

**Report on Examination**  
**of**  
**American Heritage**  
**Life Insurance Company**

**Jacksonville, Florida**

**as of**

**December 31, 2005**

**By The**  
**State of Florida**  
**Office of Insurance Regulation**

# Contents

SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION.....	2
HISTORY .....	3
GENERAL .....	3
CAPITAL STOCK.....	3
PROFITABILITY .....	4
DIVIDENDS.....	4
MANAGEMENT.....	5
CONFLICT OF INTEREST PROCEDURE .....	6
CORPORATE RECORDS.....	6
ACQUISITIONS, MERGERS, AND DIVESTITURES .....	7
AFFILIATED COMPANIES .....	8
SERVICE AND EXPENSE AGREEMENT .....	8
INVESTMENT MANAGEMENT AGREEMENT .....	8
TAX SHARING AGREEMENT .....	8
COST SHARING AND ADMINISTRATIVE SERVICES AGREEMENTS .....	9
ORGANIZATIONAL CHART .....	10
FIDELITY BOND AND OTHER INSURANCE .....	11
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS .....	11
STATUTORY DEPOSITS .....	11
INSURANCE PRODUCTS AND RELATED PRACTICES.....	12
TERRITORY AND PLAN OF OPERATION .....	12
TREATMENT OF POLICYHOLDERS.....	12
REINSURANCE .....	13
ASSUMED.....	13
CEDED .....	13
ACCOUNTS AND RECORDS .....	14
RISK-BASED CAPITAL.....	14
INFORMATION SYSTEMS CONTROLS.....	14
CUSTODIAL AGREEMENT .....	15
THIRD PARTY ADMINISTRATOR (TPA) AGREEMENTS.....	15
INDEPENDENT AUDITOR AGREEMENT .....	15

FINANCIAL STATEMENTS PER EXAMINATION.....	16
ASSETS .....	17
LIABILITIES, SURPLUS AND OTHER FUNDS.....	18
SUMMARY OF OPERATIONS .....	19
CAPITAL AND SURPLUS ACCOUNT.....	20
COMMENTS ON FINANCIAL STATEMENTS.....	21
COMPARATIVE ANALYSIS OF CHANGES IN CAPITAL AND SURPLUS.....	22
SUMMARY OF FINDINGS.....	23
COMPLIANCE WITH PREVIOUS DIRECTIVES.....	23
CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION.....	23
CONCLUSION .....	24

Tallahassee, Florida

May 31, 2007

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
200 East Gaines Street  
Tallahassee, Florida 32399-0326

Alfred W. Gross, Commissioner  
Virginia Bureau of Insurance  
Chair, NAIC Financial Condition (E) Committee  
P.O. Box 1157  
Richmond, Virginia 23218

Eleanor Kitzman, Director  
South Carolina Department of Insurance  
Secretary, NAIC Southeastern Zone  
P.O. Box 100105  
Columbia, South Carolina 29202-3105

Commissioners McCarty and Gross and Director Kitzman:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (F.S.), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2005, of the financial condition and corporate affairs of:

**American Heritage Life Insurance Company  
1776 American Heritage Life Drive  
Jacksonville, Florida 32224**

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2003 through December 31, 2005. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2002.

Planning for the current examination began on August 1, 2006. The fieldwork commenced on August 7, 2006 and concluded on March 23, 2007. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

This was an association zone statutory financial condition examination conducted in accordance with the *NAIC Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual*, and *Annual Statement Instructions* as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code (F.A.C.), with due regard to the requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value, and integrity of the statement assets and the determination of liabilities, as they affect the Company's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC Insurance Regulatory Information System (IRIS) ratio results, *Best's Insurance Reports*, the Company's independent audit reports, and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2005 annual statement. Transactions subsequent to December 31, 2005 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which require special explanation or description.

#### **STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION**

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2002, along with resulting action taken by the Company in connection therewith.

