

Report on Examination
of
Bankers Life Insurance Company
St. Petersburg, Florida
as of
December 31, 2008

By The
Florida Office of Insurance Regulation

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street, Room 101
Tallahassee, Florida 32399-0301

James J. Donelon, Commissioner
Louisiana Department of Insurance
Secretary, NAIC Southeastern Zone
P.O. Box 94214
Baton Rouge, Louisiana 70804-9214

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

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 Bankers Life Insurance Company as of December 31, 2008. Our report on the examination follows.

Florida Office of Insurance Regulation
February 24, 2010

Contents

Scope of Examination	1
Summary of Significant Findings.....	2
Material Prospective Risks	3
Company History	4
Management and Control	5
Fidelity Bonds and Other Insurance.....	9
Pension, Stock Ownership and Insurance Plans	9
Territory and Plan of Operation	10
Company Growth.....	10
Surplus Note.....	10
Reinsurance	11
Statutory Deposits	11
Financial Statements.....	12
Comments on Financial Statements	17
Summary of Recommendations	18
Subsequent Events	19
Conclusion.....	20

SCOPE OF EXAMINATION

We have completed an association financial condition examination as of December 31, 2008 of Bankers 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 St. Petersburg, Florida, where this examination was conducted.

SUMMARY OF SIGNIFICANT FINDINGS

This examination resulted in a finding that, in its 2008 annual statement, the Company overstated the amount of its bonds. The prior examination of the Company resulted in a finding that the Company overstated the amount of its bonds in its 2005 annual statement. The current examination also resulted in findings that, in its 2008 annual statement, the Company understated the amount of its 'aggregate reserve for life contracts', and that it was thinly capitalized and heavily invested in risky bonds. During the current examination, we also identified the prospective risk of the Company not generating 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 on page 18.

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 was thinly capitalized and heavily invested in risky bonds. At December 31, 2008, its total capital and surplus was only 3.9% of its total admitted assets and only \$48,920 in excess of the minimum amount required by Florida Law.¹ Its bond portfolio, which represented 94.4% of its total admitted assets, included significant amounts of structured investments including subprime residential mortgage-backed securities. These highly leveraged investments could potentially result in significant losses and reduced liquidity which may be difficult for the Company to absorb in light of its weak capital position.

We also found that the Company reported a cumulative net loss of \$383,200 in years 2003 through 2008, sold its ordinary life business in 2005, and suspended the writing of new annuity business in 2009. The prospective risk existed that the Company would not generate premium revenues and earnings sufficient to assure its future solvency and long-term success.

¹ See the subsequent events section of this report.

COMPANY HISTORY

The Company was incorporated in Florida on April 24, 1973. It was licensed by the Office as an insurer and commenced business on May 9, 1973. The Company was authorized by the State of Florida to operate as a life and health insurer in accordance with Section 624.401, Florida Statutes (F.S.).

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

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

Dividends and Capital Contributions

The Company issued a \$1 million surplus note in 2007. No other capital contributions were received and no dividends were distributed by the Company during the period of this examination.²

Corporate Records

The recorded minutes of the shareholder, Board of Directors and Investment 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.

² See the subsequent events section of this report.

MANAGEMENT AND CONTROL

The Company was wholly-owned by Bankers Insurance Company (BIC), which was owned by Bankers Insurance Group, Inc. (BIG). BIG was ultimately owned by Bankers International Financial Corporation, Ltd. The Company was affiliated through common ownership with numerous entities.

The Company's senior officers, directors and members of the principal committees of its board of directors were as shown below.³

Senior Officers	
Name	Title
David K. Meehan	President
Wayne S. Matthews	Vice President and Chief Financial Officer
Gregory L. Hoffman	Secretary and General Counsel
Edwin C. Hussemann	Treasurer
Brian L. Keefer	Chief Risk Officer

Board of Directors	
Name	Location
Matthew B. Connolly, Jr.	Germantown, Tennessee
William D. Gunter, Jr.	Tallahassee, Florida
Edwin C. Hussemann	St. Petersburg Beach, Florida
Brian L. Keefer	Tampa, Florida
Bennett B. Martz	Tampa, Florida
David K. Meehan	St. Petersburg, Florida
Robert M. Menke	St. Petersburg, Florida
Connie S. Parker	Annapolis, Maryland
Alejandro M. Sánchez	Tallahassee, Florida
John A. Strong	Greensboro, North Carolina

³ See the subsequent events section of this report.

