



**STATE OF TENNESSEE**  
**DEPARTMENT OF COMMERCE AND INSURANCE**

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**REPORT ON EXAMINATION**  
**OF**  
**CONTINENTAL LIFE INSURANCE COMPANY**  
**OF**  
**BRENTWOOD, TENNESSEE**  
**(NAIC # 68500)**  
**FRANKLIN, TENNESSEE 37067**

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**AS OF**  
**DECEMBER 31, 2019**

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Franklin, Tennessee  
March 31, 2021

Honorable Carter Lawrence  
Commissioner  
Tennessee Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated (“Tenn. Code Ann.”) § 56-1-408, a full-scope financial examination and market conduct review, as of December 31, 2019, has been made of the condition and affairs of:

**CONTINENTAL LIFE INSURANCE COMPANY OF BRENTWOOD, TENNESSEE**

NAIC # 68500  
1021 Reams Fleming Boulevard  
Franklin, TN 37064

hereinafter referred to as “CLIC” or the “Company” and a report thereon is submitted as follows:

**INTRODUCTION**

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or “Department”). The examination was conducted by duly authorized representatives of the Department. This examination was called through the National Association of Insurance Commissioners (NAIC) Financial Examination Electronic Tracking System (FEETS). This examination was made simultaneously with the Company’s wholly owned subsidiary, American Continental Insurance Company (ACIC).

**SCOPE OF EXAMINATION**

The last examination of the Company was made as of December 31, 2014. This examination covers the period January 1, 2015, through December 31, 2019, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with practices and procedures promulgated by the NAIC in the *Financial Condition Examiners Handbook* (“Handbook”), as deemed appropriate. The examination was planned and performed to evaluate the financial condition of the Company, as of December 31, 2019. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management’s compliance with statutory accounting principles and annual statement instructions.

All significant risks were considered when planning which key activities and accounts would be examined. The key activities included: Investments; Reinsurance; Premiums/Underwriting; Reserves; Claims; and Related Party.

The Company’s 2019 annual statement was compared with or reconciled to the corresponding general ledger account balances.

A separate market conduct review was performed concurrently with the financial examination. See the “Market Conduct Activities” section of this report.

The Company’s ultimate parent, CVS Health Corporation (“CVS Health”), maintains an Internal Audit (IA) Department, which is charged with performing the IA function for all companies within the holding company system. IA activities focus on Sarbanes-Oxley (SOX) compliance testing. The scope of SOX testing included the Company’s internal controls over financial reporting. During this examination, the processes tested were reviewed and the workpapers for specific processes which had been identified as significant to the key activities and sub-activities being examined were requested. The workpapers were provided and were utilized, where appropriate.

Independent information technology specialist services, provided by Noble Consulting Services, Inc., were utilized in the examination review of the Company’s information technology general controls (ITGC).

The actuarial firm of Merlinos & Associates, Inc. was utilized in the examination review of the Company’s reinsurance, and statutory reserves, as well as the risk assessment and review of controls for reserving and pricing risks.

The Company's Certified Public Accountant (CPA) workpapers were reviewed for the 2019 audit and copies were incorporated into the examination, as deemed appropriate.

## **COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS**

There were no recommendations noted in the prior examination report as of December 31, 2014.

## **COMPANY HISTORY**

The Company was incorporated under the name of Continental Life Insurance Company for a perpetual period on December 5, 1983, pursuant to the provisions of the Tennessee General Corporation Act. The Company's original Charter authorized ten thousand (10,000) shares of common capital stock with a par value of \$75.00 per share.

On December 15, 1983, Continental Insurance Services, Inc. (CIS), a Tennessee general business corporation, subscribed to all ten thousand (10,000) shares of the Company's authorized common capital stock at a purchase price of \$112.50 per share for a total of \$1,125,000, of which \$750,000 was capital stock and \$375,000 was gross paid in and contributed surplus.

Effective October 3, 1984, the Company amended its Charter to provide for twenty thousand (20,000) total shares of common capital stock with a par value of \$75.00 per share. Subsequent to this amendment, CIS purchased an additional eight thousand, eight hundred eleven (8,811) shares of the Company's common capital stock at a purchase price of \$113.50 per share, for a total of \$1,000,080.50, of which \$660,825 was paid in capital and \$339,255.50 was gross paid in and contributed surplus.

On November 26, 1985, and December 18, 1985, CIS made contributions of \$600,000 and \$210,000, respectively, to the Company's gross paid in and contributed capital. In accordance with an amendment to the Company's Charter, effective December 23, 1985, all eighteen thousand, eight hundred eleven (18,811) shares issued and outstanding of common capital stock were exchanged by CIS for eighteen thousand, eight hundred eleven (18,811) shares of common capital stock with a par value of \$53.50 per share for total paid in capital \$1,006,388.50. The net decrease of \$404,436.50 to common capital stock, due to the exchange, was contributed by CIS to gross paid in and contributed surplus.