##### **Information Technology Controls**

In the prior examination, we noted that the Company did not have a formal comprehensive business continuity plan, nor did it have a disaster recovery plan for other than its mainframe platform.

**Resolution:** The company adopted a formal comprehensive business continuity plan and the required disaster recovery plan.

## HISTORY

### GENERAL

The Company was incorporated in Florida on September 11, 1956, and commenced business on December 27, 1956.

As of the date of this examination, the Company was authorized to transact the following insurance coverage in Florida, in accordance with Section 624.401, F.S.:

- Life
- Credit life and health
- Group life and annuities
- Credit disability
- Accident and health

Neither the Company's articles of incorporation nor its bylaws were amended during the period covered by this examination.

### CAPITAL STOCK

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	4,000,000
Number of shares issued and outstanding	3,311,316
Total common capital stock	\$3,311,316
Par value per share	\$1.00

At December 31, 2005, the Company was wholly-owned and controlled by American Heritage Life Investment Corporation, which in turn was wholly-owned by The Allstate Corporation. An abbreviated organizational chart appears on page 10.

## PROFITABILITY

For the period of this examination, the Company reported the following:

(In millions)	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net premiums	\$414.4	\$24.3	\$387.5
Total revenues	\$525.8	\$185.5	\$539.1
Net income (loss)	\$31.1	(\$34.5)	\$4.6
Total capital and surplus	\$223.8	\$127.6	\$186.4

The Company ceded three blocks of life and annuity business on a 100% coinsurance basis to The Allstate Life Insurance Company pursuant to a reinsurance agreement effective December 31, 2004.

As a result, the Company's premium revenues were reduced by ceded premiums of \$397.4 million and \$19.0 million in 2004 and 2005, respectively.

## DIVIDENDS

The Company did not pay any shareholder dividends during the period of this examination.

## MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Section 607.0701, F.S. Directors serving as of December 31, 2005 were:

### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Charles C. Baggs Jacksonville, Florida	Executive Vice President & CAO of the Company
David A. Bird Jacksonville, Florida	President of the Company
Gregory J. Guidos Jacksonville, Florida	Executive Vice President & CFO of the Company
John C. Lounds Northbrook, Illinois	Senior Vice President of Allstate Insurance Company
John C. Pintozzi Northbrook, Illinois	Senior Vice President & CFO of Allstate Life Insurance Company
Steven E. Shebik Northbrook, Illinois	Vice President of Allstate Insurance Company
Kevin R. Slawin Northbrook, Illinois	Senior Vice President of Allstate Life Insurance Company
Casey J. Sylla Northbrook, Illinois	Chairman & President of Allstate Life Insurance Company
Michael J. Velotta Northbrook, Illinois	Senior Vice President of Allstate Life Insurance Company
Douglas B. Welch Northbrook, Illinois	Sr. Vice President of Allstate Life Insurance Company

The following were the Company's senior officers as of December 31, 2005, as appointed by its board of directors in accordance with the Company's bylaws:

**Senior Officers**

Name	Title
David A. Bird	President
Charles C. Baggs	Executive Vice President & Chief Administrative Officer
Gregory J. Guidos	Executive Vice President & Chief Financial Officer
Dennis P. Adams	Senior Vice President, Allstate Workplace Sales
Laura J. Clark	Senior Vice President & Chief Accounting Officer
Don O. Fennell	Senior Vice President, Workplace Sales Support
Matthew W. Osborn	Senior Vice President & Chief Technology Officer
Gary S. Stere	Senior Vice President, General Counsel & Corporate Secretary
Anton Wanderson	Senior Vice President, Credit Division
Tina Rae Taylor	Vice President & Controller
Richard D. Schaefer	Actuary
Eric A. Simonson	Chief Investment Officer
Steven C. Verney	Treasurer

**CONFLICT OF INTEREST PROCEDURE**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. No exceptions were noted during this examination.

