STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

FIRST REHABILITATION LIFE INSURANCE COMPANY OF AMERICA

AS OF

DECEMBER 31, 2000

DATE OF REPORT:	SEPTEMBER 7, 2001
EXAMINER:	KENNETH WEITZ

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

September 7, 2001

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 21231, dated February 24, 2001 annexed hereto, an examination has been made into the condition and affairs of First Rehabilitation Life Insurance Company of America, hereinafter referred to as "the Company," at its home office located at 600 Northern Boulevard, Great Neck, New York 11021.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2000 filed annual statement. (See item 5 of this report)

The examiner recommends that the Company continue to monitor the loss ratios for group accident and health insurance coverages. This was a violation in the prior report on examination. (See item 4 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1997. This examination covers the period from January 1, 1998 through December 31, 2000. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2000 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2000 to determine whether the Company's 2000 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Company history
Management and control
Corporate records
Fidelity bond and other insurance
Officers' and employees' welfare and pension plans
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to the violations contained in the prior report on examination. The results of the examiner's review are contained in item 7 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated in New York as a stock insurance company under the name of First Rehabilitation Insurance Company of America on August 12, 1971. The Company was licensed on August 8, 1972 to write accident and health insurance as specified in paragraph 3 of Section 1113(a) of the New York Insurance Law and commenced business on November 1, 1972. In January 1997, the Company amended its charter to include the writing of life insurance and annuities as specified in paragraphs 1 and 2 of Section 1113(a) of the New York Insurance Law. Effective January 1, 1997, the Department issued a license to the Company under the name of First Rehabilitation Life Insurance Company of America. As of December 31, 2000, the Company reported common capital stock of $2,000,000, provided through the sale of 20,000 shares of common stock with a par value of $100 per share, and paid in and contributed surplus of $4,000,000.

B. Holding Company

The Company is a wholly owned subsidiary of Rehab Services Corporation ("Rehab Services"), a New York domiciled insurance holding company. The major stockholders of Rehab Services are Seth Goldberg (15%), Bruce Goldberg (15%), Glenn Goldberg (15%) and the estate of Donald D. Goldberg (34%).

The Company has a service agreement in effect with Bruce Goldberg for claims consulting and review services. The Company and Rehab Services file a consolidated tax return. The Company has a consolidated tax allocation agreement on file with the Department in accordance with Department Circular Letter No. 33 (1979).

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than 21 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in November of each year. As of December 31, 2000, the board of directors consisted of 12 members. Meetings of the board are held quarterly.

The 12 board members and their principal business affiliation, as of December 31, 2000, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
John Baldwin Pleasantville, NY	President First Rehabilitation Life Insurance Company of America	1981
Anthony Barbiero* Elmont, NY	Attorney Anthony Barbiero, P.C.	1972
Mehmet Cetin* Sarasota, FL	Retired	1972
Peter Demetriou* Hempstead, NY	Insurance Agent Davis Agency, Inc.	1977
Gerald Dolman* Brooklyn, NY	Executive Vice President Administrators of the Professions, Inc.	1998
Herbert Gerstein Manhasset Hills, NY	Treasurer First Rehabilitation Life Insurance Company of America	1998
Bruce Goldberg East Hills, NY	Physician	1979
Glenn Goldberg New York, NY	Physician	1993
Seth Goldberg Roslyn, NY	Physician	1972
Alvin Lefkowitz Rockville Centre, NY	Secretary First Rehabilitation Life Insurance Company of America	1972
Norman Mandel* Brooklyn, NY	Retired	1995
Morton Povman* Forest Hills, NY	Attorney Morton Povman, P.C.	1972

* Not affiliated with the Company or any other company in the holding company system

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2000:

Name	Title
John Baldwin*	President
Robert Slack	Chief Financial Officer
Alvin Lefkowitz	Secretary
Herbert Gerstein	Treasurer

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law and is licensed to transact business in 13 states. However, the majority of premiums (99.8%) were received from New York. Policies are written on a non-participating basis.

The Company's primary product is New York State Statutory Disability Benefits ("DBL"). The Company also offers group term life and group accident and health coverages which include long term disability, excess group major medical reimbursement, group medical reimbursement, dental and vision plans.

The Company's agency operations are conducted on both a general agency and broker basis. Group accident and health insurance plans are sold by brokers and agents while group term life insurance is sold exclusively through agents.