Effective July 3, 1986, the Company's Charter was amended to change the name of the Company to Continental Life Insurance Company of Brentwood, Tennessee. Also, in late

1986 and throughout 1987, CIS made several surplus contributions to the Company, which totaled \$1,100,000.

To comply with changes in the minimum capital requirements for the State of Georgia, the Company amended its Charter effective December 4, 1992, to increase the par value of its common capital stock from \$53.50 to \$79.75. The effect of this change was to transfer \$493,788.75 from gross paid in and contributed surplus to common capital stock. The Charter amendment also increased the Company's number of authorized shares to one hundred thousand (100,000).

On May 1, 2006, all outstanding shares of CIS were purchased by Genworth Life Insurance Company (GLIC), which is an indirect, wholly-owned subsidiary of Genworth Financial, Inc. On May 2, 2006, CIS was merged with and into the Company.

On November 24, 2008, after prior notification to the TDCI, the Company paid an ordinary dividend on its common stock consisting of: (a) cash in the amount of \$7,000,000; and (b) three hundred eighty-nine (389) shares of the Company's common stock to its stockholder of record, GLIC.

Through September 30, 2011, the Company was a direct, wholly-owned subsidiary of GLIC. On October 1, 2011, pursuant to a Stock Purchase Agreement dated June 12, 2011, GLIC sold all of the Company's outstanding common capital stock to Aetna Inc. ("Aetna"), a publicly held company.

On December 3, 2017, CVS Health and Aetna announced a definitive merger agreement under which CVS Health would acquire all outstanding shares of Aetna. The Order Approving Plan of Acquisition was signed by the TDCI Commissioner on October 23, 2018. The \$69 billion merger between CVS Health and Aetna was approved by the United States Justice Department on October 9, 2018. This acquisition was completed on November 28, 2018.

The Company is a stock for-profit life insurance company licensed to transact business in forty-three (43) states. The Company's key products are Medicare supplement products, individual life insurance, and individual accident and health insurance. In 2018, the Company began writing dental, vision, and hearing products.

At December 31, 2019, the Company had authorized capital stock of one hundred thousand (100,000) shares of common stock with a par value of \$79.75 per share, of which thirty-one thousand four hundred (31,400) shares were issued and outstanding. All

outstanding shares of the Company are owned by Aetna, whose ultimate parent is CVS Health.

During the examination period, the Company received the following capital contributions from Aetna:

<u>Date</u>	<u>Amount</u>
March 29, 2016	\$25,000,000
June 27, 2016	\$17,000,000
December 5, 2016	\$25,000,000
June 30, 2017	\$50,000,000
December 18, 2017	\$15,000,000
September 26, 2018	\$40,000,000
July 30, 2019	<u>\$25,000,000</u>
<b>Total</b>	<u><u>\$197,000,000</u></u>

## **MANAGEMENT AND CONTROL**

### **MANAGEMENT**

#### **Directors**

The Company's Charter, as restated on July 3, 1986, and Bylaws, state that an annual meeting of the shareholders shall be held each year at which the shareholders shall elect a Board of Directors ("Board").

The Company's restated Charter provides that "All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the Board, except as otherwise herein provided or reserved to the holders of Common Stock". Both the restated Charter and the Bylaws state that the number of directors shall not be less than three (3).

The following persons were duly elected by the Shareholders and were serving as members of the Board, as of December 31, 2019:

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>
Tyree Scott Wooldridge	President and Chief Executive Officer Continental Life Insurance Company of Brentwood, Tennessee
Robert Sean Healy	Executive Director, Corporate Treasury Continental Life Insurance Company of Brentwood, Tennessee
Steven Louis Hendrich	Senior Vice President, General Counsel Continental Life Insurance Company of Brentwood, Tennessee

## **Officers**

The Bylaws of the Company state that the Board shall annually elect a Chairman of the Board, President, Vice President, Secretary, and Treasurer. The offices of President and Secretary may not be held by the same person.

The following officers were duly elected by the Board and were serving as officers of the Company, as of December 31, 2019:

<b><u>Name</u></b>	<b><u>Title</u></b>
Tyree Scott Wooldridge	President and Chief Executive Officer
Steven Louis Hendrich	Senior Vice President, General Counsel and Secretary
James William Waggoner	Controller
Kevin James Casey	Senior Investment Officer
Peter Keller	Assistant Controller
Bryan James Lane	Assistant Controller
William Stephen Maynes	Assistant Controller
Edward Chung-I Lee	Vice President and Assistant Secretary
Tracy Louise Smith	Vice President and Treasurer

## **Committees**

The audit committee is the only Board level committee for CLIC. The audit committees report to the ultimate parent audit committee of CVS Health.

