



STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
FIRST UNUM LIFE INSURANCE COMPANY

CONDITION:

DECEMBER 31, 2005

DATE OF REPORT:

SEPTEMBER 29, 2006

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EXAMINER:

JACQUELINE TUCKER

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

David A. Paterson
Governor

Kermitt J. Brooks
Acting Superintendent

July 13, 2009

Honorable Kermitt J. Brooks
Acting Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22439, dated December 6, 2005 and annexed hereto, an examination has been made into the condition and affairs of First Unum Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 99 Park Avenue, New York, New York 10016.

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, 2005 filed annual statement. (See item 5 of this report)

In November 2004, as the result of a multi-state examination of the Unum Group (First Unum Life Insurance Company, Unum Life Insurance Company of America, The Paul Revere Life Insurance Company, Provident Life and Accident Insurance Company and Provident Life and Casualty Insurance Company), formerly UnumProvident, concerning disability insurance claim handling practices, several Insurance Departments, including the New York Insurance Department, and the United States Department of Labor entered into Regulatory Settlement Agreements ("RSA") with the Unum Group. Effective with the signing of the RSA, the Unum Group agreed to the payment of a fine of \$15 million, of which \$1.64 million was allocated to New York. A Multi-State Market Conduct examination conducted at the end of the remediation period revealed that the error rates determined as a result of the examination were within the allowable tolerance levels provided for by the NAIC in its Market Conduct Handbook and as provided by the Regulatory Settlement Agreement. As a result of the claims reassessment process, approximately \$59.8 million of additional benefits were set aside for New York claimants. (See item 6C of this report)

The Company violated Section 53-3.5(a) of Department Regulation No. 74 by failing to consistently provide applicants with a copy of the sales illustration used at the point of sale. (See item 6A of this report)

The Company violated Section 53-3.5(e) of Department Regulation No. 74 by failing to retain the sales illustrations on issued policies. (See item 6A of this report)

The Company violated Section 53-3.6(d) of Department Regulation No. 74, by failing to notify policyowners of the widened interest spread between investment income and the credited interest rates. (See item 6D of this report)

The Company violated Section 3201(b)(1) of the New York Insurance Law by using two employee enrollment forms, two endorsements and an application form that were not filed with and approved by the Superintendent. (See item 6B of this report)

The Company violated Section 4232(b)(4) of the New York Insurance Law for crediting additional amounts on universal life policies without written criteria approved by the board of directors of the Company. (See item 6D of this report)

The Company violated Section 4232(b)(2) of the New York Insurance Law when the method used to credit interest rates on its universal life policies was not based directly on reasonable investment income assumptions for the asset segment supporting the Company's policies. (See item 6D of this report)

The Company violated Section 403(d) of the New York Insurance Law by failing to use the required fraud warning language on the enrollment forms for the group AD&D policies issued to credit union members. (See item 6B of this report)

The Company violated Section 4235(h)(3) of the New York Insurance Law by paying commissions in excess of the commission schedule on file with the Department. (See item 3D of this report)

The Department conducted a review of reserves as of December 31, 2003. This review included an examination of related asset adequacy analysis in accordance with Department Regulation No. 126 and sound value requirements in accordance with Department Regulation No. 56. During the review, concerns were raised regarding a potential lack of conservatism in certain assumptions with respect to the Company's long term care insurance (LTC) reserves. The Company agreed to refine its LTC analysis and to strengthen reserves in a manner acceptable to the Department, with additional reserves in the amount of \$4.0 million being established each quarter beginning with the first quarter of 2005 and continuing until reaching a total additional amount of \$30 million. (See item 5D of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2005. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2005 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, 2005 to determine whether the Company's 2005 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 and recommendations 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 as a stock life insurance company under the laws of the State of New York on October 16, 1959 under the name Hamilton Life Insurance Company of New York (“Hamilton Life”). The Company was licensed and commenced business on January 22, 1960. Initial resources of \$400,000, of common capital stock, were provided through the sale of 4,000 shares of common stock with a par value of \$100 each.

In March 1968, due to surplus problems, the New York State Supreme Court gave the Department permission to take over Hamilton Life and attempt to rehabilitate it. This action was taken as a result of a special report by the Department that indicated that Hamilton Life was insolvent.

In May 1970, an agreement was executed for the recapitalization of Hamilton Life among: the Superintendent of Insurance, as court appointed rehabilitator of Hamilton Life; Unum Life Insurance Company, formerly known as Union Mutual Life Insurance Company, Portland, Maine; Unum Holding, formerly known as Unionmutual Corporation, a Delaware Corporation; and the Life Insurance Guaranty Corporation. The agreement called for Unum Holding, which was a wholly owned subsidiary of Unum Life Insurance Company, to contribute \$1,000,000 in cash and \$575,000 in securities to Hamilton Life’s capital and surplus. One million dollars was allocated to the capital account, consisting of 1,000,000 shares of common stock (with a par value of \$1), and \$578,519 was contributed to surplus. This transaction was completed on September 30, 1970, and the Company’s name was changed to Unionmutual Stock Life Insurance Company of New York.

In November of 1986, Union Mutual Life Insurance Company demutualized and changed its name to Unum Life Insurance Company of America (“Unum Life”). In addition, the Unionmutual Corporation changed its name to Unum Holding Company and Unionmutual Stock Life Insurance Company of New York changed its name to First Unum Life Insurance Company. At the same time, a new corporation, Unum Corporation, was formed which owned 100% of Unum Life.

On July 25, 1990, the Department approved the acquisition of First Commercial Life Insurance Company by the Unum Corporation from the Continental Corporation. On July 31, 1990, First Commercial Life Insurance Company was merged into the Company.

