

Report of Examination of

**Central Benefits National Life Insurance Company**  
Westerville, Ohio

As of December 31, 2007

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Columbus, Ohio  
December 10, 2008

Honorable Mary Jo Hudson  
Director  
State of Ohio  
Department of Insurance  
50 W. Town Street, Third Floor – Suite 300  
Columbus, Ohio 43215

Dear Madam:

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

**Central Benefits National Life Insurance Company**

an Ohio domiciled, stock, life, accident and health insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 4079 Executive Parkway, Westerville, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2002, by the Ohio Department of Insurance (Department). Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2007.

**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>
Ted M. Georges	Central Benefits USA, Vice President - Sales
Joseph H. Hoffman	Chief Financial Officer, The Company
William C. Mechling	President, The Company

Mary C. Person

Central Benefits USA, Vice President –  
Operations

### **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>
William C. Mechling	President
Joseph H. Hoffman	Chief Financial Officer, Secretary & 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 following displays the chain of ownership of the insurance companies as of December 31, 2007:

Central Benefits Mutual Insurance Company  
Central Benefits National Life Insurance Company

Central Benefits Mutual Insurance Company is currently terminating operations and the Company is currently being sold to non-affiliated investors.

### **Reinsurance**

#### **Ceded**

The Company participates in a 75% quota share reinsurance agreement with The Order of United Commercial Travelers of America.

### **Territory and Plan of Operations**

The Company was licensed to transact business in the states of Arizona, Arkansas, California, Colorado, Florida, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Mississippi, Missouri, Nebraska, Nevada, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee, Virginia, West Virginia, and Wisconsin.

### **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, 2007. 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 each year during the period under examination, the Certified Public Accounting (CPA) firms of Ernst & Young LLP, Walpert & Wolpoff LLP and McGladrey & Pullen LLP, have 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 property and casualty actuary reviewed the relevant work performed by the opining 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 five 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

	<u>December 31, 2007</u>
<b>Admitted assets</b>	
Cash and invested assets:	
Bonds	\$6,021,821
Cash and Short-term investments	897,413
Total cash and invested assets	<u>6,919,234</u>
Accrued investment income	80,841
Uncollected premiums and agents' balances	31,963
Amounts recoverable from reinsurers	50
Guaranty funds receivable or on deposit	2,000
Receivable from parent, subsidiaries and affiliates	71,196
Aggregate write-in for other than invested assets	32,339
Total admitted assets	<u>\$7,137,623</u>
	<u>December 31, 2007</u>
<b>Liabilities, capital and surplus</b>	
Liabilities:	
Aggregate reserve for life contracts	\$110,000
Aggregate reserve for accident and health contracts	227,323
Contract claims	209,472
Premiums and annuities in consideration for life and accident and health contracts received in advance	90,979
General expenses due or accrued	34,388
Taxes, license and fees due or accrued, excluding federal taxes	2,233
Asset valuation reserve	8,684
Total liabilities	<u>683,079</u>
Capital and surplus:	
Common capital stock	3,000,000
Gross paid in and contributed surplus	24,757,745
Unassigned funds	<u>(21,303,201)</u>
Total capital and surplus	<u>6,454,544</u>
Total liabilities, capital and surplus	<u>\$7,137,623</u>

## Statement of Operations

**December 31, 2007**

Premiums and annuity considerations for life and accident and health	
Contracts	\$1,202,222
Net investment income	298,724
Amortization of Interest Maintenance Reserve	(3,731)
Commissions and expense allowance on reinsurance ceded	109,214
Aggregate write-ins for miscellaneous income	759
Totals	<u>1,607,188</u>
Death benefits	19,000
Disability benefits and benefits under accident and health contracts	967,692
Increase in aggregate reserves for life and accident and health	
Contracts	<u>(105,497)</u>
Totals	881,195
Commissions and expense allowance on reinsurance assumed	69,109
General insurance expenses	413,048
Insurance taxes, licenses and fees, excluding federal income tax	81,220
Totals	<u>1,444,572</u>
Net gain from operations before dividends to policyholders and before federal income taxes	<u>162,616</u>
Net income	<u><u>\$162,616</u></u>

## Statement of Changes in the Capital and Surplus Account

(In thousands)

	2003	2004	2005	2006	2007
Capital and surplus December 31, previous year	<u>\$9,981</u>	<u>\$9,804</u>	<u>\$9,498</u>	<u>\$10,465</u>	<u>\$8,555</u>
Net income	(923)	(267)	877	595	163
Change in net unrealized capital gains or (losses)	4	4	-	-	-
Change in nonadmitted assets	(2)	(7)	46	2	(3)
Change in asset valuation reserve	25	(21)	29	(7)	(1)
Dividend to stockholders	-	-	(417)	(2,500)	-
Aggregate write-ins for capital gains and losses in surplus	<u>719</u>	<u>(15)</u>	<u>432</u>	<u>-</u>	<u>(2,260)</u>
Net change in capital and surplus	<u>(177)</u>	<u>(306)</u>	<u>967</u>	<u>(1,910)</u>	<u>(2,101)</u>

Capital and surplus December 31,  
current year

\$9,804	\$9,498	\$10,465	\$8,555	\$6,454
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**Notes to Financial Statements**

**Investments**

At December 31, 2007, the Company's investments, as measured by statement valuations, were composed of:

<u>Invested Assets</u>	<u>Ratio to Total</u>	
	<u>Investments</u>	<u>Assets</u>
Bonds	87.0%	84.4%
Cash and Short-term investments	<u>13.0%</u>	<u>12.6%</u>
Totals	<u>100.0%</u>	<u>97.0%</u>

The bond portfolio included 45.1% of federal, state, and local government issues, 16.5% special revenue and public utilities and 38.4% industrial and miscellaneous. The NAIC Securities Valuation Office (SVO) had rated 100 % of the bond portfolio as Class 1. Cash includes demand deposits.

**Loss and Loss Adjustment Expense Reserves**

The Company actuary, Keith A. Dall, FSA, MAAA, certified the total reserves as of December 31, 2007. The Department's actuary, Alan R. Furan, FSA, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2007.

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, 2007.

**Conclusion**

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2007, and is summarized as follows:

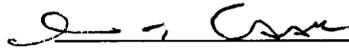
Total Admitted Assets	<u>\$7,137,623</u>
Liabilities	\$683,079
Surplus as Regards Policyholders	<u>6,454,544</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$7,137,623</u>

## 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 undersigned, the following representative of the Department participated in this examination: Methuselah E. Nyangoro, CPA.

Respectfully,



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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, 2007.

*[Signature]*      12/10/08  
Assistant Chief Examiner      Date

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/her knowledge and belief.

Subscribed and sworn to before me this 10 day of December, 2008.

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