## **CONTROL**

All outstanding shares of the Company are owned by the parent company, Aetna, whose ultimate parent is CVS Health.

## ABBREVIATED ORGANIZATIONAL CHART

The following abbreviated organizational chart shows all the insurance companies and their respective domiciliary states within the CVS Health system:

	<u>NAIC</u> <u>Co. Code</u>	<u>Domiciliary</u> <u>State</u>
CVS Health Corporation		DE
CVS Pharmacy, Inc.		RI
Caremark Rx, LLC		DE
Part D Holding Company, LLC		DE
SilverScript Insurance Company	12575	TN
Accendo Insurance Company	63444	UT
Aetna Inc.		PA
Aetna Health Holdings, LLC		DE
Aetna Financial Holdings, LLC		DE
Aetna Life Insurance Company	60054	CT
Aetna Health and Life Insurance Company	78700	CT
Aetna Health Insurance Company	72502	PA
Aetna Health Insurance Company of New York	84450	NY
Health Re, Inc.	13980	VT
Healthagen LLC		CT
Phoenix Data Solutions LLC		DE
Active Health Management, Inc.		DE
Health Data & Management Solutions, Inc.		DE
Aetna Integrated Informatics, Inc.		PA
ASI Wings, LLC		DE
AUSHC Holdings, Inc.		CT
PHPSNE Parent Corporation		DE
<b>Continental Life Insurance Company of Brentwood, Tennessee</b>	<b>68500</b>	<b>TN</b>
<b>American Continental Insurance Company</b>	<b>12321</b>	<b>TN</b>
Aetna International Inc.		CT

## DIVIDENDS

The Company did not pay cash dividends to Shareholders during the examination period.

## CORPORATE RECORDS

The minutes of meetings of the Company's Shareholders, Board, and Committees were reviewed for the period under examination. The minutes were complete as to necessary detail and appear to adequately reflect the acts of the respective bodies. The review of the minutes indicates that all investment transactions were approved by the Board, pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

The Company's original Charter was filed and recorded with the Tennessee Secretary of State on December 5, 1983. The Charter stated the Company's location as 3709 Nolensville Road, Nashville, Davidson County, Tennessee. Effective February 17, 1986, the Charter was amended to reflect the Company's new address at 101 Continental Place, Brentwood, Williamson County, Tennessee. Effective April 17, 2012, the Charter was amended to reflect the Company's current address at 800 Crescent Center Drive, Suite 200, Franklin, Williamson County, Tennessee.

According to the restated Charter, as amended through July 3, 1986, and in effect December 31, 2019, the Company was organized "... to grant insurance upon the lives or health of persons and every assurance pertaining thereto; to grant, purchase or dispose of annuities or endowments; to insure against bodily injury or death by accident; to reinsure all or any portion of its own risks and to accept reinsurance from other companies..."

The Company's incorporator adopted Bylaws on December 13, 1983. The Bylaws were still in effect as of December 31, 2019.

The Bylaws provide for an annual Shareholder's meeting at which a Board is elected. The Board is to hold "regular meetings". Officers are to be elected by the Board annually at the first Board meeting after the annual Shareholder's meeting. The Company's Bylaws were not amended during the period under examination.

## **AGREEMENTS WITH PARENT AND AFFILIATES**

The Company had the following significant agreements with its parent and affiliated companies in effect as of December 31, 2019:

### **Administrative Services Agreement**

Effective October 1, 2011, CLIC entered into an Administrative Services Agreement with Aetna Life Insurance Company (ALIC). Under the agreement, ALIC will provide the Company with personnel necessary to perform administrative services, including accounting, payment of claims, quality assessment, and pharmacy benefit management services. The agreement obligates the Company to pay to ALIC the cost of providing such services, as well as interest on outstanding administrative service balances. For 2019 and 2018, CLIC incurred expenses of \$150,669,187 and \$122,391,766, respectively, related to the agreement.

### **Services and Shared Expenses Agreement**

Effective August 1, 2012, CLIC entered into a Services and Shared Expenses Agreement with ACIC. Under the agreement, CLIC and ACIC agree to share services and expenses, including facilities, data processing, marketing, accounting, and administration of agent and agency matters. CLIC and ACIC will make quarterly estimated payments to each other for each Company's estimated share of common costs, subject to an annual true-up of actual expenses. For the years ended December 31, 2019 and 2018, ACIC received a net payment of \$6,935,098 and \$387,280, respectively, from CLIC related to the agreement.

