



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION
OF
CONTINENTAL LIFE INSURANCE COMPANY
OF
BRENTWOOD, TENNESSEE
(NAIC # 68500)
(NAIC Group # 0001)
FRANKLIN, TENNESSEE

AS OF
DECEMBER 31, 2020

TABLE OF CONTENTS

Introduction	1
Scope of Examination	1
Compliance with Previous Examination Findings	3
Company History	4
Management and Control	6
Management	6
Control	7
Abbreviated Organizational Chart	8
Dividends	8
Corporate Records	8
Agreements with Parent and Affiliates	9
Territory and Plan of Operation	11
Growth of Company	12
Loss Experience	12
Reinsurance Agreements	13
Accounts and Records	13
Market Conduct Activities	14
Subsequent Events	17
Financial Statements	18
Assets	18
Liabilities, Surplus, and Other Funds	19
Summary of Operations	20
Capital and Surplus Account	21
Analysis of Changes in Financial Statements	22
Comments and Recommendations	22
Conclusion	24
Affidavit	25
Affidavit	26

Franklin, Tennessee
April 28, 2022

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, 2020, has been made of the condition and affairs of:

CONTINENTAL LIFE INSURANCE COMPANY OF BRENTWOOD, TENNESSEE

NAIC # 68500
NAIC Group # 0001
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 coordinated with other states pursuant to National Association of Insurance Commissioners (NAIC) guidelines. Further description of the coordination effort between the states is discussed below under the heading “Scope of Examination.”

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2019. This examination covers the period January 1, 2020, through December 31, 2020, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination.

The Company is a member of the CVS Group, NAIC Group Code 0001. CVS Health Corporation (“CVS Health”) acquired Aetna, Inc. (“Aetna”) on November 28, 2018. Connecticut is the Lead State of the CVS Group. Arizona, Florida, Georgia, Illinois, Iowa, Kansas, Louisiana, Maine, Michigan, Minnesota, Missouri, Nebraska, North Carolina, New Jersey, New York, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Utah, Virginia, Vermont, Washington, and West Virginia served as participating states in the coordinated group 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”) and the NAIC *Market Regulation Handbook* (“Market Handbook”), as deemed appropriate. The examination was planned and performed to evaluate the financial condition of the Company, as of December 31, 2020. 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: Financial Reporting; Investments; Reinsurance; Premiums/Underwriting; Reserves; Claims; Related Party/Taxes; and Capital and Surplus.

The Company’s 2020 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, 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 were requested for specific processes which had been identified as significant to the key

activities and sub-activities being examined. The workpapers were provided and were utilized, where appropriate.

Independent information technology specialist services, provided by Risk and Regulatory Consulting, LLC, were utilized in the examination review of the Company's information technology general controls (ITGC).

The actuarial firm of Lewis & Ellis, Inc. was utilized in the examination review of the Company's 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 2020 audit, and copies were incorporated into the examination, as deemed appropriate.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

There were four (4) recommendations pertaining to market conduct activities noted in the prior examination report as of December 31, 2019.

1. It was recommended that the Company update its claims 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).
2. It was 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. 0780-01-24-.07(2)(b) and (4).
3. It was recommended that the Company records of licensed and appointed producers agree with insurance department records. It was 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. It was recommended that (1) the Company document its life insurance claims policies and procedures; and (2) the Company update each of its claim's 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).

It should be noted that the time period for this examination pre-dated the finalization of the prior examination. See the “Comments and Recommendations” section in this report.

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 of \$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, 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 \$69,000,000,000 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-six (46) 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.

As of December 31, 2020, 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 did not receive any capital contributions from Aetna.

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 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 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, 2020.

<u>Name</u>	<u>Principal Occupation</u>
Tyree Scott Wooldridge	President and Chief Executive Officer Continental Life Insurance Company of Brentwood, TN
Robert Sean Healy	Vice President, Capital Management CVS Health Corporation
Steven Louis Hendrich	Senior Vice President, General Counsel and Secretary Continental Life Insurance Company of Brentwood, TN

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, 2020:

<u>Name</u>	<u>Title</u>
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
Elizabeth Suzanne Coen	Chief Financial Officer
Peter Keller	Assistant Controller
Bryan James Lane	Assistant Controller
Whitney Dorothy Lavoie	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 committee reports material issues, if any, to the ultimate parent audit committee of CVS Health.

