and settled within 90 days from the end of the reporting period.

The Regence Group & Subsidiaries Consolidated Federal Income Tax Agreement

Effective January 1, 1997 (although the agreement was not signed until September 20, 2000), Cambia agrees to file a consolidated income tax return, including any liability for alternative minimum tax. The tax liability is then allocated to each member of the affiliated group, computed as if a separate return was filed. Any credits or operating losses shall be allocated to those members with the credits or generating the losses. Payment of estimated installments due for such taxable periods shall be paid within 30 days of receiving notice. Final settlements for a tax year must be paid within 30 days after the filing of the consolidated return.

FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages. The Company's insurance coverages are provided through insurance policies from an unaffiliated carrier, and coverage protected Cambia and all subsidiary and affiliated companies as a named insured. The group as a whole is insured up to \$10,000,000 per single loss, \$20,000,000 aggregate liability, after a \$100,000 deductible, against losses from acts of dishonesty and fraud by its employees and agents. Fidelity bond coverage was found to meet the coverage limits recommended by the NAIC.

Other insurance coverages in force at December 31, 2011, were found to be adequate, and are as follows:

Real and personal property liability	Errors and omissions
Employment practices liability	Directors & officers liability
Employed lawyers professional	Executive liability
Computer crime liability	Workers' compensation

TERRITORY AND PLAN OF OPERATION

The Company is authorized in seven states to conduct business as a life and health insurer.

The Company provides group life and accidental death and dismemberment, short term and long term disability, dental and vision insurance. It also offers individual accident and illness, dental, vision, short term medical and emergency medical products.

The Company's group and individual business is produced through marketing representatives in conjunction with licensed independent agents and brokers.

The Company reported total direct premiums over the past three years as follows:

<u>Line of Business</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Life			
Ordinary	\$ 54,992	\$ 54,108	\$ 43,213
Credit	0	0	0
Group	24,502,071	23,026,804	23,432,977
Industrial	0	0	0
Total Life	<u>\$ 24,557,063</u>	<u>\$ 23,080,912</u>	<u>\$23,476,190</u>
Accident & Health			
Group	\$ 83,060,940	\$ 78,698,484	37,693,087
Individual	0	0	0
Other	20,411,588	23,667,117	22,292,602
Total A&H	<u>103,472,528</u>	<u>102,365,601</u>	<u>59,985,689</u>
Total direct premiums	<u>\$128,029,591</u>	<u>\$125,446,513</u>	<u>\$83,461,879</u>

At year-end 2011, the Company reported direct business in the states it is authorized as follows:

<u>State</u>	<u>Direct Life Premiums</u>	<u>Direct A&H Premiums</u>
	<u>Written</u>	<u>Written</u>
Alaska	\$ 10,039	\$ 14,778
Idaho	2,964,851	7,526,862
Montana	0	0
Oregon	10,303,225	20,464,474
Utah	2,698,941	12,415,511
Washington	7,499,134	19,564,064
Wyoming	0	0
Total	<u>\$23,476,190</u>	<u>\$59,985,689</u>

GROWTH OF THE COMPANY

Growth of the Company over the past five years is reflected in the following table. Amounts were derived from Company's filed annual statements, except in those years where a report of examination was published by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2007	\$84,936,951	\$47,125,924	\$37,811,027	\$4,419,594
2008*	81,578,695	44,030,618	37,548,077	802,509
2009	89,199,743	46,450,950	42,748,801	2,754,093
2010	87,113,043	40,977,588	46,135,456	3,030,418
2011*	89,484,706	42,728,655	46,756,051	(125,833)

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual accident and health (A&H) underwriting results of the Company over the last five years. The amounts were compiled from Schedule H of the Company's filed annual statements and, where indicated, from examination reports.