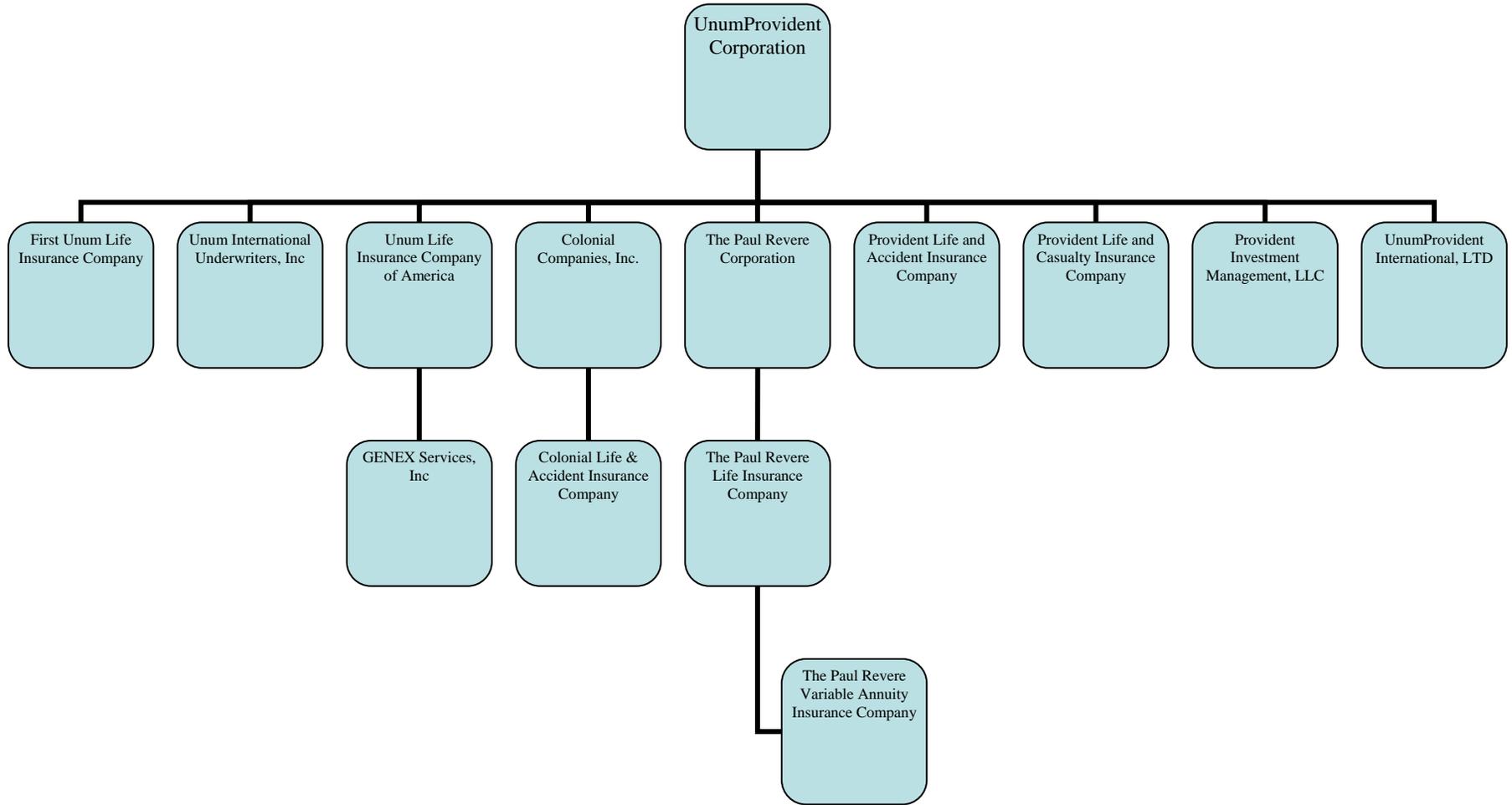
On June 30, 1999, Unum Corporation merged with and into Provident Companies, Inc. under the name UnumProvident.

UnumProvident made capital contributions of \$50 million, \$35 million and \$5 million in 2003, 2004 and 2005, respectively. As of December 31, 2005, the Company had \$2,000,000 of common capital stock consisting of 2,000,000 shares with a par value of \$1 each, and gross paid in and contributed surplus of \$173,435,244.

B. Holding Company

The Company is a wholly owned subsidiary of UnumProvident, a publicly traded holding company incorporated in Delaware. UnumProvident is the largest writer of individual and group disability insurance in the world.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2005 follows:



The Company had two service agreements in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
General Services	1/01/2001	UnumProvident Corporation	The Company	Personnel and resources	2001 (\$67,401,457) 2002 (\$65,621,586) 2003 (\$71,934,670)
General Services File Number 235777	1/01/2004	UnumProvident Corporation	The Company	Personnel and resources	2004 (\$48,371,801) 2005 (\$46,316,776)
Investment Management Agreement File Number 323646	6/30/1990 Revised 3/23/2005	Provident Investment Management, LLC	The Company	Management of designated assets	2001 (\$ 1,399,709) 2002 (\$ 1,551,963) 2003 (\$ 1,794,620) 2004 (\$ 2,002,737) 2005 (\$ 2,280,060)

* Amount of Income or (Expense) Incurred by the Company

In 2003, 2004 and 2005 the parent, UnumProvident, made an investment in the Company through a cash contribution in the amount of \$50,000,000, \$35,000,000 and \$5,000,000 respectively.

The Company is also party to a tax allocation agreement, effective July 1, 1999, with its parent and many of its affiliates.

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 thirteen directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in February of each year. As of December 31, 2005, the board of directors consisted of seven members. Meetings of the board are held on the third Friday in May, August and November of each year.

