

STATE OF INDIANA )  
 ) SS: BEFORE THE INDIANA  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
Conseco Life Insurance Company )  
11825 North Pennsylvania Street )  
Carmel, Indiana 46032 )

Examination of Conseco Life Insurance Company

**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Douglas Webber, Acting Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Conseco Life Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Conseco Life Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

Date June 15, 2010

  
\_\_\_\_\_  
Connie Ridinger, CPA, CFE  
Chief Examiner/Deputy Commissioner

**CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 2262**

STATE OF INDIANA ) BEFORE THE INDIANA  
 ) SS:  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
Conseco Life Insurance Company )  
11825 North Pennsylvania Street )  
Carmel, Indiana 46032 )

Examination of Conseco Life Insurance Company

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Conseco Life Insurance Company (hereinafter "Company") for the time period January 1, 2004 through December 31, 2008.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on 1/15/2009.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on May 19, 2010 and was received by the Company on May 22, 2010.

On June 14, 2010 pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.
2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2008.

3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 15<sup>th</sup> day of  
June, 2009.

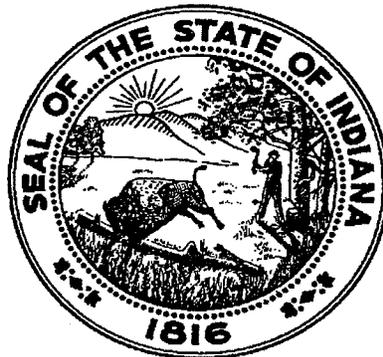
  
\_\_\_\_\_  
Douglas Webber  
Acting Insurance Commissioner

**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**

**CONSECO LIFE INSURANCE COMPANY**  
NAIC Co. CODE 65900

As of

December 31, 2008



## TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION .....	2
HISTORY.....	2
CAPITAL AND SURPLUS.....	4
TERRITORY AND PLAN OF OPERATION.....	4
GROWTH OF THE COMPANY.....	4
MANAGEMENT AND CONTROL.....	5
Directors.....	5
Officers .....	5
CONFLICT OF INTEREST.....	6
OATH OF OFFICE .....	6
CORPORATE RECORDS .....	6
Articles of Incorporation.....	6
Bylaws .....	6
Minutes .....	6
AFFILIATED COMPANIES.....	7
Organizational Structure .....	7
AFFILIATED AGREEMENTS .....	7
FIDELITY BOND AND OTHER INSURANCE.....	8
STATUTORY AND SPECIAL DEPOSITS.....	9
REINSURANCE .....	9
RESERVES .....	11
ACCOUNTS AND RECORDS .....	11
FINANCIAL STATEMENTS.....	12
Assets.....	12
Liabilities, Surplus, and Other Funds.....	13
Summary of Operations .....	14
COMMENTS ON THE FINANCIAL STATEMENTS.....	15
OTHER SIGNIFICANT ISSUES .....	15
SUBSEQUENT EVENTS.....	15
MANAGEMENT REPRESENTATION .....	16
CONCLUSION .....	17



# STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

# IDOI

**INDIANA DEPARTMENT OF INSURANCE**  
311 W. WASHINGTON STREET, SUITE 300  
INDIANAPOLIS, INDIANA 46204-2787  
TELEPHONE: (317) 232-2385  
FAX: (317) 232-5251

CAROL CUTTER, Commissioner

May 10, 2010

Honorable Alfred W. Gross  
Chair, NAIC Financial Condition (E) Committee  
Commissioner, Virginia Bureau of Insurance  
State Corporation Commission  
1300 East Main Street  
Richmond, Virginia 23218

Honorable J. Thabault  
Secretary, Northeastern Zone  
Commissioner, Vermont Insurance Division  
89 Main Street  
Montpelier, Vermont 25620

Honorable Mary Jo Hudson  
Secretary, Midwestern Zone  
Director of Insurance  
Ohio Department of Insurance  
50 West Town Street  
Third Floor, Suite 300  
Columbus, OH 43215

Honorable Christina Urias  
Secretary, Western Zone  
Director, Arizona Department of Insurance  
2910 N. 44<sup>th</sup> Street  
Phoenix, Arizona 85018

Honorable Douglas Webber  
Acting Commissioner, Indiana Department of Insurance  
311 W. Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioners and Directors:

Pursuant to the authority vested in Appointment Number 3582, an examination has been made of the affairs and financial condition of:

**Conseco Life Insurance Company**  
11825 North Pennsylvania Street  
Carmel, Indiana 46032

hereinafter referred to as "the Company", an Indiana domiciled stock life, accident & health insurance company. The examination was conducted at the Company's corporate offices in Carmel, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2008, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
(317) 232-2413