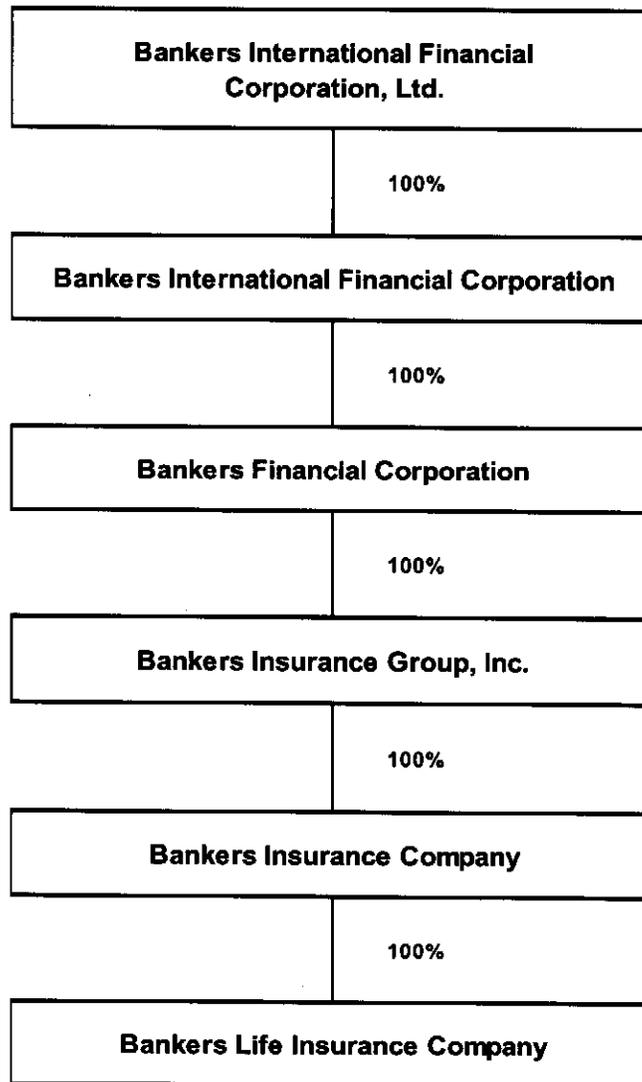
Committees of the Board of Directors

Audit	Claims	Compensation
<hr/> William D. Gunter, Jr. David K. Meehan Robert M. Menke Connie S. Parker Alejandro M. Sanchez John A. Strong	<hr/> Matthew B. Connolly, Jr. William D. Gunter, Jr. Edwin C. Hussemann Brian L. Keefer David K. Meehan Alejandro M. Sanchez John A. Strong	<hr/> David K. Meehan Robert M. Menke Connie S. Parker John A. Strong
Compliance	Executive	Investment
<hr/> Matthew B. Connolly, Jr. William D. Gunter, Jr. Connie S. Parker Alejandro M. Sanchez	<hr/> Edwin C. Hussemann Brian L. Keefer Bennett B. Martz David K. Meehan Robert M. Menke John A. Strong	<hr/> Matthew B. Connolly, Jr. Edwin C. Hussemann Brian L. Keefer Bennett B. Martz David K. Meehan Robert M. Menke
Reinsurance	Risk Management	
<hr/> Edwin C. Hussemann Brian L. Keefer David K. Meehan Robert M. Menke	<hr/> Edwin C. Hussemann Brian L. Keefer Bennett B. Martz David K. Meehan Robert M. Menke	

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code (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 November 11, 2009.