The seven board members and their principal business affiliation, as of December 31, 2005, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
JoAnne Bille New York, NY	Director, Service and Administration First Unum Life Insurance Company	2001
Robert E. Cash* Cape Elizabeth, ME	Retired	2000
Robert E. Derrah* Jackson, NH	Retired	2002
Barbara J. Feneli Victor, NY	Director, Service and Administration First Unum Life Insurance Company	2005
Edward R. Hillman* Yarmouth, ME	Retired	2000
Thomas R. Watjen Chattanooga, TN	President and Chief Executive Officer First Unum Life Insurance Company	2000
Henry M. White, Jr.* Mystic, CT	Retired	2000

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

In September 2005 and December 2005 John F. Ollis and Dean Copeland, respectively, resigned from the Board of Directors and were replaced by Charles Glick and Joseph Zubretsky in February 2006.

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, 2005:

<u>Name</u>	<u>Title</u>
Thomas Ros Watjen	President and Chief Executive Officer
Susan Nance Roth	Vice President, Corporate Secretary and Assistant General Counsel
Robert O'Hara Best	Executive Vice President and Chief Information Officer
Charles Louis Glick	Executive Vice President and General Counsel
Kevin Paul McCarthy	Executive Vice President, Underwriting
Vicki Wright Corbett	Vice President, Controller
John Joseph Iwanicki	Vice President, Treasurer
Robert Carl Greving	Executive Vice President, Chief Financial Officer and Chief Actuary
Joseph Michael Zubretsky	Senior Executive Vice President, Finance, Investments and Corporate Development
Roger Carl Edgren	Executive Vice President, Field Sales
Joseph Richard Foley	Senior Vice President and Chief Marketing Officer
Albert Angelo Riggieri	Vice President and Appointed Actuary

The consumer services officer per Section 216.4(c) of Department Regulation No. 64 is Joan Sarles Lee, Vice President and Managing Counsel, Compliance Department, UnumProvident Corporation.

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.

The Company is licensed to transact business in New York only. In 2005, 95% of the life premiums, 100% of annuity considerations, 92% of accident and health premiums, and 100% of deposit type funds were received from New York. Policies are written on a non-participating basis.

The Company principally markets group and individual disability income insurance, group life insurance and specialty accident and health insurance. The Company targets the sale of its disability products to executive, administrative and management personnel, and other professionals such as educators, consultants, health care providers, accountants and engineers.

The Company markets its products through sales personnel, independent contractors, brokers and independent agents.

Section 4235(h)(3) states, in part:

“ . . . nor shall it pay to the agent or agents or to a broker or brokers for the solicitation or sale of such policy or for any other purpose related to such policy any commission, compensation or other fees or allowances in excess of that determined on the basis of the schedules of such insurer as then on file with the superintendent; nor shall such insurer pay for services pertaining to the service or administration thereof to any individual, firm or corporation any fees, commissions or allowances in excess of that determined on the basis of the schedules of such insurer as then on file with the superintendent . . . ”

During the review of the AD&D group policies issued, the examiner noted that in 20 out of the 25 files selected for review, the Company paid commissions in excess of the commission schedule on file with the Department.

The Company violated Section 4235(h)(3) of the New York Insurance Law by paying commissions in excess of the commission schedule on file with the Department.

E. Reinsurance

As of December 31, 2005, the Company had reinsurance treaties in effect with 28 companies, of which 25 were authorized or accredited. The Company's life and accidental death and dismemberment policies are ceded on a yearly renewable term and coinsurance basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$500,000. The total face amount of life insurance ceded as of December 31, 2005, was \$572,541,804, which represents 2.14% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies and reinsurance recoverables from unauthorized companies, totaling \$2,082,819, was supported by letters of credit and trust agreements.

The total face amount of life insurance assumed as of December 31, 2005, was \$372,500,506.

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 (decline) during the period under review:

	December 31, <u>2000</u>	December 31, <u>2005</u>	Increase (Decrease)
Admitted assets	<u>\$948,379,126</u>	<u>\$1,497,286,468</u>	<u>\$548,907,342</u>
Liabilities	<u>\$801,610,289</u>	<u>\$1,337,161,723</u>	<u>\$535,551,434</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	83,435,244	173,435,244	90,000,000
Group life contingency reserves	7,210,679	0	(7,210,679)
Deferred gain on reinsurance	6,350,000	2,065,765	(4,284,235)
Unassigned funds (surplus)	<u>47,772,914</u>	<u>(17,376,264)</u>	<u>(65,149,178)</u>
Total capital and surplus	<u>\$146,768,837</u>	<u>\$ 160,124,745</u>	<u>\$ 13,355,908</u>
Total liabilities, capital and surplus	<u>\$948,379,126</u>	<u>\$1,497,286,468</u>	<u>\$548,907,342</u>

The Company's invested assets as of December 31, 2005, exclusive of separate accounts, were mainly comprised of bonds (98.2%).

The majority (95.6%) of the Company's bond portfolio, as of December 31, 2005, was comprised of investment grade obligations.