<u>Year</u>	<u>(1) Premium Earned</u>	<u>(2) Incurred Claims</u>	<u>(2)/(1) Pure Loss Ratio</u>	<u>(3) Incurred Expenses</u>	<u>(2)+(3)/(1) Combined Loss Ratio</u>
2007	\$19,111,028	\$10,139,684	53.1%	\$7,896,475	94.4%
2008*	14,024,662	11,855,305	84.5%	8,456,564	144.8%
2009	25,022,629	12,559,890	50.2%	9,359,420	87.6%
2010	22,398,544	14,469,892	64.6%	9,980,670	109.2%
2011*	27,845,250	17,264,956	62.0%	10,928,643	101.2%

*Per examination

A combined loss incurred and expense to premium ratio of more than 100% would indicate an underwriting loss. The Company reported underwriting losses in three of the last five years.

REINSURANCE

Assumed

Under a 100% reinsurance agreement with RCBBSO, RCBBSU and RBSI effective on June 1, 2001, the Company assumes 100% of individual and group accidental death insurance premiums written by RCBBSO, RCBBSU and RBSI. Total amounts assumed were \$1.2 million compared to a total of \$84.0 million direct premiums written during 2011.

Ceded

Effective May 1, 1995, the Company entered into a 100% quota share reinsurance agreement with RCBBSO to cede 100% of the premiums written for its group and individual health insurance risks. RCBBSO shall adjust, settle or compromise all claims and losses for risks reinsured, and shall not receive any compensation for this service. During 2011, the Company ceded \$35.7 million.

The Company is reinsured for long-term disability (LTD) losses through a quota share agreement effective May 1, 1996, that provides for automatic cessions of risks in excess of the Company's retention. Under the terms of the agreement, the Company retains 10% of the risk and cedes the remaining 90%. The Company also reinsures LTD benefits through a facultative agreement in which it may cede 100% of its liability.

The Company's group life, group AD&D and voluntary group AD&D policies are reinsured through an excess of loss agreement with Generali USA Life Reassurance Company effective January 1, 2011. Under the terms of this agreement, the Company is covered for \$1,850,000 of losses per person in excess of \$150,000 for group life business. For group AD&D, the

Company is reinsured for \$1,900,000 of losses per person in excess of \$100,000. In addition, the agreement provides a quota share coverage in which the Company retains 20% of the risk on its voluntary AD&D business and the reinsurer assumes 80% of the risk not to exceed \$400,000 per person.

Effective January 1, 2011, the Company was insured for catastrophic excess of loss with Sirius International Insurance Corporation covering life, group life and group AD&D policies. The reinsurer shall pay 100% of \$10 million ultimate net loss for each and every occurrence in excess of \$500,000. Maximum retention shall be \$150,000 for group life, \$100,000 for group AD&D and voluntary accidental death.

The reinsurance agreements contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded.

In view of the Company's reported surplus of \$46,756,051 at December 31, 2011, it does not maintain risk on any one subject in excess of ten percent of its surplus to policyholders, in compliance with ORS 731.504.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2011, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

STATUTORY DEPOSITS

As of the examination date, the Company maintained \$1,000,000 (par value) and \$310,000 (par value) in US Treasury Notes for the Idaho and Montana Departments of Insurance, respectively. The deposits were verified from the records of the Insurance Departments and

were listed in the 2011 annual statement on Schedule E – Part 3. No deposits were required to be maintained with the Oregon Insurance Division.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There was one recommendation made in the 2008 report of examination, however, no adjustments were made to surplus as a result of the examination findings. In a follow-up report prepared January 7, 2011, the Oregon Insurance Division concluded the Company was in compliance with the recommendation.

SUBSEQUENT EVENTS

The Company changed its name from Regence Life and Health Insurance Company to LifeMap Assurance Company, effective February 1, 2012.

