

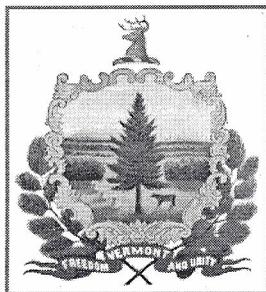
Report of the Statutory Examination  
As of December 31, 2007

of

**The Vermont Life & Health Insurance Guaranty  
Association**

By the:

Vermont Department of Banking, Insurance, Securities  
and Health Care Administration  
Division of Insurance



The attached report of examination made of the condition and affairs as of December 31, 2007 of:

**The Vermont Life & Health Insurance Guaranty Association**

Montpelier, VT

was recently completed by duly qualified examiners of the State of Vermont, Department of Banking, Insurance, Securities and Health Care Administration.

Due consideration has been given to the comments of the examiners regarding the operations of The Vermont Life & Health Insurance Guaranty Association and their financial condition, as reflected in this report. This report is hereby, as of this date, approved, adopted, filed and made an official record of this Department.

IN WITNESS WHEREOF, I have hereunto set my hand, and affixed the official seal of this Department at the City of Montpelier this 10<sup>th</sup> day of September, 2008.



  
\_\_\_\_\_  
Michael Bertrand  
Acting Commissioner

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July 29, 2008

Honorable Paulette J. Thabault  
Commissioner of Banking, Insurance, Securities  
and Health Care Administration  
State of Vermont  
89 Main Street  
Montpelier, VT 05620-3101

**Salutation**

Dear Commissioner:

In accordance with your instructions and pursuant to the provisions of the Vermont Insurance Code, an examination has been conducted for the year ended December 31, 2007 of:

**The Vermont Life & Health Insurance Guaranty Association**

One National Life Drive  
Montpelier, VT 05604

Such report of examination is herewith respectfully submitted.

**The Vermont Life & Health Insurance Guaranty Association**  
**As of December 31, 2007**

**Scope of the Examination**

Purpose

This is the first examination of The Vermont Life & Health Insurance Guaranty Association (hereinafter referred to as “the Association”) conducted by the Insurance Division of The Vermont Department of Banking, Insurance, Securities, and Health Care Administration (hereinafter referred to as “the Department”). This examination covered the period January 1, 2007 through December 31, 2007. As necessary, the examination team reviewed transactions occurring subsequent to December 31, 2007, but prior to the date of this report.

The scope of the examination includes a verification of assets and liabilities as of December 31, 2007, a determination of whether the Association is in compliance with applicable Vermont Statute and its Plan of Operations, and a review of the current insolvencies. We have included the December 31, 2007 financial statements in this report of examination.

Reliance on Outside Entities

Pursuant to Vermont Regulations, the Association requested the independent accounting firm of Fothergill, Segale & Valley (the “CPA”) to make available for review all work papers pertinent to the audit of the Association’s financial statements for the year ended December 31, 2007. Reliance was placed on work performed by the CPA in the following areas:

- Verification of cash and invested assets
- Testing of expense payments
- Testing of assessment calculation
- Testing of journal entries

The CPA issued their opinion on the Association’s financial statements on February 20, 2008.

Preparation of Report

The report is being prepared according to the “Alternate Format” as described in the NAIC Financial Condition Examiner’s Handbook. Only the items needing financial adjustment, procedural recommendations, or not conforming to the Plan of Operations approved by the Commissioner are commented upon.

**The Vermont Life & Health Insurance Guaranty Association**  
**As of December 31, 2007**

**History**

General

The purpose of this Association is to maintain public confidence in the promises of insurers by providing a mechanism for protecting policyholders, insureds, beneficiaries, annuitants, payees, and assignees of life insurance policies, health insurance policies, annuity contracts, and supplemental contracts against failure in the performance of contractual obligations due to the impairment of the insurer issuing such policies of contracts. To provide this protection:

- An association of insurers is created to enable the guaranty of payment of benefits and the continuation of coverages;
- Members of the Association are subject to assessment to provide funds to carry out the purpose of this chapter; and
- The Association is authorized to assist the Commission of Banking and Insurance, in the prescribed manner, in the detection and prevention of insurer impairments.