### **Marketing Agreement**

Effective July 14, 2012, CLIC entered into a Marketing Agreement with ALIC. Under the Marketing Agreement, CLIC promotes individual Medicare Part D plans offered by ALIC to CLIC's respective sales forces and encourages CLIC's producers to refer customers to ALIC for Part D sales. The Marketing Agreement obligates ALIC to pay CLIC a fixed amount for every sale made by ALIC to a consumer referred to ALIC by a CLIC internally appointed producer. In addition, under the Marketing Agreement, ALIC has requested that the Company allow ALIC's field service representatives access to sell certain insurance products issued by the Company. The Marketing Agreement obligates the Company to pay ALIC a one-time payment for every issued policy sold by ALIC's field service representatives. For 2019 and 2018, the companies did not receive or pay any fees to each other pursuant to the Marketing Agreement with ALIC.

### **Unconditional Guaranty Agreement**

An Unconditional Guaranty Agreement between the Company and ACIC was executed on August 29, 2008, as a precondition to the approval of the Company's application for a

Certificate of Authority to operate as an insurer in the State of North Carolina. Under the terms of the agreement, the Company agrees that it will maintain the capital and surplus of ACIC at the greater of the financial admission requirements or the risk-based capital requirements set out in North Carolina statute. The agreement is to extend for a minimum of three (3) years after ACIC is issued a Certificate of Authority in North Carolina or until ACIC can provide a Report on Examination that certifies three (3) consecutive years of net gain from operations, whichever occurs last.

### **Sales and Purchase Agreement**

Effective September 20, 2017, ACIC agreed to issue an additional five hundred thousand (500,000) shares of common stock with par value of \$1.00 to its parent, CLIC. CLIC owns one million, five hundred thousand (1,500,000) shares, and CLIC agreed to purchase the additional shares for \$500,000, which would increase ACIC's capital stock amount to \$2,000,000.

### **Tax Sharing Agreement**

Effective January 1, 2019, CLIC and its subsidiary ACIC entered into a written Tax Sharing Agreement ("CVS Health TSA") with CVS Health. Pursuant to IRS rules, CLIC and ACIC are joining the CVS Health TSA for sharing and settlement of state taxes only, until such time as CLIC and ACIC are eligible to join the CVS Group federal tax filing. Until CLIC and ACIC are eligible to join the CVS Group federal tax filing, the CVS Health TSA between CLIC and ACIC will govern the sharing and settlement of federal taxes between CLIC and ACIC.

## TERRITORY AND PLAN OF OPERATION

### TERRITORY

As of December 31, 2019, the Company was domiciled in Tennessee and licensed to transact business in the following states:

Alabama	Iowa	Nevada	South Dakota
Arizona	Kansas	New Hampshire	Tennessee
Arkansas	Kentucky	New Jersey	Texas
California	Louisiana	New Mexico	Utah
Colorado	Maryland	North Carolina	Vermont
Connecticut	Massachusetts	North Dakota	Virginia
Delaware	Michigan	Ohio	Washington
Florida	Minnesota	Oklahoma	West Virginia
Georgia	Mississippi	Oregon	Wisconsin
Idaho	Missouri	Pennsylvania	Wyoming
Illinois	Montana	Rhode Island	
Indiana	Nebraska	South Carolina	

Certificates of Authority granted by the licensed states were reviewed and found to be in force as of December 31, 2019.

The Company currently has no applications pending for admission to any other states or territories. Premium tax records were reviewed for all states in which the Company writes business, and no exceptions were noted.

### PLAN OF OPERATION

The Company and its wholly-owned subsidiary, ACIC, primarily market Medicare supplement products, individual life insurance, and individual accident and health insurance. ACIC has been the primary writer of new Medicare supplement insurance. The operations of the Company and ACIC are a part of Aetna's Health Care segment.

In 2018, the Company began writing dental, vision, and hearing products, which is included in other health insurance.

## GROWTH OF COMPANY

The table below depicts certain aspects of the growth and financial history of the Company for the period subject to this examination, according to its annual statements filed with the TDCI:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Premiums Earned</u>	<u>Net Income (Loss)</u>
2019	\$377,305,684	\$182,169,926	\$195,135,758	\$575,893,075	(\$26,892,108)
2018	\$366,652,960	\$162,607,929	\$204,045,030	\$508,458,475	(\$13,498,240)
2017	\$345,630,911	\$151,240,997	\$194,389,882	\$468,045,902	(\$9,492,576)
2016	\$307,080,148	\$133,249,663	\$173,830,455	\$427,239,000	(\$7,754,914)
2015	\$274,039,152	\$129,782,419	\$144,256,733	\$380,550,314	(\$1,217,374)

## LOSS EXPERIENCE

The tables below show the mortality and loss experience as of December 31, 2019, for each year under examination, developed from applicable amounts included in the Company's annual statements.