The examiners noted no other events subsequent to the examination date that would have a material impact on the financial statements as presented in the 2011 Annual Statement.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of Regence Life and Health Insurance Company as of December 31, 2011:

Statement of Assets
Statement of Liabilities, Surplus and Other Funds
Summary of Operations
Reconciliation of Capital and Surplus Since the Last Examination

REGENCE LIFE AND HEALTH INSURANCE COMPANY
ASSETS
As of December 31, 2011

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$58,879,007	\$ -	\$58,879,007	1
Preferred stocks	3		3	
Common stocks	16,619,780	-	16,619,780	1
Cash, cash equivalents and short-term investments	7,275,445	-	7,275,445	1
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>\$82,774,235</u>	<u>\$ -</u>	<u>\$82,774,235</u>	
Investment income due and accrued	499,281	-	499,281	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	1,602,737	-	1,602,737	
Reinsurance				
Amounts recoverable from reinsurers	622,557	-	622,557	
Amounts held by or deposited with reinsured companies	180,457	-	180,457	
Other amounts receivable under reinsurance contracts	401,547	-	401,547	
Amounts receivable relating to uninsured plans	2,283,163		2,283,163	
Current FIT recoverable	262,462	-	262,462	
Receivable from parent, affiliates and subsidiaries	278,087	-	278,087	
Health care receivable	254,776	-	254,776	
Aggregate write-ins for other than invested assets	<u>325,404</u>	<u>-</u>	<u>325,404</u>	
Total Assets	<u>\$89,484,706</u>	<u>\$ -</u>	<u>\$89,484,706</u>	

REGENCE LIFE AND HEALTH INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2011

Liabilities	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Aggregate reserve for life contracts	\$11,533,603	\$ -	\$11,533,603	2
Aggregate reserve for a&h contracts	4,303,868	-	4,303,868	2
Liability for deposit-type contracts	456,179	-	456,179	2
Contract claims for life	4,915,397	-	4,915,397	2
Contract claims for a&h	4,825,893	-	4,825,893	2
Premiums and annuity considerations	960,872	-	960,872	
Contract liabilities not included elsewhere:				
Provision for experience rated refunds	1,417,142	-	1,417,142	
Other amounts payable on reinsurance	3,191,728	-	3,191,728	
Interest maintenance reserve	1,083,228	-	1,083,228	
Commissions to agents due or accrued	238,047	-	238,047	
General expenses due or accrued	932,296	-	932,296	
Taxes, licenses and fees due or accrued	140,003	-	140,003	
Net deferred tax liability	236,384	-	236,384	
Amounts withheld or retained for account of others	26,226	-	26,226	
Remittances and items not allocated	265,558	-	265,558	
Miscellaneous liabilities:				
Asset valuation reserve	2,405,528	-	2,405,528	
Payable to parent, subs and affiliates	3,566,411	-	3,566,411	
Liability for amounts held under uninsured plans	1,260,327	-	1,260,327	
Aggregate write-ins for liabilities	<u>969,965</u>	<u>-</u>	<u>969,965</u>	
Total Liabilities	<u>\$42,728,655</u>	<u>\$ -</u>	<u>\$42,728,655</u>	
Common capital stock	\$ 1,767,900	\$ -	\$ 1,767,900	
Gross paid in and contributed surplus	6,563,088	-	6,563,088	
Unassigned funds (surplus)	<u>38,425,063</u>	<u>-</u>	<u>38,425,063</u>	
Capital and Surplus	<u>46,756,051</u>	<u>-</u>	<u>46,756,051</u>	
Total Liabilities, Surplus and Other Funds	<u>\$89,484,706</u>	<u>\$ -</u>	<u>\$89,484,706</u>	

REGENCE LIFE AND HEALTH INSURANCE COMPANY
STATEMENT OF OPERATIONS
For the Year Ended December 31, 2011