**CORPORATE RECORDS**

The recorded minutes of the shareholder, Board of Directors, and board committee meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 625.304, F.S. A review of the prior report of examination by the Office was documented in the minutes of the Board.

## **ACQUISITIONS, MERGERS, AND DIVESTITURES**

The Company sold one of its subsidiaries, Columbia Universal Life insurance Company, to an unaffiliated entity pursuant to a November 1, 2004 stock purchase agreement, and recognized a loss of \$42.6 million.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), F.A.C. Its latest holding company registration statement was filed with the State of Florida, as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C., on May 9, 2006.

The following agreements were in force between the Company and its affiliates on December 31, 2005:

### **SERVICE AND EXPENSE AGREEMENT**

Allstate Insurance Company provided accounting, auditing, cash management, and other services to the Company pursuant to a January 1, 2004 agreement. Fees for services rendered were \$21.4 million and \$23.9 million in years 2004 and 2005, respectively.

### **INVESTMENT MANAGEMENT AGREEMENT**

Allstate Investments, LLC provided investment management services to the Company pursuant to a January 1, 2002 agreement. Fees for services rendered were \$865,528, \$854,348, and \$945,146 in years 2003, 2004, and 2005, respectively.

### **TAX SHARING AGREEMENT**

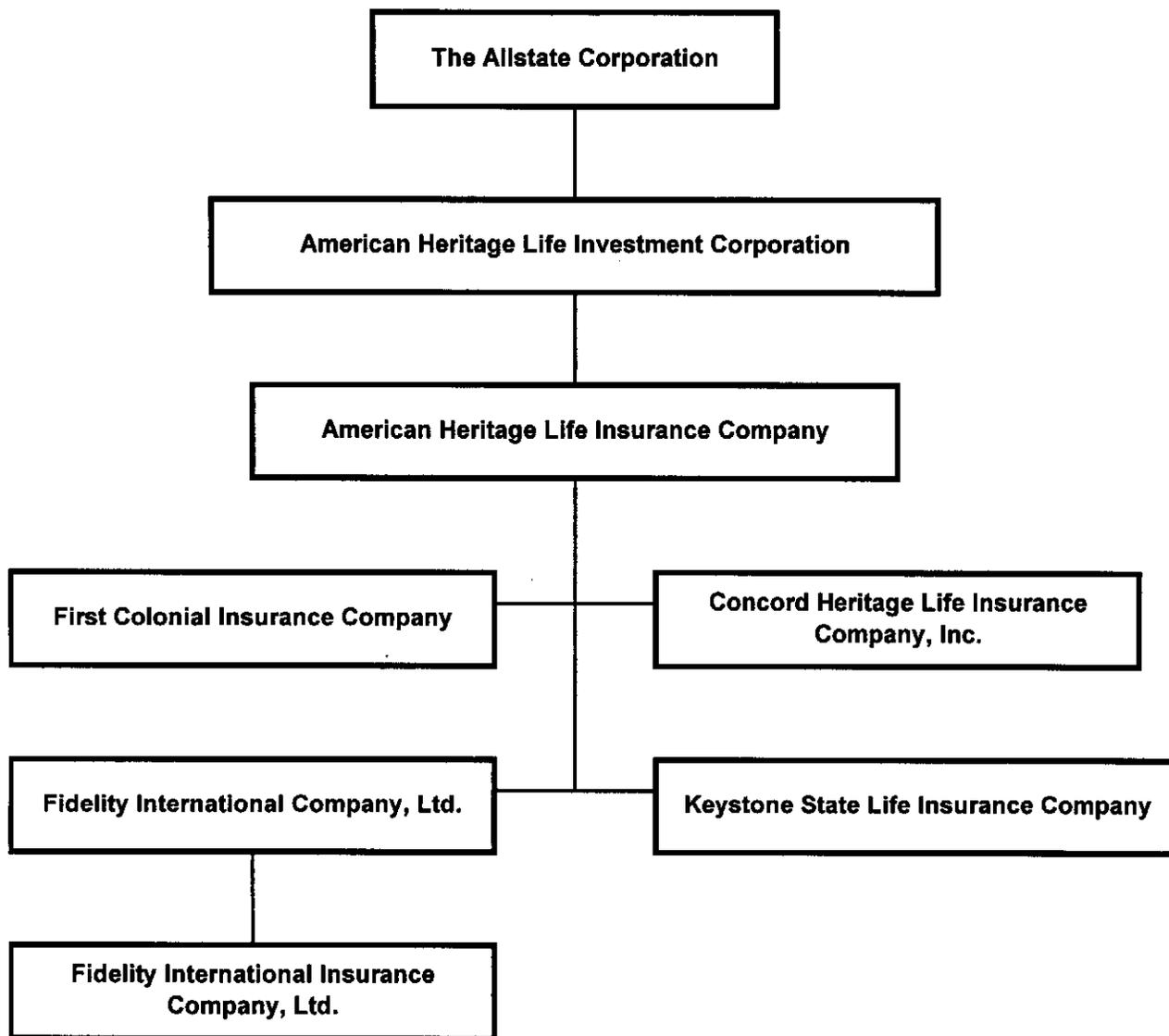
The results of the Company's 2005 operations were included in the consolidated federal income tax return of The Allstate Corporation pursuant to a tax sharing agreement to which the Company became a party on January 7, 2005. The consolidated federal income tax liability was allocated to included group members based on each member's federal income tax liability computed on a separate return basis, except for tax benefits resulting from operating losses and tax credits which were allocated to the members to the extent they could be utilized in the consolidated return.

