NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

COMPANION LIFE INSURANCE COMPANY

CONDITION: DECEMBER 31, 2014

DATE OF REPORT: APRIL 15, 2016

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EXAMINER: JOSHUA J. JOHNSON

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Andrew M. Cuomo
Governor

Maria T. Vullo
Acting Superintendent

May 23, 2016

Honorable Maria T. Vullo
Acting Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31282, dated April 9, 2015 and annexed hereto, an examination has been made into the condition and affairs of Companion Life Insurance Company, hereinafter referred to as "the Company," at its administrative office located at Mutual of Omaha Plaza, Omaha, Nebraska 68175. The Company's home office is located at 888 Veterans Memorial Highway, Suite 515, Hauppauge, New York 11788.

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

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

1. EXECUTIVE SUMMARY

The following material comments was contained in this report are summarized below.

- The Department reviewed the formulaic reserving methodology for certain Group Term Life Insurance policies. As a result, the Company increased the gross reserves by $7 million and net reserves by $700,000 as of December 31, 2015. (See item 6F of this report)

- The Company agreed to refine its stand-alone analysis and to strengthen reserves in a manner acceptable to the Department. The Company established additional reserves in the amount of $16.5 million as of December 31, 2015 and, to the extent the situation remains unchanged, will further strengthen reserves in the amount of $4 million as of December 31, 2016 and in the amount of $4 million as of December 31, 2017. (See item 6F of this report)

2. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2015 Edition* (the "Handbook"). The examination covers the three-year period from January 1, 2012 through December 31, 2014. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2014 but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

The examination was conducted on a risk focused basis in accordance with the provisions of the Handbook published by the National Association of Insurance Commissioners ("NAIC"). The Handbook guidance provides for the establishment of an examination plan based on the examiner's assessment of risk in the insurer's operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management's compliance with New York statutes and Department guidelines, Statutory Accounting Principles as adopted by the Department, and annual statement instructions.

The examination was coordinated in conjunction with the examination of the insurer's parent, Mutual of Omaha Insurance Company ("Mutual"), a Nebraska domestic insurer. The coordinated examination was led by the State of Nebraska ("Nebraska") with participation from New York. Since the insurer and its parent share common controls and management, and Nebraska is accredited by the NAIC, both states deemed appropriate to rely on the work performed by Nebraska.

Information about the Company's organizational structure, business approach and control environment were utilized to develop the examination approach. The Company's risks and management activities were evaluated incorporating the NAIC's nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic

- Credit
- Market
- Liquidity
- Legal
- Reputational

The Company was audited annually, for the years 2012 through 2014, by the accounting firm of Deloitte & Touche LLP ("Deloitte"). The Company received an unqualified opinion in all the years under examination. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. Mutual, the Company's ultimate parent, has an internal audit department and a separate internal control department which was given the task of assessing the internal control structure.

The examiner reviewed the corrective actions taken by the Company with respect to the violation contained in the prior financial report on examination. The results of the examiner's review are contained in item 8 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 New York on June 3, 1949, was licensed on July 1, 1949 and commenced business on July 18, 1949. Initial resources of $1,500,000, consisting of capital of $500,000 and paid in and contributed surplus of $1,000,000, were provided through the sale of 5,000 shares of common stock (with a par value of $100 each) for $300 per share.