CONTROL

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101(7), and as such, is subject to the Insurance Holding Company System Act of 1986, set forth in Tenn. Code Ann. §§ 56-11-101, *et seq.* 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 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
Continental Life Insurance Company of Brentwood, Tennessee	68500	TN
American Continental Insurance Company	12321	TN
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 Audit Committee 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. Effective April 17, 2012, the Charter was amended to reflect the Company's current address at 1021 Reams Fleming Blvd., Franklin, Williamson County, Tennessee.

According to the current Charter, 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, 2020.

The Bylaws provide for an annual shareholder's meeting at which time 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, 2020:

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 2020 and 2019, CLIC incurred expenses of \$165,313,688 and \$150,669,187 respectively, related to the agreement.

Services and Shared Expenses Agreement

Effective August 1, 2012, CLIC entered into a Services and Shared Expenses Agreement with American Continental Insurance Company (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, 2020, and 2019, ACIC received net payments of \$57,546 and \$6,935,098, 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 Medicare 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 2020 and 2019, 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. At the date of this report, the Unconditional Guaranty Agreement between the Company and ACIC is still in effect.

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 joined the CVS Health TSA for sharing and settlement of state taxes only. Until such time that CLIC and ACIC are eligible to join the CVS Group federal tax filing, the CVS Health TSA will govern the sharing and settlement of federal taxes between CLIC and ACIC.

TERRITORY AND PLAN OF OPERATION

TERRITORY

As of December 31, 2020, 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, 2020.

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 CVS Health'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>
2020	\$492,890,683	\$227,557,931	\$265,332,752	\$659,114,882	\$21,444,773
2019	\$377,305,684	\$182,169,926	\$195,135,758	\$575,893,075	(\$26,892,108)

LOSS EXPERIENCE

The tables below show the mortality and loss experience as of December 31, 2020, for each year under examination, developed from applicable amounts included in the Company's annual statements.

Life:

Ordinary Life

	<u>2020</u>	<u>2019</u>
Net Death Benefits	\$3,554,793	\$3,620,318
Less-Reserves Released by Death	<u>\$1,421,372</u>	<u>\$1,421,372</u>
Actual Death Benefits Incurred	\$2,133,421	\$2,198,946
Divided by Expected Mortality	<u>\$6,154,464</u>	<u>\$3,096,453</u>
Mortality Experience Ratio	<u>34.66%</u>	<u>71.01%</u>

Accident & Health:

Group Accident & Health

	<u>2020</u>	<u>2019</u>
Net incurred claims	\$2,253,517	\$1,172,891
Net premiums earned	<u>\$3,063,642</u>	<u>\$1,484,542</u>
Loss experience ratio	<u>73.56%</u>	<u>79.01%</u>

Other Accident & Health

	<u>2020</u>	<u>2019</u>
Net incurred claims	\$435,259,835	\$429,893,822
Net premiums earned	<u>\$653,156,284</u>	<u>\$571,043,602</u>
Loss experience ratio	<u>66.64%</u>	<u>75.28%</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 \$7,554 and \$7,320 for the automatic YRT and \$59,049 and \$74,728 for the facultative YRT, as of December 31, 2020, and 2019, 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 ("Westport"). Reserves ceded, excluding unearned premiums, by the Company as of December 31, 2020, and 2019 were \$587,642 and \$643,612, respectively.

Effective February 1, 1998, the Company entered into a quota share contract with ERC (Westport) covering LTC policies. Reserves ceded, excluding unearned premiums, by the Company as of December 31, 2020, and 2019 were \$6,077,416 and \$5,939,061, respectively.

Effective October 1, 2011, the Company entered into a reinsurance agreement with GLIC to cede, on a coinsurance basis, one hundred percent (100%) of the remaining outstanding LTC business written by the Company. Reserves ceded by the Company as of December 31, 2020, and 2019 were \$6,239,906 and \$6,118,866, 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, 2020, in conjunction with this examination. The following items were addressed:

Operations and Management Standards

Company antifraud initiatives were examined to determine if they are reasonably designed to prevent, detect, or mitigate fraudulent insurance acts as required by Tenn. Code Ann. § 56-53-111(a) and (b). The examination included a review of a sample of claim forms and attending physician forms.