The Association is a not for profit entity which is administered by an independent third party and governed by a Board of Directors which is selected by member insurers and approved by the Commissioner.

**Management**

The Association's Plan of Operation was prepared to comply with Chapter 112, Title 8 Vermont Statutes Annotated. The Plan of Operations was amended during 2008 to include specific details on how the Board levies assessments. The Commissioner approved the amendment on June 11, 2008.

The Association's Plan of Operations, as amended, state the annual meeting of the Board of Director's shall be held at the Association office on the third Friday in the month of May, or such place and time as indicated by the Chairman of the Board. A majority of the Board shall constitute a quorum for the transaction of business. The purpose of the annual meeting shall be to elect Board members and to transact such other business as may properly be brought before the meeting.

The Board shall consist of not less than five nor more than nine representatives of member insurers divided into three classes as nearly equal as possible. Upon the election of the Board, or replacement of a Board member, the Association shall notify the Commissioner and request his written approval of election or replacement of the Board.

Board of Directors

At December 31, 2007 the Board of Directors as reported in the annual report were as follows:

**The Vermont Life & Health Insurance Guaranty Association  
As of December 31, 2007**

| <u>Name</u>                        | <u>Principal Business Affiliation</u>  |
|------------------------------------|--|
| Robert S. Burke, Esq.<br>Chairman  | National Life Insurance Co.<br>Senior Counsel  |
| James R. Ruegg<br>Director         | Amica Life Insurance Co.<br>Assistant Vice President                                     |
| Paul C. Latchford<br>Director      | Stonebridge Life Insurance Co.<br>Vice President, Law and Governmental Affairs           |
| David L. Kalib<br>Director         | Berkshire Life Insurance Co. of America<br>Vice President, General Counsel and Secretary |
| Robert R. Lynch<br>Director        | MetLife<br>Assistant Vice President  |
| John H. Beers<br>Director          | Phoenix Life Insurance Co.<br>Corporate Risk Manager and Secretary                       |
| Walter J. Gorski, Esq.<br>Director | Boston Mutual Life Insurance Co.<br>Vice President, General Counsel and Secretary        |

The Association also has an Executive Committee, a Nominating Committee, an Auditing Committee, and a Proxy Committee.

Officers

The Board may employ such persons, firms or corporations to perform such administrative functions as are necessary for the Board's performance of the duties imposed on the association. The officers of the Association as approved in the May 4, 2007 Board minutes consist of a Chairman (Robert S. Burke), a Treasurer (Richard N. Brockway) and a Secretary (Carla Lawrence). Robert Burke is Senior Counsel for the National Life Insurance Co. Carla Lawrence works for Actuarial Services of Central Vermont, Inc., who is contracted to provide administrative and management services for the Association. Richard Brockway is the owner of Brockway Computer Services, which is contracted to provide accounting services for the Association.

Conflict of Interest Policy

The Directors and Officers of the Association are expected to conduct business in good faith and in a manner that avoids the appearance of a conflict of interest. Beginning in 2005, the Association began obtaining completed conflict of interest statements from the appropriate

**The Vermont Life & Health Insurance Guaranty Association**  
**As of December 31, 2007**

individuals. A review of the statements confirmed that the Association was in compliance with its policy concerning conflict of interest.

Indemnification of Directors and Officers

The Plan of Operation indicates that the Association shall indemnify its Directors and Officers against any liability incurred by any of them in their capacity as such, to the full extent permitted by the laws of Vermont.

Corporate Records

The Company's main administrative offices and corporate records are located at One National Life Drive, Montpelier, Vermont. The minutes of the Board of Directors were reviewed for the period of examination.

