

Report on Examination
of
American Pioneer
Life Insurance Company

Lake Mary, Florida

as of

December 31, 2008

By The
Florida Office of Insurance Regulation

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Gentlemen:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of American Pioneer Life Insurance Company as of December 31, 2008. Our report on the examination follows.

Florida Office of Insurance Regulation
February 5, 2010

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SCOPE OF EXAMINATION

We have completed an association financial condition examination as of December 31, 2008 of American Pioneer Life Insurance Company (the "Company"), a multi-state insurer domiciled in Florida. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2005.

This examination covered the period of January 1, 2006 through December 31, 2008. We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so 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. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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

SUMMARY OF SIGNIFICANT FINDINGS

This examination resulted in findings that certain of the Company's reinsurance agreements did not comply with Rule 69O-144.010(2)(a)5, Florida Administrative Code (F.A.C.), and that the Company understated its accident and health reserve and claims obligations in its 2008 annual statement. The prior examination of the Company as of December 31, 2005 resulted in similar findings. Additionally, the current examination resulted in findings that one of the Company's agreements did not comply with Statement of Statutory Accounting Principles (SSAP) No. 25, as amended by SSAP No. 96, and that the prospective risk existed that the Company would not generate premium revenues and earnings sufficient to assure its future solvency and long-term success. Recommendations relating to all significant findings of the current examination are summarized beginning on page 17.

MATERIAL PROSPECTIVE RISKS

During this examination, we assessed the adequacy of the Company's management controls and the extent to which the Company's current business processes might negatively affect its future solvency. We found that the Company reported net losses during the period of 2003 through 2008 in the total amount of \$25.6 million, and concluded that the prospective risk existed that the Company would not generate premium revenues and earnings sufficient to assure its future solvency and long-term success.

COMPANY HISTORY

The Company was incorporated in Florida on July 5, 1961 and was licensed by the Office as an insurer on August 8, 1961. It commenced business on March 1, 1962.

The Company was authorized by the State of Florida to operate as an insurer in accordance with Section 624.401, Florida Statutes (F.S.), in the following lines:

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

During the period of this examination, the Company did not write insurance in the credit life and health, credit disability or group annuity lines.

Dividends and Capital Contributions

The Company distributed \$9.4 million in shareholder dividends and received capital contributions of \$4.5 million in 2006. No dividends were distributed, nor were any capital contributions received by the Company during 2007 or 2008.

CORPORATE RECORDS

The recorded minutes of the meetings of the shareholder and Board of Directors 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.

MANAGEMENT AND CONTROL

The Company was wholly-owned by American Exchange Life Insurance Company (American Exchange), which was wholly-owned by Universal American Corp. (Universal), formerly known as Universal American Financial Corp.¹ The Company was affiliated through common ownership with numerous entities.

¹ See the subsequent events section of this report.

The Company's senior officers and directors were as shown below.²

Senior Officers

Name	Title
Gary W. Bryant	President and CEO
Robert A. Waegelein	Executive Vice President
Steven B. Najjar	Secretary
John M. Squarok	Treasurer and CFO

Board of Directors

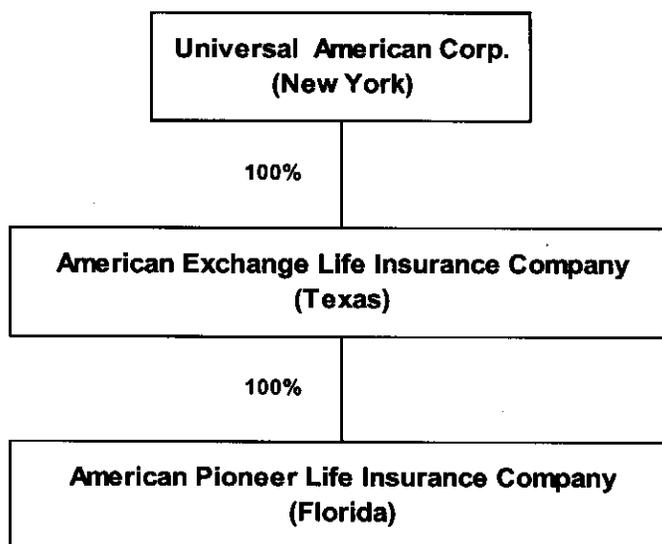
Name	Location
Richard A. Barasch	New York, New York
Gary W. Bryant	Longwood, Florida
Steven B. Najjar	Longwood, Florida
John M. Squarok	Sanford, Florida
Robert A. Waegelein	Pawling, New York

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(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 690-143.046, F.A.C., on April 30, 2009.

² See the subsequent events section of this report.

An abbreviated organizational chart reflecting the holding company system is shown below.

