

**Report on Examination**  
**of**  
**Florida Combined**  
**Life Insurance Company, Inc.**  
**Jacksonville, Florida**  
**as of**  
**December 31, 2004**

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

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Tallahassee, Florida

April 24, 2006

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

Dear Sirs:

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, 2004, of the financial condition and corporate affairs of:

**Florida Combined Life Insurance Company, Inc.  
5011 Gate Parkway, Bldg. 200, Suite 400  
Jacksonville, Florida 32256**

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

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2002 through December 31, 2004. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2000. In lieu of conducting a statutory financial condition examination of the Company for the year 2001, the Office accepted the independent certified public accountant's (CPA) audit report on the Company's statutory-basis financial statements for that year pursuant to Section 624.316(2)(a), F.S.

Planning for the current examination began on September 26, 2005. The fieldwork commenced on October 3, 2005 and concluded on March 10, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the 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 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 2004 annual statement. Transactions subsequent to December 31, 2004 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.

After considering the Company's control environment and the materiality level set for this examination, we relied on work performed by the Company's CPA for the following accounts:

- Contract loans
- Net deferred tax asset
- Premiums received in advance
- Interest maintenance reserve
- Asset valuation reserve

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

The prior examination report did not contain any significant adverse regulatory disclosures or material findings related to the Company's solvency.

## HISTORY

### GENERAL

The Company was incorporated in Florida on October 29, 1987, and commenced business on May 11, 1988.

The Company is authorized to transact the following insurance coverage in Florida, in accordance with Section 624.401(1), F.S.:

- Life
- Group life and annuities
- 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, 2004, the Company's capitalization was as follows:

	<u>Common Shares</u>	<u>Preferred Shares</u>
Number of authorized capital shares	1,500,000	100,000
Number of shares issued and outstanding	1,500,000	100,000
Total capital stock	\$1,500,000	\$100,000
Par value per share	\$1.00	\$1.00

At December 31, 2004, all of the Company's outstanding common shares were owned by Diversified Health Services, Inc., a wholly-owned subsidiary of Blue Cross and Blue Shield of Florida, Inc. (BCBSF). At December 31, 2004, all of the Company's outstanding preferred shares were owned by Companion Life Insurance Company of South Carolina (Companion), a wholly-owned subsidiary of Blue Cross and Blue Shield of South Carolina. An abbreviated organizational chart appears on page 8.

## PROFITABILITY

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

(\$ Millions)	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net premiums	\$71.7	\$60.9	\$56.5
Total revenues	\$73.5	\$62.8	\$58.7
Net income	\$2.7	\$1.4	\$2.9
Total capital and surplus	\$38.0	\$35.9	\$34.5

## **DIVIDENDS**

The Company declared and paid dividends on its preferred stock in the amounts of \$500,000, \$499,996, and \$402,776 in years 2004, 2003, and 2002, respectively.

## **MANAGEMENT**

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.0701 and 628.231, F.S. Directors serving as of December 31, 2004 were:

<b>Directors</b>	
<b>Name and Location</b>	<b>Principal Occupation</b>
Barbara G. Benevento Jacksonville, Florida	President Florida Combined Life Insurance Company
Robert C. Doerr Jacksonville, Florida	Chief Financial Officer Blue Cross and Blue Shield of Florida, Inc.
Robert I. Lufrano, M.D. Jacksonville, Florida	Chief Executive Officer Blue Cross and Blue Shield of Florida, Inc.
Lester J. Grantham Green Cove Springs, Florida	Chief Executive Officer Navigy, Inc.
Robert A. Leichtle Columbia, South Carolina	Treasurer Companion Life Insurance Company

The following were the Company's senior officers as of December 31, 2004, as appointed by its board of directors in accordance with the Company's bylaws:

**Senior Officers**

<b>Name</b>	<b>Title</b>
Barbara G. Benevento	President
Robert A. Pallais	Vice President & Treasurer
Terri A. Schmidt	Vice President
Elizabeth B. Burwell	Vice President
Edward J. Garcia	Secretary

The Company's board of directors did not establish any internal committees of its own, as permitted by Section 607.0825, F.S. It did, however, utilize the services of the BCBSF Audit and Compliance Committee.

**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 and Board of Directors 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.

## **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 July 13, 2005.

The following agreements were in force between the Company and its affiliates:

### **MARKETING AND ADMINISTRATIVE SERVICES AGREEMENT - BCBSF**

BCBSF provides data processing, billing collection, and marketing and administrative support services to the Company pursuant to a January 1, 1990 agreement, as amended on November 4, 2002. Charges for these services amounted to \$2.7 million, \$2.2 million, and \$1.6 million in years 2004, 2003, and 2002, respectively.