Contracts

The Association paid Actuarial Services of Central Vermont, Inc. \$58,958 in contracted services for the year ended December 31, 2007. Of this amount, \$498 was allocated to insolvencies. Actuarial Services provides administrative and secretarial services for the Association. The Association entered into an agreement with Actuarial Services of Central Vermont, Inc. for support services for the following: June 1, 2007 - May 31, 2008 at a cost of \$60,000

The Association paid Richard N. Brockway, Treasurer for Vermont Life and Health Insurance Guaranty Association, \$14,150 in contracted services for the year ended December 31, 2007. Mr. Brockway is an independent contractor doing business as Brockway Computer Services, which provides accounting and treasury support services to the Association. Vermont Life and Health Insurance Guaranty Association entered into an agreement with Brockway Computer Services for accounting and Treasury Support services for the following: June 1, 2007 - May 31, 2008 at a cost of \$14,400.

The Association rents office space from National Life Insurance Company of Vermont. The lease was recently extended through March of 2011 and includes furniture. As part of the agreement, National Life is providing free office rent for the period April 1, 2008 – March 31, 2009 as a result of incorrect rent charges in prior years. The rent increases to \$3,239 for the period April 1, 2009 – March 31, 2010 and to \$3,336.21 for the period April 1, 2010 – March 31, 2011. Furniture rental charges are \$288 per year.

Assessments

On an annual basis the Association determines the capital necessary to fund operations and to fund individual insolvencies. Once the funding need level is determined, the Association assesses member companies to cover the anticipated expenses. All licensed companies with

**The Vermont Life & Health Insurance Guaranty Association**  
**As of December 31, 2007**

positive premiums are assessed a minimum charge of \$25. Premium info is received from National Organization of Life and Health Guaranty Associations (“NOLHGA”), who receives it from the National Association of Insurance Commissioners (“NAIC”) and is based on figures from Schedule T and the individual State pages located in the annual statement. The latest assessment approved by the Board of Directors was for 3 years of operating expenses in the amount of \$350k. The Association decided to use a 3 year assessment as a result of the high cost of the assessment process. Assessments are based on the weighted average of each licensed company’s premium in relation to the total premium for all companies.

**Business Owners and Commercial Crime Insurance**

The Association maintains a business owners policy with Union Mutual with liability coverage of \$2 million. The Association also maintains a commercial crime policy with The F&D Companies covering employee theft in the amount of \$500,000.

**Accounts and Records**

The Association accounting records are maintained on Quickbooks and the insolvency data for assessments is maintained in an access database. Each year the Company’s independent auditor, Fothergill, Segalle and Valley audits the records. An annual report is provided to the Board of Directors and to the Commissioner of BISHCA.

**Findings and Recommendations**

No items of significance were noted during the course of our examination.

**Financial Statements**

The December 31, 2007 Statement of Financial Position and the Statement of Activities are as follows:

The Vermont Life & Health Insurance Guaranty Association  
As of December 31, 2007

Vermont Life and Health Guaranty Association  
Statement of Financial Position  
December 31, 2007

ASSETS

Current Assets

|                       |    |                |
|-----------------------|----|----------------|
| Cash - Merchants Bank | \$ | 681,642        |
| Cash - Sentinel Funds |    | 10,600         |
| Accrued Interest      |    | 7,460          |
|                       |    | <u>7,460</u>   |
|                       | \$ | <u>699,702</u> |

LIABILITIES AND NET ASSETS

Liabilities

|                  |  |              |
|------------------|--|--------------|
| Accounts Payable |  | <u>5,237</u> |
|------------------|--|--------------|

Net Assets

|                                  |  |                |
|----------------------------------|--|----------------|
| Unrestricted - undesignated      |  | 273,263        |
| Unrestricted - designated        |  | <u>421,202</u> |
| Total net assets                 |  | <u>694,465</u> |
| Total liabilities and net assets |  | <u>699,702</u> |