**American Pioneer Life Insurance Company
Abbreviated Organizational Chart
December 31, 2008**



The Company sold its 100% interest in Peninsular Life Insurance Company, a stock life insurance company, on January 19, 2007.

On September 10, 2007, the Office approved the acquisition of 17% of the outstanding capital stock of Universal.

On August 1, 2008, the Company unconditionally guaranteed all existing and future liabilities of American Pioneer Health Plans, Inc., an affiliated Florida health maintenance organization which discontinued operations and surrendered its certificate of authority.

The results of the Company's operations were included in the consolidated federal income tax return of Universal pursuant to a written agreement. Consolidated income tax was required to be allocated to included companies based upon separate return calculations with current credit for net losses. Intercompany tax balances were required to be settled quarterly.

Universal, the Company, and other Universal subsidiaries participated in an arrangement providing for the monthly allocation of indirect costs which benefited more than one of the participating companies.

The Company entered into an agreement providing for Universal American Financial Services, Inc. (UAFS), formerly known as PennCorp Financial, Inc. and PFI, Inc., to provide to the Company and other affiliates various services to include actuarial, tax, investment compliance, government relations, strategic planning, general management, and office and systems support services. Under the agreement, the Company was required to reimburse UAFS for the allocated cost of provided services. The agreement did not contain a specified due date for payment of amounts owed under the agreement as required by SSAP No. 25, as amended by SSAP No. 96.

Pursuant to a management agreement, CHCS Services, Inc. provided policy administrative services to the Company related to policy issuance, underwriting, policy administration and claims processing.

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured on a \$10 million fidelity bond maintained by Universal with a deductible of \$250,000. This adequately provided the Company with the suggested minimum amount of coverage recommended by the NAIC of \$3.3 million. The Company was a named insured on other insurance policies maintained by Universal, providing coverage for officers and directors liability, employers liability, workers compensation, general liability and property loss.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company made available to eligible employees medical, dental, and group life insurance, a flexible spending account, and a Section 401(k) savings plan sponsored by Universal.

TERRITORY AND PLAN OF OPERATION

The Company was authorized to transact insurance in the District of Columbia and the following U.S. states:

Alabama	Idaho	Maryland	New Mexico	South Carolina	Washington
Arizona	Indiana	Mississippi	North Carolina	South Dakota	West Virginia
Arkansas	Iowa	Missouri	North Dakota	Tennessee	Wyoming
Colorado	Kansas	Montana	Ohio	Texas	
Florida	Kentucky	Nebraska	Oklahoma	Utah	
Georgia	Louisiana	Nevada	Oregon	Virginia	

COMPANY GROWTH

During the period examined, the Company reported the following:

(In millions)	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net premiums	\$120.9	\$99.4	\$89.2
Total revenues	\$151.6	\$123.0	\$108.0
Net loss	\$0.5	\$2.1	\$5.1
Total capital and surplus	\$31.5	\$29.5	\$21.1

REINSURANCE

The Company ceded risk on a quota share and excess of loss basis. The majority of the reinsurance ceded was on an individual coinsurance basis.³

The Company ceded individual accident and health policies on a quota share automatic coinsurance basis to General Re Life Corporation (GenRe). The reinsurance agreements were written in such a way as not to prohibit the payment to GenRe of amounts other than from income realized from the reinsured policies, in violation of Rule 69O-144.010(2)(a)5, F.A.C. Our prior financial condition examination of the Company as of December 31, 2005 resulted in the same finding.

³ See the subsequent events section of this report.

STATUTORY DEPOSITS

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

Holder	Description	Par Value	Market Value
Florida	U.S. Treasury note	\$1,025,000	\$1,058,620
Florida	U.S. Treasury note	275,000	284,020
Florida	U.S. Treasury note	550,000	551,265
Florida	U.S. Treasury note	500,000	521,875
Florida	Pitney Bowes Global Financial bond	50,000	50,105
Total Florida deposits		2,400,000	2,465,885
Georgia	Evergreen Institution Treasury MMF	50,000	50,000
Indiana	U.S. Treasury note	250,000	258,076
New Mexico	U.S. Treasury note	100,000	100,017
North Carolina	U.S. Treasury note	200,000	206,149
North Carolina	U.S. Treasury note	200,000	210,154
South Carolina	U.S. Treasury note	650,000	682,999
Virginia	U.S. Treasury note	100,000	108,586
Total deposits		\$3,950,000	\$4,081,866