### Life:

<b><u>Ordinary Life</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Net Death Benefits	\$3,620,318	\$3,462,291	\$3,241,938	\$3,372,851	\$3,215,412
Less-Reserves Released by Death	<u>\$1,421,372</u>	<u>\$1,407,574</u>	<u>\$684,543</u>	<u>\$587,269</u>	<u>\$560,243</u>
Actual Death Benefits Incurred	\$2,198,946	\$2,054,717	\$2,557,395	\$2,785,582	\$2,655,169
Divided by Expected Mortality	<u>\$3,096,453</u>	<u>\$2,872,229</u>	<u>\$3,161,194</u>	<u>\$3,157,388</u>	<u>\$3,212,807</u>
Mortality Experience Ratio	<u>71.01%</u>	<u>71.54%</u>	<u>80.90%</u>	<u>88.22%</u>	<u>82.64%</u>

### Accident & Health:

<b><u>Group Accident &amp; Health</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Net incurred claims	\$1,172,891	\$3,126,540	\$3,366,457	\$3,268,658	\$4,038,907
Net premiums earned	<u>\$1,484,542</u>	<u>\$3,669,479</u>	<u>\$3,909,396</u>	<u>\$4,632,328</u>	<u>\$5,241,479</u>
Loss experience ratio	<u>79.01%</u>	<u>85.20%</u>	<u>86.11%</u>	<u>70.56%</u>	<u>77.06%</u>

### **Other Accident & Health**

	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Net incurred claims	\$429,893,822	\$379,444,013	\$345,889,071	\$315,834,808	\$272,459,079
Net premiums earned	<u>\$571,043,602</u>	<u>\$501,121,689</u>	<u>\$460,149,333</u>	<u>\$418,402,260</u>	<u>\$370,964,984</u>
Loss experience ratio	<u>75.28%</u>	<u>75.72%</u>	<u>75.17%</u>	<u>75.49%</u>	<u>73.45%</u>

## **REINSURANCE AGREEMENTS**

### **Assumed Reinsurance**

During the period under examination, the Company did not assume any reinsurance.

### **Ceded Reinsurance**

Effective October 1, 2009, the Company terminated the automatic yearly renewable term (YRT) reinsurance contracts and, on August 1, 2010, terminated the facultative YRT reinsurance contracts with Optimum Re Insurance Company covering standard and sub-standard life insurance. Both contract terminations affected new business only. Reserves ceded by the Company were \$7,320 and \$7,520 for the automatic YRT and \$74,728 and \$68,985 for the facultative YRT, as of December 31, 2019 and 2018, respectively.

Effective January 1, 1992, the Company entered into a quota share contract with Employers Reinsurance Corporation (ERC) covering long-term care (LTC) policies. ERC has since changed its name to Westport Insurance Corporation. Reserves ceded, excluding unearned premiums, by the Company as of December 31, 2019 and 2018, were \$643,612 and \$1,024,589, respectively.

Effective February 1, 1998, the Company entered into a quota share contract with ERC covering LTC policies. ERC has changed its name to Westport Insurance Corporation. Reserves ceded, excluding unearned premiums, by the Company as of December 31, 2019 and 2018, were \$5,939,061 and \$5,622,919, respectively.

Effective October 1, 2011, the Company entered into a reinsurance agreement with GLIC to cede, on a coinsurance basis, 100% of the remaining outstanding LTC business written by the Company. Reserves ceded by the Company as of December 31, 2019 and 2018, were \$6,118,866 and \$5,897,255, respectively.

## **ACCOUNTS AND RECORDS**

During the course of the examination, certain balances were tested, and amounts were traced from the Company's trial balance to the annual statement. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed. The test checks and reviews revealed no material discrepancies.

The Company's books and records are located in Franklin, Tennessee.

## **MARKET CONDUCT ACTIVITIES**

A market conduct review was made of the Company, as of December 31, 2019, in conjunction with this examination. The following items were addressed:

### **Operations and Management Standards**

Company antifraud initiatives were examined to determine if the initiatives are reasonably designed to prevent, detect, or mitigate fraudulent insurance acts, as required by Tenn. Code Ann. § 56-53-111(a) and (b). One (1) exception was noted relating to two (2) claim forms and one (1) Statement of Attending Physician form that lacked a fraud warning statement, as required by Tenn. Code Ann. § 56-53-111(b)(1)(A). See "Comments and Recommendations" section in this report.

Additionally, Company procedures and policies relating to privacy were reviewed to determine compliance with Tenn. Code Ann. § 56-8-104(19). No issues were noted.

### **Complaint Handling Standards**

The Company maintains a complaint register, as required by various state Unfair Trade Practices Acts, and the register and the accompanying files were maintained for a minimum of five (5) years in accordance with statutory requirements. The Company's complaint procedures and complaint register were examined in accordance with requirements of Tenn. Code Ann. § 56-8-104(11) and the NAIC *Market Regulation Handbook* ("Market Handbook"). No exceptions were noted.