**The Vermont Life & Health Insurance Guaranty Association**  
**As of December 31, 2007**

**Vermont Life and Health Guaranty Association**  
**Statement of Activities**  
**Year Ended 12/31/2007**

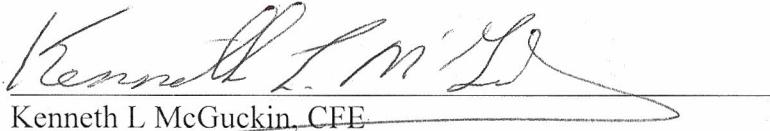
|  | Total             | Unrestricted      |                   |                  |                   |
|--|-------------------|-------------------|-------------------|------------------|-------------------|
|  |                   | Undesignated      |                   | Designated       |                   |
|  |                   | Admin             | Life              | Health           | Annuity           |
| <b>Revenues</b>  |                   |                   |                   |                  |                   |
| Insolvency estate distributions  | \$ 95             | \$ -              | \$ 35             | \$ -             | \$ 60             |
| Assessments  | 351,399           | 351,399           | 0                 | 0                | 0                 |
| Interest and dividends   | 25,821            | 25,821            | 0                 | 0                | 0                 |
| <b>Total revenues</b>  | <b>\$ 377,315</b> | <b>\$ 377,220</b> | <b>\$ 35</b>      | <b>\$ -</b>      | <b>\$ 60</b>      |
| <b>Expenses</b>  |                   |                   |                   |                  |                   |
| Insolvency expenses  | 3,416             | 0                 | 77                | 268              | 3,071             |
| National Organization of Life and Health Insurance Guaranty Associations |                   |                   |                   |                  |                   |
| Data survey  | 5,679             | 5,679             | 0                 | 0                | 0                 |
| Dues   | 28,689            | 28,689            | 0                 | 0                | 0                 |
| <b>Total NOLHGA</b>  | <b>34,368</b>     | <b>34,368</b>     | <b>0</b>          | <b>0</b>         | <b>0</b>          |
| Administrative services  |                   |                   |                   |                  |                   |
| Administrative services  | 72,610            | 72,610            | 0                 | 0                | 0                 |
| Office expenses and supplies   | 1,654             | 1,654             | 0                 | 0                | 0                 |
| Audit  | 3,625             | 3,625             | 0                 | 0                | 0                 |
| Rent and equipment rental  | 9,005             | 9,005             | 0                 | 0                | 0                 |
| Travel   | 8,880             | 8,880             | 0                 | 0                | 0                 |
| <b>Total administrative services</b>                                     | <b>95,774</b>     | <b>95,774</b>     | <b>0</b>          | <b>0</b>         | <b>0</b>          |
| <b>Total expenses</b>  | <b>133,558</b>    | <b>130,142</b>    | <b>77</b>         | <b>268</b>       | <b>3,071</b>      |
| Change in net assets   | 243,757           | 247,078           | (42)              | (268)            | (3,011)           |
| Net assets - January 1, 2007   | 450,708           | 26,185            | 168,517           | 65,120           | 190,886           |
| <b>Net assets - December 31, 2007</b>                                    | <b>\$ 694,465</b> | <b>\$ 273,263</b> | <b>\$ 168,475</b> | <b>\$ 64,852</b> | <b>\$ 187,875</b> |

The Vermont Life & Health Insurance Guaranty Association  
As of December 31, 2007

Examiner's Signature and Acknowledgement

The customary insurance examination practices and procedures as promulgated by the Insurance Laws of the State of Vermont have been followed in ascertaining the financial condition of the Vermont Life and Health Insurance Guaranty Association as of December 31, 2007. In addition to the undersigned, Dan Petterson, Administrative Insurance Examiner participated in the examination on behalf on the Vermont Department of Banking, Insurance, Securities and Health Care Administration.

Respectfully submitted,



Kenneth L McGuckin, CFE  
Director of Company Licensing and Examinations  
Vermont Department of Banking, Insurance, Securities  
and Health Care Administration

STATE OF VERMONT  
COUNTY OF WASHINGTON

Kenneth L McGuckin, CFE being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2008



Notary Public

My Commission expires \_\_\_\_\_  
Frederick M. Barrett  
Notary Public State of Vermont at Large  
My Commission Expires February 10, 2011 (date)