COMPANY COMPLIANCE  
(317) 233-0697

CONSUMER SERVICES  
(317) 232-2395  
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES  
(317) 232-2390

MEDICAL MALPRACTICE  
(317) 232-2402

SECURITIES / COMPANY RECORDS  
(317) 232-1991

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (IDOI) as of the period ending December 31, 2004. The present coordinated risk-focused examination as of December 31, 2008 was conducted in conjunction with the examinations of Consec Health Insurance Company (CHIC), Colonial Penn Life Insurance Company (CPL) and Senior Health Insurance Company of Pennsylvania (SHIP). The coordinated risk-focused examination was conducted by the states of Arizona, Indiana and Pennsylvania, with Indiana serving as the lead state. The coordinated risk-focused examination included a review of any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. Noble Consulting Services, Inc. (Noble) represented the IDOI in this examination.

Jeffrey Beckley, FSA, MAAA, of Actuarial Options, LLC, a consulting actuary appointed by the IDOI, conducted a review of the Company's statutory reserves as of December 31, 2008.

Additionally, Noble conducted a review of the information systems controls. Although no material findings were noted, a detailed report summarizing the findings and recommendations has been provided to management.

We conducted our coordinated risk-focused examination pursuant to and in accordance with the 2009 NAIC Financial Condition Examiners Handbook (the 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. An examination also includes 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 when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The working papers prepared by PricewaterhouseCoopers, LLP; the Company's independent auditors, in their audit of the Company's accounts for the year ended December 31, 2008 were reviewed. A portion of the auditor's working papers have been incorporated into the working papers of the examiners and have been utilized for the purposes of this examination in accordance with the provisions contained in the Handbook.

## HISTORY

The Company was incorporated under the laws of Massachusetts on January 30, 1962, as Massachusetts General Life Insurance Company, and was licensed and commenced business on May 3, 1962. Since the Company's incorporation, there have been several mergers with the Company as the surviving entity.

The following chart depicts the insurance companies that have merged with and into the Company since its incorporation:

<u>Insurance Company</u>	<u>Year of Merger</u>
Gateway Life Insurance Company (NC)	1972
Loyal Protective Life Insurance Co. (MA)	1978
Security Guaranty Life Ins. Co. (AL)	1985
Bankers Union Life Ins. Co. (CO)	1988
Chase National Life Ins. Co. (KY)	1991
Philadelphia Life Insurance Co. (PA)	1998
Lamar Life Insurance Co. (MS)	1998
United Presidential Life Insurance Company (IN)	2001

On March 30, 1990, Life Partners Group, Inc., a Delaware holding company, purchased the Company and seven other insurers from I.C.H. Corporation. As a result of this transaction, the Company became a wholly owned subsidiary of Wabash Life Insurance Company, a Kentucky domiciled insurer.

The Company became part of Conseco, Inc. (Conseco), a publicly-held specialized financial services holding company, on August 2, 1996, when Conseco acquired all of the issued and outstanding capital stock of Life Partners Group, Inc. As a result of this acquisition, the Company and its affiliates were consolidated into Conseco's operations in Carmel, Indiana.

Effective June 17, 1997, the Company redomesticated from Massachusetts to Indiana after obtaining regulatory approvals from both states. Effective November 25, 1997, the Company changed its name from Massachusetts General Life Insurance Company its name to Conseco Life Insurance Company.

On December 17, 2002, CIHC, Inc. (the Company's former indirect parent), Conseco, and certain non-insurance subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. The Company is a separate legal entity and was not included in the petitions filed by Conseco or CIHC, Inc. On September 10, 2003, upon consummation of the sixth amended plan of reorganization, Conseco and CIHC, Inc. emerged from bankruptcy.

On September 12, 2003, CIHC, Inc. was merged into CIHC Incorporated of Texas, a wholly-owned subsidiary of CDOC, Inc., which is a wholly-owned subsidiary of Conseco. Upon the merger CIHC Incorporated of Texas converted to a Texas insurance company named CIHC Life Insurance Company of Texas (CHIC Life) and was granted a certificate of authority as a Texas domiciled insurance company. Thereafter on the same date, Conseco Life Insurance Company of Texas, the Company's former indirect parent, was merged into CIHC Life. The current name, Conseco Life Insurance Company of Texas, was then adopted.

On July 23, 2008, Conseco Life Insurance Company of Texas paid an extraordinary dividend to CDOC, Inc., which included 100% of the common stock of Washington National Insurance Company (WNIC).

Currently, the Company is a wholly-owned subsidiary of WNIC, a life insurance company domiciled in the State of Illinois and an indirect wholly-owned subsidiary of Conseco.

