

Report of Examination of

American Retirement Life Insurance Company
Austin, Texas

As of December 31, 2013

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Columbus, Ohio
February 27, 2015

Honorable Mary Taylor
Lieutenant Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lieutenant Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

American Retirement Life Insurance Company

an Ohio domiciled, stock, life insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2011. The Department’s current examination covers the period of January 1, 2012, through December 31, 2013.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate 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.

For all years under examination, the Certified Public Accounting firm of PricewaterhouseCoopers LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

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:

Name	Principal Occupation
Eric P. Palmer	Chief Financial Officer, Cigna Health and Life Insurance Company
Frank Sataline, Jr.	Senior Vice President, Cigna Health and Life Insurance Company
Paul A. Severt	Chief Financial Officer, Cigna Supplemental Benefits
Bradley A. Wolfram	President, Cigna Supplemental Benefits
James Yablecki	Vice President, Cigna Health and Life Insurance Company

Officers

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

Name	Title
Bradley A. Wolfram	President
Brenda W. Hardison	Secretary
Byron K. Buescher	Treasurer
James M. Garvin, III	Appointed Actuary
Paul A. Severt	Chief Financial Officer
Michael K. Brown	Vice President
Maureen H. Ryan	Assistant Treasurer
Barry R. McHale	Assistant Treasurer

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Company is a wholly owned subsidiary of Loyal American Life Insurance Company, domiciled in

Ohio, and an indirect wholly owned subsidiary of Cigna Corporation (“Cigna”), the ultimate controlling person in the holding company system. Cigna is a publicly held company whose subsidiaries provide insurance, health care, investment and financial services. The Company and other affiliated companies were acquired by Cigna from Great American Financial Resources, Inc. on August 31, 2012.

Territory and Plan of Operations

The Company is licensed to transact business in thirty-nine states. Prior to 2013, the Company was not actively marketing any new business. In 2013, the Company began marketing both Medicare supplement insurance and a simplified issue whole-life policy.

Reinsurance

On August 31, 2012, all of the Company’s in force life and annuity business was ceded under 100% coinsurance arrangements. Newly written life insurance business is ceded on a 40% coinsurance basis.

All contracts contained an insolvency clause, errors and omission clause and an arbitration clause, which meet the guidelines prescribed by the NAIC.

Financial Statements

The financial condition and the results of its operations for the two-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
- Summary of Operations
- Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2013

Assets

Bonds	\$ 3,502,480
Cash and short-term investments	14,072,232
Receivables for securities	<u>200,000</u>
Subtotal, cash and invested assets	17,774,712
Investment income due and accrued	12,662
Uncollected premiums and agents' balances	16,029
Amounts recoverable from reinsurers	229,633
Other amounts receivable under reinsurance contracts	9,363
Guaranty funds receivable or on deposit	<u>2</u>
Total assets	<u>\$ 18,042,401</u>

Liabilities

Aggregate reserve for life contracts	\$ 318
Aggregate reserve for accident and health contracts	1,500,888
Life contract claims	1,166
Accident and health contract claims	4,521,939
Premiums received in advance	616,085
General expenses due or accrued	547,367
Taxes, licenses and fees due or accrued	281,373
Current federal and foreign income taxes	1,083,251
Amounts held for agents' account	347
Remittances and items not allocated	627,252
Asset valuation reserve	11,291
Payable to parent, subsidiaries and affiliates	408,692
Aggregate write-ins for liabilities	<u>15,745</u>
Total liabilities	<u>9,615,714</u>

Capital and Surplus

Common capital stock	2,500,000
Gross paid in and contributed surplus	16,731,602
Unassigned funds	<u>(10,804,915)</u>
Total capital and surplus	<u>8,426,687</u>
Total liabilities, capital and surplus	<u>\$ 18,042,401</u>