Revenue	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Premiums and annuity considerations for life and accident and health contracts	\$ 49,486,092	\$ -	\$ 49,486,092	
Net investment income	2,296,457	-	2,296,457	
Amortization of interest maintenance reserve	247,668	-	247,668	
Commissions and expense allowances on reinsurance ceded	-	-	-	
Aggregate write-ins for miscellaneous income	<u>289,364</u>	<u>-</u>	<u>289,364</u>	
Total revenue	<u>52,319,581</u>	<u>-</u>	<u>52,319,581</u>	
Benefits Paid				
Death benefits	13,409,025	-	13,409,025	
Disability benefits and benefits under accident and health contracts	16,999,623	-	16,999,623	
Interest and adjustments on contracts or deposit-type contract funds	100,655	-	100,655	
Increase in aggregate reserves for life and accident and health contracts	<u>287,223</u>	<u>-</u>	<u>287,223</u>	
Total benefits paid	30,796,526	-	30,796,526	
Expenses				
Commissions on premiums, annuity considerations, and deposit-type contract funds	5,155,697	-	5,155,697	
General insurance expenses	15,346,075	-	15,346,075	
Insurance taxes, licenses and fees, excluding federal income taxes	1,591,241	-	1,591,241	
Aggregate write-in for deductions	-	-	-	
Total expenses	<u>22,093,013</u>	<u>-</u>	<u>22,093,013</u>	
Net gain from operations before dividends to policyholders and FIT	(569,958)	-	(569,958)	
Dividends to policyholders	-	-	-	
Federal and foreign income taxes incurred	155,677	-	155,677	
Net realized capital gains and (losses) less capital gains tax	<u>288,448</u>	<u>-</u>	<u>288,448</u>	
Net income	<u>\$ (125,833)</u>	<u>\$ -</u>	<u>\$ (125,833)</u>	

REGENCE LIFE AND HEALTH INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2011	2010	2009
Surplus as regards policyholders, December 31, previous year	<u>\$46,135,457</u>	<u>\$42,748,805</u>	<u>\$37,548,077</u>
Net income	(125,833)	3,030,418	2,754,093
Change in net unrealized capital gains or (losses)	(208,113)	949,043	1,938,080
Change in net unrealized foreign exchange capital gain or (loss)	-	-	-
Change in net deferred income tax	(212,525)	(575,193)	(388,263)
Change in non-admitted assets	858,450	358,382	1,700,511
Change in unauthorized reinsurance	-	-	-
Change in asset valuation reserve	308,616	(254,955)	(924,732)
Cumulative effects of changes in accounting principles	-	-	-
Capital changes:			
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:			
Paid in	-	-	-
Transferred to capital (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Dividends to stockholders (cash)	-	-	-
Change in treasury stock	-	-	-
Examination adjustment (see below)	(1)	(4)	
Aggregate write-ins for gains and losses in surplus	<u>-</u>	<u>(121,039)</u>	<u>121,039</u>
Change in surplus as regards policyholders for the year	<u>620,595</u>	<u>3,386,652</u>	<u>5,200,728</u>
Surplus as regards policyholders, December 31 current year	<u>\$46,756,051</u>	<u>\$46,135,457</u>	<u>\$42,748,805</u>

Examination adjustments were due to rounding.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2011, the Company's long-term bond investments were in a diversified portfolio of US obligations, US federal agency bonds, and corporate issues. The Company did report an exposure in mortgaged-backed and asset-backed securities. Most of the MBS/ABS issues were investment rated at year-end 2011, and the carrying book value of \$6.8 million comprised 11.5% of the total long-term bond portfolio, and 8.2% of all invested assets.

Common stocks were primarily made up of corporate issues, including a substantial number of foreign securities. The Company also reported ownership of 100% of a subsidiary.

Short-term deposits consisted of five US Treasury Bills and two short term money market funds held in the custodial account at Bank of New York Mellon NA.