Subsequent to the date of examination, the stockholders of Conseco approved a change in its name to CNO Financial Group, Inc. effective May 11, 2010.

## CAPITAL AND SURPLUS

As of December 31, 2008, the Company had 5,250,000 shares of authorized common stock with a par value of \$1 per share, of which 4,178,222 shares were issued and outstanding to its parent, WNIC. The Company reported capital stock totaling \$4,178,222 and gross paid-in and contributed surplus totaling \$503,369,909 as of December 31, 2008. The Company has no preferred stock outstanding.

The Company paid an ordinary dividend of \$10 million in 2006 to its parent. No extraordinary dividends were paid during the exam period.

## TERRITORY AND PLAN OF OPERATION

The Company is licensed in the District of Columbia, Guam, Puerto Rico, U.S. Virgin Islands, and all states except New York. The Company's inforce business consists mainly of universal and traditional life policies and a block of specified disease business coinsured from an affiliate, Conseco Health Insurance Company.

The Company is currently not selling any new business. New business is being sold by affiliates of the Company, including Conseco Insurance Company and Washington National Insurance Company.

## GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company as reported during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	<u>Premiums Income</u>	<u>Net Income (Loss)</u>
2008	\$4,529,498,626	\$4,367,148,722	\$162,349,904	\$312,341,954	(\$68,199,302)
2007	4,256,094,683	4,107,935,125	148,159,558	318,796,012	(54,328,946)
2006	3,983,168,849	3,822,276,339	160,892,510	350,282,714	(157,060,864)
2005	3,935,634,718	3,672,411,966	263,222,752	375,489,272	46,807,275

The increases in assets from 2006 to 2008 are primarily due to the Company's participation in funding agreements with the Federal Home Loan Bank of Indianapolis and the assignment agreement with Senior Health Insurance Company of Pennsylvania (SHIP). The assignment agreement was effective October 1, 2008, and involved the transfer of SHIP's non-long-term care business, representing a transfer of assets and liabilities to the Company totaling \$302.2 million.

The decrease in profitability for 2006 and 2007 is mainly the result of reserve strengthening for litigation and the decrease in 2008 is mainly due to realized capital losses of \$40.9 million on the Company's investment portfolio.

## MANAGEMENT AND CONTROL

### Directors

The Company's Bylaws state that the Board of Directors shall not be less than five (5) nor more than nine (9). The shareholders elect the Board of Directors annually. The following is a list of persons serving as Directors at December 31, 2008:

<u>Name and Address</u>	<u>Principal Occupation</u>
Thomas D. Barta Eden Prairie, MN	Senior VP, Financial Planning and Analysis Conseco Services, LLC
Steven M. Stecher Carmel, IN	President Conseco Services, LLC
Edward J. Bonach Carmel, IN	Executive VP, Chief Financial Officer Conseco Services, LLC
Christopher J. Nickele Arlington Heights, IL	Executive VP, Product Management Conseco Services, LLC
Timothy J. Tongson Carmel, IN	Senior VP, Corporate Actuary Conseco Services, LLC

### Officers

The Company's Bylaws state that the principal officers of the Company are chosen by the Board of Directors and consist of a President, one or more Vice Presidents, a Treasurer and a Secretary. The Board may also elect a Chairman of the Board of Directors and an Executive Vice President or other officers as the business of the Corporation may require. The Board of Directors may also create the offices of one or more Assistant Treasurers and Assistant Secretaries. The following is a list of officers and their respective titles as of December 31, 2008:

<u>Name</u>	<u>Office</u>
Steven M. Stecher	President
Todd M. Hacker	Treasurer
Michael W. Farley	Actuary
Karl W. Kindig	Secretary
Russell M. Bostick	Executive Vice President
Matthew J. Zimpfer	Executive Vice President
Eric R. Johnson	Executive Vice President
Thomas D. Barta	Senior Vice President
W. Mark Johnson	Senior Vice President
James M. Crafton	Vice President

## CONFLICT OF INTEREST

Conseco's Internal Audit Department performs annual Conflict of Interest polling for all Conseco companies and locations. This requires all employees to complete the Conflict of Interest questionnaire and Certificate of Compliance and Disclosure, which are reviewed and approved by the Legal Department on an annual basis. Statements for all the Company's officers and Directors at the examination date were reviewed without exception.

## OATH OF OFFICE

Conseco maintains a Code of Business Conduct and Ethics for Directors, officers, and associates (the Code), which establishes ethical and legal standards of conduct for the Company and its Affiliated Organizations. The Code addresses conflicts of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of Company assets, compliance with laws, rules, and regulations, and procedures for reporting any illegal or unethical behavior. A signed Oath of Office for each Director of the Company serving in 2008 was reviewed without exception.