The following indicates, for each of the years listed below, the amount of life insurance issued and in force by type (in thousands of dollars):

<u>Year</u>	<u>Individual Whole Life</u>		<u>Individual Term</u>		<u>Group Life</u>	
	<u>Issued</u>	<u>In Force</u>	<u>Issued</u>	<u>In Force</u>	<u>Issued & Increases</u>	<u>In Force</u>
2001	\$18,769	\$630,925	\$ 960	\$14,953	\$6,222,402	\$26,398,462
2002	\$27,576	\$592,177	\$ 1,083	\$14,225	\$3,652,015	\$27,052,625
2003	\$11,726	\$560,637	\$ 255	\$12,280	\$4,960,448	\$29,533,511
2004	\$17,539	\$536,541	\$16,682	\$28,526	\$3,251,014	\$27,895,399
2005	\$13,540	\$506,148	\$ 1,754	\$13,670	\$2,073,950	\$26,256,013

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:

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Ordinary:					
Life insurance	\$ 1,494,389	\$ 2,497,990	\$ 1,303,481	\$ 2,628,262	\$ 2,955,130
Supplementary contracts	<u>1,653,805</u>	<u>1,590,741</u>	<u>1,689,064</u>	<u>1,716,110</u>	<u>1,055,867</u>
Total ordinary	\$ <u>3,148,194</u>	\$ <u>4,088,731</u>	\$ <u>2,992,545</u>	\$ <u>4,344,372</u>	\$ <u>4,010,997</u>
Group:					
Life	\$ 3,719,610	\$ 7,413,574	\$ 8,541,610	\$ 7,871,626	\$ 3,092,554
Annuities	<u>6,238</u>	<u>10,996</u>	<u>10,828</u>	<u>60,172</u>	<u>360,533</u>
Total group	\$ <u>3,725,848</u>	\$ <u>7,424,570</u>	\$ <u>8,552,438</u>	\$ <u>7,931,798</u>	\$ <u>3,453,087</u>
Accident and health:					
Group	\$ 21,822,040	\$16,877,173	\$(22,485,347)	\$20,389,730	\$ (4,086,926)
Other	<u>(10,153,633)</u>	<u>(9,083,129)</u>	<u>(17,765,973)</u>	<u>(7,268,139)</u>	<u>(8,078,571)</u>
Total accident and health	\$ <u>11,668,407</u>	\$ <u>7,794,041</u>	\$ <u>(40,251,320)</u>	\$ <u>13,121,591</u>	\$ <u>(12,165,497)</u>
Total	\$ <u>18,542,448</u>	\$ <u>19,307,342</u>	\$ <u>(28,706,337)</u>	\$ <u>25,397,761</u>	\$ <u>(4,701,413)</u>

The main reason for the losses from the accident and health - other line of business from 2001 through 2005 is the Company's long-term care experience. The lapse experience on long-term care has been lower than pricing assumptions anticipated by the Company, leading to increases in active life reserves higher than expected.

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:

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Premiums earned	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Incurred losses	98.1%	97.3%	107.8%	88.0%	90.2%
Commissions	6.8	7.7	9.5	10.0	9.8
Expenses	<u>13.8</u>	<u>14.1</u>	<u>22.5</u>	<u>21.8</u>	<u>24.0</u>
	<u>118.7%</u>	<u>119.1%</u>	<u>139.8%</u>	<u>119.8%</u>	<u>124.0%</u>
Underwriting results	<u>(18.7)%</u>	<u>(19.1)%</u>	<u>(39.8)%</u>	<u>(19.8)%</u>	<u>(24.0)%</u>

The Company has under reserved the accident and health reserves for the period under examination. During the December 31, 2001 actuarial review, the Company was required by the Albany Actuarial Unit to increase the accident and health reserves by an extra \$25 million, over a ten quarter period, beginning September 2002 and ending December 2004.

In addition, based on the actuarial review of the 2003 reserves, the Company was required to strengthen its long term care reserves by \$30 million, with reserves of \$4.0 million being added each quarter beginning with the first quarter of 2005. (See item 5D of this report)

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2005, as contained in the Company's 2005 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, 2005 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL AND SURPLUS AS OF DECEMBER 31, 2005

Admitted Assets

Bonds	\$1,414,351,988
Mortgage loans on real estate:	
First liens	16,136,397
Cash, cash equivalents and short term investments	(2,858,009)
Contract loans	11,653,659
Receivable for securities	225,366
Aggregate write-ins for invested assets	379,000
Investment income due and accrued	18,008,457
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	24,015,660
Deferred premiums, agents' balances and installments booked but deferred and not yet due	78,792
Reinsurance:	
Amounts recoverable from reinsurers	1,778,681
Other amounts receivable under reinsurance contracts	1,095,100
Amounts receivable relating to uninsured plans	321,379
Current federal and foreign income tax recoverable and interest thereon	1,984,151
Net deferred tax asset	3,898,000
Receivables from parent, subsidiaries and affiliates	3,453,701
Aggregate write-ins for other than invested assets	24,873
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>2,739,273</u>
 Total admitted assets	 <u>\$1,497,286,468</u>