## **COST SHARING AND ADMINISTRATIVE SERVICES AGREEMENTS**

The Company provided facilities and administrative, actuarial, premium collection, accounting, data processing, tax and audit support, and other services to various affiliates pursuant to agreements dated April 1, 2003 and January 1, 2004.

An abbreviated organizational chart as of December 31, 2005 reflecting the holding company system is shown below. Schedule Y of the Company's 2005 annual statement provided the names of all related companies in the holding company group.

**American Heritage Life Insurance Company  
Organizational Chart  
December 31, 2005**



## FIDELITY BOND AND OTHER INSURANCE

The minimum amount of fidelity insurance recommended for the Company by the NAIC was \$1.75 million as of December 31, 2005. The Company maintained fidelity bond coverage of up to \$25 million, as a named assured on a policy of The Allstate Corporation. However, the policy included a \$25 million deductible.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no direct employees; services were provided to the Company by Allstate Insurance Company. Allstate Insurance Company provided health and life insurance, participation in defined benefit retirement plans, and its Savings and Profit Sharing Employee Fund to eligible employees. The Company provided a Management Security Plan to eligible employees.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with various other governments as required or permitted by law:

Holder	Description	Rate	Due	Par Value	Market Value
Florida	U.S. Treasury Bond	9.38%	2/15/2006	\$550,000	\$553,311
Florida	U.S. Treasury Note	8.13%	8/15/2019	3,935,000	5,338,378
Florida	U.S. Treasury Bond	7.25%	8/15/2022	100,000	130,227
Florida	U.S. Treasury Note	7.13%	8/15/2019	<u>615,000</u>	<u>795,558</u>
Total Florida deposits				5,200,000	6,817,474
Georgia	U.S. Treasury Note	7.13%	8/15/2019	35,000	45,276
Nevada	U.S. Treasury Bond	7.25%	8/15/2022	1,500,000	1,953,405
New Mexico	U.S. Treasury Note	8.13%	8/15/2021	100,000	138,754
North Carolina	U.S. Treasury Note	3.88%	2/15/2013	300,000	290,778
North Carolina	U.S. Treasury Note	7.13%	8/15/2019	100,000	129,359
Ohio	U.S. Treasury Bond	9.38%	2/15/2006	<u>100,000</u>	<u>100,602</u>
Total deposits				<u>\$7,335,000</u>	<u>\$9,475,648</u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

The Company marketed ordinary and group life, credit life, individual and group health, annuities, credit disability, and accident and health products through licensed agents and brokers.