## CORPORATE RECORDS

### Articles of Incorporation

No amendments were made to the Articles of Incorporation during the examination period.

### Bylaws

No amendments were made to the Bylaws during the examination period.

### Minutes

The Board of Directors and Shareholder meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted. It was also noted that the annual meetings and other regular Board meetings were held in accordance with the Company's Bylaws.

## AFFILIATED COMPANIES

### Organizational Structure

The following chart depicts the Company and its upstream holding companies and affiliated insurance companies:

<u>Name of Company</u>	<u>NAIC Code</u>	<u>Domiciliary State</u>
CNO Financial Group, Inc.		DE
CDOC, Inc.		DE
Washington National Insurance Company	70319	IL
Conseco Insurance Company	60682	IL
<b>Conseco Life Insurance Company</b>	<b>65900</b>	<b>IN</b>
Conseco Health Insurance Company	78174	AZ
Conseco Life Insurance Company of Texas	11804	TX
Bankers Conseco Life Insurance Company	68560	NY
Colonial Penn Life Insurance Company	62065	PA
Bankers Life and Casualty Company	61263	IL

## AFFILIATED AGREEMENTS

The following affiliated agreements and transactions were disclosed as part of the Form B - Holding Company Registration Statement and were filed with and not disapproved by the IDOI as required, in accordance with IC 27-1-23-4.

### Investment Advisory Agreement

The Company maintains an Investment Advisory Agreement with 40/86 Advisors, Inc. (48/86 Advisors), which became effective August 2, 1996, whereby 40/86 Advisors manages most, but not all, of the investments made by the Company pursuant to the Company's investment policy and objectives. The agreement states that 40/86 Advisors will direct purchase, retain, and dispose of the invested assets for a quarterly fee of 0.05% of Total Market Value of said assets. 40/86 Advisors also provides all investment accounting services, for a quarterly fee equal to the lesser of 0.0125% of the Total Market Value of the Company's invested assets or all direct and directly allocable expenses for the investment accounting services, plus a charge for overhead. The Company incurred expenses of \$6,616,053 for these services in 2008.

### Insurance Services Agreement

The Company maintains an Insurance Services Agreement with Conseco Services, LLC (Conseco Services) which became effective January 1, 1997. Within this agreement, Conseco Services agrees to provide accounting, treasury, tax, and auditing; investment accounting; underwriting; claims; marketing; advertising and sales; data processing and functional support. An amendment made to the agreement states that the Company will reimburse Conseco Services for any facilities provided by them. The

Company incurred expenses of \$49,221,368 for these services in 2008.

Loan Servicing Agreement

The Company maintains a Loan Servicing Agreement with 40/86 Mortgage Capital, Inc. (40/86 Mortgage Capital) which became effective August 2, 1996 and was amended January 1, 2006. 40/86 Mortgage Capital provides origination, underwriting, and servicing for the Company's mortgage loans according to guidelines established by the Company. Pursuant to the agreement, the Company pays 40/86 Mortgage Capital a servicing fee equal to the beginning unpaid principle balance of each loan as of the payment date multiplied by .002/12. The payments are remitted on a monthly basis along with a trial balance, list of delinquent accounts, and reconciliation of remittance. The Company incurred expenses of \$809,507 for these services in 2008.

Consolidated Federal Income Tax Agreement

The Company is party to an Amended and Restated Consolidated Federal Income Tax Agreement with CNO Financial Group, Inc., formerly known as Conseco, Inc., effective January 1, 2003 and as amended January 1, 2004. This agreement states that the calculation of the Members' Tax Liability shall be determined on a separate company basis as if it had filed a state or federal income tax return separately although it is a consolidated return. Tax sharing receipts and disbursements under this agreement are received or paid to Conseco Life Insurance Company of Texas. The Company received \$13,857,763 in federal income taxes recoverable pursuant to the agreement and paid \$47,697 in state income taxes to Conseco Life Insurance Company of Texas in 2008.

**FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by National Union Fire Insurance Company. The bond has a single loss limit liability of \$10,000,000. The Company has an excess bond in the amount of \$10,000,000 issued by Federal Insurance Company. Both bonds have a deductible of \$500,000. The coverage is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company has additional types of coverage in-force including, but not limited to, commercial auto, property, general liability, and international commercial insurance. The international commercial insurance includes auto, general, property, and workers' compensation liability.

