

Report of Examination of

**The Cincinnati Life Insurance Company**  
Fairfield, Ohio

As of December 31, 2009

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Columbus, Ohio  
August 3, 2010

Honorable Alfred W. Gross  
Chair, Financial Condition (E) Committee  
National Association of Insurance Commissioners (“NAIC”)  
Virginia State Corporation Commission  
Bureau of Insurance  
Post Office Box 1157  
Richmond, Virginia 23218

Honorable Joseph Torti III  
Chair, Northeastern Zone  
NAIC  
State of Rhode Island  
Department of Business Regulation  
Division of Insurance  
1511 Pontiac Avenue, Building 69-2  
Cranston, Rhode Island 02920

Honorable Mary Jo Hudson  
Director  
Ohio Department of Insurance (“Department”)  
50 West Town Street  
Third Floor – Suite 300  
Columbus, Ohio 43215

Dear Sirs and Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), an examination was made of

**The Cincinnati Life Insurance Company**

an Ohio domiciled, stock, life insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 6200 South Gilmore Road, Fairfield, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2008, by the Department. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2009.

## Management and Control

### Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

<b>Name</b>	<b>Principal Occupation</b>
William F. Bahl	Bahl & Gaynor Investment Counsel, Inc. Chairman
James E. Benoski	The Cincinnati Insurance Companies Retired
Gregory T. Bier	Deloitte & Touche, LLP Retired
Richard W. Cumming	The Cincinnati Insurance Companies Senior Vice President
Martin F. Hollenbeck	The Cincinnati Insurance Companies Senior Vice President and Chief Investment Officer
Steven J. Johnston	The Cincinnati Insurance Companies Chief Financial Officer, Secretary and Treasurer
W. Rodney McMullen	The Kroger Company Vice Chairman, President and Chief Oper Officer
Martin J. Mullen	The Cincinnati Insurance Companies Senior Vice President
Glenn D. Nicholson	The Company Senior Vice President
David H. Popplewell	The Company President
Jacob F. Scherer, Jr.	The Cincinnati Insurance Companies Executive Vice President
John J. Schiff, Jr.	The Cincinnati Insurance Companies Chairman

Thomas R. Schiff	John J. & Thomas R. Schiff & Company, Chairman, Chief Executive Officer and A
Kenneth W. Stecher	The Cincinnati Insurance Companies President and Chief Executive Officer
Timothy L. Timmel	The Cincinnati Insurance Companies Senior Vice President
E. Anthony Woods	SupportSource, LLC Chairman and Chief Executive Officer

### **Officers**

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

<b>Name</b>	<b>Title</b>
David H. Popplewell	President
Steven J. Johnston	Chief Financial Officer and Secretary
Todd H. Pendery	Vice President and Treasurer
Roger A. Brown	Actuary
Kenneth W. Stecher	Chief Executive Officer
Brad E. Behringer	Senior Vice President
Richard W. Cumming	Senior Vice President
Donald J. Doyle, Jr.	Senior Vice President
Craig W. Forrester	Senior Vice President
Martin F. Hollenbeck	Senior Vice President
Eric N. Mathews	Senior Vice President
Glenn D. Nicholson	Senior Vice President
Jacob F. Scherer, Jr.	Senior Vice President
Timothy L. Timmel	Senior Vice President
Michael R. Abrams	Vice President
David L. Burbrink	Vice President
Teresa C. Cracas	Vice President
Joseph M. Dempsey	Vice President
Harold L. Eggers	Vice President
William J. Geier	Vice President
Theresa A. Hoffer	Vice President
Richard L. Mathews	Vice President
Richard P. Matson	Vice President
Robyn C. Muhlberg	Vice President
Michael K. O'Connor	Vice President
Thomas J. Scheid	Vice President

Gregory D. Schmidt	Vice President
Steven A. Soloria	Vice President
Michael B. Wedig	Vice President
Mark A. Welsh	Vice President
Brian K. Wood	Vice President
Gregory J. Ziegler	Vice President

### **Insurance Holding Company System**

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The following displays the chain of ownership of the insurance companies as of December 31, 2009:

Cincinnati Financial Corporation  
 CFC Investment Company  
 The Cincinnati Insurance Company  
     The Cincinnati Casualty Company  
     The Cincinnati Indemnity Company  
     The Cincinnati Life Insurance Company  
     The Cincinnati Specialty Underwriters Insurance Company  
 CSU Producer Resources, Inc.

