



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**REGENCE LIFE AND HEALTH INSURANCE COMPANY
PORTLAND, OREGON**

NAIC COMPANY CODE 97985

AS OF

DECEMBER 31, 2008

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SALUTATION

January 29, 2010

Alfred W. Gross, Commissioner
Chairman, NAIC Financial Condition (E) Committee
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

Honorable Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE, Room 440
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

REGENCE LIFE AND HEALTH INSURANCE COMPANY
100 SW Market Street
Portland, Oregon 97201

NAIC Company Code 97985

hereinafter referred to as the "Company" or "RLH." The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The full scope examination of the Company was conducted as of December 31, 2008 covering the three year period then ended, and included a review of material transactions or events which occurred subsequent to the examination cut-off date and were noted during the examination.

The examination was conducted pursuant to ORS 731.300 and in accordance with the NAIC *Financial Condition Examiner Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company 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. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions in accordance with the Oregon Insurance Code.

In addition to the above, work papers were reviewed that were prepared by Deloitte & Touche LLP, the Company's independent auditors, during its audit of the Company's accounts for the year ended December 31, 2008. Portions of the auditors' work papers have been incorporated into our work papers and have been utilized in determining the scope and areas of emphasis in conducting the examination.

Scott Fitzpatrick, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in this examination by evaluating

losses and loss adjustment expenses unpaid. The results of his analysis are found under the relevant section of this report.

Concurrent with this examination, other affiliated insurers domiciled in Oregon and Utah were examined. These companies included Regence BlueCross BlueShield of Oregon (OR), Regence HMO Oregon (OR), Regence Health Maintenance of Oregon, Inc. (OR), Regence BlueCross BlueShield of Utah (UT) and HealthWise (UT). This was part of a coordinated examination effort, whereby the states coordinate their efforts to examine all the Oregon and Utah companies within The Regence Group as of December 31, 2008. A separate report will be issued for each company.

COMPANY HISTORY

Medical Health Company, Inc., was incorporated by Oregon Physicians' Services on September 22, 1964, as a for-profit stock health care service contractor in Oregon. Effective September 17, 1982, the Company changed its name to Greater Northwest Insurance Company and on December 17, 1982, converted from a health care service contractor to a stock life and health insurer with the approval of the Oregon Insurance Division. On April 24, 1984, the Company again changed its name to Oregon Pacific States Insurance Company.

On June 1, 1995, BlueCross BlueShield of Oregon became part of The Benchmark Group, a non-profit holding company located in Portland, Oregon. On April 1, 1997, The Benchmark Group changed its name to The Regence Group (TRG), and concurrently, the Company's name changed to Regence Life and Health Insurance Company.

As of December 31, 2005, the date of the last financial examination of the Company, the Company's issued and outstanding shares of common stock were owned by Regence BlueCross BlueShield of Oregon (68%), Regence BlueShield (18%), Regence BlueCross BlueShield of Utah (12%), and Regence BlueShield of Idaho, Inc. (2%). By letter dated

September 5, 2008, Regence BlueShield filed a request for exemption from the provisions of ORS 732.521(1) with regard to the sale of Company shares by Regence BlueCross BlueShield of Oregon to Regence BlueShield. Regence BlueCross BlueShield of Oregon intended to sell to Regence BlueShield a certain number of the Company's shares equal to 57% of all issued and outstanding company shares for \$26.946 million in cash. After the consummation of the share purchase, the Company's issued and outstanding shares of common stock were owned by Regence BlueCross BlueShield of Oregon (11%), Regence BlueShield (75%), Regence BlueCross BlueShield of Utah (12%), and Regence BlueShield of Idaho, Inc. (2%).

The director of DCBS ordered on October 17, 2008, that the proposed sale of shares was exempt from the provisions of ORS 732.521(1).

Capital Stock

The Company was authorized under Article IV of its Article of Incorporation to issue 55,000 shares of common stock of \$60.00 par value per share. At December 31, 2008, the Company reported 29,465 issued and outstanding shares, representing common capital stock equal to \$1,767,900. No additional capital or paid-in surplus had been contributed to the Company during the period under examination.

Dividends to Stockholders and Other Distributions

During the period under examination, the Company did not declare or pay any dividends or distributions to its stockholders.

CORPORATE RECORDS

Board Minutes

In general, the review of 2006 to 2009 Board meeting minutes of the Company and of TRG, as well as the various committees authorized by TRG, indicated that the minutes support the transactions of the Company and clearly describe the actions taken by its directors and officers. A quorum, as defined by ORS 731.302, met at all of the meetings held during the period under review. Regular Board meetings are held quarterly.