## STATUTORY AND SPECIAL DEPOSITS

The Company reported the following statutory deposits comprised primarily of United States Treasury securities at December 31, 2008:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Arkansas	\$109,817	\$119,848
Florida	1,231,660	1,411,313
Georgia	84,606	97,900
Indiana	2,440,769	2,589,750
Massachusetts	685,671	758,770
Mississippi	2,369,833	2,636,906
Missouri	615,230	783,328
New Hampshire	4,809,121	4,905,795
New Mexico	124,792	136,191
North Carolina	439,105	481,950
Tennessee	207,418	227,938
Virginia	709,211	812,303
 <u>U.S. Territories</u>		
Guam	50,000	50,000
Puerto Rico	465,449	340,385
U.S. Virgin Islands	510,535	529,844
 Total Deposits	 <u><u>\$14,853,217</u></u>	 <u><u>\$15,882,221</u></u>

## REINSURANCE

### Reinsurance Assumed

The Company has not entered into any assumed reinsurance agreements covering life or annuity business since the prior examination. Assumed life and annuity contracts in force generated premiums of \$6.7 million and policy reserves of \$56.1 million for the year-ended December 31, 2008.

The Company has two primary tranches of assumed reinsurance covering accident and health business. The first involves a modified co-insurance agreement with Conseco Health Insurance Company (CHIC), covering specified disease policies, has been in force since 2001. During 2008 this contract generated premium income of \$86 million and incurred claims of \$93 million. At year-end 2008 this block of business accounted for \$963 million in modified co-insurance reserves. As noted, this specified disease treaty with CHIC is placed on a modified co-insurance basis, thus the contract reserves are held by the ceding insurer. Terms of the agreement call for the Company to be compensated for the loss of investment earnings on the funds supporting the policy reserves. The contract calls for the Company to receive interest on the policy funds, calculated at the effective investment earnings of the ceding insurer, CHIC. During 2008 the Company received investment income benefits totaling \$50 million in

connection with this block of business.

The second primary accident and health related reinsurance relationship involves SHIP, a former affiliate. Since 1998, the Company has assumed a block of accident and health business which was designed to cover Connecticut policyholders at the time Transport Life Insurance Company merged with American Travelers Life Insurance Company. In 2008 this block generated assumed premiums of \$0.3 million and assumed reserves totaling \$12.6 million.

In addition to the above contract with SHIP, in the fourth quarter of 2008 the Company entered into an assignment agreement (the Agreement) with SHIP covering 100% of SHIP's net liabilities for all business other than that related to long-term care business. Pursuant to the Agreement, all of the assets and liabilities pertaining to SHIP's non-long-term care business were assigned to and assumed by the Company. The transaction has been reflected in the Annual Statement similar to a novation, and accordingly the Company reports the transferred business as their direct obligations. This transaction was approved by each party's respective domiciliary Insurance Department and settled on November 12, 2008. The transfer of its non-long-term care business to the Company under the Agreement is intended to allow SHIP to focus solely on long-term care business.

Pursuant to terms of the Agreement, SHIP remains contingently liable for the business to the Company in the event that the Company, for whatever reason, fails to perform its obligations under the Agreement. In recognition of this liability, the Company is required to maintain assets in a trust account, of which SHIP is the beneficiary, in an amount equal to the estimated reserves of the assigned business. As of December 31, 2008, the required amount held in trust was \$334.8 million and the market value of investments held in the trust account at year-end was \$206.2 million. An additional \$120 million was contributed to the trust account by the Company in May 2009.

#### Reinsurance Ceded

For business sold prior to September 1, 2001, the Company has a maximum net retention of \$500,000 per life for domestic business. International retention limits are \$100,000 for universal life products and \$400,000 for term life products. For life business sold since September 2001, the Company's retention limit is \$750,000 per insured life. The Company no longer actively writes new business.

There was a minimal amount of new business placed under existing reinsurance agreements during the exam period on an excess of retention basis. In the aggregate, the Company cedes approximately 23% of its life insurance business by face amount, about 6% of life insurance and annuity reserves and about 23% of life insurance and annuity premiums.

The Company cedes a significant portion of its risks associated with interest-sensitive products, including universal life and annuity products to a variety of domestic and foreign reinsurers. These ceded reinsurance arrangements are mainly effected through yearly renewable term and coinsurance agreements in which the Company cedes a stated percentage of its risk to the assuming reinsurer.

In 2007, the Company sold most of its older in-force fixed annuity business through a coinsurance agreement with Reassure America Life Insurance Company (REALIC), a subsidiary of Swiss Re. Under the terms of the coinsurance agreement for the initial transaction, the Company transferred net contract reserves totaling \$85.3 million and received a ceding commission in the amount of \$2.4 million. All future policy activity relating to this block of business will be ceded to REALIC. At December 31, 2008, this transaction accounted for ceded policy reserves totaling \$70 million.