### **Reinsurance**

#### **Ceded**

The Company manages risks associated with its life insurance exposure through reinsurance treaties with a variety of highly rated carriers. The Company cedes approximately 53 percent of its life insurance in force. The maximum retention for any one life on permanent plans is \$1,000,000, on ordinary term plans \$500,000 and on group term plans \$50,000.

The company manages risks associated with its long term care exposure through reinsurance treaties with another highly rated reinsurer.

All contracts reviewed contained necessary clauses that meet the guidelines prescribed by the NAIC.

#### **Assumed**

The Company does not assume a material amount of business.

## **Territory and Plan of Operations**

The Company was licensed to transact business in the District of Columbia and in all states except New York.

## **Scope of Examination**

One of the purposes of the examination was to make an assessment of the financial condition of the Company as of December 31, 2009. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the NAIC Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

For the period under examination, the Certified Public Accounting ("CPA") firm of Deloitte & Touche, LLP has provided an unqualified opinion based on statutory accounting principles. Relevant work performed by the CPA firm during its annual audit of the Company was reviewed during the examination and incorporated into the examination workpapers.

The Department's life actuary reviewed the relevant work performed by the opening actuary to report on the adequacy of the carried reserves and to comment on any other statutory matters relating to reserves.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

## **Financial Statements**

The financial condition and the results of its operations for the one year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds  
Statement of Operations  
Statement of Changes in the Capital and Surplus Account

## Statement of Assets, Liabilities, Surplus and Other Funds

**December 31, 2009**

### **Admitted assets**

#### Cash and invested assets:

Bonds	\$1,791,669,900
Preferred Stocks	11,646,488
Common Stocks	96,696,866
Cash	152,024,849
Contract loans	38,970,743
Other invested assets	<u>10,471,097</u>
Total cash and invested assets	2,101,479,943
Accrued investment income	31,686,046
Uncollected premiums and agents' balances	(8,514,188)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	68,829,027
Amounts recoverable from reinsurers	1,137,072
Other amounts receivable under reinsurance contracts	2,178,307
Current federal and foreign income tax recoverable	8,247,830
Net deferred tax asset	53,096,970
Guaranty funds receivable or on deposit	
Receivables from parent, subsidiaries and affiliates	1,905,344
Aggregate write-ins for other than invested assets	170,887
From separate accounts	<u>570,341,449</u>
Total admitted assets	<u>\$2,830,558,687</u>

**December 31, 2009**

**Liabilities, capital and surplus**

Liabilities:

Aggregate reserve for life contracts	\$1,651,580,250
Aggregate reserve for accident and health contracts	12,277,919
Liability for deposit-type contracts	198,892,274
Life contract claims	7,489,877
Accident and health contract claims	3,730,015
Dividends apportioned for payment	110
Premiums and annuity considerations for life and accident and health contracts received in advance	819,391
Commissions to agents due or accrued	3,367,608
General expenses due or accrued	2,873,228
Transfers to separate accounts	26,447
Taxes, licenses and fees	1,531,170
Unearned investment income	814,076
Amounts withheld or retained by company as agent or trustee	739,623
Amounts held for agents' account	37,611
Remittances and items not allocated	6,337,777
Asset valuation reserve	15,866,516
Payable to parent, subsidiaries and affiliates	365,004
Payable for securities	25,000,000
Aggregate write-ins for liabilities	28,223,168
From Separate Accounts statement	570,341,449
Total liabilities	<u>2,530,313,513</u>

Capital and surplus:

Aggregate write-ins for special surplus funds	13,880,000
Common capital stock	3,000,000
Gross paid in and contributed surplus	1,000,000
Unassigned funds	282,365,174
Total capital and surplus	<u>300,245,174</u>
Total liabilities, capital and surplus	<u>\$2,830,558,687</u>

