

Report on Examination
of
American Pioneer Life Insurance Company
Lake Mary, Florida
as of
December 31, 2013



**FLORIDA OFFICE OF
INSURANCE REGULATION**

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

Dear Sir:

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, 2013. Our report on the examination follows.

Florida Office of Insurance Regulation
March 4, 2015

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2013 of American Pioneer Life Insurance Company (the "Company"), a multi-state insurer domiciled in Florida. The examination covered the period of January 1, 2009 through December 31, 2013 and took place primarily in the Company's Lake Mary, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of 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.

SUMMARY OF SIGNIFICANT FINDINGS

The previous examination reported that a prospective risk existed that the Company would not generate premium revenues and earnings sufficient to assure its future solvency and long-term success. The current examination has found that this risk still exists. In addition, the Company's board of directors was not authorizing or approving investments in accordance with Section 625.304, Florida Statutes (F.S.). Recommendations can be found on page 14.

COMPANY HISTORY

The Company was incorporated in Florida on July 5, 1961 and licensed by the Office as an insurer on August 8, 1961. It was authorized by the State of Florida to operate as a life and health insurer in accordance with Section 624.401, F.S.

The Company previously was a wholly owned subsidiary of American Exchange Life Insurance Company. Effective February 26, 2010, ownership of the Company was transferred to Universal American Holdings, LLC, a wholly owned subsidiary of Universal American Corp. (UAC). American Exchange Life Insurance Company was dissolved per approval of the Texas Department of Insurance.

Dividends and Capital Contributions

The Company neither distributed dividends nor received capital contributions during the period examined.

CORPORATE RECORDS

We reviewed the minutes of the meetings held by the Company's shareholder and board of directors. There was no evidence in the Board's authorization of its investments as required by Section 625.304, F.S. The Company utilizes the audit and investment committees of UAC, its ultimate parent.

MANAGEMENT AND CONTROL

The Company was a wholly owned subsidiary of Universal American Holdings, LLC which was wholly owned by UAC. The common stock of UAC traded on the New York Stock Exchange.

Its senior officers and directors were:

Senior Officers

| <u>Name</u> | <u>Title</u> |
|---------------------|---------------------------------------|
| Jason J. Israel | President and Chief Operating Officer |
| Robert A. Waegelein | Executive Vice President |
| Carl L. Cochrane | Senior Vice President |
| Steve L. Carlton | Secretary and General Counsel |
| Richard M. Cannone | Treasurer and Chief Financial Officer |
| Edward A. Ceglia | Appointed Actuary |

Board of Directors

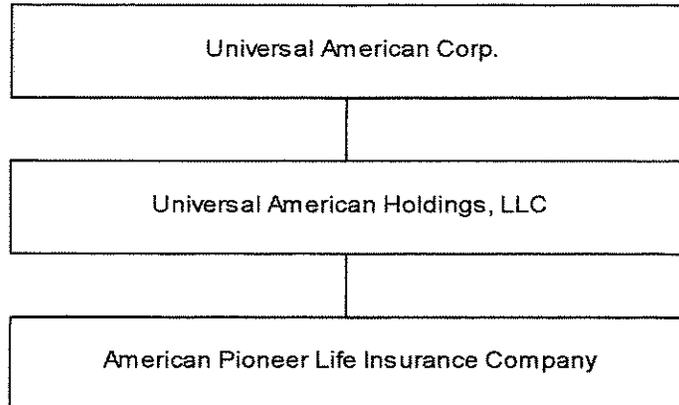
| <u>Name</u> | <u>Location</u> |
|---------------------------|-------------------------|
| Richard M. Cannone | Sanford, Florida |
| Theodore M. Carpenter, Jr | Houston, Texas |
| Jason J. Israel | Lake Mary, Florida |
| Robert A. Waegelein | Pawling, New York |
| Anthony L. Wolk | Short Hills, New Jersey |

The Company utilized its ultimate parent's Investment and Audit committees.

The Company was a member of an insurance holding company system. 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, Florida Administrative Code (F.A.C.), on April 1, 2014.

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

**American Pioneer Life Insurance Company
Abbreviated Organizational Chart
December 31, 2013**



Tax Allocation Agreement

Pursuant to a January 1, 2008 tax sharing agreement, the results of the Company's operations were included in the consolidated federal tax return of the ultimate parent corporation and Income taxes were allocated to included companies on a separate return basis, until April 30, 2011. For the period of May 1, 2011 to December 31, 2011, and for tax years 2012 and 2013, the Company filed separate federal income tax returns.

