

FINANCIAL SERVICES COMMISSION

**FLORIDA OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

MARKET CONDUCT FINAL EXAMINATION REPORT

OF

HERITAGE LIFE INSURANCE COMPANY

AS OF

November 17, 2006

NAIC COMPANY CODE: 64394



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PURPOSE AND SCOPE OF EXAMINATION

Under authorization of the Financial Services Commission, Florida Office of Insurance Regulation (Office), Market Investigations, pursuant to Section 636.206, Florida Statutes, a market conduct examination of Heritage Life Insurance Company (Heritage Life or Company) was performed by Huff, Thomas and Company. The scope of this examination was January 10, 2006 through August 31, 2006. The onsite examination began November 13, 2006 and ended November 17, 2006.

The purpose of this examination was to review the Company's compliance with Chapter 636, Part II, Florida Statutes, as effective on April 1, 2005. Chapter 636, Part II, Florida Statutes, regulates discount medical plan organizations, entities which, in exchange for fees, dues, charges, or other consideration, provide access for plan members to providers of medical services and the right to receive medical services from those providers at a discount.

The Company's records were examined at its offices located at 200 North Martingale Road, Schaumburg, IL 60173.

This Final Report is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information and comments provided by the Company in response to the draft report. Procedures and conduct of the examination were in accordance with the Market Regulation Handbook produced by the National Association of Insurance Commissioners.

DESCRIPTION OF COMPANY

Heritage Life Insurance Company, a wholly owned subsidiary of General Electric, is an Arizona domiciled insurer, licensed as a Life and Health insurer in Florida on July 25, 1977. On January 10, 2006, Heritage Life amended its Florida certificate of authority to include Discount Medical Plan to its authorized lines of business.

The Company acquired Signature Agency, Inc.'s discount medical plan business in Florida on March 20, 2006. Signature Agency, Inc., a Florida licensed Discount Medical Plan Organization (DMPO) and a subsidiary of General Electric, had managed a discount medical plan specializing in dental benefits in more than 40 states, including Florida, for several years. In 2005, Signature Agency, Inc. discontinued marketing and accepting new dental plan enrollments in Florida. On March 31, 2006, Signature Agency, Inc. surrendered its license as a DMPO.

Heritage Life has not marketed its program or accepted new members since licensure. Heritage Life has not finalized marketing plans for 2007; however, it anticipates that if it begins marketing, the majority of its efforts would focus on promoting its discount medical plan to small businesses.

The Company offers three tiers of discount plans, with increasing levels of additional benefits and charges.

PROVIDER NETWORK AGREEMENT REVIEW

The Company has agreements with the following 4 provider networks: American Chiropractic Network, Beltone Electronics Corporation, Bronson Nutritionals, LLC, and Express Scripts, Inc. Predecessor companies, Montgomery Ward Enterprises or Signature Agency, Inc., that were acquired by Heritage Life, originated all 4 agreements. The agreements with Bronson Nutritionals, LLC, and Express Scripts, Inc. are for pharmaceutical supplies or prescriptions and are not regulated by Section 636, Florida Statutes. The remaining 2 network agreements were reviewed for compliance with Section 636.214, Florida Statutes. The following violations were noted:

- The agreement with American Chiropractic Network states the provider list is to be updated on a “periodic” basis, not on a monthly basis as required by Section 636.214(3)(c), Florida Statutes; and
- The agreement with Beltone Electronics Corporation states that provider lists will be updated on a “reasonable request basis,” not on a monthly basis as required by Section 636.214(3)(c), Florida Statutes.

Corrective Action: The Company should sign new agreements with each provider network identifying Heritage Life as a party to the agreement. The Company should also ensure that all provider network agreements require the provider list be updated on a monthly basis.

PROVIDER AGREEMENT REVIEW

The Company maintains agreements with dental and vision providers in Florida. A random sample of 25 provider agreement files was reviewed to determine compliance with Section 636.214, Florida Statutes. All sampled agreements were with entities that were recently acquired by the Company: Montgomery Ward Enterprises Inc., Signature Dental Plan of Florida, Inc. and Signature Agency, Inc., and the agreements did not include Heritage Life as the party to the agreement.

Corrective Action: The Company should sign new agreements with each provider identifying Heritage Life as a party to the agreement.

MARKETER AGREEMENT REVIEW

The Company advised that it does not currently sell its products through third party marketers. Discussions with the Company revealed that if it commences marketing its discount plan in Florida, the Company will use its internal sales force to solicit group sales and perhaps engage in online solicitation via the website.

ACTIVE MEMBERSHIP REVIEW

The Company has 10,813 active Florida memberships as of August 31, 2006. All of the Company's active Florida memberships were enrolled under Signature Agency, Inc. and acquired on March 20, 2006. No members were enrolled after January 10, 2006, the date the Company became licensed as a DMPO.

Enrollment and Fulfillment Procedures

The Company is not currently accepting new members in Florida. Marketing and enrolling new members is still awaiting management decision. To date, Online Enrollment, Legal Disclosure forms, and fulfillment materials comprised of Membership Cards and Handbooks have been filed with and approved by the Office.

Memberships after January 10, 2006

As previously mentioned, the Company has not marketed the discount plan in Florida nor has it enrolled new members since licensure.

Memberships prior to January 10, 2006

The Company has developed a plan to convert all Florida members into one of the new Florida approved plans. Some members will have additional benefits at the existing lower membership rates.

Corrective Action: The Company should provide all members Florida approved enrollment forms, written agreements, and fulfillment materials upon renewal.

FORMS/CHARGES REVIEW

On April 6, 2006, the Office approved the following forms: Online Enrollment form, Online Legal Disclosures, Membership Handbooks and Membership Cards. The rates for the 3 plans offered by the Company are under the \$30 amount that requires approval under Section 636.216(1), Florida Statutes. A review of the forms was conducted with no violations noted.

CANCELLATION REVIEW

Since its licensure, Heritage Life Insurance Company has not marketed its discount medical plan. To date, the Company has only managed the block of business it acquired from Signature Agency, Inc. Therefore, no cancellations were reviewed.

COMPLAINT/GRIEVANCE REVIEW

The Company has recorded 6 complaints during the scope of the examination. A review of the Company's complaint log revealed that all complaints were addressed in a timely manner and fairly resolved.

Policies and procedures are in place to facilitate the resolution of member grievances and complaints as required by Section 636.205(1)(d), Florida Statutes.

WEBSITE REVIEW

As a condition of licensure, a DMPO must maintain and establish an internet website page that complies with Section 636.204(4), Florida Statutes. The Company maintains one website: www.gewellnessplan.com. The website contains a list of providers that is updated by the Company on a monthly basis as required by Section 636.226, Florida Statutes. The website does not currently allow enrollments, as the Company is not currently accepting new members in Florida. No violations were noted.

ADVERTISING REVIEW

The Company has not engaged in marketing or advertising in Florida since being authorized to act as a DMPO. The only advertising was through the Company's website which has already been addressed.

EXAMINATION FINAL REPORT

The Office hereby issues this report as the Final Report, based upon information from the examiner's draft report, additional research conducted by the Office, and additional information and comments provided by the Company in response to the draft report.