### **Marketing and Sales Standards**

Each of the Company's advertising materials used as of December 31, 2019, were selected for examination, including print and internet materials issued by the Company to target consumers and agents. Advertising items were examined in accordance with Tenn. Code Ann. §§ 56-7-1507 and 56-8-104(1, 2, 3), and Tenn. Comp. R. & Regs. 0780-1-33 and were found to be in compliance.

The Company's 2019 replacement register and replacement files were examined in accordance with Tenn. Comp. R. & Regs. 0780-1-24. The Company was unable to provide evidence that sufficient notice regarding replacement had been sent to the existing insurers in each of the two (2) replacement files reviewed. Additionally, it was noted that the Company did not always provide a list of materials used by the agent during the sales presentation in either instance of replacement. The Company's inability to provide the information listed above constitutes a violation of Tenn. Comp. R. &

Regs.0780-1-24.07(2)(b) and (4). See “Comments and Recommendations” section in this report.

### **Producer Licensing Standards**

Tenn. Code Ann. §§ 56-6-101, *et seq.*, requires the Company to sell its products and services through producers who are properly licensed and appointed by the Company. In the examination of producer licensing, a random sample of producers was selected to determine compliance with applicable Tennessee laws, regulations, and rules, as well as Market Handbook Standards regarding licensure and appointment.

The following exception was noted:

Producer was not Appointed at the Time of Insurance Policy Application – In six (6) instances, the producer was not appointed at the time of the insurance policy application date.

This is in violation of the following:

- Tenn. Code Ann. § 56-6-115 - Requirement that an insurance producer not act as an agent of the insurer unless the insurance producer becomes an appointed agent of that insurer.
- Market Handbook Standard 2 - Requirement that the producers are properly licensed and appointed.

See “Comments and Recommendations” section in this report.

### **Policyholder Services Standards**

The Company’s timeliness of policy issuance, premium billing, response to policyholder requests, provision of adequate disclosures, and compliance with applicable statutes and rules were examined. The Company was found to be in compliance with the relevant market conduct standards.

### **Underwriting and Rating Standards**

A random sample of policies was selected to determine whether premiums were based on applicable filed rates. Premiums were manually calculated. No exceptions were noted.

An examination of the Company’s underwriting policies and procedures was conducted to determine compliance with Tenn. Comp. R. & Regs. 0780-01-34. No instances of unfair methods of competition or unfair or deceptive acts were noted.

The Company provided a listing of policy forms in use during the period of examination. All forms were noted, without exception, as having been filed with the TDCI prior to use, in accordance with Tenn. Code Ann. §§ 56-7-2311(a) and 56-26-102.

### **Claims Handling Standards**

In the examination of claims handling practices, the Company's efficiency of claim handling, accuracy of payment, adherence to contract provisions, and compliance with applicable statutes and rules were examined. In conducting the examination, random samples were selected from claims approved, resisted, and denied by the Company.

The Company's claims policies and procedures were obtained and reviewed for compliance with Tenn. Code Ann. § 56-8-105. It was noted that the Company was unable to provide policies and procedures for processing life claims, which is a violation of Tenn. Code Ann. § 56-8-105(3). Additionally, each of the claims policies and procedures provided lacked standards for acknowledging pertinent communications with respect to claims arising under its policies, as well as standards for prompt investigation and settlement of claims, as required by Tenn. Code Ann. § 56-8-105(2) and (3). See "Comments and Recommendations" section in this report.

## **SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets, all of which are uncertain and cannot be predicted. Due to the timing of the examination and field work, the effects of the pandemic on this entity are not fully addressed within this examination report.

## FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, surplus and other funds, and a summary of operations, as of December 31, 2019, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2019 Annual Statement.

### ASSETS

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$241,304,291		\$241,304,291
Common stocks	124,791,004		124,791,004
Mortgage loans on real estate	8,370,030		8,370,030
Cash, cash equivalents, and short-term investments	(12,211,514)		(12,211,514)
Contract loans	1,159,719		1,159,719
Receivables for securities	500		500
Investment income due or accrued	1,629,151		1,629,151
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	1,830,637	\$37,553	1,793,084
Deferred premiums and agents' balances and installments booked but deferred and not yet due	1,320,570		1,320,570
Reinsurance:			
Other amounts receivable under reinsurance contracts	4,029		4,029
Current federal income tax recoverable	5,960,334		5,960,334
Net deferred tax asset	147,860	119,106	28,754
Guaranty funds receivable	1,379,602		1,379,602
Healthcare and other amounts receivable	171,400	171,400	
Aggregate write-ins for other than invested assets	<u>36,631,565</u>	<u>34,855,435</u>	<u>1,776,130</u>
<b>Totals</b>	<b><u>\$412,489,178</u></b>	<b><u>\$35,183,494</u></b>	<b><u>\$377,305,684</u></b>