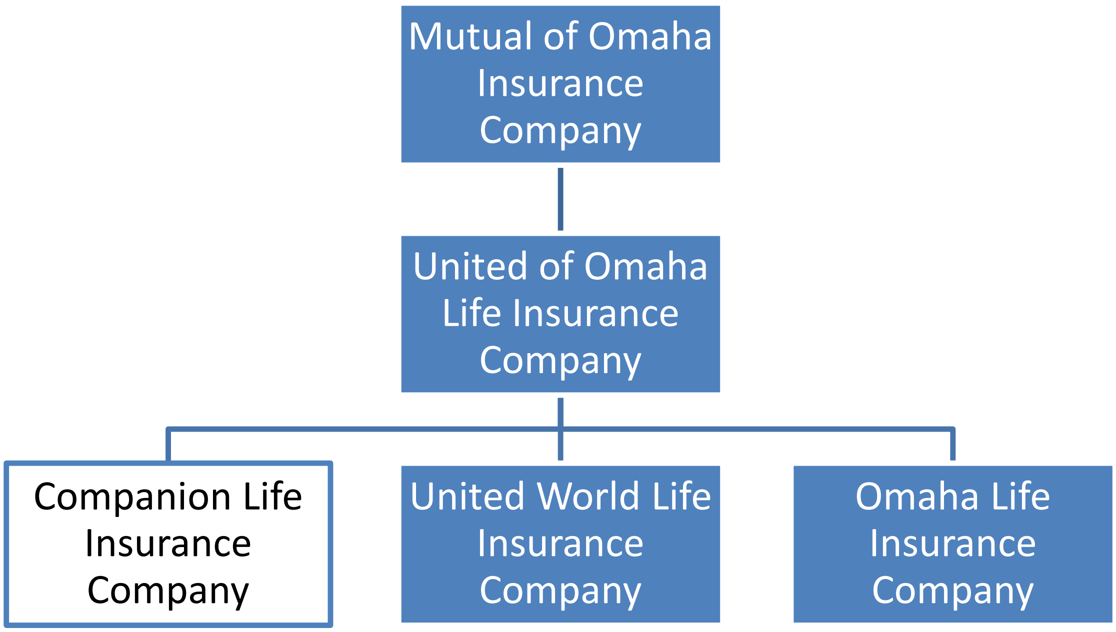
On March 17, 2014, the Company received a capital contribution of $14,000,000 from its parent, United Life Insurance of Omaha ("United").

B. Holding Company

The Company is a wholly owned subsidiary of United, a Nebraska life insurance company. United is in turn a wholly owned subsidiary of Mutual, a Nebraska insurance company. Mutual is the ultimate parent of the Company.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2014 follows:



D. Service Agreements

The Company had one service agreement in effect with affiliates during the examination period.

Type of Agreement and Department	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Administrative Service Agreement Amendment Amendment Amendment	12/31/1980 01/01/1996 12/31/2007 06/01/2010	United and Mutual	The Company	To provide to the Company, operational, facility, administrative, and other support services	2012 - $(24,673,911) 2013 - $(25,104,958) 2014 - $(26,789,869)

* Amount of Expense Incurred by the Company

The Company participates in a federal income tax allocation agreement with its parent and affiliates.

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than seven and not more than 12 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in May of each year. As of December 31, 2014, the board of directors consisted of eight members. Meetings of the board are held annually in May.

The eight board members and their principal business affiliation, as of December 31, 2014, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Alexander M. Dye* New York, NY	Attorney Willkie Farr & Gallagher LLP	2005
Frank L. Hayes* Omaha, NE	Certified Public Accountant Hayes & Associates	2011
Charles T. Locke III* Darien, CT	Attorney Locke & Herbert	1987
Daniel P. Martin Omaha, NE	Executive Vice President Mutual of Omaha Insurance Company	2007

Name and Residence	Principal Business Affiliation	Year First Elected
Paula R. Meyer* St. Ansgar, IA	President – Retired RiverSource Funds and Ameriprise Certificate Company	2013
Daniel P. Neary Omaha, NE	Chairman of the Board and President Companion Life Insurance Company	2003
Michael C. Weekly Omaha, NE	Executive Vice President Mutual of Omaha Insurance Company	2003
Richard A. Witt Omaha, NE	Executive Vice President and Chief Investment Officer Mutual of Omaha Insurance Company	2005

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

In March, 2015, Mr. Dan Neary, retired as Chairman of the Board and President and Mr. James Blackledge was named successor in April, 2015. In May, 2015, Mr. Michael Weekly resigned from the board and has not been replaced.

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, 2014:

Name	Title
Dan Neary,	Chairman of the Board and President
Laura Fender,	Vice President and Treasurer
Alan Brinkman,	Vice President & Actuary
Michael Huss,	Corporate Secretary
Kurt Christiansen,	Vice President

Daniel J. Kennelly, Vice President and Chief Compliance and Ethics Officer is designated consumer services officer per Section 216.4(c) of Department Regulation No. 64.

4. TERRITORY AND PLAN OF OPERATIONS

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 three states, namely Connecticut, New Jersey and New York. In 2014, 98.3% of life premiums, 100% of all accident and health premiums, 93.3% of annuity considerations and 100% of all deposit type funds were received from New York. Policies are written on a non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2014, the Company had $300,000 (par value) of United States Treasury Notes on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company

B. Direct Operations

The Company writes term life, universal life, group life, individual fixed and deferred annuities, group annuities and group variable annuities and targets the middle market consumer and owners of small businesses. Products are sold primarily through a network of Mutual career agents, direct mail, stockbrokers, financial planners and banks. As of December 31, 2014, the Company had 115 career agents, 6,068 brokers and an additional 190 brokers dedicated to sell variable annuities. The Company also distributes group variable annuity products and retirement products through licensed producers who are agents of Mutual. The Company no longer offers individual variable life and annuity products; the existing blocks of business are in run-off and 100% ceded.