Summary of Operations
For the Year Ended December 31, 2013

Premiums and annuity considerations	\$ 16,745,881
Net investment income	4,872
Amortization of Interest Maintenance Reserve	(929)
Commissions and expense allowances on reinsurance ceded	44,979
Aggregate write-ins for miscellaneous income	<u>189,918</u>
Total	<u>16,984,721</u>
Death benefits	1,166
Disability benefits and benefits under accident and health contracts	10,375,223
Increase in aggregate reserves	<u>1,501,207</u>
Total	11,877,596
Commissions on direct business	3,692,223
General insurance expenses	6,707,408
Insurance taxes, licenses and fees	545,949
Increase in loading on deferred and uncollected premiums	<u>52,021</u>
Total	<u>22,875,197</u>
Net gain from operations before federal income taxes	(5,890,476)
Federal and foreign income taxes incurred	<u>(1,634,749)</u>
Net income	<u><u>\$ (4,255,727)</u></u>

Statement of Changes in the Capital and Surplus Account
As of and For the Year Ended December 31
(In thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and surplus, prior year end	\$ 5,437	\$ 5,518	\$ 5,528	\$ 5,544	\$ 5,519
Net income (loss)	(4,256)	99	(8)	(27)	(49)
Change in net unrealized capital gains (losses)	0	(189)	5	9	6
Change in net deferred income tax	(676)	588	(7)	(11)	(6)
Change in non-admitted assets	(6,067)	(610)	(0)	11	2
Change in AVR	(11)	0	0	0	0
Surplus adjustments	14,000	54	0	0	50
Aggregate write-ins	<u>0</u>	<u>(23)</u>	<u>1</u>	<u>0</u>	<u>22</u>
Net change in capital and surplus	<u>2,990</u>	<u>(81)</u>	<u>(10)</u>	<u>(17)</u>	<u>25</u>
Capital and surplus, current year end	<u>\$ 8,427</u>	<u>\$ 5,437</u>	<u>\$ 5,518</u>	<u>\$ 5,528</u>	<u>\$ 5,544</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3907.14 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Aggregate Reserve for Accident and Health Contracts

The Company's Board of Directors appointed James M. Garvin, III, FSA, MAAA, Actuarial Director of the Company, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Garvin prepared an Actuarial Memorandum supporting the Opinion in connection with the preparation of the Company's 2013 Annual Statement.

Thomas S. Botsko, ACAS, MAAA, the Department's Actuary, reviewed the Actuarial Memorandum and performed other procedures as considered necessary to evaluate the reserves. On the basis of his analysis, Mr. Botsko concluded the reserves presented in the 2013 Annual Statement appear reasonable.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

Total Admitted Assets	<u>\$ 18,042,401</u>
Liabilities	\$ 9,615,714
Capital and Surplus	<u>8,426,687</u>
Total Liabilities, Capital and Surplus	<u>\$ 18,042,401</u>

Acknowledgement

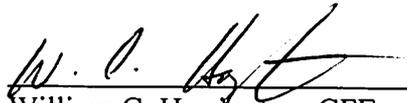
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, AES, CFE, CISA, CIDM, CISSP, and Ryan S. Gibson, AES, CFE, CISA, FLMI.

Respectfully,



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



William C. Harrington, CFE
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, 2013.

Kevin J. Rupp 4/20/15 W. C. Harrington 4/21/15
Examiner-In-Charge Date 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 20 day of April, 2015.

Kimberly Ann Lowry
(Notary Public)

3-28-2016
My Commission Expires

KIMBERLY ANN LOWRY
NOTARY PUBLIC • STATE OF OHIO
Recorded in Franklin County
My commission expires Mar. 28, 2016

State of Ohio
County of Franklin

Personally appeared before me the above named William C. Harrington, 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 20 day of April, 2015.

Kimberly Ann Lowry
(Notary Public)

3-28-2016
My Commission Expires

KIMBERLY ANN LOWRY
NOTARY PUBLIC • STATE OF OHIO
Recorded in Franklin County
My commission expires Mar. 28, 2016