TRG's Investment Committee approved investments and monitored the investment guidelines for TRG and each of its subsidiaries. Minutes of its meetings were approved by the Company's Board of Directors in accordance with ORS 733.730. TRG's Personnel and Compensation Committee approved officer salaries. The Company's Board approved the TRG Personnel and Compensation Committee's actions pursuant to ORS 732.320(3).

Articles of Incorporation

The Company's Articles of Incorporation were not amended during the period under examination. The Articles of Incorporation conformed to Oregon statutes.

Bylaws

The Company amended its corporate Bylaws once during the period under examination; on June 5, 2007, to reflect the reduction in the number of directors and to have all directors annually elected by the shareholders. There were also a number of non-substantive changes made to conform the wording of the bylaws to those of other Regence Group entities.

The Bylaws conformed to Oregon statutes.

Holding Company Registration Statement

An insurance holding company registration statement was filed by the Company in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1).

MANAGEMENT CONTROL

Board of Directors

Article III, section 2, of the Company's Amended Bylaws state that the number of Directors shall not be less than five (5) nor more than nine (9). Generally, directors shall serve one or more terms and shall be elected each year at the annual shareholder meeting. A majority of the number of directors constitutes a quorum. The Board of Directors met all requirements of ORS 732.305.

As of December 31, 2008, the Company's Board of Directors was as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Member Since</u>
Mark B. Ganz Portland, Oregon	President and CEO The Regence Group	2004
M. Jonathan Hensley Seattle, Washington	President and CEO Regence BlueShield	2007
Steven L. Hooker Portland, Oregon	Sr. Vice President and CFO The Regence Group	1981
D. Scott Ideson Park City, Utah	President and CEO Regence BlueCross BlueShield of UT HealthWise	2004
J. Bart McMullan Jr. M.D. Portland, Oregon	President and CEO Regence BlueCross BlueShield of OR Regence Health Maintenance of OR Regence HMO Oregon	2004

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Member Since</u>
Mohandas Nair Portland, Oregon	Executive Vice President The Regence Group	2004
John M. Stellmon Boise, Idaho	President and CEO Regence BlueShield of Idaho	2003

Dr. McMullan announced his retirement in September 2009, and was replaced by Jared L. Short. Steven Hooker and John Stellmon both announced their retirements. The Company has indicated it may not replace these members.

Article V of the Amended Bylaws states the Board shall have no standing committees. Instead, TRG authorized five different committees to assist in the management of all its subsidiaries. The committees are: 1) Organizational & Governance Committee; 2) Investment Committee; 3) Audit & Compliance Committee; 4) Personnel & Compensation Committee; and 5) Health Care Services Committee. The various committees provide direction to the Group within the area/field in which they are assigned. The committees' actions are summarized and reported to TRG's board of directors during their regular meetings. The actions and minutes of each of the committees are approved during the Company's board of director meetings.