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$ 63,275,663
Aggregate reserve for accident and health contracts	1,072,649,238
Liability for deposit-type contracts	43,146,145
Contract claims:	
Life	14,755,153
Accident and health	107,535,983
Premiums and annuity considerations for life and accident and health contracts received in advance	2,181,855
Contract liabilities not included elsewhere:	
Provision for experience rating refunds	3,395,161
Other amounts payable on reinsurance	438,012
Interest maintenance reserve	9,081,829
Commissions to agents due or accrued	3,548,959
Commissions and expense allowances payable on reinsurance assumed	61
General expenses due or accrued	1,324,624
Taxes, licenses and fees due or accrued, excluding federal income taxes	3,562,534
Unearned investment income	417,195
Amounts withheld or retained by company as agent or trustee	204,043
Remittances and items not allocated	2,800,675
Miscellaneous liabilities:	
Asset valuation reserve	4,022,618
Reinsurance in unauthorized companies	141,368
Liability for unclaimed property	1,111,274
Other liabilities	461,204
Amounts payable to third party administrators	368,856
From Separate Accounts statement	<u>2,739,273</u>
 Total liabilities	 <u>\$1,337,161,723</u>
 Common capital stock	 \$ 2,000,000
Aggregate write-ins for other than special surplus funds	2,065,765
Gross paid in and contributed surplus	173,435,244
Unassigned funds (surplus)	<u>(17,376,264)</u>
 Surplus	 <u>\$ 158,124,745</u>
 Total capital and surplus	 <u>\$ 160,124,745</u>
 Total liabilities, capital and surplus	 <u>\$1,497,286,468</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Premiums and considerations	\$360,109,380	\$365,594,401	\$403,777,125	\$407,102,755	\$390,513,120
Investment income	72,914,161	76,160,647	82,840,093	88,625,160	88,847,066
Commissions and reserve adjustments on reinsurance ceded	6,276,348	6,580,166	5,082,203	8,096,103	6,508,073
Miscellaneous income	<u>(6,041)</u>	<u>907,900</u>	<u>228,672</u>	<u>908,570</u>	<u>1,037,110</u>
Total income	<u>\$439,293,848</u>	<u>\$449,243,114</u>	<u>\$491,928,092</u>	<u>\$504,732,588</u>	<u>\$486,905,368</u>
Benefit payments	\$260,377,319	\$258,979,049	\$281,131,934	\$279,148,593	\$277,455,867
Increase in reserves	54,483,059	48,184,440	125,520,150	98,584,068	93,296,765
Commissions	39,394,754	40,470,566	39,445,884	37,002,112	31,803,413
General expenses and taxes	82,049,318	73,099,676	83,223,412	56,500,960	55,226,058
Increase in loading on deferred and uncollected premiums	6,248	14,566	(25,498)	15,242	(28,320)
Net transfers to (from) Separate Accounts	9,205	(559,305)	131,475	(305,995)	(394,784)
Miscellaneous deductions	<u>1,101</u>	<u>9,089</u>	<u>9,841</u>	<u>613,984</u>	<u>1,734</u>
Total deductions	<u>\$436,321,004</u>	<u>\$420,198,080</u>	<u>\$529,437,197</u>	<u>\$471,558,964</u>	<u>\$457,360,732</u>
Net gain (loss)	\$ 2,972,844	\$ 29,045,034	\$ (37,509,105)	\$ 33,173,624	\$ 29,544,636
Federal and foreign income taxes Incurred	<u>7,674,258</u>	<u>3,647,274</u>	<u>(8,802,768)</u>	<u>13,866,709</u>	<u>11,002,186</u>
Net gain (loss) from operations before net realized capital gains	\$ (4,701,414)	\$ 25,397,760	\$ (28,706,337)	\$ 19,306,915	\$ 18,542,450
Net realized capital gains (losses)	<u>(3,506,870)</u>	<u>(11,816,332)</u>	<u>(7,728,860)</u>	<u>(5,773,710)</u>	<u>127,994</u>
Net income	<u>\$ (8,208,284)</u>	<u>\$ 13,581,428</u>	<u>\$ (36,435,197)</u>	<u>\$ 13,533,205</u>	<u>\$ 18,670,444</u>

C. CAPITAL AND SURPLUS ACCOUNT

	2001	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Capital and surplus, December 31, prior year	<u>\$146,768,837</u>	<u>\$130,107,070</u>	<u>\$141,011,242</u>	<u>\$130,839,359</u>	<u>\$166,205,623</u>
Net income	\$ (8,208,284)	\$ 13,581,428	\$ (36,435,197)	\$ 13,533,205	\$ 18,670,444
Change in net unrealized capital gains (losses)	(5,836,655)	2,358,393	2,548,564	324,831	1,784,800
Change in net deferred income tax	0	(3,520,000)	6,141,000	15,477,000	11,084,000
Change in non-admitted assets and related items	1,953,273	3,571,605	(4,911,184)	(16,543,479)	(8,651,684)
Change in liability for reinsurance in unauthorized companies	0	(830,658)	(183,571)	307,988	564,873
Change in reserve valuation basis	(1,197,140)	(5,000,000)	(24,587,769)	(12,684,100)	(30,490,823)
Change in asset valuation reserve	3,631,043	1,239,404	(156,726)	892,539	(3,651,973)
Surplus adjustment – Paid in Capital	0	0	50,000,000	35,000,000	5,000,000
Change in accounting principles	(11,111,307)	704,000	0	0	0
Change in surplus as a result of reinsurance	(600,000)	(1,200,000)	(1,152,000)	(941,719)	(390,516)
Adjustment for bond impairment	0	0	(1,435,000)	0	0
Tax loss carryforwards	<u>4,707,303</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	<u>\$ (16,661,767)</u>	<u>\$ 10,904,172</u>	<u>\$ (10,171,884)</u>	<u>\$ 35,366,264</u>	<u>\$ (6,080,879)</u>
Capital and surplus, December 31, current year	<u>\$130,107,070</u>	<u>\$141,011,242</u>	<u>\$130,839,359</u>	<u>\$166,205,623</u>	<u>\$160,124,744</u>

D. RESERVES

The Department conducted a review of reserves as of December 31, 2003. This review included an examination of related asset adequacy analysis in accordance with Department Regulation No. 126 and sound value requirements in accordance with Department Regulation No. 56. During the review, concerns were raised regarding a potential lack of conservatism in certain assumptions with respect to the Company's long term care insurance (LTC) reserves. The Company has agreed to refine its LTC analysis and to strengthen reserves in a manner acceptable to the Department, with additional reserves in the amount of \$4.0 million being established each quarter beginning with the first quarter of 2005 and continuing until reaching a total additional amount of \$30 million. This LTC reserves strengthening plan is subject to periodic re-evaluation as warranted by emerging circumstances, with any decreases in anticipated additional reserves subject to Departmental approval. In conjunction with the LTC reserves strengthening plan, the Company received approval to implement a segmentation plan in accordance with Department Regulation No. 33 and to execute certain interest rate swap agreements.