### **TERRITORY AND PLAN OF OPERATION**

At December 31, 2005, the Company was authorized to transact insurance in the District of Columbia, Puerto Rico, the U.S. Virgin Islands, and all U.S. states other than New York.

### **TREATMENT OF POLICYHOLDERS**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

## **REINSURANCE**

### **ASSUMED**

The Company assumed risk, primarily on a coinsurance basis, from two subsidiaries and 29 unaffiliated companies. In addition, it assumed credit reinsurance on a coinsurance basis from approximately 143 unaffiliated reinsurers.

### **CEDED**

The Company ceded insurance, primarily on a coinsurance basis, to an affiliate and approximately 479 unaffiliated companies. In addition, it ceded certain credit insurance policies, primarily on a coinsurance basis, to approximately 315 unaffiliated alien reinsurers that were unauthorized in Florida. The Company ceded ordinary life risk in excess of \$200,000 with reinsurance maximums up to \$2 million. Credit life reinsurance was ceded mostly on a 100% quota share basis. The Company also ceded group life insurance on a quota share basis.

The reinsurance agreements reviewed were found to meet NAIC standards with respect to the standard insolvency, arbitration, indemnification and termination clauses, transfer of risk, reporting, and settlement information deadlines.

The Company's reinsurance agreements were reviewed by the Company's appointed actuary and utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory-basis financial statements annually for years 2003, 2004, and 2005, pursuant to Section 624.424(8), F.S. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, F.A.C.

The Company's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

The Company's main administrative office was located in Jacksonville, Florida, where this examination was conducted.

### **RISK-BASED CAPITAL**

The Company reported its risk-based capital at an adequate level.

### **INFORMATION SYSTEMS CONTROLS**

As part of this financial condition examination, Computer Aid, Inc., a computer audit specialist (CAS) engaged by the Office, conducted an in-depth review of the adequacy of the Company's information systems controls. The CAS utilized the *NAIC Exhibit C (Evaluation of Controls in Information Systems Questionnaire)*, and the CAS review was conducted in the Company's Jacksonville, Florida, offices on August 9, 2005 and August 10, 2005. The CAS found the Company's information systems controls to be generally effective.

The following agreements were in effect between the Company and non-affiliates:

#### **CUSTODIAL AGREEMENT**

Citibank provided custodial services to the Company pursuant to an April 14, 2000 agreement. Fees for the services were \$16,690, \$16,552, and \$26,673 in years 2003, 2004, and 2005.

#### **THIRD PARTY ADMINISTRATOR (TPA) AGREEMENTS**

At December 31, 2005, the Company had in effect third party agreements with three companies which were authorized to adjust and pay claims, cede reinsurance, bind coverage and collect premiums on behalf of the Company.

#### **INDEPENDENT AUDITOR AGREEMENT**

The Company contracted with Deloitte & Touche LLP to audit its statutory-basis financial statements. Fees related to this agreement were \$214,820, \$362,386, and \$247,761 in years 2003, 2004, and 2005, respectively.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following four pages contain statements of the Company's financial position at December 31, 2005, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