## RESERVES

Michael Farley, FSA, MAAA, was appointed by the Board of Directors on June 10, 2008 to render an opinion on the statutory-basis loss reserves of the Company. Mr. Farley rendered an opinion on such reserves for the year ended December 31, 2008. James Hawke, FSA, MAAA, provided the opinion for 2007, 2006, and 2005.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining loss reserves and related items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used and such tests of the calculations as considered necessary.

The 2008 opinion stated that the balances of reserves and related actuarial values 1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles; 2) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions; 3) meet the requirements of the insurance laws and regulations of the State of Indiana and are at least as great as the minimum aggregate amounts required by the state; 4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year; 5) include provision for all actuarial reserves and related actuarial items that ought to be established.

Based upon examination procedures performed, the reserves at year-end 2008 were increased by \$18 million. Please refer to the "Comments on the Financial Statements" section of this Report of Examination for further commentary.

## ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2008 and 2007 were materially agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2004 through December 31, 2008 were agreed to each year's independent audit report without material exception.

**CONSECO LIFE INSURANCE COMPANY**  
**FINANCIAL STATEMENTS**

Assets

	As of December 31, 2008			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
<b>Assets:</b>				
Bonds	\$ 3,599,630,201	\$ -	\$ 3,599,630,201	\$ 3,409,167,712
Stocks:			-	
Preferred stocks	178,398,985	-	178,398,985	148,385,161
Common stocks	22,500,000	-	22,500,000	22,500,000
Mortgage loans on real estate			-	
First liens	380,429,998		380,429,998	278,711,802
Cash, cash equivalents, and short-term investments	7,225,590	-	7,225,590	68,191,194
Contract loans	209,899,262	-	209,899,262	202,769,984
Other invested assets	4,968,812	-	4,968,812	3,548,875
Aggregate write-ins for invested assets	753,571	-	753,571	778,353
Subtotals, cash and invested assets	\$ 4,403,806,419	\$ -	\$ 4,403,806,419	\$ 4,134,053,081
Investment income due and accrued	63,662,931	-	63,662,931	54,543,450
Uncollected premiums and agents' balances in the course of collection	1,563,444	-	1,563,444	992,879
Deferred premiums and agents' balances in the course of collection	11,066,974	-	11,066,974	10,438,198
Reinsurance:				
Amounts recoverable from reinsurers	3,012,207	-	3,012,207	3,937,866
Other amounts receivable under reinsurance contracts	16,317,644	-	16,317,644	7,631,546
Current federal and foreign income tax recoverable and interest thereon	-	-	-	4,021,987
Net deferred tax asset	21,366,677	-	21,366,677	11,633,288
Guaranty funds receivable or on deposit	1,289,543	-	1,289,543	214,600
Receivables from parent, subsidiaries, and affiliates	7,412,787	-	7,412,787	28,627,788
<b>Total Assets</b>	<b>\$ 4,529,498,626</b>	<b>\$ -</b>	<b>\$ 4,529,498,626</b>	<b>\$ 4,256,094,683</b>