E. Reinsurance

As of December 31, 2000, the Company had seven reinsurance treaties in effect with Employers Reinsurance Corporation ("Employers"). Reinsurance for DBL policies is ceded on an automatic quota share basis, with the Company retaining 20% of each risk. Effective May 2001, the Company terminated the agreements with Employers and entered into agreements with and now reinsures with Unum Life Insurance Company of America ("Unum"). At the same time, retention was increased to 40% of each risk.

The Company is protected by a catastrophic reinsurance agreement that limits the Company's liability to $20,000 per accident involving no fewer than two persons. This contract is still with Employers.

Long-term disability policies are ceded on an automatic quota share basis whereby the Company retains 10% of each risk. Effective August 2001, the Company terminated the agreements with Employers and switched this reinsurance to Unum. The Unum contract is an automatic quota share treaty whereby the Company retains 10% and cedes 90% of each risk. Excess group major medical policies are ceded on an excess of loss basis whereby the Company, on its million dollar maximum limitation policies, retains the first $100,000 of loss and reinsures the next $900,000 of loss. Group term life insurance policies, which have a maximum face amount of $50,000, are ceded on a quota share basis. The maximum retention limit for each group term life certificate is 20% of face value up to $10,000.

The Company did not submit the new long-term disability, excess group major medical and group term life reinsurance agreements with Unum to the Superintendent.

Section 127.2(c) of Department Regulation No. 102 states, in part:

> "Any reinsurance agreement . . . which involves the reinsurance of insurance policies issued prior to the effective date of the agreement, and every amendment thereto, shall be filed by the ceding insurer with the superintendent within 30 days from its date of execution. Each filing shall include data detailing the financial impact of the transaction. "

The examiner recommends that the Company file all reinsurance agreements with the Superintendent pursuant to Section 127.2(c) of Department Regulation No. 102.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

	December 31, 1997	December 31, 2000	Increase
Admitted assets	$34,169,318	$58,804,079	$24,634,761
Liabilities	$16,326,601	$30,560,026	$14,233,425
Common capital stock	$ 2,000,000	$2,000,000	$ 0
Gross paid in and contributed surplus	4,000,000	4,000,000	0
Unassigned funds (surplus)	11,842,717	22,244,053	10,401,336
Total capital and surplus	$17,842,717	$28,244,053	$10,401,336
Total liabilities, capital and surplus	$34,169,318	$58,804,079	$24,634,761

The Company's invested assets, as of December 31, 2000, were mainly comprised of bonds (85.6%) and cash and short-term investments (11.5%). The Company's entire bond portfolio, as of December 31, 2000, was comprised of investment grade obligations.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	1998	1999	2000
Group life	$ 12,440	$ 26,290	$ 136,338
Group accident and health	3,247,122	3,987,191	4,338,228
Total	$3,259,562	$4,013,481	$4,474,566

The following ratios, applicable to the accident and health business of the Company, have been extracted from Schedule H for each of the indicated years:

	1998	1999	2000
Premiums earned	100.0%	100.0%	100.0%
Incurred losses	41.8%	55.7%	57.3%
Increase in policy reserves	15.9	.7	0.0
Commissions	(24.2)	(26.0)	(24.0)
Expenses	48.8	48.6	48.5
	82.3%	79.0%	81.8%
Underwriting results	17.7%	21.0%	18.2%

In 1999, the Company changed the method of reporting reserves. All increases in reserves now flow through incurred losses for Schedule H purposes.

The examiner recommends that the Company show the increase in policy reserves separately from incurred losses in Schedule H of the annual statement.

The following incurred loss ratios, applicable to various products of the Company's group accident and health insurance business, have been noted for each of the indicated years:

	1998	1999	2000	3 year average
DBL	53.1%	54.3%	54.5%	54.0%
Excess group major medical reimbursement	47.0%	38.7%	38.6%	41.4%
Dental	61.3%	61.4%	53.8%	58.8%
Vision	47.1%	52.2%	51.2%	50.2%
Group medical	85.0%	85.0%	85.0%	85.0%

Section 52.45(f) of Department Regulation No. 62 states, in part:

> "Group and blanket insurance. The minimum loss ratio for group and blanket insurance shall be 65 percent, except that:
> (1) for insurance covering less than 50 persons at inception, excluding dependents, the minimum loss ratio shall be 60 percent . . . "

As indicated in the previous table, the incurred loss ratios for certain group accident and health business did not meet the minimum loss ratio standards required by Section 52.45(f) of