This exception was noted:

- In some instances, claim forms and attending physician forms lacked a fraud warning statement, as required by Tenn. Code Ann. § 56-53-111(b)(1)(A).

See the "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 State of Tennessee Unfair Trade Practices Acts. The Company's complaint procedures and complaint register were examined to determine compliance with requirements of Tenn. Code Ann. §§ 56-8-104(11), 56-1-106, and the NAIC Market Handbook.

The following exception was noted:

Untimely Response to TDCI Complaint

The Company failed to provide a timely response to the TDCI regarding complaints. This is in violation of Tenn. Code Ann. § 56-1-106.

See the "Comments and Recommendations" section in this report.

Marketing and Sales Standards

Each of the Company's advertising materials, used as of December 31, 2020, were selected for examination in accordance with Tenn. Code Ann. §§ 56-8-104(1-3) and 56-7-1507; and Tenn. Comp. R. & Regs. 0780-01-33. No exceptions were noted.

A sample of producer training materials utilized as of December 31, 2020, was selected for review. The materials included training presentations, email bulletins, incentive notices, newsletters, and print ads. Each of the materials appeared to reasonably state the types of policies available, sales incentives, states and territories in which business can be written, etc.

The Company's 2020 Medicare Supplement policy replacements were reviewed for compliance with Tenn. Comp. R. & Regs. 0780-01-58-.24. From this review, it was noted that a policyholder held multiple Medicare Supplement policies for a period of time. The Company failed to identify the duplicate policies at the time of issue, which constitutes a violation of Tenn. Comp. R. & Regs. 0780-01-58-.24. See the "Comments and Recommendations" section in this report.

Producer Licensing and Appointment Standards

New Business Review

A review of the Company's new business records was conducted to determine compliance with the requirement that producers are properly licensed and appointed at the time of insurance policy application.

The following exception was noted:

- In some instances, the producer was not properly appointed before the application date or within fifteen (15) days of the date an application was first submitted to the Company.

This is in violation of Tenn. Code Ann. § 56-6-115, which sets forth the standards for appointment of producers and not in compliance with Standard 2 of the Market Handbook, Chapter 20, Producer Licensing ("Producer Licensing Standard 2"), which requires that producers are properly licensed and appointed. See the "Comments and Recommendations" section in this report.

Producer Terminations

Reconciliation of Company Records Compared to State Records

A review was conducted to determine whether the Company's producer termination records reconciled with the TDCI's records.

The following exception was noted:

- The Company failed to properly terminate one (1) producer's appointment, in violation of Tenn. Code Ann. § 56-6-117.

See the "Comments and Recommendations" section in this report.

Failure to Issue Producer Termination Notifications

A review was conducted to determine whether the Company properly issued producer termination notifications.

The following exception was noted:

- The Company failed to issue producer termination notices. In each of these instances, no termination fees were paid.

This is in violation of Tenn. Code Ann. § 56-6-117, which sets forth the standards for termination of producers. See the "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 was examined. Thorough review of a sample of insured-requested cancellations, it was noted that one (1) cancellation was not processed within thirty (30) days. The remainder of the reviews conducted in this area appeared to evidence 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. No exceptions were noted.

A review 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 their 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, cancelled/voided, and denied by the Company.

The following exceptions were noted:

- Some claims were not processed (i.e., paid or denied) within the timeframe required by Tenn. Code. Ann. § 56-7-109(b)(1)(A) and (B).
- Each of the claims policies and procedures reviewed appeared to lack standards for prompt investigation and settlement of claims as required by Tenn. Code Ann. § 56-8-105(3), as well as standards for responding to claims correspondence in a timely manner, as required by Tenn. Code. Ann. § 56-8-105(2).

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. No events were noted that required additional disclosure in this examination report. Management stated in its Letter of Representation that they were not aware of any events subsequent to December 31, 2020, that could have a material effect on the Company's financial condition. Our review confirmed the Company's disclosures in its 2020 Annual Statement and its Letter of Representation.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, surplus and other funds, and a summary of operations, as of December 31, 2020, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2020 Annual Statement.