Officers

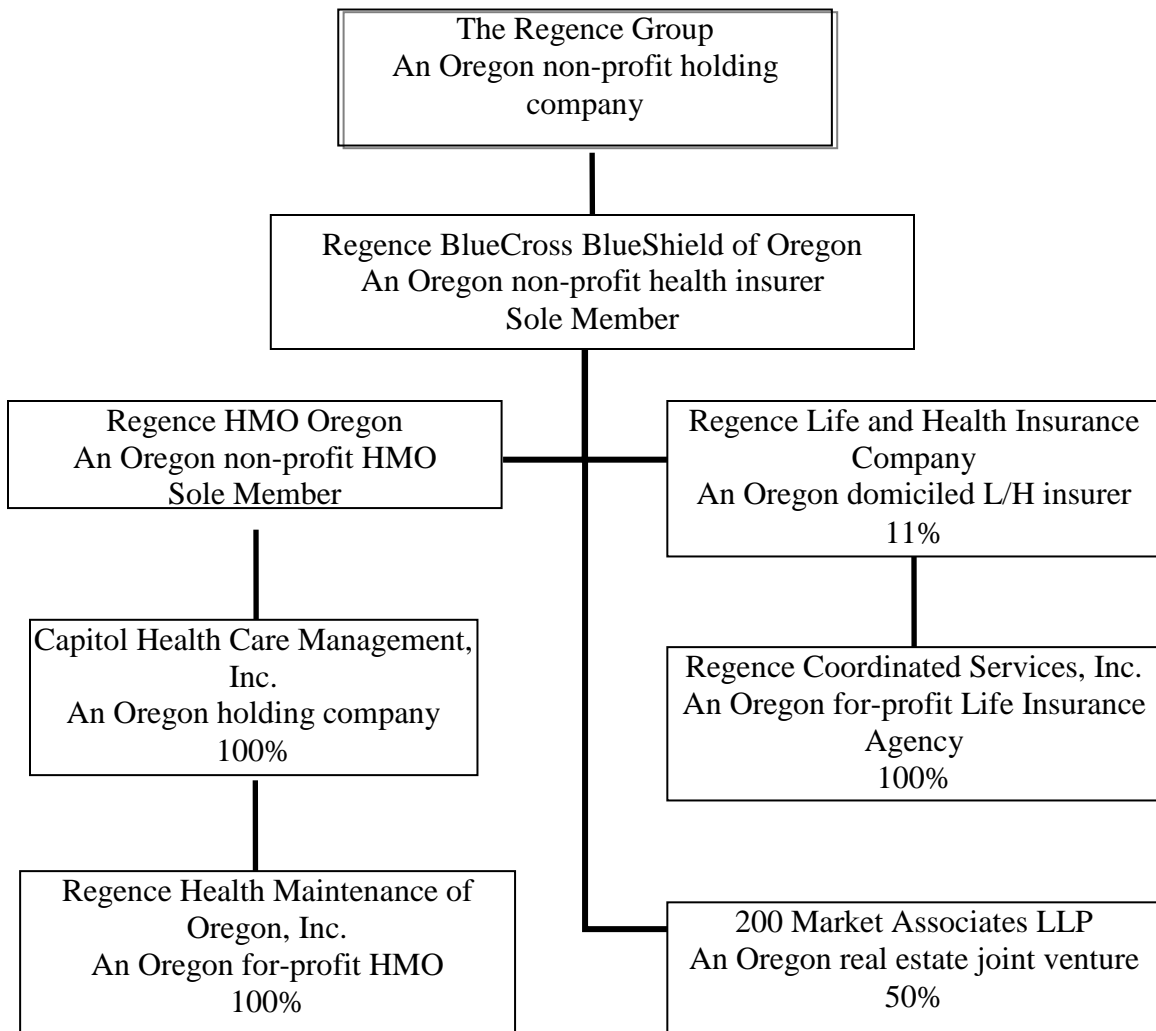
Operating management of the Company as of December 31, 2008, was under the direction of the following principal officers:

<u>Officer</u>	<u>Office</u>
John C. Fick	President
Daniel J. Mallea	Treasurer
Michael T. Mudrow	Secretary
Mohandas Nair	Chairman
Janae T. Sorenson	Vice President – Marketing
Toni P. Ostrom	Vice President – Operations

Subsequent to the examination date, Ms. Sorenson was promoted to President, and Joseph J. Wilds replaced Mr. Nair as Chairman.

Affiliated Companies

The Company is part of a holding company system in which TRG is the ultimate parent. TRG is a nonprofit Oregon Corporation governed by an 11-member board of directors and is the sole member of Regence BlueCross BlueShield of Oregon, Regence BlueShield (RBS), and Regence BlueCross BlueShield of Utah (RBCBSU). In addition, TRG manages the operations of Regence BlueShield of Idaho (RBSI) under the terms of a long-term management services agreement. The following organization chart depicts the relationship of Oregon affiliates within the Regence group.



The following is a description of the parent, affiliates and subsidiaries:

Regence BlueCross BlueShield of Oregon (RBCBSO) is authorized to conduct business as a health care service contractor in the states of Oregon and Washington. Also, RBCBSO is licensed as a foreign corporation by the Secretary of State of Idaho. The company operates as a Blue Cross and Blue Shield plan subject to operational and performance standards established by the national Blue Cross and Blue Shield Association. RBCBSO owns 11% of the outstanding shares of common stock of the Company.

Regence HMO Oregon (RHO) is a non-profit Oregon health care service contractor federally qualified as a health maintenance organization. RHO is the immediate parent of Capitol Health Care Management, Inc. RHO ceased writing business in 2005.

Capitol Health Care Management, Inc. (CHCM) is an Oregon for-profit business corporation which functions as a down stream holding company to own all the stock of RHO subsidiaries and to consolidate the income tax results of the for-profit subsidiaries of RHO. CHCM owns 100% of the Company's common stock, and would be considered the direct parent.

Regence Health Maintenance of Oregon, Inc. (RHMO) is a for profit Oregon health care service contractor federally qualified as a health maintenance organization. RHO is the immediate parent of Capitol Health Care Management, Inc. RHO ceased writing business in 2005.