Department Regulation No. 62. A violation appeared in the prior report on examination which noted that the loss ratios for certain group accident and health business were below the minimum standards set by Department Regulation No. 62. In an attempt to rectify the situation, the Company proposed a 3.5% rate reduction on all new and renewal group DBL policies covering fewer than 50 lives and a 1.4% rate reduction on all new and renewal group DBL policies covering greater than or equal to 50 lives. The Department approved the rate reductions effective January 1, 1998. However, since the Company still did not meet the required loss ratio, an additional 7.1% reduction was proposed on all new and renewal group DBL policies covering 50 or more lives. The Department has approved this proposal which became effective July 1, 2001.

For the vision and excess group major medical reimbursement lines of business, the Company submitted proposals to the Department to add significant benefits to its contracts without a corresponding increase in premium. The Department has approved these proposals which became effective January 1, 2000.

For the year 2000, the loss ratio on the dental business fell significantly below the amount allowed in Section 52.45 of Department Regulation No. 62.

The examiner recommends that the Company continue to monitor the loss ratios for disability insurance, excess group major medical reimbursement, dental and vision plans. This was a violation relative to the excess group major medical reimbursement dental and vision plans in the prior report on examination. (See item7B of this report)

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2000, as contained in the Company's 2000 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2000 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2000

Admitted Assets

Bonds	$35,830,209
Stocks:	
Preferred stocks	588,052
Common stocks	632,785
Cash and short term investments	4,818,256
Reinsurance ceded:	
Amounts recoverable from reinsurers	4,642,897
Commissions and expense allowances due	3,597,777
Electronic data processing equipment	324,279
Life insurance premiums and annuity considerations deferred and uncollected on in force business	1,036
Accident and health premiums due and unpaid	7,723,650
Investment income due and accrued	645,138
Total admitted assets	$58,804,079

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for accident and health policies	$ 1,551,005
Policy and contract claims:	
Life	2,000
Accident and health	3,682,114
Premiums and annuity considerations received in advance	5,699,932
Provision for experience rating refunds	1,343,798
Interest maintenance reserve	13,156
Commissions to agents due or accrued	1,848,437
General expenses due or accrued	808,551
Taxes, licenses and fees due or accrued	157,811
Federal income taxes due or accrued	323,080
Amounts withheld or retained by company as agent or trustee	155,118
Borrowed money	10,094
Asset valuation reserve	236,630
Payable to parent, subsidiaries and affiliates	1,282
Reinsurance premium payable	8,050,384
Funds withheld under reinsurance agreements	6,676,634
Total liabilities	$30,560,026
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	4,000,000
Unassigned funds (surplus)	22,244,053
Total capital, surplus and other funds	$28,244,053
Total liabilities, capital, surplus and other funds	$58,804,079

B. CONDENSED SUMMARY OF OPERATIONS

	1998	1999	2000
Premiums and considerations	$18,403,705	$19,644,900	$22,657,713
Investment income	1,611,951	1,795,553	2,298,891
Amortization of interest maintenance reserve	0	0	29,708
Commissions and reserve adjustments on reinsurance ceded	12,317,043	13,649,202	14,340,652
Miscellaneous income	24,540	23,973	24,915
Total income	$32,357,239	$35,113,628	$39,351,879
Benefit payments	$10,609,048	$11,061,176	$12,844,611
Commissions	7,873,156	8,549,499	9,017,657
General expenses and taxes	8,964,011	9,526,379	10,867,069
Total deductions	$27,446,215	$29,137,054	$32,729,337
Net gain	$ 4,911,024	$ 5,976,574	$ 6,622,542
Federal income taxes	1,651,462	1,963,093	2,147,976
Net gain (loss) from operations before net realized capital gains	$ 3,259,562	$ 4,013,481	$ 4,474,566
Net realized capital gains (losses)	0	(32,922)	9,082
Net income	$ 3,259,562	$ 3,980,559	$ 4,483,648

C. CAPITAL AND SURPLUS ACCOUNT

	1998	1999	2000
Capital and surplus, December 31, prior year	$17,842,717	$21,001,369	$24,389,471
Net income	$ 3,100,645	$ 3,980,559	$ 4,483,648
Change in net unrealized capital gains (losses)	176,187	(40,785)	65,114
Change in nonadmitted assets and related items	(90,836)	(493,480)	(564,449)
Change in asset valuation reserve	(27,344)	(58,192)	(129,731)
Net change in capital and surplus	$ 3,158,652	$ 3,388,102	$ 3,854,582
Capital and surplus, December 31, current year	$21,001,369	$24,389,471	$28,244,053

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Section 2112(a) of the New York Insurance Law states, in part:

> "Every insurer . . . doing business in this state shall file a certificate of appointment in such form as the superintendent may prescribe in order to appoint insurance agents to represent such insurer . . . "

A review of 35 agents' license files revealed that ten agents sold policies for the Company before they were appointed to represent the Company.