### **ADMINISTRATIVE SERVICES AGREEMENT - FCIA**

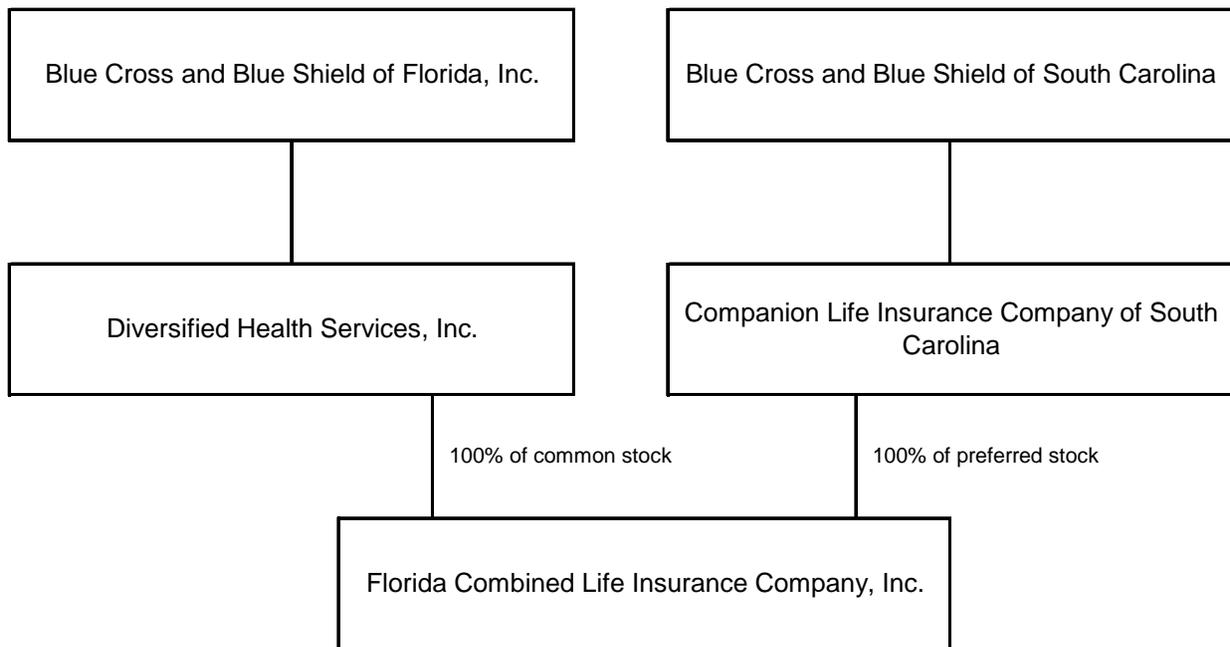
The Company provides administrative support services to Florida Combined Insurance Agency, Inc. (FCIA) pursuant to a January 1, 1990 agreement. Amounts billed for such services amounted to \$5.7 million, \$2.6 million, and \$2.5 million in years 2004, 2003, and 2002, respectively.

### **ADMINISTRATIVE SERVICES AGREEMENT - COI**

The Company provides administrative services to Comp Options Insurance Company, Inc. (COI) pursuant to an October 1, 1997 agreement. Amounts billed to COI for such services in 2004, 2003, and 2002 amounted to \$1.6 million, \$0.6 million, and \$0.3 million, respectively.

An abbreviated organizational chart as of December 31, 2004 reflecting the holding company system is shown below. Schedule Y of the Company's 2004 annual statement provided the names of all related companies in the holding company group.

**Florida Combined Life Insurance Company, Inc.  
Organizational Chart  
December 31, 2004**



## FIDELITY BOND AND OTHER INSURANCE

BCBSF maintained two fidelity bond policies that included coverage of all subsidiaries, including the Company, which provided total bond coverage of up to \$20 million with a deductible of \$300,000. This adequately covered the suggested minimum amount as recommended by the NAIC of \$5 million.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

Company employees participate in a defined benefit non-contributory pension plan offered through BCBSF. In addition, BCBSF sponsors a deferred compensation plan under Section 401(k) of the Internal Revenue Code. The Company provides to eligible employees medical, dental, and vision insurance; short-term and long-term disability insurance; life insurance; and long-term care insurance.