American Pioneer Life Insurance Company
Assets
December 31, 2008

	Per Company	Adjustments	Per Examination
Bonds	\$112,869,663	\$0	\$112,869,663
Mortgage loans on real estate - first liens	20,292	0	20,292
Cash, cash equivalents and short-term investments	17,628,943	0	17,628,943
Contract loans	6,171,734	0	6,171,734
Receivables for securities	54,118	0	54,118
	136,744,750	0	136,744,750
Investment income due and accrued	1,413,223	0	1,413,223
Uncollected premiums and agents' balances	620,021	0	620,021
Deferred premiums, agents' balances and installments	1,658,303	0	1,658,303
Amounts recoverable from reinsurers	182,508	0	182,508
Funds held by or deposited with reinsured companies	13,074,444	0	13,074,444
Other amounts receivable under reinsurance contracts	1,771,845	0	1,771,845
Current federal and foreign income tax recoverable	1,986,694	0	1,986,694
Net deferred tax asset	2,048,405	0	2,048,405
Guaranty funds receivable or on deposit	61,551	0	61,551
Receivables from parent, subsidiaries and affiliates	1,011,399	0	1,011,399
Total assets	\$160,573,143	\$0	\$160,573,143

American Pioneer Life Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2008

Liabilities	Per Company	Adjustments	Per Examination
Aggregate reserve for life contracts	\$66,905,647	\$0	\$66,905,647
Aggregate reserve for A&H contracts	44,113,000	1,600,000	45,713,000
Liability for deposit-type contracts	742,570	0	742,570
Contract claims - life	918,755	0	918,755
Contract claims - A&H	10,057,637	400,000	10,457,637
Premiums received in advance	1,169,690	0	1,169,690
Other amounts payable on reinsurance	1,466,505	0	1,466,505
Interest maintenance reserve	964,979	0	964,979
Commissions to agents	40,326	0	40,326
General expenses due or accrued	311,201	0	311,201
Taxes, licenses and fees due or accrued	343,755	0	343,755
Amounts withheld or retained by company	917,275	0	917,275
Amounts held for agents' accounts	532,271	0	532,271
Remittances and items not allocated	563,511	0	563,511
Asset valuation reserve	441	0	441
Funds held under reinsurance treaties	9,074,795	0	9,074,795
Payable to parent, subsidiaries and affiliates	767,571	0	767,571
Aggregate write-ins for liabilities	606,962	0	606,962
Total liabilities	139,496,891	2,000,000	141,496,891
Capital and Surplus			
Gross paid in and contributed surplus	62,147,694	0	62,147,694
Unassigned funds (deficit)	(43,588,497)	(2,000,000)	(45,588,497)
Surplus	18,559,197	(2,000,000)	16,559,197
Common capital stock	2,517,055	0	2,517,055
Total capital and surplus	21,076,252	(2,000,000)	19,076,252
Total liabilities, capital and surplus	\$160,573,143	\$0	\$160,573,143

American Pioneer Life Insurance Company
Summary of Operations
(As reported by the Company)
For The Year Ended December 31, 2008

Premiums and annuity considerations	\$89,161,750
Net investment income	7,659,557
Amortization of interest maintenance reserve	58,330
Commissions and allowances on reinsurance ceded	11,132,235
Aggregate write-ins for miscellaneous income	33,186
Total revenues	108,045,058
Death benefits	3,847,153
Matured endowments	(9,055)
Annuity benefits	972,831
Disability benefits and benefits under A&H contracts	75,500,013
Surrender benefits and withdrawals for life contracts	3,721,760
Interest and adjustments on contract or deposit-type contract funds	10,023
Payments on supplementary contracts with life contingencies	594,910
Increase in aggregate reserves for life and A&H contracts	(1,369,816)
	83,267,819
Commissions on premiums and annuity considerations	12,287,789
Commissions and expense allowances on reinsurance assumed	27,889
General insurance expenses	15,422,972
Insurance taxes, licenses and fees	2,231,339
Increase in loading on deferred and uncollected premiums	2,896
	113,240,704
Net gain (loss) from operations before income taxes and capital gains	(5,195,646)
Federal and foreign income taxes (benefit)	(1,620,648)
Net gain (loss) from operations before capital gains or losses	(3,574,998)
Net realized capital gains (losses)	(1,505,764)
Net income (loss)	(\$5,080,762)

American Pioneer Life Insurance Company
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2008

Capital and surplus, December 31, 2005	\$36,479,070
Net income (loss)	(528,050)
Change in net unrealized capital gains	27,583
Change in net deferred income tax	1,821,659
Change in nonadmitted assets and related items	(1,406,160)
Change in asset valuation reserve	(52,296)
Paid in capital	4,500,000
Dividends to stockholders	(9,378,759)
<hr/>	
Capital and surplus - December 31, 2006	31,463,047
Net income (loss)	(2,132,799)
Change in net unrealized capital gains	(569,112)
Change in net deferred income tax	1,157,491
Change in nonadmitted assets and related items	(456,894)
Change in asset valuation reserve	32,457
<hr/>	
Capital and surplus - December 31, 2007	29,494,190
Net income (loss)	(5,080,762)
Change in net unrealized capital gains	(94,996)
Change in net deferred income tax	882,069
Change in nonadmitted assets	(3,087,144)
Change in asset valuation reserve	408,036
Prior period adjustment - deferred ceded premium	(1,445,141)
	21,076,252
Examination adjustments	(2,000,000)
<hr/>	
Capital and surplus - December 31, 2008	\$19,076,252
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American Pioneer Life Insurance Company
Comparative Analysis of Changes in Capital and Surplus
December 31, 2008