A comparison of the major investments over the past five years shows the following:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common</u> <u>Stocks</u>	<u>C</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total Assets</u>
2007	\$49,502,510	\$12,839,392	\$10,263,180	58.3%	15.1%	12.1%
2008*	48,718,028	10,464,600	5,943,709	59.7%	12.8%	7.3%
2009	53,540,405	17,747,668	5,147,166	60.0%	19.9%	5.8%
2010	58,245,658	19,412,032	2,762,485	66.9%	22.3%	3.2%
2011*	58,879,007	16,619,780	7,275,445	65.8%	18.6%	8.1%

The Finance Committee approved the investment transactions in each of the years under review, and the actions of the committee were approved by the Board of Directors, pursuant to ORS 733.740. As of December 31, 2011, sufficient assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits. The Company was in compliance with ORS 733.580.

Effective December 17, 2009, the Company entered into a custodial agreement with The Bank of New York Mellon. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – Actuarial Reserves

A review of the unpaid claims and claim adjustment expense reserves for the Company was performed by David Ball, FSA, MAAA, life and health actuary for the Oregon Insurance Division. As part of his review, he examined the actuarial memorandum as of December 31, 2011, prepared by Daniel D. Skwire, FSA, MAAA, consulting actuary with Milliman, Inc.

Mr. Ball reviewed the reconciliation of the data used in the Company's actuarial report to the data in the actuarial work papers and found them to be consistent. He relied on work performed by the examiners who reviewed the underlying data used to create the annual statement filing, as well as prepared his own independent calculations. The Company reported the following:

	<u>Annual Statement</u>
Aggregate Reserve for Life Contracts:	
Life Insurance	\$ 375,942
Disability	10,991,876
Miscellaneous Reserves	165,785
Aggregate Reserve for A&H Contracts	
Active Life Reserve	561,245
Claim Reserve	3,742,624
Liability for Deposit-type Contracts	456,179
Contract Claims for Life	4,915,397
Contract Claims for A&H	<u>4,825,893</u>
Total Actuarial Liabilities	<u>\$ 26,034,940</u>

The appointed actuary opined that the reserves carried by the Company as of December 31, 2011, were reasonable. Mr. Ball concurred with the appointed actuary's estimate and he determined the reserves of the Company were reasonably stated as of December 31, 2011, and the methods and assumptions used to estimate the reserves were acceptable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiner made no changes to surplus as a result of this examination and there were no recommendations.

CONCLUSION

During the three year period covered by this examination, the surplus of the Company has increased from \$37,548,077, as presented in the December 31, 2008, report of examination to \$46,756,051, as shown in this report. The comparative assets and liabilities are:

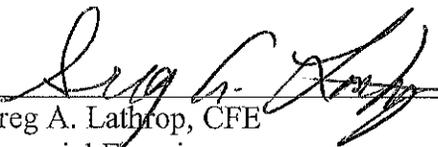
	<u>2011</u>	<u>December 31,</u> <u>2008</u>	<u>Change</u>
Assets	\$89,484,706	\$81,578,695	\$7,906,011
Liabilities	<u>42,728,655</u>	<u>44,030,618</u>	<u>1,301,963</u>
Surplus	<u>\$46,756,051</u>	<u>\$37,548,077</u>	<u>\$9,207,974</u>

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Raymond W. Anderson, CFE, Mark Giffin, CFE, Timothy R. Hurley, CFE, and Michael P. Phillips, CFE, CPA, AES, insurance examiners, and David Ball, FSA, MAAA, Life & Health Actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in this examination. We would also like to thank Aaron Phillips, MBA, CFE, of the Utah Department of Insurance and Marc Moyer, CFE, of Noble Consulting Services, Inc., for their participation in the examination.

Respectfully submitted,



Greg A. Lathrop, CFE
Financial Examiner
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
County of Marion) ss

Greg A. Lathrop, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Regence Life and Health Insurance Company, Portland, Oregon.
2. The Insurance Division of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report. The examination of Regence Life and Health Insurance Company was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.



Greg A. Lathrop, CFE
Financial Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this 4 day of March, 2013.



Notary Public for the State of Oregon

My Commission Expires: 3/22/2013