## STATUTORY DEPOSITS

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

Holder	Description	Rate	Due	Par Value	Market Value
FL	U.S. Treasury Bonds	4.250%	11/15/2013	\$250,000	\$251,573
GA	U.S. Treasury Notes	5.000%	8/15/2011	50,000	53,229
NC	U.S. Treasury Notes	5.000%	8/15/2011	150,000	159,686
NC	U.S. Treasury Notes	2.625%	5/15/2008	350,000	342,181
SC	U.S. Treasury Bonds	9.375%	2/15/2006	200,000	214,376
<b>Total Special Deposits</b>				<b>\$1,000,000</b>	<b>\$1,021,045</b>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

The Company markets group life, disability, dental, and long-term care products through licensed agents and brokers and in conjunction with the health care products of BCBSF.

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

At December 31, 2004, the Company was authorized to transact insurance in Alabama, Florida, Georgia, North Carolina, and South Carolina. The Company was also licensed in Arkansas as a reinsurer only.

### **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**

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

### **ASSUMED**

During the period of the examination, the Company assumed reinsurance from BCBSF for long-term care policies, and for dental insurance plans.

### **CEDED**

During the period of the examination, the Company ceded group and individual term life and accidental death and dismemberment policy risk to Swiss Re Life & Health America, Inc. and Fort Dearborn Life Insurance Company. The Company also ceded short-term and long-term disability insurance to UNUM Life Insurance Company of America. The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory-basis financial statements annually for years 2002, 2003, and 2004, 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 is located in Jacksonville, Florida, where this examination was conducted.

## **RISK-BASED CAPITAL**

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

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

### **INVESTMENT MANAGEMENT AGREEMENT**

The Company entered into an investment management agreement with Northern Trust Global Investment Management to manage the Company's investment portfolio in accordance with specified guidelines.

### **ADMINISTRATIVE SERVICES AGREEMENT**

CHCS Services Inc. provides administrative services for the long-term care policies written by BCBSF and assumed by the Company.

**INDEPENDENT AUDITOR AGREEMENT**

The Company engaged PricewaterhouseCoopers LLP to audit its financial statements for the years ended December 31, 2004, 2003, and 2002. Fees related to the agreements were \$48,400, \$40,800, and \$43,000 in years 2004, 2003, and 2002, respectively.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following four pages contain statements of the Company's financial position at December 31, 2004, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

**Florida Combined Life Insurance Company, Inc.**  
**Assets**  
**December 31, 2004**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$50,103,507	\$0	\$50,103,507
Common stocks	377,090	0	377,090
Cash, cash equivalents, and short-term investments	14,722,721	0	14,722,721
Contract loans	<u>145,782</u>	<u>0</u>	<u>145,782</u>
	65,349,100	0	65,349,100
Investment income due and accrued	673,272	0	673,272
Uncollected premiums and agents' balances	5,517,786	0	5,517,786
Amounts recoverable from reinsurers	1,080,390	0	1,080,390
Other amounts receivable under reinsurance contracts	132	0	132
Net deferred tax asset	424,061	0	424,061
Receivables from parent, subsidiaries and affiliates	1,777,716	0	1,777,716
Aggregate write-ins for other than invested assets	<u>6,610</u>	<u>0</u>	<u>6,610</u>
Total assets	<u><u>\$74,829,067</u></u>	<u><u>\$0</u></u>	<u><u>\$74,829,067</u></u>

**Florida Combined Life Insurance Company, Inc.**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2004**

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$12,154,163	\$0	\$12,154,163
Aggregate reserve for A&H contracts	13,766,394	0	13,766,394
Contract claims - life	2,912,925	0	2,912,925
Contract claims - A&H	1,706,349	0	1,706,349
Premiums received in advance	186,460	0	186,460
Provision for experience rating refunds	205,937	0	205,937
Interest maintenance reserve	727,419	0	727,419
Commissions to agents due or accrued	471,322	0	471,322
General expenses due or accrued	345,715	0	345,715
Taxes, licenses and fees due or accrued	272,719	0	272,719
Current income taxes payable	761,358	0	761,358
Unearned investment income	10,847	0	10,847
Amounts held as agent or trustee	182,411	0	182,411
Remittances and items not allocated	767,979	0	767,979
Dividends to stockholders	291,662	0	291,662
Asset valuation reserve	82,448	0	82,448
Payable to parent, subsidiaries and affiliates	1,987,559	0	1,987,559
Total liabilities	<u>36,833,667</u>	<u>0</u>	<u>36,833,667</u>
<b>Capital and Surplus</b>			
Gross paid in and contributed surplus	14,400,000	0	14,400,000
Unassigned funds (surplus)	21,995,400	0	21,995,400
Total surplus	<u>36,395,400</u>	<u>0</u>	<u>36,395,400</u>
Common capital stock	1,500,000	0	1,500,000
Preferred capital stock	100,000	0	100,000
Totals of capital and surplus	<u>37,995,400</u>	<u>0</u>	<u>37,995,400</u>
Total liabilities, capital and surplus	<u><u>\$74,829,067</u></u>	<u><u>\$0</u></u>	<u><u>\$74,829,067</u></u>