Regence Coordinated Services, Inc. (RCS), is a for-profit life and health insurance agency owned by RLH, and formed by the four TRG regional plans, which merged four regional insurance agency subsidiaries into RCS. In consideration of this transaction, each of the affiliated plans received shares of RLH stock (RBS – 75%, RBCBSU – 12%, RBCBSO – 11%, and RBSI – 2%).

200 Market Associates LP is a limited partnership formed by RBCBSO and Russell Development Company, each with a 50% ownership, to own and operate an office building located at 200 SW Market Street, Portland, Oregon.

INTERCOMPANY AGREEMENTS

Regence Administrative Services Agreement

Effective December 28, 2007, TRG entered into a cost-sharing agreement with each of the Regence plans in Oregon, Utah and Washington, including their subsidiary companies. Under the terms of the agreement, TRG will provide all operational, administrative, and management services reasonably necessary to transact business. These services include managerial, legal, financial, actuarial, underwriting, accounting, human resources, billing, membership, claims adjudication, customer service, reporting, regulatory compliance, and all applicable technical, clerical and communication support, as well as all necessary equipment, materials, office space and general supplies. Reimbursement will be made using a cost allocation method describe in the contract, and it is the intent that TRG receive full compensation for the cost of its services and general overhead and taxes, and that no profit be derived from the agreement. This complies with the provisions of ORS 732.215. Reconciliations will be performed monthly, and settlement of expenses shall be made 90 days after the month end. The agreement will automatically renew each year, unless cancelled by any party upon 30 days written notice. The Insurance Division approved the agreement on February 13, 2008 in accordance with ORS 732.574(2)(d).

Management Agreement with RCBBSO

Effective January 1, 1999, the Company entered into an agreement with RCBBSO to have RCBBSO perform the following services: marketing; legal, personnel services; underwriting/actuarial services; investments; accounting, cash control and payroll; data processing; accounts payable; reprographics; mail services; office space, furnishing and equipment; grievances and appeals/utilization reviews; claims adjudication; and other services. Each month, the Company agrees to pay an amount equal to the total incurred

expenses to RCBBSO. The agreement renews automatically each January 1, unless terminated by either party with written notice at least 30 days before renewal.

Consolidated Federal Income Tax Agreement

Effective January 1, 1997, and signed on December 20, 2000, the Company became party to a tax allocation agreement with TRG. Under the terms of the agreement, TRG and each of its taxable subsidiaries owned 90% or more, directly or indirectly, will calculate their federal tax liability on a stand-alone basis, including any liability for alternative minimum tax. TRG shall pay each member with tax credits or tax losses equal to its share of amounts allocated to other members. Payments of estimated installments shall be due within 30 days of notice, and final settlements are due within 30 days of filing the consolidated tax return. The allocation method and terms of this agreement appear fair and reasonable.

CONFLICT OF INTEREST

The Company's Code of Business Conduct provides for conflict of interest disclosure in the form of a questionnaire that is completed annually by the Company's Board of Directors, officers, and employees. All personnel performed due diligence in completing the questionnaire. From a review of the questionnaires of board members and senior management, there were no material conflicts of interest reported.

FIDELITY BOND AND OTHER INSURANCE

A review of the adequacy of limits, retentions, and the solvency of the insurers providing the insurance was considered during the examination of the Company's insurance coverage. TRG purchased insurance covering itself and all its subsidiaries. A fidelity bond covered losses up to \$15,000,000 per occurrence, net of a \$50,000 deductible, caused by employees' dishonesty and fraud. This coverage exceeded the minimum coverage recommended by the NAIC *Financial Condition Examiners Handbook*. Executive liability risks and D&O risks

are covered up to \$50,000,000 per loss occurrence net of a \$250,000 deductible. Other insurance coverages in force at December 31, 2008, included property, commercial general and excess liability, automobile liability, umbrella liability, fiduciary liability, computer crime liability, and workers' compensation. All insurance limits and deductibles appeared adequate as of December 31, 2008.

PENSION PLANS AND OTHER EMPLOYEE BENEFITS

The Company does not have its own employees, but does contribute to the pension and other employee benefits assessed for employees performing work for it.

Employee Retirement Plan

The Company participates in a defined-benefit pension plan sponsored by TRG that covers substantially all regular employees having one or more years of service. Benefits are based upon years of service and the employee's final average compensation. The Company also participates in a supplemental executive retirement plan sponsored by TRG to cover key employees meeting specific eligibility requirements. The Company's practice is to reimburse TRG for employee retirement plan obligations and to record such amounts as employment related expenses. The Company has no legal obligation for benefits under these plans; the obligation is carried by TRG. As sponsor of the plan, however, TRG is legally required to fund the plans regardless of amounts paid to TRG by the Company. The Company's share of net expenses for the retirement plans was \$258,328 and \$417,320 in 2008 and 2007, respectively.