**American Heritage Life Insurance Company**  
**Assets**  
**December 31, 2005**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$615,276,968	\$0	\$615,276,968
Preferred stocks	308,438	0	308,438
Common stocks	93,608,148	0	93,608,148
Mortgage loans on real estate - first liens	129,816,834	0	129,816,834
Properties occupied by the company	25,715,626	0	25,715,626
Cash, cash equivalents, and short-term investments	34,234,408	0	34,234,408
Contract loans	512,600,055	0	512,600,055
Other invested assets	1,405,504	0	1,405,504
Receivables for securities	82,506	0	82,506
Aggregate write-ins for invested assets	858,019	0	858,019
	<u>1,413,906,506</u>	<u>0</u>	<u>1,413,906,506</u>
Investment income due and accrued	20,117,333	0	20,117,333
Uncollected premiums and agents' balances	18,564,226	0	18,564,226
Deferred premiums, agents' balances and installments	5,871,168	0	5,871,168
Amounts recoverable from reinsurers	1,135,599	0	1,135,599
Funds held by or deposited with reinsured companies	14,714,259	0	14,714,259
Other amounts receivable under reinsurance contracts	3,551,755	0	3,551,755
Current federal and foreign income tax recoverable	19,672,353	0	19,672,353
Net deferred tax asset	9,426,746	0	9,426,746
Guaranty funds receivable or on deposit	234,101	0	234,101
Electronic data processing equipment and software	34,755	0	34,755
Receivables from parent, subsidiaries and affiliates	1,131,708	0	1,131,708
Aggregate write-ins for other than invested assets	41,545,620	0	41,545,620
	<u>41,545,620</u>	<u>0</u>	<u>41,545,620</u>
Totals	<u>\$1,549,906,129</u>	<u>\$0</u>	<u>\$1,549,906,129</u>

**American Heritage Life Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2005**

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$1,055,220,773	\$0	\$1,055,220,773
Aggregate reserve for A&H contracts	105,830,236	0	105,830,236
Liability for deposit-type contracts	7,935,116	0	7,935,116
Contract claims - life	14,185,370	0	14,185,370
Contract claims - accident and health	44,571,125	0	44,571,125
Dividends not yet apportioned	27,488	0	27,488
Coupons and similar benefits	63,819	0	63,819
Premiums received in advance	5,561,003	0	5,561,003
Commissions to agents due or accrued	7,206,117	0	7,206,117
Commissions and expense allowances payable	742	0	742
General expenses due or accrued	29,154,929	0	29,154,929
Taxes, licenses and fees due or accrued	1,213,335	0	1,213,335
Unearned investment income	521,703	0	521,703
Amounts withheld or retained by company	8,368	0	8,368
Amounts held for agents' account	6,729,150	0	6,729,150
Remittances and items not allocated	3,945,138	0	3,945,138
Asset valuation reserve	6,001,554	0	6,001,554
Reinsurance in unauthorized companies	4,646,913	0	4,646,913
Funds held with unauthorized reinsurers	357,985	0	357,985
Payable to parent, subsidiaries and affiliates	12,009,884	0	12,009,884
Funds held under coinsurance	15,763,483	0	15,763,483
Aggregate write-ins for liabilities	5,113,463	0	5,113,463
<b>Total liabilities</b>	<b><u>1,326,067,694</u></b>	<b><u>0</u></b>	<b><u>1,326,067,694</u></b>
 <b>Capital and Surplus</b>			
Gross paid in and contributed surplus	190,646,666	0	190,646,666
Unassigned funds (surplus)	29,880,453	0	29,880,453
<b>Surplus</b>	<b><u>220,527,119</u></b>	<b><u>0</u></b>	<b><u>220,527,119</u></b>
Common capital stock	3,311,316	0	3,311,316
<b>Totals of capital and surplus</b>	<b><u>223,838,435</u></b>	<b><u>0</u></b>	<b><u>223,838,435</u></b>
<b>Totals</b>	<b><u>\$1,549,906,129</u></b>	<b><u>\$0</u></b>	<b><u>\$1,549,906,129</u></b>