Service Expense Reimbursement and Cost Sharing Agreement

Effective September 1, 2009, the Company became a party to an agreement between Universal American Financial Services (UAFS) and certain affiliates, whereby UAFS furnishes a variety of services. The agreement provides for the reimbursement to UAFS of costs associated with providing such services.

FIDELITY BONDS AND OTHER INSURANCE

The Company's ultimate parent, UAC, maintained fidelity bond coverage of \$10,000,000 with a deductible of \$750,000 on which subsidiaries were named as insured entities. The coverage adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$2,500,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had direct employees whose associated costs were allocated under an expense allocation agreement with UAFS and affiliates. UAC provided medical, dental, group life insurance and flexible spending account benefits to eligible full time employees. The Company also participated in a voluntary 401(k) savings plan sponsored by UAC.

TERRITORY AND PLAN OF OPERATION

Prior to June 1, 2012, the Company marketed senior life policies, annuities, and long term care policies through independent brokers. Effective June 1, 2012, the Company ceased writing new business and will continue to administer and service all renewing business. The Company was authorized to transact insurance in the District of Columbia and the following U.S. states:

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

COMPANY GROWTH

The Company reported the following for years 2009 through 2013:

(Dollars are in millions.)

| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| Premiums | \$ 10.3 | \$ 69.1 | \$ 62.1 | \$ 55.8 | \$ 49.5 |
| Revenues | \$ 26.4 | \$ 79.5 | \$ 70.7 | \$ 62.8 | \$ 55.5 |
| Net income | \$ (2.9) | \$ (0.4) | \$ (0.2) | \$ 1.4 | \$ (6.9) |
| Admitted assets | \$ 86.5 | \$ 78.1 | \$ 80.6 | \$ 81.0 | \$ 76.7 |
| Liabilities | \$ 65.6 | \$ 58.3 | \$ 60.1 | \$ 62.8 | \$ 67.0 |
| Capital and surplus | \$ 20.9 | \$ 19.8 | \$ 20.6 | \$ 18.2 | \$ 9.7 |

REINSURANCE

The Company assumed and ceded reinsurance pursuant to agreements with various affiliated and unauthorized companies, primarily on coinsurance and quota share bases. It reported details of assumed and ceded reinsurance on Schedule S of its 2013 annual statement. Credits claimed for reinsurance with unauthorized companies that were adequately secured by a trust agreement and a letter of credit.

STATUTORY DEPOSITS

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

| Holder | Description | Par Value | Market Value |
|------------------------|--------------------|------------------|---------------------|
| Florida | U.S. Treasury note | \$ 275,000 | \$ 275,000 |
| Florida | U.S. Treasury note | 1,555,000 | 1,555,000 |
| Florida | U.S. Treasury note | 600,000 | 600,000 |
| Total Florida deposits | | 2,430,000 | 2,430,000 |
| Georgia | Wells Fargo MMF | 50,000 | 50,000 |
| Indiana | U.S. Treasury note | 252,000 | 251,902 |
| New Mexico | U.S. Treasury note | 110,000 | 109,957 |
| North Carolina | U.S. Treasury note | 400,000 | 399,844 |
| South Carolina | U.S. Treasury note | 650,000 | 650,078 |
| Virginia | U.S. Treasury note | 100,000 | 99,961 |
| Total deposits | | \$3,992,000 | \$3,991,742 |

American Pioneer Life Insurance Company
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2013

| | Per Company | Examination Adjustments | Per Examination |
|--|----------------------|----------------------------|----------------------|
| Admitted Assets | | | |
| Bonds | \$ 65,065,509 | \$ - | \$ 65,065,509 |
| Mortgage loans on real estate - first liens | 9,861 | | \$ 9,861 |
| Cash, cash equivalents and short-term investments | (146,204) | | \$ (146,204) |
| Contract loans | 32,563 | | \$ 32,563 |
| Receivable for securities | 7,977 | - | 7,977 |
| | 64,969,706 | - | 64,969,706 |
| Investment income due and accrued | 349,134 | - | 349,134 |
| Uncollected premiums and agents' balances | 179,338 | - | 179,338 |
| Deferred premiums and agents' balances | 155,028 | - | 155,028 |
| Amounts recoverable from reinsurers | 11,403 | | 11,403 |
| Funds held or deposited with reinsured companies | 7,192,821 | | 7,192,821 |
| Other amounts receivable under reinsurance contracts | 1,755,624 | | 1,755,624 |
| Current federal income tax recoverable | 1,032,730 | | 1,032,730 |
| Net deferred tax asset | 800,655 | | 800,655 |
| Guaranty funds receivable or on deposit | 108,372 | | 108,372 |
| Receivables from parent, subsidiaries and affiliates | 529 | | 529 |
| Aggregate write-ins for other than invested assets | 137,765 | - | 137,765 |
| Total admitted assets | \$ 76,693,105 | \$ - | \$ 76,693,105 |