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

**Bankers Life Insurance Company
Abbreviated Organizational Chart
December 31, 2008**



The Company entered into cost allocation agreements with affiliates BIG, BIC and First Community Insurance Company effective January 1, 2004. The agreements provided for the allocation of the cost of executive and administrative services furnished to the Company by the affiliates based upon estimated percentages and/or actual usage. Provided services included the payment of salaries, wages and payroll taxes, the administration of employee benefit programs, marketing and corporate communication, and the filing of regulatory reports.

The results of the Company's operations were included in a consolidated federal income tax return pursuant to a tax allocation agreement effective January 1, 2007. Consolidated income tax liability was required to be allocated to members of the consolidated group based on the separate return tax liabilities of included members.

Bankers Employer Administrative Services, Inc. (BEAS), an affiliated third party administrator licensed in Florida, provided administrative services to the Company pursuant to an agreement effective December 1, 2008. Fees for the services were 20% of premiums collected and administrative fees charged for all of the Company's insurance products marketed and serviced by BEAS, and 100% of fees collected by BEAS for non-insurance products, subject to an overall minimum monthly fee of \$22,000.

On January 21, 2008, the Company entered into an agreement with various affiliates providing for the payment of amounts owed to the affiliates. Under the agreement, payment was required within sixty days following the month in which the transaction or other event giving rise to the liabilities occurred unless those liabilities were governed by other contractual terms.

The Company leased office space from Bankers Financial Corporation (BFC), an affiliate, pursuant to a December 5, 2003 sublease agreement. The agreement, which expired on December 31, 2008, called for annual base rent of \$17.34 per square foot plus applicable operating expenses, and a 2% annual increase in base rent.

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured on a fidelity bond maintained by Bankers International Financial Corporation, an affiliate. The amount of coverage was \$1,500,000 with a deductible of \$100,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered benefits to eligible employees including health, life, vision and dental insurance, short-term disability, and participation in a Section 401(k) retirement plan sponsored by BFC.

TERRITORY AND PLAN OF OPERATION

The Company sold its ordinary life business in 2005. At December 31, 2008, the Company's principal business was writing individual annuities.⁴ The Company was authorized to transact insurance in the District of Columbia and the following U.S. states:

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

COMPANY GROWTH

The Company reported the following for years 2006, 2007 and 2008:

(In millions)	2006	2007	2008
Net premiums	\$40.8	\$55.2	\$42.3
Total revenues	\$50.2	\$66.6	\$58.0
Net income (loss)	(\$1.1)	\$0.2	\$1.3
Total capital and surplus	\$8.0	\$8.6	\$9.0

SURPLUS NOTE

The Company was obligated to BIC for a \$1 million, 8% surplus note. The note was approved by the Company's board of directors and the Office. In accordance with Section 628.401, F.S., the surplus note debt was included in the Company's surplus.

⁴ See the subsequent events section of this report.

REINSURANCE

On November 1, 2008, the Company ceded medical and medical stop loss insurance to HCC Life Insurance Company. The reinsurance covered 100% of the loss on any one covered person in excess of \$150,000 (\$140,000 in certain cases) up to \$5,000,000 per covered person per contract year.

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	Conrail Equipment Trust notes	\$607,000	\$630,533
Florida	Spectra Energy Capital notes	2,000,000	2,075,500
Florida	National Rural Utilities notes	115,000	115,285
Florida	Bethlehem note	413,000	368,945
Total Florida deposits		3,135,000	3,190,263
Georgia	U.S. Treasury notes	35,000	38,968
Indiana	Household Finance Co. notes	205,000	209,910
Nevada	Cincinnati Financial note	200,000	172,306
New Mexico	U.S. Treasury notes	110,000	120,940
South Carolina	Conrail Equipment Trust notes	185,000	192,172
South Carolina	Cincinnati Financial note	340,000	292,920
Total deposits		\$4,210,000	\$4,217,479