Effective December 31, 2009, the defined-benefit pension plan was frozen. Subsequent to the freeze date, there will be no new participants enrolled in the plan, and no pension benefits will be earned after that date. Benefits-eligible employees who have not yet met plan

eligibility criteria were immediately eligible, and non-vested plan participants became fully vested.

Employee 401(k) Savings Plan

The Company participates in an employee savings plan sponsored by TRG in which the Company will match employee contributions up to 50% of the first 6% of salary for each pay period in which the employee makes a contribution. Beginning January 1, 2010, this employee match will increase up to 100% of the first 6% of salary for each pay period in which the employee makes a contribution. In addition, a discretionary contribution of up to 5% of eligible earnings for eligible employees will be added, subject to annual review and board approval. Expense is allocated to the Company based on the portion of the employees' functional activities that relate to the Company. The Company has no legal obligation for benefits under this plan; the obligation is carried by TRG. The Company contributed \$122,909 and \$118,615 for 2008 and 2007, respectively.

Post-retirement Benefits Plan

The Company participates in a post-retirement health and welfare plan sponsored by TRG for retired employees, subject to certain eligibility rules based on age and years of service at retirement date. Employees hired after January 1, 2004, are not eligible for benefits. Expenses are allocated to the Company monthly, based on relative employee count. The Company has no legal obligation for benefits under this plan; the obligation is carried by TRG. As sponsor of the plan, however, TRG is legally required to fund the plan regardless of amounts paid to TRG by the Company. The Company's share of net expenses for the postretirement benefit was \$24,563 and \$22,813 for 2008 and 2007, respectively.

Coverage for eligible participants who retire on or after January 2, 2010, will terminate the date the participant or beneficiary attains Medicare eligibility on the basis of age or disability, regardless of whether the participant or beneficiary becomes entitled to Medicare.

Eligible participants who retire on or after January 2, 2010, and already are eligible for Medicare on the basis of age or disability will not be eligible to enroll in the plan. Retirees must be enrolled as a participant in the active employee health and welfare plan immediately prior to retirement in order to be eligible to enroll in the plan, except for those individuals retiring between October 1, 2009 and January 1, 2010.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to sell life and health insurance in Alaska, Idaho, Montana, Oregon, Utah, Washington, and Wyoming. About 49% of life and 65% of accident & health direct written premiums are produced in Oregon. The Company sells group term life, supplemental life, short-term and long-term disability, AD&D, waiver of premium, and group and individual accident & health insurances through independent agents.

GROWTH OF THE COMPANY

Growth of the Company over the past five years is reflected in the following schedule. Amounts were derived from Company's filed annual statements, except in those years where a report of examination was published by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2004	\$61,488,619	\$31,782,868	\$29,705,751	\$3,326,412
2005 *	60,305,359	29,803,874	30,501,485	2,572,590
2006	83,981,647	49,862,059	34,119,588	2,865,284
2007	84,936,951	47,125,924	37,811,027	4,419,594
2008 *	81,578,695	44,030,618	37,548,077	802,509

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual accident and health (A&H) underwriting results of the Company over the past five years. The amounts were compiled from Schedule H of the Company's filed annual statements.

<u>Year</u>	<u>(1) Premium Earned</u>	<u>(2) Incurred Claims</u>	<u>(3) Incurred Expenses</u>	<u>(2)+(3)/(1) Ratio**</u>
2004	\$14,666,541	\$ 6,587,147	\$6,237,456	87.4%
2005 *	15,274,397	6,586,198	6,065,818	82.8%
2006	16,606,980	8,283,881	6,732,983	90.4%
2007	19,111,028	10,139,684	7,896,475	94.4%
2008 *	14,024,662	11,855,305	8,456,564	144.8%

*Per examination

A combined claims and expense to premium ratio in excess of 100% typically indicates an underwriting loss.

REINSURANCE

Assumed

Under a 100% coinsurance agreement with RBCBSO signed on December 30, 1996, the Company assumes 100% of individual accidental death and dismemberment insurance premiums written by RBCBSO. Total amounts assumed were \$1.3 million out of total \$143.1 million total net premium written during 2008.

Ceded

Under the terms of a 100% quota share agreement described above, RBCBSO assumes all of the premiums and liabilities for the Company's individual and group health policies. During 2008, the Company ceded approximately \$68.7 million of premiums to RBCBSO under this agreement.

The Company is reinsured for long-term disability (LTD) losses through a coinsurance agreement that provides for automatic cessions of risks in excess of the Company's retention.