The Company violated Section 2112(a) of the New York Insurance Law when it allowed agents that were not appointed with the Company to sell policies for the Company.

Section 243.2(b)(8) of Department Regulation No. 152 states, in part:

> "Except as otherwise required by law or regulation, an insurer shall maintain . . .
> (8) Any other record for six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review."

The Company only maintained current agent license records; the Company did not maintain expired agent license records (i.e., agents with licenses that expired within the examination period).

The Company violated Section 243.2(b)(8) of Department Regulation No. 152 by failing to maintain agents' license records until the filing of a report on examination in which it was subject to review.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)

Supplement No. 1 to Circular Letter No. 19 (2000) (the "Supplement"), issued by the Department on June 22, 2000, notified all licensed life insurers that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic and foreign life insurer to review its past and present underwriting practices regarding race-based underwriting and to report its findings to the Department, no later than August 15, 2000.

Pursuant to Section 308 of the New York Insurance Law, the Company submitted in a timely manner a report of the findings of its review of past and present underwriting practices regarding race-based underwriting made in accordance with the requirements of the Supplement.

The Company's review of past and present underwriting practices included an examination of internal underwriting manuals and guidelines, policies and application forms and discussions with the corporate officers of the claims and underwriting departments. The Company has not acquired any business as a result of assumption, merger, acquisition, consolidation or purchase. Based on its review, the Company concluded that it had not engaged in, or practiced, race-based underwriting.

An analysis of the Company's response to the Supplement and other factors indicated that the Company's review of its past and present underwriting practices complied with the requirements of the Supplement.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The Company violated Section 1308(f)(1)(A) of the New York Insurance Law by reinsuring a substantial portion of its life insurance in force without the permission of the superintendent. The reinsurance treaty has been filed and approved.
B	The Company violated Section 52.45(f) of Department Regulation No. 62 by failing to meet the minimum loss ratio standards for excess group major medical reimbursement, dental and vision plans. The Company continued to fail to meet the minimum loss ratio standards set by Department Regulation No. 62. The examiner recommends that the Company continue to monitor the loss ratios for disability insurance, excess group major medical reimbursement, dental and vision plans.
C	The Company violated Section 403(d) of the New York Insurance Law by utilizing claim forms and applications for group accident and health insurance policies that failed to substantially disclose the required fraud warning. A review of claim forms and applications used for group accident and health policies indicated that the required fraud warning is in place.

8. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

Item	Description	Page No(s).
A	The examiner recommends that the Company file all reinsurance agreements with the Superintendent pursuant to Section 127.2(c) of Department Regulation No. 102.	7
B	The examiner recommends that the Company show the increase in policy reserves separately from incurred losses in Schedule H of the annual statement.	9
C	The examiner recommends that the Company continue to monitor the loss ratios for disability insurance, excess group major medical reimbursement, dental and vision plans.	9 - 10
D	The Company violated Section 2112(a) of the New York Insurance Law when it allowed agents that were not appointed with the Company to sell policies for the Company.	15
E	The Company violated Section 243.2(b)(8) of Department Regulation No. 152 by failing to maintain agents' license records until after the filing of a report on examination in which it was subject to review.	15

Respectfully submitted,

/s/
Kenneth Weitz
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Kenneth Weitz, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

/s/
Kenneth Weitz

Subscribed and sworn to before me

this__________ day of ___________________2001.

APPOINTMENT NO. 21672

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, NEIL D. LEVIN, Superintendent of Insurance of the State of New York,

pursuant to the provisions of the Insurance Law, do hereby appoint:

KENNETH WEITZ

as a proper person to examine into the affairs of the

THE FIRST REHABILITATION LIFE INSURANCE COMPANY OF AMERICA

and to make a report to me in writing of the condition of the said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 10th day of January ,2001

NEIL D. LEVIN
Superintendent of Insurance

*by **GREGORY V. SERIO***
First Deputy Superintendent