ASSETS

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$273,591,080		\$273,591,080
Common stocks	182,520,727		182,520,727
Mortgage loans on real estate	4,869,175		4,869,175
Cash, cash equivalents, and short-term investments	23,686,963		23,686,963
Contract loans	1,293,824		1,293,824
Receivables for securities	11,500		11,500
Investment income due or accrued	1,745,423		1,745,423
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	2,323,024	\$147,368	2,175,656
Deferred premiums and agents' balances and installments booked but deferred and not yet due	1,198,057		1,198,057
Reinsurance:			
Other amounts receivable under reinsurance contracts	18,608		18,608
Current federal income tax recoverable	1,662,610	1,662,610	0
Net deferred tax asset	149,806	122,592	27,214
Guaranty funds receivable	1,458,493		1,458,493
Aggregate write-ins for other than invested assets	<u>42,273,684</u>	<u>41,979,721</u>	<u>293,963</u>
Totals	<u>\$536,802,974</u>	<u>\$43,912,291</u>	<u>\$492,890,683</u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

Aggregate reserve for life contracts		\$28,640,416
Aggregate reserve for accident and health contracts		77,377,311
Contract claims:		
Life		483,185
Accident and Health		69,862,218
Premiums and annuity considerations for life and accident and health contracts received in advance		8,374,604
Commissions to agents due or accrued		796,813
General expenses due and accrued		6,280,719
Taxes, licenses, and fees due or accrued		3,516,249
Current federal and foreign income taxes		8,997,108
Amounts withheld by company as agent or trustee		6,934
Remittances and items not allocated		199,164
Miscellaneous liabilities:		
Asset valuation reserve (AVR)		1,406,309
Payable to parent, subsidiaries, and affiliates		17,756,070
Payable for securities		455,697
Aggregate write-ins for liabilities		<u>3,405,134</u>
 Total Liabilities		 <u>\$227,557,931</u>
 Common capital stock	\$2,504,150	
Gross paid in and contributed surplus	321,194,031	
Unassigned funds (surplus)	<u>(58,365,429)</u>	
 Total Capital and Surplus		 <u>265,332,752</u>
 Totals		 <u>\$492,890,683</u>

* *Balances include immaterial rounding differences.*

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and A&H	\$659,114,882	
Net investment income	7,760,601	
Amortization of interest maintenance reserve (IMR)	54,849	
Commissions and allowances on reinsurance ceded	68,129	
Aggregate write-ins for miscellaneous income	<u>628,043</u>	
Total Income		\$667,626,504
Death benefits	3,554,793	
Disability benefits and benefits under A&H contracts	437,513,352	
Increase in aggregate reserves for life and A&H	<u>10,160,316</u>	
Total Benefits		451,228,461
Commissions on premiums and annuity considerations	116,798,167	
General insurance expenses	48,950,386	
Taxes, licenses, and fees, excluding federal income taxes	15,987,322	
Increase in loading on deferred and uncollected premiums	(27,832)	
Aggregate write-ins for deductions	<u>4,956</u>	
Total Expenses		<u>181,712,999</u>
Net gain from operations after dividends to policyholders and before federal income taxes		34,685,044
Federal and foreign income taxes incurred		<u>13,147,363</u>
Net gain from operations after dividends and income taxes and before realized capital gains or (losses)		21,537,681
Net realized capital gains or (losses) less capital gain tax		<u>(92,908)</u>
Net Income (Loss)		<u>\$21,444,773</u>

* Balances include immaterial rounding differences.

CAPITAL AND SURPLUS ACCOUNT

	<u>2020</u>	<u>2019*</u>
Capital and Surplus		
December 31, previous year	<u>\$195,135,758</u>	<u>\$204,045,030</u>
Net income or (loss)	21,444,773	(26,892,108)
Change in net unrealized capital		
gains or (losses)	57,729,723	1,491,897
Change in net deferred income tax	1,946	147,860
Change in non-admitted assets	(8,728,797)	(8,556,790)
Change in asset valuation reserve	(250,651)	(100,131)
Paid in surplus	<u>0</u>	<u>25,000,000</u>
Net change in capital and surplus		
for the year	<u>70,196,994</u>	<u>(8,909,272)</u>
Capital and Surplus		
December 31, current year	<u>\$265,332,752</u>	<u>\$195,135,758</u>

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

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus

\$265,332,752

Total capital and surplus, as established by this examination, is the same as reported by the Company in its 2020 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2020.