Under the terms of the agreement, the Company retains 10% of the risk and cedes the remaining 90%. The Company also reinsures LTD benefits through a facultative agreement in which it may cede 100% of its liability.

The Company's group life and AD&D policies are reinsured through an excess of loss agreement with Hartford Life & Accident Insurance Company effective January 1, 2001. Under the terms of this agreement, the Company is covered for \$1,850,000 of losses per person in excess of \$150,000 for group term life business. For AD&D, the Company is reinsured for \$1,900,000 of losses per person in excess of \$100,000. In addition, the Company is covered by a coinsurance agreement in which it cedes 20% of the risk on voluntary AD&D business with a retained limit of \$100,000 per person. Under this agreement the reinsurer assumes 80% of the risk not to exceed \$400,000 per person. Effective June 1, 2008, an excess of loss agreement with Generali USA Life was entered into to reinsure group life, AD&D, and voluntary AD&D under the same terms and conditions.

The Company was insured for catastrophic excess of loss effective January 1, 2000, with Hartford Life & Accident Insurance Company, covering group life and AD&D. The agreement defines a catastrophic accident as three or more lives involved in a common accident. The agreement provides for a maximum reimbursement of \$20,000,000 after a \$300,000 deductible.

Unauthorized Reinsurance

The Company reported it ceded business to Sirius International Insurance Corp., Stockholm, Sweden, in a contract effective February 1, 2006. The Company reported this on Schedule S – Part 3 as authorized reinsurance. Sirius International Insurance Corp. does not have a certificate of authority in the State of Oregon, nor is it listed as an authorized reinsurer. There were no reserve credits taken on this business, so no adjustment to the financial

statements would be required. **I recommend the Company report reinsurance with Sirius International Insurance Corporation as unauthorized reinsurance on Schedule S, in accordance with the Annual Statement Instructions for Life manual and ORS 731.509.**

All the above reinsurance agreements contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded. In addition, the Company does not retain risk on any one subject of insurance in an amount exceeding 10% of its surplus pursuant to the provisions of ORS 731.504.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2008, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. From a review of the Company's disaster recovery plan, it was determined that the current information system possessed the physical and internal controls as prescribed by the NAIC.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has taken corrective action with respect to the four recommendations made in the 2005 report of examination. A follow-up report was prepared on July 14, 2008.

FINANCIAL STATEMENTS

The following examination financial statements show the financial conditions of Regence Life and Health Insurance Company as of December 31, 2008:

- Statement of Assets
- Statement of Liabilities, Surplus, and Other Funds
- Summary of Operations
- Reconciliation of Capital and Surplus Since the last Examination

REGENCE LIFE AND HEALTH INSURANCE COMPANY
STATEMENT OF ASSETS
As of December 31, 2008

Assets	Balance per Company	Examination Adjustment	Balance per Exam	Note
Bonds	\$ 48,718,028	\$ -	\$ 48,718,028	1
Stocks				
Common stocks	10,464,600	-	10,464,600	1
Cash, cash equivalents and short-term investments	5,943,709	-	5,943,709	1
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	<u>\$ 65,126,337</u>	<u>\$ -</u>	<u>\$ 65,126,337</u>	
Investment income due and accrued	494,133	-	494,133	
Premiums and considerations:				
Uncollected premiums and agent's balances in the course of collection	5,729,976	-	5,729,976	
Reinsurance				
Amounts recoverable from reinsurers	7,516,802	-	7,516,802	
Funds held by or deposited with reinsured companies	261,870	-	261,870	
Other amounts receivable under reinsurance contracts	335,196	-	335,196	
Amounts receivable relating to uninsured plans	730,730	-	730,730	
Net deferred tax asset	985,160	-	985,160	
Health care and other amounts receivable	287,125	-	287,125	
Aggregate write-ins for other than invested assets	111,366	-	111,366	
Total Assets	<u><u>\$ 81,578,695</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 81,578,695</u></u>	