**American Heritage Life Insurance Company**  
**Summary of Operations**  
**For The Year Ended December 31, 2005**

Premiums and annuity considerations		\$414,371,599
Net investment income		75,549,977
Amortization of interest maintenance reserve		(358,388)
Commissions and expense allowances on reinsurance ceded		33,912,243
Aggregate write-ins for miscellaneous income		<u>2,313,786</u>
		525,789,217
Death benefits	\$50,226,918	
Matured endowments	22,801	
Annuity benefits	1,304,965	
Disability benefits and benefits under A&H contracts	140,434,172	
Coupons and guaranteed annual pure endowments	39,989	
Surrender benefits and withdrawals for life contracts	24,219,790	
Interest and adjustments on contract funds	3,370,980	
Increase in aggregate reserves for life and A&H contracts	<u>36,969,187</u>	
	256,588,802	
Commissions on premiums	120,849,166	
Commissions and expense allowances on reinsurance assumed	28,253,432	
General insurance expenses	88,424,289	
Insurance taxes, licenses and fees	13,333,929	
Increase in loading on deferred and uncollected premiums	(468,143)	
Aggregate write-ins for deductions	<u>3,644,038</u>	
		<u>510,625,513</u>
		15,163,704
Dividends to policyholders		407
Federal and foreign income taxes incurred		<u>8,905,772</u>
Net gain from operations before capital gains		6,257,525
Net realized capital gains		<u>24,846,066</u>
Net income		<u><u>\$31,103,591</u></u>

**American Heritage Life Insurance Company  
Capital and Surplus Account  
For The Year Ended December 31, 2005**

Capital and surplus - December 31, 2004		\$127,595,391
Net income	\$31,103,591	
Change in net unrealized capital gains or (losses)	(3,318,440)	
Change in net deferred income tax	(44,608,017)	
Change in nonadmitted assets and related items	84,231,036	
Change in liability for reinsurance in unauthorized companies	(291,955)	
Change in reserve on account of change in valuation basis	30,662,071	
Change in asset valuation reserve	(5,242)	
Aggregate write-ins for gains and losses in surplus	(1,530,000)	
Examination adjustments	<u>0</u>	<u>96,243,044</u>
Capital and surplus - December 31, 2005		<u><u>\$223,838,435</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### **Aggregate Reserves and Contract Claims**

**\$1,227,742,620**

The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2005 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion.

Based on the results of the Office actuary's review and analysis of work papers and data provided by the Company, we concluded that the aggregate liability was not materially misstated.

**American Heritage Life Insurance Company  
Comparative Analysis of Changes in Capital and Surplus  
December 31, 2005**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2005 - per annual statement				\$223,838,435
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Surplus</u>	
Total assets	\$1,549,906,129	\$1,549,906,129	\$0	
Total liabilities	\$1,326,067,694	\$1,326,067,694	<u>\$0</u>	
Net change in capital and surplus				<u>0</u>
Capital and surplus, December 31, 2005 - per examination				<u><u>\$223,838,435</u></u>

## SUMMARY OF FINDINGS

### COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the prior examination report issued by the Office as of December 31, 2002.

### CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005.

#### **Fidelity Bond Coverage**

As discussed on page 11, the minimum amount of fidelity insurance recommended for the Company by the NAIC was \$1.75 million. The Company maintained fidelity bond coverage of up to \$25 million, as a named assured on a policy of The Allstate Corporation. However, the policy included a \$25 million deductible. **We recommend that the Company maintain fidelity bond coverage in an amount which is at least as much as the amount recommended by the NAIC.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Heritage Life Insurance Company** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$223,838,435, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus at December 31, 2005 was \$1,849,532.

In addition to the undersigned, the following participated in this examination: Christine N. Afolabi, Financial Examiner/Analyst; Walter F. Banas, CIE, Financial Specialist; Computer Aid, Inc.; Tom Cook, Financial Examiner/Analyst; Wenzhang "Mike" Du, Actuarial Analyst; Russell K. Judge, Financial Examiner/Analyst; Kerry A. Krantz, Actuary; M. Alison Miele, Financial Examiner/Analyst; Richard J. Schaaf, Financial Specialist; and David C. Schleit, AFE, CPA, Financial Examiner/Analyst Supervisor.

Respectfully submitted,

---

Steven A. Steele, Financial Specialist  
Florida Office of Insurance Regulation