American Pioneer Life Insurance Company
Liabilities, Capital and Surplus
December 31, 2013

| Liabilities | Per Company | Examination Adjustments | Per Examination |
|--|----------------------|----------------------------|----------------------|
| Aggregate reserve for life contracts | \$ 811,197 | \$ - | \$ 811,197 |
| Aggregate reserve for accident & health contracts | 55,664,666 | - | 55,664,666 |
| Contract claims - life | 133,421 | - | 133,421 |
| Contract claims - accident & health | 4,897,671 | - | 4,897,671 |
| Premiums & annuity considerations received in advance | 1,300,556 | | 1,300,556 |
| Other amounts payable on reinsurance | 433,881 | - | 433,881 |
| Interest maintenance reserve | 823,910 | - | 823,910 |
| General expenses due or accrued | 1,207,440 | - | 1,207,440 |
| Amounts withheld or retained by company as agent or trustee | 18,971 | | 18,971 |
| Amounts held for agents' account | 56,037 | - | 56,037 |
| Remittances and items not allocated | 214,752 | - | 214,752 |
| Asset valuation reserve | 311,380 | - | 311,380 |
| Payable to parent, subsidiaries and affiliates | 398,175 | - | 398,175 |
| Aggregate write-ins for other liabilities | 740,663 | - | 740,663 |
| Total liabilities | 67,012,720 | - | 67,012,720 |
| Capital and Surplus | | | |
| Common capital stock | 2,517,055 | - | 2,517,055 |
| Gross paid in and contributed surplus | 62,147,694 | | 62,147,694 |
| Unassigned funds | (54,984,364) | | (54,984,364) |
| Total capital and surplus | 9,680,385 | - | 9,680,385 |
| Total liabilities, capital and surplus | \$ 76,693,105 | \$ - | \$ 76,693,105 |

American, Pioneer Life Insurance Company
Summary of Operations
Year Ended December 31, 2013

| | |
|--|-----------------------|
| Premiums and annuity considerations | \$ 49,503,491 |
| Net investment income | 2,304,455 |
| Amortization of interest maintenance reserve | 186,922 |
| Commissions and expense allowances on reinsurance ceded | 3,509,168 |
| Aggregate write-ins for miscellaneous income | 20,176 |
| Totals | 55,524,212 |
| Death benefits | 218,334 |
| Disability benefits and benefits under A&H contracts | 43,523,701 |
| Surrender benefits and withdrawals for life contracts | 24,350 |
| Increase in aggregate reserves for life and A&H contracts | 5,750,246 |
| | 49,516,631 |
| Commissions on premiums and annuity considerations | 3,023,499 |
| Commissions and expense allowances on reinsurance assume | 9,903 |
| General insurance expenses | 7,272,731 |
| Insurance taxes, licenses and fees | 1,403,897 |
| Increase in loading on deferred and uncollected premiums | 4,850 |
| Totals | 61,231,511 |
| Net gain from operations before dividends and income taxes | (5,707,298) |
| Federal and foreign income taxes incurred | 911,211 |
| Net gain from operations before realized capital losses | (6,618,509) |
| Net realized capital losses | (304,465) |
| Net income (loss) | \$ (6,922,974) |