REGENCE LIFE AND HEALTH INSURANCE COMPANY
STATEMENT OF LIABILITIES, SURPLUS, AND OTHER FUNDS
As of December 31, 2008

Liabilities, Capital and Surplus	Balance per Company	Examination Adjustment	Balance per Exam	Note
Aggregate reserve for life contracts	\$ 10,140,287	\$ -	\$ 10,140,287	2
Aggregate reserve for a&h contracts	3,137,339	-	3,137,339	2
Liability for deposit-type contracts	289,671	-	289,671	2
Contract claims for life	4,338,729	-	4,338,729	2
Contract claims for a&h	3,549,088	-	3,549,088	2
Premiums and annuity considerations	677,906	-	677,906	
Contract liabilities not included elsewhere:				
Provision for experience rating refunds	1,904,331	-	1,904,331	
Other amount payable on reinsurance	4,348,567	-	4,348,567	
Interest maintenance reserve	35,232	-	35,232	
Commissions to agents due or accrued	248,872	-	248,872	
General expenses due or accrued	913,908	-	913,908	
Taxes, licenses and fees due or accrued	78,041	-	78,041	
Current FIT	1,923,599	-	1,923,599	
Amounts withheld or retained by company	14,110	-	14,110	
Remittances and items not allocated	84,917	-	84,917	
Miscellaneous liabilities:				
Asset valuation reserve	1,534,458	-	1,534,458	
Payable to parent, subsidiaries and affiliates	1,431,839	-	1,431,839	
Liability for amounts held under uninsured plans	4,905,895	-	4,905,895	
Payable for securities	67,530	-	67,530	
Aggregate write-ins for other liabilities	4,406,299	-	4,406,299	
Total Liabilities	\$ 44,030,618	\$ -	\$ 44,030,618	
Common capital stock	1,767,900	-	1,767,900	
Gross paid in and contributed surplus	6,563,088	-	6,563,088	
Surplus notes	-	-	-	
Aggregate write-ins for other than special surplus funds	-	-	-	
Unassigned funds (surplus)	29,217,089	-	29,217,089	
Total capital and surplus	37,548,077	-	37,548,077	
Total liabilities, capital and surplus	\$ 81,578,695	\$ -	\$ 81,578,695	

REGENCE LIFE AND HEALTH INSURANCE COMPANY
SUMMARY OF OPERATIONS
For the Year Ended December 31, 2008

	Balance per Company	Examination Adjustments	Balance per Exam	Note
Premiums and annuity considerations for life and accident and health contracts	\$ 44,688,184	\$ -	\$ 44,688,184	
Net Investment income	2,900,411	-	2,900,411	
Amortization of interest maintenance reserve	(1,796)	-	(1,796)	
Commissions and expense allowances on reinsurance ceded	234,211	-	234,211	
Aggregate write-ins for miscellaneous income	186,496	-	186,496	
Total	\$ 48,007,506	\$ -	\$ 48,007,506	
Death Benefits	14,301,918	-	14,301,918	
Disability benefits and benefits under accident and health contracts	11,642,776	-	11,642,776	
Interest and adjustments on contracts or deposit-type contract funds	185,943	-	185,943	
Increase in aggregate reserves for life and accident and health contracts	760,766	-	760,766	
Total	\$ 26,891,403	\$ -	\$ 26,891,403	
Commissions on premiums, annuity considerations, and deposit-type contract funds	3,866,816	-	3,866,816	
General insurance expenses	10,521,000	-	10,521,000	
Insurance taxes, licenses and fees, excluding federal income taxes	1,187,391	-	1,187,391	
Aggregate write-ins for deductions	-	-	-	
Total	42,466,610	-	42,466,610	
Net gain from operations before dividends to policyholders and federal income taxes	\$ 5,540,896	\$ -	\$ 5,540,896	
Less: Dividends to policyholders	-	-	-	
Less: Federal and foreign income taxes incurred	2,797,141	-	2,797,141	
Net realized capital gains and (losses) less capital gains tax	(1,941,246)	-	(1,941,246)	
Net Income	\$ 802,509	\$ -	\$ 802,509	

REGENCE LIFE AND HEALTH INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS SINCE THE LAST
EXAMINATION
For the Year Ended December 31

	2008	2007	2006
Capital and surplus, December 31, previous year	\$ 37,811,027	\$ 34,119,588	\$ 30,501,485
Net income	802,509	4,419,594	2,865,284
Change in net unrealized capital gains (losses)	(1,978,637)	70,330	1,161,852
Change in net unrealized foreign exchange capital gain or (loss)	-	-	-
Change in net deferred income tax	1,156,699	(671,253)	370,355
Change in nonadmitted assets	(1,933,228)	(211,679)	626,359
Change in unauthorized reinsurance	-	-	-
Change in asset valuation reserve	1,689,707	84,447	(1,405,747)
Cumulative effects of changes in accounting principles	-	-	-
Capital changes:	-	-	-
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:	-	-	-
Paid in	-	-	-
Transferred to capital (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Dividends to stockholders (cash)	-	-	-
Examination adjustment	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-
Change in surplus as regards policyholders for the year	<u>(262,950)</u>	<u>3,691,439</u>	<u>3,618,103</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 37,548,077</u>	<u>\$ 37,811,027</u>	<u>\$ 34,119,588</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2008, most of the Company's long-term bond investments were in US government obligations, US agency bonds, municipals, public utilities and industrial bonds. The Company did have an exposure to mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated at year-end 2007, but the book carrying value of \$22.3 million comprised over 45% of the total long-term bond portfolio. An additional \$7.3 million was invested in banks and financial institutions. Cash and short-term deposits consisted of cash on deposit and three short-term money market funds. A comparison of the investments over the past five years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common</u> <u>Stock</u>	<u>C</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total Assets</u>
2004	34,613,105	11,735,878	4,688,772	56.3%	19.1%	7.6%
2005 *	39,033,798	10,778,485	(153,438)	64.7%	17.9%	(0.3)%
2006	42,486,178	14,670,274	10,631,777	50.6%	17.5%	12.7%
2007	49,502,510	12,839,392	10,263,180	58.3%	15.1%	12.1%
2008 *	48,718,028	10,464,600	5,943,709	59.7%	12.8%	7.3%