## LIABILITIES, SURPLUS, AND OTHER FUNDS

Aggregate reserve for life contracts		\$29,035,942
Aggregate reserve for accident and health contracts		66,821,471
Contract claims:		
Life		398,825
Accident and Health		52,904,135
Premiums and annuity considerations for life and accident and health contracts received in advance		8,901,948
Commissions to agents due or accrued		798,196
General expenses due and accrued		5,478,474
Taxes, licenses, and fees due or accrued		3,731,423
Amounts withheld by company as agent or trustee		50,251
Remittances and items not allocated		547,458
Miscellaneous liabilities:		
Asset valuation reserve (AVR)		1,155,658
Payable to parent, subsidiaries, and affiliates		10,004,852
Aggregate write-ins for liabilities		<u>2,341,293</u>
Total Liabilities		\$182,169,926
Common capital stock	\$2,504,150	
Gross paid in and contributed surplus	321,194,031	
Unassigned funds (surplus)	<u>(128,562,423)</u>	
Total Capital and Surplus		<u>195,135,758</u>
<b>Totals</b>		<b><u>\$377,305,684</u></b>

## SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and A&H	\$575,893,075	
Net investment income	8,187,337	
Amortization of interest maintenance reserve (IMR)	(139,996)	
Commissions and allowances on reinsurance ceded	68,272	
Aggregate write-ins for miscellaneous income	<u>574,561</u>	
<b>Total Income</b>		<b>\$584,583,249</b>
Death benefits	3,620,318	
Disability benefits and benefits under A&H contracts	431,066,713	
Surrender benefits and withdrawals for life contracts	108,848	
Increase in aggregate reserves for life and A&H	<u>12,603,639</u>	
<b>Total Benefits</b>		<b>447,399,518</b>
Commissions on premiums and annuity considerations	100,442,520	
General insurance expenses	50,989,032	
Taxes, licenses, and fees, excluding federal income	12,298,840	
Increase in loading on deferred and uncollected premiums	(17,136)	
Aggregate write-ins for deductions	<u>1,213</u>	
<b>Total Expenses</b>		<b><u>611,113,987</u></b>
Net gain from operations after dividends to policyholders and before federal income taxes		(26,530,738)
Federal and foreign income taxes incurred		<u>346,363</u>
Net gain from operations after dividends and income taxes and before realized capital gains or (losses)		(26,877,101)
Net realized capital gains or (losses) less capital gain tax		<u>(15,007)</u>
<b>Net Income (Loss)</b>		<b><u>(\$26,892,108)</u></b>

### CAPITAL AND SURPLUS ACCOUNT

	<u>2019</u>	<u>2018*</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Capital and Surplus					
December 31, previous year	<u>\$204,045,030</u>	<u>\$194,389,913</u>	<u>\$173,830,455</u>	<u>\$144,256,732</u>	<u>\$156,366,779</u>
Net income or (loss)	(26,892,108)	(13,498,240)	(9,492,576)	(7,754,914)	(1,217,375)
Change in net unrealized capital gains or (losses)	1,491,897	(6,941,683)	(14,239,644)	(20,740,660)	(13,637,877)
Change in net deferred income tax	147,860	(190,741)	(65,698,013)	7,033,670	5,111,848
Change in non-admitted assets	(8,556,790)	(9,585,436)	45,178,648	(15,686,135)	(2,201,003)
Change in asset valuation reserve	(100,131)	(128,782)	(188,988)	(278,238)	(165,640)
Paid in surplus	<u>25,000,000</u>	<u>40,000,000</u>	<u>65,000,000</u>	<u>67,000,000</u>	<u>0</u>
Net change in capital and surplus for the year	<u>(8,909,272)</u>	<u>9,655,118</u>	<u>20,559,427</u>	<u>29,573,723</u>	<u>(12,110,047)</u>
Capital and Surplus					
December 31, current year	<u>\$195,135,758</u>	<u>\$204,045,030</u>	<u>\$194,389,882</u>	<u>\$173,830,455</u>	<u>\$144,256,732</u>

*\*Immaterial rounding difference to correct beginning balance of capital and surplus.*

## ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus

\$195,135,758

Total capital and surplus, as established by this examination, is the same as reported by the Company in its 2019 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2019.

## COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

### Comments

There were no comments noted during the completion of this examination.

### Recommendations

1. As noted in the "Operations and Management Standards" section of the report, the Company had one (1) exception relating to two (2) claim forms and one (1) Statement of Attending Physician form that lacked a fraud warning statement.

It is recommended that the Company update its claim forms and attending physician forms to include the required fraud warning statement in order to be in compliance with Tenn. Code Ann. § 56-53-111(b)(1)(A). See the "Market Conduct Activities" section of the report.

2. As noted in the "Marketing and Sales Standards" section of the report, the Company was unable to provide evidence that sufficient notice regarding replacement had been sent to the existing insurers.