The examiner recommends that the Company continue the LTC reserves strengthening plan, implement the segmentation plan and establish the related interest rate swaps as agreed upon with the Department.

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.

1. Section 215.2(b) of Department Regulation No. 34 states:

“Every insurer shall establish and at all times maintain a system of control over the content, form and method of dissemination of all advertisements of its policies. All such advertisements, regardless of by whom written, created, designed or presented, shall be the responsibility of the insurer whose policies are so advertised”.

Section 215.13(a) of Department Regulation No. 34 states:

“The name of the actual insurer and the form number or numbers advertised shall be identified and made clear in all of its advertisements. An advertisement shall not use a trade name, any insurance group designation, name of the parent company of the insurer, name of a particular division of the insurer, service mark, slogan, symbol or other device which without disclosing the name of the actual insurer would have the capacity and tendency to mislead or deceive as to the true identity of the insurer.”

The Company contracted with Internal Marketing and Administration Company (“IMAC”) to act as its exclusive national marketing company for the Member “Thank You” Accidental Death and Dismemberment (“AD&D”) Program with the responsibilities to negotiate the marketing and service agreements with credit unions on behalf of the Company. As part of the agreement with the respective credit unions, the credit unions sponsoring the AD&D Program were to supply IMAC with the names and mailing addresses of their eligible members that qualify to purchase voluntary AD&D insurance coverage. IMAC uses the member listing to solicit enrollment in the AD&D

Program through mass mailings to the prospective members of the participating credit unions.

During the review of a sample of 25 AD&D policy files the examiner noted that four out of 25 files reviewed were issued to credit unions under the Member “Thank You” AD&D Program. The enrollment forms included in the materials mailed to the prospective union members of the four credit unions, identify First Unum Life Insurance Company of America or Unum Life Insurance Company of America as the underwriter and create the impression that First Unum Life Insurance Company of America (a non-existent company) or Unum Life (an unauthorized insurer) would be responsible for the financial obligation under the policy. These enrollment forms were not approved by the Department. (See item 6B of this report) The advertising materials prepared by IMAC do not identify the Company as the insurer responsible for the financial obligation under the four group policies. The examiner also noted that IMAC provided the Company with specimens of the mailings that it prepared to promote the Member “Thank You” AD&D program. Given the findings noted above it appears the Company is not appropriately screening the mailing materials.

The Company violated Section 215.2(b) of Department Regulation No. 34 by not at all times maintaining a system of control over the content and form of all advertisement of its policies.

The Company violated Section 215.13(a) of Department Regulation No. 34 by: failing to identify the Company as the insuring and underwriting entity on all its policy forms and failing to identify the actual insurer in its advertisements.

Also, during the review of the sample 25 Accidental Death and Dismemberment (“AD&D”) underwriting policy files, the examiner noted that eight policy forms identified Unum Life Insurance Company of America as the insurer. In addition, the examiners noted many instances where the Company corresponded with the policyholders, insureds, physicians, and applicants in the name of Unum Life Insurance Company of America.

The examiner recommends that the Company amend its policy forms to reflect the correct name of the insurer. The examiner further recommends that all correspondence

with policyholders, insureds, physicians, and applicants also reflect the correct name of the insurer.

2. Section 53-3.5(a) of Department Regulation No. 74 states, in part:

“If a basic illustration is used by an insurance producer or other authorized representative of the insurer in the sale of a life insurance policy and the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this Subpart, shall be submitted to the insurer at the time of policy application. A copy also shall be provided to the applicant . . . ”

Section 53-3.5(e) of Department Regulation No. 74 states, in part:

“A copy of the basic illustration and a revised basic illustration, if any . . . shall be retained by the insurer until the later of six years after the policy is no longer in force or the next scheduled examination by the Department. A copy need not be retained if no policy is issued.”

As part of the Company’s sales practices, the applicant was not always provided with a copy of the illustration used at the point of sale. On occasion, the agent would present an applicant with an illustration displayed on a laptop computer screen rather than in printed format. The applicant and the agent would then sign a certification to that effect, and the applicant would not receive a copy of the illustration viewed during the sale. The applicant would however, receive a copy of the illustration at the time of policy delivery. A review of a sample of 350 universal life underwriting files revealed that in 19 instances, applicants were not presented with a copy of an illustration used at the point of sale. Also, in 19 instances the Company did not retain copies of sales illustrations and other disclosure documents as required by the regulation.

The Company violated Section 53-3.5(a) of Department Regulation No. 74 by failing to consistently provide the applicant with a signed copy of an illustration used at the point of sale.

The Company violated Section 53-3.5(e) of Department Regulation No. 74 by failing to retain the sales illustrations on issued policies.

B. Underwriting and Policy Forms

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

1. Section 3201(a) of the New York Insurance Law states, in part:

“In this article, "policy form" means any policy, contract, certificate, or evidence of insurance and any application therefore, or rider or endorsement . . .”

Section 3201(b)(1) of the New York Insurance Law states, in part:

“No policy form shall be delivered or issued for delivery in this state unless it has been filed with and approved by the superintendent as conforming to the requirements of this chapter and not inconsistent with law. . . .”

As part of its marketing campaign, IMAC used two enrollment forms (ADR112.2-2001 and ADR577.1-1998) that were not filed with and approved by the Superintendent for use in New York. In addition, the examiner noted that the Company used three policy forms (endorsements LH10754 and LH 12955) and (application LH12954NYV) that were not filed with and approved by the Superintendent.

The Company violated Section 3201(b)(1) of the New York Insurance Law by using two employee enrollment forms and two endorsements and one application that were not filed with and approved by the Superintendent.