*Per examination

The minutes indicated that the Board reviews and approves investments in accordance with the provisions of ORS 733.730 and ORS 733.740. As of December 31, 2008 invested assets with a reported book value of \$7,915,766, representing 12% of the total invested assets, were invested in amply secured obligations of the United States or FDIC insured cash deposits, which exceeded the required capitalization amount required by ORS 733.580.

Effective December 29, 2005, the Company entered into an amended and restated custodial agreement with Mellon Bank, NA. The agreement appears to contain all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – Analysis of Claim Liability

Scott L. Fitzpatrick, FSA, MAAA, life and health actuary for the Oregon Insurance Division, reviewed the loss and loss adjustment expenses in the Company's filed financial statements as of December 31, 2008. The purpose of his review was to determine, in general, if the Company's liabilities were reasonably stated. In his opinion, he concluded:

I have reviewed the actuarial liabilities for the Company as done by Mark R. Yoest, FSA, MAAA, of Deloitte Consulting, LLP, of Chicago, IL for 12/31/2008. I have also reviewed other documentation, spreadsheets, and verbal information provided by the company, our examiners, and Mr. Thoen. I have performed independent calculations for the actuarial liability at 12/31/2008. Estimates for the company's liabilities are as follows:

	My Estimate	Annual Statement
Exhibit 5: Aggregate Reserves for Life Policies and Contracts	\$10,140,287	\$10,140,287
Exhibit 6: Aggregate Reserve for Accident and Health Policies	3,137,339	3,137,339
Exhibit 7: Aggregate Reserve for Deposit Type Contracts	289,671	289,671
Exhibit 8, Part 1: Policy and Contract Claims		
Due and Unpaid	50,000	50,000
In Course of Settlement	924,267	924,267
Incurred But Not Reported	6,913,550	6,913,550

My total estimate for actuarial liabilities equaled that of the company's estimate. Therefore, the statement of the actuarial liabilities at year-end for the annual statement was appropriate and adequate.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There was one comment or recommendation made as a result of this examination, as follows:

Page

- 20 I recommend the Company report reinsurance with Sirius International Insurance Corporation as unauthorized reinsurance on Schedule S, in accordance with the Annual Statement Instructions for Life manual and ORS 731.509.

CONCLUSION

During the period covered by this examination, the capital and surplus of the Company has increased from \$30,501,485 as presented in the December 31, 2005, report of examination to \$37,548,077 as shown in this report of examination. The comparative assets and liabilities are shown below:

	<u>2008</u>	<u>December 31,</u>	<u>2005</u>	<u>Change</u>
Assets	\$81,578,695		\$60,305,359	\$21,273,336
Liabilities	<u>44,030,618</u>		<u>29,803,874</u>	<u>14,226,744</u>
Surplus	<u>\$37,548,077</u>		<u>\$30,501,485</u>	<u>\$ 7,046,592</u>

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Raymond W. Anderson, CFE, Mark A. Giffin, CFE, and Ellen Quale, CPA, AFE, insurance examiners, and Scott Fitzpatrick, FSA, MAAA, Life and Health Actuary, for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination. David L. Daulton, CFE, of the firm Huff, Thomas and Company, and Aaron Phillips, examiner for the Utah Department of Insurance, also participated in this examination, both representing the State of Utah.

Respectfully submitted,

Greg A. Lathrop, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Greg A. Lathrop, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Regence Life and Health Insurance Company.

2. The Insurance Division of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report, and the examination of Regence Life and Health Insurance Company was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Greg A. Lathrop, CFE
Supervising Financial Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this _____ day of _____, 2010.

Notary Public for the State of Oregon

My Commission Expires: _____