**CONSECO LIFE INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus, and Other Funds**

	As of December 31, 2008			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
<b>Liabilities:</b>				
Aggregate reserve for life contracts	\$ 3,324,278,340	\$ 18,000,000	\$ 3,342,278,340	\$ 3,323,885,176
Aggregate reserve for accident and health contracts	281,046,263	-	281,046,263	16,937,421
Liability for deposit-type contracts	601,215,669	-	601,215,669	613,920,735
Contract claims:				
Life	71,413,185	-	71,413,185	67,942,282
Accident and health	20,664,509	-	20,664,509	1,090,874
Policyholders' dividends and coupons due and unpaid	56,777	-	56,777	57,880
Provision for policyholders' and coupons payable in the following calendar year:				
Dividends apportioned for payment	850,782	-	850,782	872,856
Coupons and similar benefits	65,927	-	65,927	67,115
Premiums and annuity considerations for life and accident and health contracts received in advance	1,227,206	-	1,227,206	487,386
Contract liabilities not included elsewhere:				
Other amounts payable on reinsurance	1,407,694	-	1,407,694	821,996
Interest maintenance reserve	8,484,912	-	8,484,912	12,353,469
Commissions to agents due or accrued	911,816	-	911,816	905,641
General expenses due or accrued	4,828,057	-	4,828,057	7,248,006
Taxes, licenses, and fees due or accrued, excluding federal income taxes	2,591,805	-	2,591,805	914,240
Current federal and foreign income taxes	7,605,600	-	7,605,600	-
Unearned investment income	3,144,269	-	3,144,269	2,965,923
Amounts withheld or retained by company as agent or or trustee	300,918	-	300,918	206,933
Amounts held for agents' account	3,535,739	-	3,535,739	3,208,319
Remittances and items not allocated	9,632,955	-	9,632,955	6,250,862
Borrowed money	4,954,108	-	4,954,108	9,859,652
Miscellaneous liabilities:				
Asset valuation reserve	2,978,662	-	2,978,662	28,600,641
Reinsurance in unauthorized companies	64,113	-	64,113	6,667
Funds held under reinsurance treaties with unauthorized reinsurers	22,500	-	22,500	-
Payable to parent, subsidiaries, and affiliates	4,600,942	-	4,600,942	3,797,378
Aggregate write-ins for liabilities	11,265,975	-	11,265,975	5,533,673
<b>Total Liabilities</b>	<b>\$ 4,367,148,722</b>	<b>\$ 18,000,000</b>	<b>\$ 4,385,148,722</b>	<b>\$ 4,107,935,125</b>
<b>Capital and Surplus:</b>				
Common capital stock	\$ 4,178,222	\$ -	\$ 4,178,222	\$ 4,178,222
Gross paid in and contributed surplus	503,369,909	-	503,369,909	460,547,684
Unassigned funds (surplus)	(345,198,227)	(18,000,000)	(363,198,227)	(316,566,348)
<b>Total capital and surplus</b>	<b>\$ 162,349,904</b>	<b>\$ (18,000,000)</b>	<b>\$ 144,349,904</b>	<b>\$ 148,159,558</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 4,529,498,626</b>	<b>\$ -</b>	<b>\$ 4,529,498,626</b>	<b>\$ 4,256,094,683</b>

**CONSECO LIFE INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Summary of Operations**

	As of December 31, 2008			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Premiums and annuity considerations for life and accident and health contracts	\$ 312,341,954	\$ -	\$ 312,341,954	\$ 318,796,012
Considerations for supplementary contracts with life contingencies	396,479	-	396,479	186,257
Net investment income	247,698,252	-	247,698,252	247,011,196
Amortization of interest maintenance reserve	(8,066,917)	-	(8,066,917)	(4,994,488)
Commissions and expense allowances on reinsurance ceded	544,131	-	544,131	2,749,423
Reserve adjustments on reinsurance ceded	(949,450)	-	(949,450)	(959,203)
Miscellaneous income:				
Charges and fees for deposit-type contracts	52,671	-	52,671	61,642
Aggregate write-ins for miscellaneous income	1,738,759	-	1,738,759	-
<b>Total revenues</b>	<b>\$ 553,755,879</b>	<b>\$ -</b>	<b>\$ 553,755,879</b>	<b>\$ 562,850,838</b>
Death benefits	255,892,959	-	255,892,959	268,387,041
Maturity endowments	1,114,201	-	1,114,201	821,084
Annuity benefits	7,665,395	-	7,665,395	8,521,009
Disability benefits and benefits under accident and health contracts	124,773,070	-	124,773,070	90,766,357
Coupons, guaranteed annual pure endowments and similar benefits	68,828	-	68,828	66,403
Surrender benefits and withdrawals for life contracts	148,407,009	-	148,407,009	136,356,264
Interest and adjustments on contract or deposit-type contract funds	30,304,806	-	30,304,806	23,939,836
Payments on supplementary contracts with life contingencies	952,444	-	952,444	981,736
Increase in aggregate reserves for life and accident and health contracts	264,502,006	18,000,000	282,502,006	(130,370,389)
<b>Totals</b>	<b>\$ 833,680,718</b>	<b>\$ 18,000,000</b>	<b>\$ 851,680,718</b>	<b>\$ 399,469,340</b>
Commissions on premiums, annuity considerations, and deposit-type contract funds	8,790,923	-	8,790,923	8,442,131
Commissions and expense allowances on reinsurance assumed	24,025,627	-	24,025,627	26,055,332
General insurance expenses	54,934,164	-	54,934,164	57,003,118
Insurance taxes, licenses and fees, excluding federal income taxes	7,773,309	-	7,773,309	7,024,824
Increase in loading on deferred and uncollected premiums	775,752	-	775,752	298,959
Aggregate write-ins for deductions	(344,791,837)	-	(344,791,837)	102,733,058
<b>Totals</b>	<b>\$ 585,188,656</b>	<b>\$ 18,000,000</b>	<b>\$ 603,188,656</b>	<b>\$ 601,026,762</b>
Net gain from operations before dividends to policyholders and federal income taxes	\$ (31,432,777)	\$ (18,000,000)	\$ (49,432,777)	\$ (38,175,923)
Dividends to policyholders	796,800	-	796,800	782,218
Net gain from operations after dividends to policyholders and before federal income taxes	\$ (32,229,577)	\$ (18,000,000)	\$ (50,229,577)	\$ (38,958,140)
Federal and foreign income taxes incurred	(4,936,929)	-	(4,936,929)	(7,593,997)
Net gain from operations after dividends and federal income taxes and before realized capital gains or losses	\$ (27,292,648)	\$ (18,000,000)	\$ (45,292,648)	\$ (31,364,144)
Net realized capital gains (losses)	(40,906,654)	-	(40,906,654)	(22,964,802)
<b>Net income</b>	<b>\$ (68,199,302)</b>	<b>\$ (18,000,000)</b>	<b>\$ (86,199,302)</b>	<b>\$ (54,328,947)</b>
<b>Capital and Surplus Account:</b>				
Capital and surplus, December 31, prior year	\$ 148,159,558	\$ -	\$ 148,159,558	\$ 160,892,510
Net income	\$ (68,199,302)	\$ (18,000,000)	\$ (86,199,302)	\$ (54,328,947)
Change in net unrealized capital gains (losses) less capital gains tax	(2,780,821)	-	(2,780,821)	(646,798)
Change in net deferred income tax	11,034,797	-	11,034,797	14,157,970
Change in nonadmitted assets and related items	(1,226,960)	-	(1,226,960)	(13,911,137)
Change in liability for reinsurance in unauthorized companies	(57,446)	-	(57,446)	15,761
Change in asset valuation reserve	25,621,979	-	25,621,979	192,837
Surplus adjustment:				
Paid in	42,822,225	-	42,822,225	48,000,000
Change in surplus as a result of reinsurance	(670,033)	-	(670,033)	1,058,608
Aggregate write-ins for gains and losses in surplus	7,645,907	-	7,645,907	(7,271,247)
<b>Net change in capital and surplus for the year</b>	<b>\$ 14,190,346</b>	<b>\$ (18,000,000)</b>	<b>\$ (3,809,654)</b>	<b>\$ (12,732,952)</b>
<b>Capital and surplus, December 31, current year</b>	<b>\$ 162,349,904</b>	<b>\$ (18,000,000)</b>	<b>\$ 144,349,904</b>	<b>\$ 148,159,558</b>