2. Section 403(d) of New York Insurance Law states, in part:

“All applications for . . . group or blanket accident and health insurance and all claim forms, except as provided for in subsection (e) of this section, shall contain a notice in a form approved by the superintendent that clearly states in substance the following:

"Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto,

commits a fraudulent insurance act, which is a crime, and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation.””

The enrollment forms that IMAC mailed to the members of four credit unions did not contain the statutory required fraud warning statement.

The Company violated Section 403(d) of the New York Insurance Law by failing to use the required fraud warning language on the enrollment forms for the group AD&D policies issued to credit union members participating in the Member “Thank You” AD&D Program during the examination period.

The examiner recommends that the Company revise the aforementioned enrollment form to include the complete fraud warning required by Law.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, 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.

In November 2004, as the result of a Multi-State examination of the Unum Group (First Unum Life Insurance Company, Unum Life Insurance Company of America, The Paul Revere Life Insurance Company, Provident Life and Accident Insurance Company and Provident Life and Casualty Insurance Company), formerly UnumProvident, concerning disability insurance claim handling practices, several Insurance Departments, including the New York Insurance Department, and the United States Department of Labor entered into Regulatory Settlement Agreements (“RSA”) with the Unum Group. Effective with the signing of the RSA, the Unum Group agreed to the payment of a fine of \$15 million, of which \$1.64 million was allocated to New York.

The RSA required the Unum Group to make significant changes in corporate governance, implement a meaningful claim reassessment process, make changes in the companies’ claim organization, implement significant revisions to claim procedures and

provide for a full re-examination of both reassessed claims and disability insurance claim decisions after the January 2005 effective date of the RSA.

The RSA also provided for a three year period in which all eligible claimants who opted into the settlement agreement would have their claims remediated in accordance with the terms and requirements of the RSA.

A Multi-State Market Conduct examination was conducted at the end of the remediation period to ensure that Unum Group was fulfilling the terms of the RSA. According to the examination report dated April 14, 2008, conducted as of December 31, 2007, the error rates determined as a result of the examination were within the allowable tolerance levels provided for by the NAIC in its Market Conduct Handbook and as provided by the Regulatory Settlement Agreement.

Nationally, 41.7% of the claims reassessed were reversed in whole or in part, resulting in a cumulative total of approximately \$676.2 million of additional benefits, of which approximately \$59.8 million (payments of \$37,932,339.72 and additional reserves of \$21,869,155.03) were set aside for New York claimants.

D. Non- Guaranteed Elements

1. Section 4232(b) of the New York Insurance Law states in part:

“(1) Any individual life insurance policy may provide that in addition to any minimum benefits guaranteed in the policy, additional amounts may be credited to the policy.

(2) No such additional amounts shall be guaranteed or credited except upon reasonable assumptions as to investment income, mortality, persistency, and expenses . . .

(4) Any such additional amounts shall be credited on a basis equitable to all policyholders of a given class and shall be based on written criteria approved by the board of directors of the company or a committee thereof.”

During the Departments actuarial review of universal life policies, it was noted that the Company credited additional amounts to its universal life policies issued during

the examination period. The Company has been selling life insurance under universal life policy form number CPSI-NY since 2001. There was no evidence that the Company's board of directors approved any written criteria for determining the credited interest rates on universal life policies, until September 24, 2006.

The Company violated Section 4232(b)(4) of the New York Insurance Law for crediting additional amounts on universal life policies without written criteria approved by the board of directors of the Company.

The Company maintained a separate segment of supporting assets for its universal life policies. However, the credited interest rates on such policies were based on a method that integrated the Company's block of business with assets supporting another block of universal life policies sold by an out-of-state affiliate. In addition, the Company's use of interest rates that did not properly track the gross investment return resulted in a widening of the spread between the gross return and the credited rates from that illustrated for some policies and such widening of spread was not related to reasonable assumptions.

The Company violated Section 4232(b)(2) of the New York Insurance Law when the method used to credit interest rates on its universal life policies was not based directly on reasonable investment income assumptions for the asset segment supporting the Company's policies.

2. Section 53-3.6 of Department Regulation No. 74 states, in part:

“(a) In the case of a policy designated as one for which illustrations will be used, the insurer shall provide each policyowner with an annual report on the status of the policy . . .

(d) If an adverse change in non-guaranteed elements that could affect the policy has been made by the insurer since the last annual report, the annual report shall contain a notice of that fact and the nature of the change prominently displayed.”

The Company's use of interest rates that did not properly track the gross investment return resulted in a widening of the spread between the gross return and the credited rates

for some of the policies. Any widening of the spread from that originally illustrated is considered an adverse change, as defined in the regulation. The Company did not provide policyholders with a special notice on the report in any year when there has been an adverse change.

The Company violated Section 53-3.6(d) of Department Regulation No. 74, by failing to notify policyowners of the widened interest spread between investment income and the credited interest rates.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>
A	<p>The Company violated Section 1505(c) of the New York Insurance Law when it failed to obtain the Superintendent's prior approval for the \$70 million capital contribution made by its parent in 1999.</p> <p>The Company has obtained the Superintendent's prior approval for all capital contributions received during the examination period.</p>
B	<p>The Company violated Section 1505(d)(3) of the New York Insurance Law when it failed to notify the Superintendent of its new general services agreement at least 30 days prior to its effective date.</p> <p>The general services agreement was filed with the Department and approved on April 19, 2004.</p>
C	<p>The Company violated Section 308(a) of the New York Insurance Law by failing to file a copy of its tax allocation agreement and the amendments to it with the Department in accordance with Department Circular Letter No. 33 (1979).</p> <p>The 1999 tax allocation agreement was filed with the Department on January 25, 2002. The tax allocation agreement was amended in 2005 and filed with the Department on March 21, 2005.</p>
D	<p>The examiner recommends that the Company list all directors on the jurat pages of all filed annual statements.</p> <p>The Company listed all directors on the jurat page of the filed annual statements for the years under examination.</p>
E	<p>The Company violated Section 1201(a)(5)(B)(vi) of the New York Insurance Law by failing to have at least three members of its board of directors who are residents of New York State.</p> <p>The Company is now in compliance with Section 1201(a)(5)(B)(vi) of the New York Insurance Law.</p>