Bankers Life Insurance Company
Assets
December 31, 2008

	Per Company	Adjustments	Per Examination
Bonds	\$201,373,244	(\$327,866)	\$201,045,378
Preferred stocks	2,500,000	0	2,500,000
Common stocks	324,000	0	324,000
Properties held for the production of income	921,151	0	921,151
Cash, cash equivalents and short-term investments	5,160,808	0	5,160,808
Contract loans	634,480	0	634,480
Receivables for securities	1,414	0	1,414
	210,915,097	(327,866)	210,587,231
Investment income due and accrued	1,956,721	0	1,956,721
Uncollected premiums and agents' balances	2,103	0	2,103
Deferred premiums and agents' balances	168	0	168
Amounts recoverable from reinsurers	1,659	0	1,659
Funds held by or deposited with reinsured companies	29,504	0	29,504
Other amounts receivable under reinsurance contracts	227	0	227
Current federal and foreign income tax recoverable	47,954	0	47,954
Net deferred tax asset	81,135	0	81,135
Aggregate write-ins for other than invested assets	265,785	0	265,785
Total assets	\$213,300,353	(\$327,866)	\$212,972,487

Bankers Life Insurance Company
Liabilities, Capital and Surplus
December 31, 2008

Liabilities	Per Company	Adjustments	Per Examination
Aggregate reserve for life contracts	\$196,232,697	\$439,639	\$196,672,336
Liability for deposit-type contracts	5,727,177	0	5,727,177
Accident and health contract claims	27,178	0	27,178
Other amounts payable on reinsurance	1,560	0	1,560
Interest maintenance reserve	1,183,420	0	1,183,420
Commissions to agents	48,524	0	48,524
General expenses due or accrued	284,278	0	284,278
Taxes, licenses and fees	62,597	0	62,597
Unearned investment income	14,432	0	14,432
Amounts withheld or retained by company	77,443	0	77,443
Remittances and items not allocated	583,349	0	583,349
Asset valuation reserve	31,189	0	31,189
Payable to parent, subsidiaries and affiliates	6,099	0	6,099
Funds held under coinsurance	27,492	0	27,492
Total liabilities	204,307,435	439,639	204,747,074
Capital and Surplus			
Gross paid in and contributed surplus	11,123,795	0	11,123,795
Unassigned funds (deficit)	(6,130,877)	(767,505)	(6,898,382)
Surplus	4,992,918	(767,505)	4,225,413
Common capital stock	3,000,000	0	3,000,000
Surplus notes	1,000,000	0	1,000,000
Total capital and surplus	8,992,918	(767,505)	8,225,413
Total liabilities, capital and surplus	\$213,300,353	(\$327,866)	\$212,972,487

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

Premiums and annuity considerations	\$42,272,546
Considerations for supplementary contracts with life contingencies	198,571
Net investment income	14,191,383
Amortization of interest maintenance reserve	280,322
Commissions and expense allowances on reinsurance ceded	48,804
Charges and fees for deposit-type contracts	98,018
Aggregate write-ins for miscellaneous income	936,198
Total revenues	58,025,842
Annuity benefits	3,145
Disability benefits and benefits under accident and health contracts	(1,914)
Surrender benefits and withdrawals for life contracts	15,894,676
Interest and adjustments on contract or deposit-type contract funds	2,005,307
Payments on supplementary contracts with life contingencies	62,590
Increase in aggregate reserves for life and accident and health contracts	32,574,795
	50,538,599
Commissions on premiums, annuity considerations and deposit-type contract funds	2,057,098
Commissions and expense allowances on reinsurance assumed	2,856
General insurance expenses	2,297,433
Insurance taxes, licenses and fees, excluding federal income taxes	167,155
	55,063,141
Net gain from operations before income taxes and capital gains	2,962,701
Federal and foreign income taxes incurred	498,621
Net gain from operations before capital gains or losses	2,464,080
Net realized capital gains (losses)	(1,163,190)
Net income	\$1,300,890