## COMMENTS ON THE FINANCIAL STATEMENTS

Based upon examination procedures performed it was determined that reserves should be increased by \$18 million at December 31, 2008. Specific items contributing to the additional reserves were various cost of insurance issues on universal life policies, the lack of reserves for guaranteed bonuses on certain universal life policies, the lack of a reserve held for the Lifetrends market conduct examination issue and adverse default experience on asset backed securities in 2009.

The following represents the adjustments to surplus as of December 31, 2008 based on the results of this examination.

Aggregate Reserves for Life Contracts per Annual Statement	\$3,324,278,340
Examination Adjustment to Surplus	\$ (18,000,000)
Aggregate Reserves for Life Contracts per Examination	\$3,342,278,340

The examination adjustment was reflected by the Company in its 2009 financial statements.

## OTHER SIGNIFICANT ISSUES

Based on a review of meeting minutes for the Board of Directors and the Investment committee it was determined that investment transactions were not being properly authorized during the examination period in accordance with IC 27-1-12-2(b)24. Subsequent to the examination period the Company changed its approval process to come into compliance.

## SUBSEQUENT EVENTS

The following events subsequent to the examination date and prior to the completion of fieldwork were considered material events requiring disclosure in this Report of Examination:

- The IDOI approved a request for a permitted practice to modify the accounting for deferred income taxes resulting in additional admitted deferred income taxes of \$7,122,225 as of December 31, 2008.
- A material weakness involving reserves of specified disease products issued by Conseco Health Insurance Company (CHIC) was disclosed by the independent auditors as of year-end 2009. The Company maintains a modified co-insurance relationship for specified disease products with CHIC whereby the Company assumes 49% of CHIC's specified disease writings for certain issue years. In previous years the material weakness involved valuation systems and supporting data for the Company but during 2009 weaknesses pertaining directly to the Company were remediated.
- Subsequent to the examination period, the shareholders of Conseco, Inc. approved a change in name to CNO Financial, Inc., effective May 11, 2010.

## **MANAGEMENT REPRESENTATION**

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a completed management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

## CONCLUSION

The preceding report of examination of **Conseco Life Insurance Company** as of December 31, 2008 reflects its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, James M. Kattman, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of **Conseco Life Insurance Company**.



**Alan T. Griffith, CFE**  
**Examinations Manager**  
**Indiana Department of Insurance**