## Statement of Operations

**For the Year Ended  
December 31, 2009**

Premiums and annuity considerations for life and accident and health contracts	\$338,149,848
Considerations for supplementary contracts with life contingencies	59,277
Net investment income	126,203,915
Amortization of interest maintenance reserve	(6,446,411)
Commissions and expense allowances on reinsurance ceded	7,379,529
Income from fees association with investment management	579,635
Total	<u>465,925,793</u>
Death benefits	52,995,340
Matured endowments	101,488
Annuity benefits	29,779,261
Disability benefits and benefits under accident and health contracts	2,090,030
Surrender benefits and withdrawals for life contracts	20,620,575
Group conversions	283,868
Interest and adjustments on contract or deposit-type contracts	10,914,423
Payments on supplementary contracts with life contingencies	329,852
Increase in aggregate reserves for life and accident contracts	274,743,150
Totals	<u>391,857,987</u>
Commissions on premiums, annuity considerations, and deposit-type contract funds	42,544,722
General insurance expenses	30,937,533
Insurance taxes, licenses and fees	5,062,419
Increase in loading on deferred and uncollected premiums	(5,399,886)
Net transfers from Separate Accounts net of reinsurance	(4,265,307)
Aggregate write-ins for deductions	753
Totals	<u>460,738,221</u>
Net gain from operations before dividends and federal income taxes	5,187,572
Dividends to policyholders	111
Net gain from operations after dividends and before federal income taxes	<u>5,187,461</u>
Federal income taxes incurred	(5,691,665)
Net gain from operations	<u>10,879,126</u>
Net realized capital gains	4,210,670
Net income	<u>\$15,089,796</u>

## Statement of Changes in the Capital and Surplus Account

	<u>2009</u>
Capital and surplus, December 31 previous year	\$290,089,358
Net income	15,089,796
Net unrealized capital gains	2,934,077
Change in net deferred income tax	(9,861,045)
Change in nonadmitted assets	17,474,571
Change in liability for reinsurance in unauthorized companies	178,765
Change in asset valuation reserve	(15,838,114)
Aggregate write-ins for gains and losses in surplus	177,766
Net change in capital and surplus	<u>10,155,816</u>
Capital and surplus, December 31 current year	<u>\$300,245,174</u>

### Notes to Financial Statements

#### Investments

The Company's investments were in compliance with Section 3907.14 of the ORC.

#### Loss and Loss Adjustment Expense Reserves

The Company had an internal actuary, Roger A. Brown, FSA, MAAA, certify the total reserves for the last year covered by the examination. An internal actuary, Richard W. Cumming, FSA, MAAA, certified the Company's total reserves for the first four years covered by the examination. The Department's actuary, Peter Weber, ASA, MAAA, reviewed the opinion and memorandum supporting the certification and reserve calculations for the major lines of business as of December 31, 2009.

On the basis of the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves were reasonable as of December 31, 2009.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

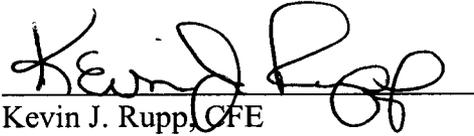
Total Admitted Assets	<u>\$2,830,558,687</u>
Liabilities	\$2,530,313,513
Surplus as Regards Policyholders	<u>300,245,174</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$2,830,558,687</u>

### Acknowledgement

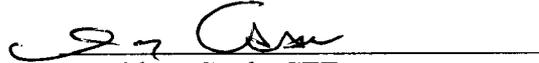
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad Arif, AES, CFE, CIDM, CISA, CISSP; Aaron Hibbs, CPA, FLMI, ChFC; Floyd Meeks, AES, CFE, CIDM, CISA, CPA, MBA; Roy Moster, CFE, CPA; and Larry Rice, CFE, CPA.

Respectfully,



Kevin J. Rupp, CFE  
Examiner-In-Charge  
Ohio Department of Insurance



David A. Cook, CFE  
Assistant Chief Examiner  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

Kevin J. Rupp      8/9/10      David A. Cook      8/9/10  
Examiner-In-Charge      Date      Assistant Chief Examiner      Date

State of Ohio  
County of Franklin

Personally appeared before me the above named Kevin J. Rupp, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 9 day of August, 2010.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2012  
My Commission Expires

State of Ohio  
County of Franklin

Personally appeared before me the above named David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 9 day of August, 2010.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES MAY 22, 2012  
My Commission Expires