**Florida Combined Life Insurance Company, Inc.**  
**Statement of Operations**  
**For Year Ended December 31, 2004**

Premiums and annuity considerations		\$71,700,677
Net investment income		2,171,586
Amortization of interest maintenance reserve		325,579
Commissions and expense allowances on reinsurance ceded		51,063
Aggregate write-ins for miscellaneous income		<u>(758,759)</u>
		73,490,146
Death benefits	\$19,457,450	
Disability benefits and benefits under A&H contracts	24,557,159	
Surrender benefits and withdrawals for life contracts	77,600	
Increase in aggregate reserves for contracts	<u>2,018,272</u>	
	46,110,481	
Commissions on premiums - direct business	4,885,169	
Commissions on premiums - reinsurance assumed	1,676,032	
General insurance expenses	16,631,907	
Insurance taxes, licenses and fees	1,271,440	
Increase in loading on deferred and uncollected premiums	<u>(4,540)</u>	<u>70,570,489</u>
Net gain before federal income taxes		2,919,657
Federal and foreign income taxes incurred		<u>321,529</u>
Net gain from operations before realized capital gains		2,598,128
Net realized capital gains		<u>61,156</u>
Net income		<u><u>\$2,659,284</u></u>

**Florida Combined Life Insurance Company, Inc.**  
**Capital and Surplus Account**  
**For Year Ended December 31, 2004**

Capital and surplus - December 31, 2003		\$35,926,585
Net income	\$2,659,284	
Change in net unrealized capital gains or (losses)	(1,494)	
Change in net deferred income tax	43,802	
Change in nonadmitted assets and related items	(109,527)	
Change in asset valuation reserve	(23,250)	
Dividends to stockholders	(500,000)	
Examination adjustments	<u>0</u>	
		<u>2,068,815</u>
Capital and surplus - December 31, 2004		<u><u>\$37,995,400</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

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

**\$30,539,831**

An Company's actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2004 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.

**Florida Combined Life Insurance Company, Inc.  
Comparative Analysis of Changes in Capital and Surplus  
December 31, 2004**

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

<b>Capital and surplus - December 31, 2004, per annual statement</b>			\$37,995,400
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Capital &amp; Surplus</u>
Assets	\$74,829,067	\$74,829,067	\$0
Liabilities	\$36,833,667	\$36,833,667	<u>\$0</u>
Net change in capital and surplus			<u>0</u>
<b>Capital and surplus - December 31, 2004, per examination</b>			<u><u>\$37,995,400</u></u>

## **SUMMARY OF FINDINGS**

### **COMPLIANCE WITH PREVIOUS DIRECTIVES**

The prior examination report did not contain any significant adverse regulatory disclosures or material findings related to the Company's solvency.

### **CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION**

The current financial condition examination did not result in any material findings of non-compliance with statutes, rules, or other requirements on the part of the Company.

## **SUBSEQUENT EVENTS**

In January of 2005, the Company redeemed its outstanding preferred stock owned by Companion for \$10 million.

In June of 2005, BCBSF exchanged its ownership of the Company and its affiliate FCIA for a 50% interest in Life and Specialty Ventures, LLC (LSV), a Little Rock, Arkansas holding company. Under terms of the arrangement, LSV owns 100% of the Company and FCIA, and 70% of US Able Life Insurance Company, an Arkansas life insurer.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Florida Combined Life Insurance Company** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$37,995,400, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus at December 31, 2004 was \$1,849,532.

In addition to the undersigned, Kerry A. Krantz, Actuary, Richard J. Schaaf, CPA, Financial Specialist, and David C. Schleit, CPA, Financial Examiner/Analyst Supervisor, participated in this examination.

Respectfully submitted,

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Cathy S. Jones, CPA  
Financial Examiner/Analyst  
Florida Office of Insurance Regulation