COMMENTS AND RECOMMENDATIONS

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

Comments

1. As noted in the “Operations and Management Standards” section in this report, during the review of a sample of claim forms, it was noted that in some instances, the claim forms and attending physician forms lacked a fraud warning statement.

The Company is in the process of updating its claim forms and attending physician forms to include the required fraud warning statement to comply with Tenn. Code Ann. § 56-53-111(b)(1)(A).

2. As noted in the “Producer License and Appointment Review - New Business” section of this report, in multiple instances the producer was not properly appointed within fifteen (15) days of the application date.

The Company should take appropriate action to ensure all producers are properly appointed within fifteen (15) days of (1) entering into a contract or (2) the date the first application is submitted to the Company and that all requirements of Tenn. Code Ann. § 56-6-115 have been met.

3. As noted in the “Claims Handling Standards” section, it was noted that some claims were not processed timely, and the Company’s claims policies and procedures lacked standards for responding to claims correspondence in a timely manner, as well as standards for prompt investigation and settlement of claims.

The Company was not in compliance with the relevant statutes during this examination period. The Company is currently in the process of remediating these issues.

Recommendations

1. As noted in the “Complaint Handling Standards” section of this report, three (3) instances were noted where the Company failed to provide a timely response to the TDCI regarding complaints.

It is recommended that the Company comply with Tenn. Code Ann. § 56-1-106 and provide a timely response to all complaints based upon the due date specified in the TDCI complaint letter.

2. As noted in the “Marketing and Sales Standards” section in this report, three (3) instances were identified in which a Medicare Supplement policyholder held more than one (1) Medicare Supplement policy at the same time.

It is recommended that the Company update its processes to better identify Medicare Supplement policyholders that have an existing policy prior to issuance of a new policy in order to be in compliance with Tenn. Comp. R. & Regs. 0780-01-58-.24.

3. As noted in the “Producer Terminations” section of this report, in one (1) instance the Company failed to properly terminate a producer’s appointment, which was noted during a reconciliation of the Company’s records with those of the TDCI. There were also instances in which the Company failed to properly issue producer termination notices and pay the associated fees.

It is recommended that the Company take appropriate action to comply with Tenn. Code Ann. §§ 56-6-101, *et seq.*, by notifying the producer and the Commissioner of the Company’s termination of a producer within thirty (30) days following the effective date of the termination.

CONCLUSION

Rules and procedures as prescribed by the statutes of the State of Tennessee and guidance from the NAIC Handbook as well as the NAIC Market 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, 2020, the Company had admitted assets of \$492,890,683 and liabilities, exclusive of capital and surplus, of \$227,557,931. Thus, there existed for the additional protection of the policyholders, the amount of \$265,332,752 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, 2020, 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, CFE, and Joseph DeVries, CPA, CFE, Insurance Examiners, Linda Armstrong, and Shelby Lambert, CFE, AIE, MCM, Market Conduct Examiners, 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 Karen Elsom, FSA, MAAA, of the actuarial firm Lewis & Ellis of Overland Park, Kansas. A review of the Company's information systems was performed by Risk & Regulatory Consulting under the direction of Ken Roulier, Connecticut IT Specialist.

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 April 28, 2022, and made as of December 31, 2020, 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

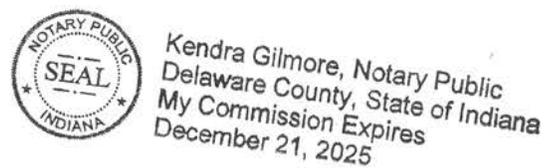
County Delaware

Subscribed to and sworn before me

this 21st day of June, 2022

[Signature]
(NOTARY)

My Commission Expires: December 21, 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 April 28, 2022, and made as of December 31, 2020, 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 21st day of June, 2022

Mandy Johnson
(NOTARY)



My Commission Expires: 7-7-2025

EXHIBIT B



Aetna Senior Supplemental Insurance

June 22, 2022

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, Tennessee**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for Continental Life Insurance Company of Brentwood, Tennessee, made as of December 31, 2020 as received via email with your transmittal letter dated June 21, 2022.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Tyree S. Wooldridge". The signature is written in a cursive, flowing style.

Tyree S. Wooldridge
President and Chief Executive Officer
Continental Life Insurance Company of Brentwood, Tennessee