**American Pioneer Life Insurance Company
Statement of Changes in Capital and Surplus
For The Five Years Ended December 31, 2013**

| | |
|--|---------------------|
| Capital and surplus - December 31, 2008 | \$ 21,076,252 |
| Net income (loss) | (2,941,228) |
| Change in net unrealized capital loss | (1,299,949) |
| Change in non-admitted assets | 2,902,559 |
| Change in net deferred income tax | (3,891,376) |
| Change in asset valuation reserve | 58 |
| <u>Aggregate write-ins for gains in surplus</u> | <u>5,051,643</u> |
| Capital and surplus - December 31, 2009 | 20,897,960 |
| Net income (loss) | (408,536) |
| Change in net unrealized capital gain | 843,234 |
| Change in non-admitted assets | 7,364,834 |
| Change in net deferred income tax | (8,139,878) |
| Change in asset valuation reserve | (405,582) |
| <u>Aggregate write-ins for gains (losses) in surplus</u> | <u>(311,578)</u> |
| Capital and surplus - December 31, 2010 | 19,840,454 |
| Net income (loss) | (165,855) |
| Change in net unrealized capital gains | (246,523) |
| Change in non-admitted assets | 11,959,820 |
| Change in net deferred income tax | (11,420,031) |
| Change in asset valuation reserve | 178,097 |
| <u>Aggregate write-ins for gains (losses) in surplus</u> | <u>430,490</u> |
| Capital and surplus - December 31, 2011 | 20,576,452 |
| Net income (loss) | 1,399,410 |
| Change in net unrealized capital gains | 798,235 |
| Change in non-admitted assets | (1,049,737) |
| Change in net deferred income tax | 2,463,103 |
| Change in asset valuation reserve | (14,851) |
| <u>Aggregate write-ins for gains (losses) in surplus</u> | <u>(5,926,611)</u> |
| Capital and surplus - December 31, 2012 | 18,246,001 |
| Net income (loss) | (6,922,974) |
| Change in non-admitted assets | (4,655,229) |
| Change in net deferred income tax | 3,390,973 |
| Change in asset valuation reserve | (68,662) |
| <u>Aggregate write-ins for gains (losses) in surplus</u> | <u>(309,724)</u> |
| | 9,680,385 |
| <u>Examination adjustments</u> | <u>-</u> |
| <u>Capital and surplus - December 31, 2013</u> | <u>\$ 9,680,385</u> |

American Pioneer Life Insurance Company
Comparative Analysis of Changes in Capital and Surplus
December 31, 2013

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

| | Per Company | Per Examination | Increase (Decrease) In Capital & Surplus | |
|--|----------------|--------------------|---|---------------------|
| Capital and surplus, December 31, 2013 - per annual statement | | | | \$ 9,680,385 |
| Total assets | \$ 76,693,105 | \$ 76,693,105 | \$ - | |
| Total liabilities | \$ 67,012,720 | \$ 67,012,720 | \$ - | |
| Net change in capital and surplus | | | | - |
| Capital and surplus, December 31, 2013 - per examination | | | | \$ 9,680,385 |

SUMMARY OF RECOMMENDATIONS

As reported on page 2, a prospective risk concerning the Company's inability to generate premium revenues and earnings sufficient to assure its future solvency remains in effect. **We recommend that the Company develop controls, businesses processes and a strategy to mitigate this risk.**

As reported on page 3, there was no evidence of the Company's board of directors authorizing or approving its investments as required by 625.304 F.S. **We recommend that the Company's board of directors authorize or approve investments and these approvals be reflected in minutes of the board of directors meetings.**

SUBSEQUENT EVENTS

Jason J. Israel, President and Chief Operating Officer at December 31, 2013 passed away on April 14, 2014 and was succeeded by Robert A Waegelein on the same date.

The Company is waiting for a ruling regarding litigation concerning reinsurance treaties with Hannover.

Subsequent to completion of the examination, the Company filed its 2014 Annual Statement. The Office Actuary noted that the additional reserves reported in the 2014 actuarial opinion as a premium deficiency reserve increased from \$6.9 million as of December 31, 2013 to \$30.9 million as of December 31, 2014. The Office Actuary is of the opinion that this \$24 million increase is a clear indication that the reserves reported in the 2013 actuarial opinion were insufficient.

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 consistent with the insurance laws of the State of Florida.

At December 31, 2013, the Company's capital and surplus was \$9,680,385 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, the following individuals participated in the examination: Rebecca L. Davis, CFE (Fraud), PIR, Financial Examiner/Analyst; Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; Kerry Krantz, Actuary; and Darlene L. Lenhart-Schaeffer, CFE, CISA, APIR, Financial Examiner/Analyst Supervisor.

Respectfully submitted,



Walter F. Banas, CIE, Financial Specialist
Florida Office of Insurance Regulation