<u>Item</u>	<u>Description</u>
F	<p>The examiner recommends that the Company obtain completed conflict of interest questionnaires from all of its directors annually.</p> <p>The Company provided completed conflict of interest questionnaires from all of its directors for each year under examination.</p>
G	<p>The Company violated Section 1505(d)(2) of the New York Insurance Law when it failed to notify the Superintendent at least 30 days prior to entering into reinsurance agreements with its parent and affiliates.</p> <p>The Company did not enter into any new reinsurance agreements with its parent and affiliates during the examination period.</p>
H	<p>The examiner recommends that the Company continue to accelerate its reserve strengthening as agreed upon with the Department.</p> <p>The Company has continued to accelerate its reserve strengthening as agreed upon with the Department.</p>
I	<p>The Company violated Section 403(d) of the New York Insurance Law by failing to use the required fraud warning language in its claim forms.</p> <p>Beginning in November 2001, the Company began modifying its claim forms to insert the verbatim language from the aforementioned statute. However, a similar violation appears in this report with regard to the Company's AD&D enrollment forms.</p>
J	<p>The disability income claim review was covered by the "Multi-State" examination of the Unum Provident Companies which resulted in a Regulatory Settlement Agreement with the Company and an overall fine in the amount of \$15,000,000 that was levied on the Unum Provident Companies.</p> <p>In accordance with the RSA, a Multi-State Market Conduct examination conducted at the end of the remediation period, revealed that the error rates determined as a result of the examination were within the allowable tolerance levels provided for by the NAIC in its Market Conduct Handbook and as provided by the Regulatory Settlement Agreement. As a result of the claims reassessment process, approximately \$59.8 million of additional benefits were set aside for New York claimants.</p>

8. SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comment contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 4235(h)(3) of the New York Insurance Law by paying commissions in excess of the commission schedule on file with the Department.	11
B	The examiner recommends that the Company continue the LTC reserves strengthening plan, implement the segmentation plan and establish the related interest rate swaps as agreed upon with the Department.	19
C	The Company violated Section 215.2(b) of Department Regulation No. 34 by not at all times maintaining a system of control over the content, and form of all advertisement of its policies.	20 – 21
D	The Company violated Section 215.13(a) of Department Regulation No. 34 by: failing to identify the Company as the insuring and underwriting entity on all its policy forms; failing to identify the actual insurer in its advertisements and by using an incorrect policy form number in its advertisement.	20 – 21
E	The examiner recommends that the Company amend its policy forms to reflect the correct name of the insurer.	21
F	The examiner recommends that all correspondence with policyholders, insureds, physicians, and applicants reflect the correct name of the insurer.	21 – 22
G	The Company violated Section 53-3.5(a) of Department Regulation No. 74 by failing to consistently provide applicants with a copy of the sales illustration used at the point of sale.	22
H	The Company violated Section 53-3.5(e) of Department Regulation No. 74 by failing to retain the sales illustrations on issued policies.	22
I	The Company violated Section 3201(b)(1) of the New York Insurance Law by using two employee enrollment forms and two endorsements and one application that were not filed with and approved by the Superintendent.	23

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
J	The Company violated Section 403(d) of the New York Insurance Law by failing to use the required fraud warning language on the enrollment forms for the group AD&D policies issued to credit union members.	23 – 24
K	The examiner recommends that the Company revise the aforementioned enrollment forms to include the complete fraud warning required by Law.	24
L	A Multi-State Market Conduct examination conducted at the end of the remediation period revealed that the error rates determined as a result of the examination were within the allowable tolerance levels provided for by the NAIC in its Market Conduct Handbook and as provided by the Regulatory Settlement Agreement. As a result of the claims reassessment process, approximately \$59.8 million of additional benefits were set aside for New York claimants.	24 – 25
M	The Company violated Section 4232(b)(4) of the New York Insurance Law for crediting additional amounts on universal life policies without written criteria approved by the board of directors of the Company.	25 – 26
N	The Company violated Section 4232(b)(2) of the New York Insurance Law when the method used to credit interest rates on its universal life policies was not based directly on reasonable investment income assumptions for the asset segment supporting the Company's policies.	25 – 26
O	The Company violated section 53-3.6(d) of Department Regulation No. 74, by failing to notify policyowners of widened interest spreads between investment income and the credited interest rates.	26 – 27

APPOINTMENT NO. 22439

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, HOWARD MILLS, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

JACQUELINE TUCKER

as a proper person to examine into the affairs of the

FIRST UNUM LIFE INSURANCE COMPANY

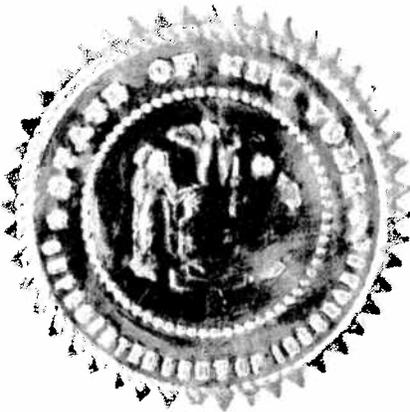
and to make a report to me in writing of the condition of the said

COMPANY

with such other information as she 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 6th day of December, 2005



Howard Mills

HOWARD MILLS
Superintendent of Insurance