It is recommended that (1) the Company provide the existing insurer sufficient notice regarding replacement when an individual intends to replace an existing life insurance policy; and (2) the Company obtain from the producer a list of sales materials used during sales presentations in order to be in compliance with Tenn. Comp. R. & Regs. 0780-1-24.07(2)(b) and (4).

3. As noted in the "Producer Licensing Standards" section of the report, there were six (6) instances in which the producer was not appointed at the time of the insurance policy application date.

It is recommended that the Company records of licensed and appointed producers agree with insurance department records. It is also recommended that the Company establish processes to ensure that producers are properly appointed before acting as an agent of the insurer in compliance with Tenn. Code Ann. § 56-6-115.

4. As noted in the “Claims Handling Standards” section of the report, the Company was unable to provide policies and procedures for processing life claims.

It is recommended that (1) the Company document its life insurance claims policies and procedures; and (2) the Company update each of its claims policies and procedures documents to include standards for acknowledging pertinent communications with respect to claims arising under its policies, as well as standards for prompt investigation and settlement of claims in order to be in compliance with Tenn. Code Ann. § 56-8-105(2) and (3).

## CONCLUSION

Rules and procedures as prescribed by the statutes of the State of Tennessee and guidance from the NAIC Handbook, as deemed appropriate, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Continental Life Insurance Company of Brentwood, Tennessee.

In such manner, it was found that as of December 31, 2019, the Company had admitted assets of \$377,305,684 and liabilities, exclusive of capital and surplus, of \$182,169,926. Thus, there existed for the additional protection of the policyholders, the amount of \$195,135,758 in the form of common capital stock, gross paid in and contributed surplus, and unassigned funds. Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum capital of \$1,000,000 and minimum surplus of \$1,000,000, respectively. For this examination, as of December 31, 2019, the Company maintains capital and surplus sufficient to satisfy those requirements.

The courteous cooperation of the officers and employees of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Jim Hattaway, CFE, CIE, Examination Supervisor, Julie Smith, AFE, and Joseph DeVries, CPA, AFE, Insurance Examiners, and Linda Armstrong, Market Conduct Examiner, of Noble Consulting Services, Inc.; and Rhonda Bowling-Black, CFE, ARe, MCM, of the Tennessee Department of Commerce and Insurance, participated in the work of this examination. An actuarial review was performed by Kirk Braunius, ASA, MAAA, and Marc Altschull, CFA, FSA, MAAA, of the actuarial firm Merlinos & Associates, Inc. of Peachtree Corners, Georgia. A review of the Company's information systems was performed by Carol Riley, AES, CISA, CGEIT, CRISC, CDPSE, and Sharon Riley, CISA, CGEIT, AIRC, FLMI, CDPSE, of Noble Consulting Services of Indianapolis, Indiana.

Respectfully submitted,



\_\_\_\_\_  
Scott Williams, CFE, CPA  
Examiner-in-Charge  
Noble Consulting Services, Inc.  
Representing the State of Tennessee



\_\_\_\_\_  
A. Jay Uselton, CFE  
Department Designee  
Tennessee Department of Commerce and Insurance

# AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Continental Life Insurance Company of Brentwood, Tennessee located in Franklin, Tennessee, dated March 31, 2021, and made as of December 31, 2019, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.

*Scott Williams*

Scott Williams, CFE, CPA  
Examiner-in-Charge  
Noble Consulting Services, Inc.  
Representing the State of Tennessee

State Indiana

County Hamilton

Subscribed to and sworn before me

this 17<sup>th</sup> day of June, 2021

*Robin D Garrett*

(NOTARY)

My Commission Expires: 9-26-2025



Robin D Garrett, Notary Public  
Hamilton County, State of Indiana  
My Commission Expires  
September 26, 2025

**AFFIDAVIT**

The undersigned deposes and says that he has duly executed the attached examination report of Continental Life Insurance Company of Brentwood, Tennessee located in Franklin, Tennessee, dated March 31, 2021, and made as of December 31, 2019, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.

\_\_\_\_\_  
A. Jay Uselton, CFE  
Department Designee  
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 18<sup>th</sup> day of June, 2021

\_\_\_\_\_  
(NOTARY)

My Commission Expires: 1/6/2025



# **EXHIBIT B**



**Aetna Senior Supplemental Insurance**  
1026 Reams Fleming Blvd  
Franklin, TN 37064

06/29/2021

E. Joy Little  
Director of Financial Examinations/Chief Examiner  
Tennessee Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, TN 37243-1135

**RE: Report of Examination – Continental Life Insurance Company of Brentwood**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for Continental Life Insurance Company of Brentwood, made as of December 31, 2019.

By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

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**Tyree Scott Wooldridge**  
**President and Chief Executive Officer**  
American Continental Insurance Company  
Continental Life Insurance Company of Brentwood, Tennessee