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

Capital and surplus - December 31, 2005	\$9,128,725
Net income (loss)	(1,122,701)
Change in net unrealized capital gains or (losses)	(530,357)
Change in net deferred income tax	(182,801)
Change in nonadmitted assets and related items	277,692
Change in asset valuation reserve	467,881
<hr/>	
Capital and surplus - December 31, 2006	8,038,439
Net income (loss)	169,226
Change in net unrealized capital gains or (losses)	(796,116)
Change in net deferred income tax	(19,561)
Change in nonadmitted assets and related items	26,237
Change in asset valuation reserve	198,080
Change in surplus notes	1,000,000
<hr/>	
Capital and surplus - December 31, 2007	8,616,305
Net income (loss)	1,300,890
Change in net unrealized capital gains or (losses)	(198,880)
Change in net deferred income tax	70,806
Change in nonadmitted assets	(812,834)
Change in asset valuation reserve	16,631
<hr/>	
	8,992,918
Examination adjustments	(767,505)
<hr/>	
Capital and surplus - December 31, 2008	\$8,225,413
<hr/>	

Bankers 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.

	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>
Capital and surplus, December 31, 2008 - per annual statement			\$8,992,918
Bonds	\$201,373,244	\$201,045,378	(\$327,866)
Aggregate reserve for life contracts	\$196,232,697	\$196,672,336	(\$439,639)
Net change in capital and surplus			<u>(767,505)</u>
Capital and surplus, December 31, 2008 - per examination			<u>\$8,225,413</u>

COMMENTS ON FINANCIAL STATEMENTS

Bonds

\$201,045,378

The amount of bonds reported by the Company in its 2008 annual statement has been reduced by \$327,866. The Company reported \$3,522,453 in bonds rated '5' or '6' by the NAIC Securities Valuation Office. The amount of such bonds allowable by Section 625.305(4)(c), F.S., was limited to 1.5% of the Company's total admitted assets, or \$3,194,587. As a result, the admitted portion of the Company's bonds has been reduced by \$327,866. The prior examination of the Company resulted in a finding that, in its 2005 annual statement, the Company overstated the amount of its bonds by \$719,677.

The Company's bond portfolio included a significant amount of structured investments including subprime residential mortgage-backed securities.

Aggregate Reserve For Life Contracts

\$196,672,336

The examination resulted in a finding that the amount of 'aggregate reserve for life contracts' reported by the Company in its 2008 annual statement was understated by \$439,639. As a result, the liability has been increased to \$196,672,336.

SUMMARY OF RECOMMENDATIONS

Material Prospective Risks

As reported on page 3, we found that the Company was heavily invested in highly leveraged structured securities which could potentially result in significant losses and reduced liquidity which may be difficult for the Company to absorb in light of its weak capital position. We also identified the prospective risk of the Company not generating 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 these risks, and that it improve the quality of its bond portfolio and plan for the potential need to secure additional capital.**

Bonds

As reported on page 17, the Company overstated the amount of its bonds in its 2008 annual statement. The prior examination of the Company resulted in a finding that, in its 2005 annual statement, the Company overstated the amount of its bonds. **We recommend that, in future statements filed with the Office, the Company correctly report the amount of its bonds and comply with Section 625.305(4)(c), F.S.**

Aggregate Reserve for Life Contracts

As reported on page 17, the Company understated the amount of its 'aggregate reserve for life contracts' in its 2008 annual statement. **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

Mr. Hussemann, the Company's treasurer and a director, passed away on February 3, 2009.

Mr. Keefer resigned from the Company's board of directors on March 2, 2009.

Effective March 20, 2009, the Company suspended the writing of new annuity business.

In June and November of 2009, the Company received capital contributions in the amounts of \$500,000 and \$3,000,000, respectively.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Bankers 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 \$8,225,413, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus was \$8,176,493.

In addition to the undersigned, the following participated in this examination: Walter F. Banas, CIE, Financial Specialist; Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Russell K. Judge, Financial Examiner/Analyst; and Kerry A. Krantz, Actuary.

Respectfully submitted,

Christine N. Afolabi, CPA, Financial Specialist
Florida Office of Insurance Regulation