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, 2008 - per annual statement			\$21,076,252
	Per	Per	Increase
	Company	Examination	(Decrease)
	_____	_____	In Capital
			& Surplus
Aggregate reserve for A&H contracts	\$44,113,000	\$45,713,000	(\$1,600,000)
Contract claims - A&H	\$10,057,637	\$10,457,637	(\$400,000)
Net change in capital and surplus			<u>(2,000,000)</u>
Capital and surplus, December 31, 2008 - per examination			<u>\$19,076,252</u>

COMMENTS ON FINANCIAL STATEMENTS

Aggregate Reserve For Accident and Health Contracts	\$45,713,000
Contract Claims – Accident and Health	\$10,457,637

The examination resulted in a finding that the amounts reported by the Company in its 2008 annual statement as 'aggregate reserve for accident and health contracts' and 'contract claims – accident and health' were understated by \$1,600,000 and \$400,000, respectively. Our prior financial condition examination of the Company resulted in a finding that it understated these liabilities in its 2005 annual statement by a total of \$1,791,715.

SUMMARY OF RECOMMENDATIONS

Material Prospective Risk

As reported on page 2, we found that the prospective risk existed that the Company would not generate premium revenues and earnings sufficient to assure its future solvency and long-term success. **We recommend that the Company develop controls, business processes and a strategy to mitigate this risk.**

UAFS Agreement

As reported on page 7, the Company's agreement with UAFS did not contain a specified due date for payment of amounts owed under the agreement as required by SSAP No. 25, as amended by SSAP No. 96. **We recommend that the Company amend the agreement to specify the payment due date.**

Reinsurance Agreements

As reported on page 9, the Company ceded risk to GenRe pursuant to reinsurance agreements that were written in such a way as not to prohibit the payment to GenRe of amounts other than from income realized from the reinsured policies, in violation of Rule 69O-144.010(2)(a)5, F.A.C. Our prior financial condition examination of the Company as of December 31, 2005 resulted in the same finding. **We recommend that the Company amend the reinsurance agreements to clearly preclude any possible violation of Rule 69O-144.010(2)(a)5, F.A.C.**

Accident and Health Policy Obligations

As reported on page 16, the Company understated its aggregate reserve for accident and health contracts and its obligation for accident and health contract claims in its 2008 annual statement

by a total of \$2 million. Our prior financial condition examination of the Company resulted in a finding that it understated these liabilities in its 2005 annual statement by a total of \$1,791,715. **We recommend that, in future statements filed with the Office, the Company adequately provide for its losses, policy and contract benefits, and other obligations as required by Section 625.041, F.S.**

SUBSEQUENT EVENTS

Effective April 1, 2009, the Company reinsured substantially all of its net in force life and annuity business with Commonwealth Annuity and Life Insurance Company on a 100% coinsurance basis. On December 1, 2009, the Office approved the Company's request to relocate and maintain the reinsured policy claims files and payment claim documents in the State of Nebraska until November 20, 2010.

On October 20, 2009, Universal and American Exchange informed the Office of their desire to form an intermediary holding company which would be owned by American Exchange and which would own all of the Company's outstanding capital stock, and requested a waiver of the approval requirements contained in Section 628.461, F.S. The Office granted the request on January 8, 2010.

Effective October 31, 2009, Mr. Bryant resigned as director, president and chief executive officer and Mr. Squarok resigned as chief financial officer and treasurer of the Company. Effective November 1, 2009, Jason Israel was elected as a director and president and Richard M. Cannone was elected as chief financial officer and treasurer of the Company.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of American Pioneer Life Insurance Company as of December 31, 2008, consistent with the insurance laws of the State of Florida.

The Company's total capital and surplus at December 31, 2008 was determined to be \$19,076,252, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus was \$8,916,885.

In addition to the undersigned, the following participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Russell K. Judge, Financial Examiner/Analyst; Kerry A. Krantz, Actuary; and Darlene L. Lenhart-Schaeffer, AFE, Financial Examiner/Analyst.

Respectfully submitted,

M. Alison Miele, CFE, Financial Examiner/Analyst
Florida Office of Insurance Regulation