C. Reinsurance

As of December 31, 2014, the Company had reinsurance treaties in effect with 14 companies, of which eight were authorized or accredited. The Company's life, accident and health business is reinsured on a coinsurance, modified-coinsurance, and/or yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is $100,000. The total face amount of life insurance ceded as of December 31, 2014, was $13,202,143,081, which represents 74% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $20,682,105, was supported by letters of credit and funds withheld.

5. 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, 2011	December 31, 2014	Increase (Decrease)
Admitted assets	$809,302,234	$956,858,496	$147,556,262
Liabilities	$743,608,495	$899,596,823	$155,988,328
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	45,650,000	59,650,000	14,000,000
Group contingency life reserve	1,760,842	2,709,463	948,621
Increase in admitted DTA (SSAP No. 10R paragraph 10.E.)	3,939,461	0	(3,939,461)
Unassigned funds (surplus)	12,343,436	(7,097,790)	(19,441,226)
Total capital and surplus	$ 65,693,739	$ 57,261,673	$ (8,432,066)
Total liabilities, capital and surplus	$809,302,234	$956,858,496	$147,556,262

The Company's invested assets as of December 31, 2014, exclusive of separate accounts, were mainly comprised of bonds (87.8%) and mortgage loans (7.2%). The majority (97.1%) of the Company's bond portfolio, as of December 31, 2014, 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):

	Individual Whole Life		Individual Term		Group Life	
Year	Issued	In Force	Issued	In Force	Issued & Increases	In Force
2012	$570,616	$5,060,516	$395,189	$4,047,236	$1,094,467	$7,048,350
2013	$342,524	$5,087,346	$403,720	$4,038,357	$1,625,514	$7,577,206
2014	$348,080	$5,138,930	$582,499	$4,234,325	$1,854,303	$8,484,100

The decrease in the number of issued individual whole life during the examination period was related to lower sales due to revised pricing of interest sensitive life products. The increase in the number of issued individual term during the examination period was due to higher term sales from the Company's brokerage distribution channel. The increase in group life was related to strong sales of the Company's group term life products.

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:

	2012	2013	2014
Ordinary:			
Life insurance	$4,695,424	$ (558,136)	$(7,545,153)
Individual annuities	1,703,425	1,564,972	1,602,961
Supplementary contracts	155,287	136,539	27,415
Total ordinary	$6,554,136	$1,143,375	$(5,914,777)
Group:			
Life	$ 45,402	$ (222,390)	$ (126,700)
Annuities	89,441	(292,956)	616,834
Total group	$ 134,843	$ (515,346)	$ 490,134
Accident and health other	$ (830)	$ (6,437)	$ 8,437
Total	$6,688,148	$ 621,592	$(5,416,206)

The life insurance loss from operations in 2013 was primarily due to an additional deficiency reserves and unfavorable mortality from an aging block. The 2014 loss was primarily due to an additional asset adequacy reserves requirements.

The decrease in supplementary contracts during the examination period was primarily due to lower investment income allocated to the product line.

The group life losses in 2013 and 2014 were primarily attributable to higher claim incidences.

The Company's annuity business includes Group 401(k) business and group annuities. Losses in new business growth for 401(k) occurred in all years; however losses were offset by profits in group annuities in 2012 and 2014.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2014, as contained in the Company's 2014 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, 2014 filed annual statement.

A. Independent Accountants

The firm of Deloitte was retained by the Company to audit the Company's combined statutory basis statements of financial position of the Company as of December 31st of each year in the examination period and the related statutory basis statements of operations, capital and surplus, and cash flows for the year then ended.

Deloitte concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

B. Net Admitted Assets

Bonds	$739,532,246
Mortgage loans on real estate:	
First liens	60,827,863
Cash, cash equivalents and short term investments	11,899,095
Contract loans	28,338,367
Receivable for securities	2,148,764
Investment income due and accrued	6,902,241
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	(1,467,484)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,611,712
Reinsurance:	
Amounts recoverable from reinsurers	2,943,517
Other amounts receivable under reinsurance contracts	509,949
Net deferred tax asset	10,414,737
Guaranty funds receivable or on deposit	1,685,639
Receivables from parent, subsidiaries and affiliates	1,729,048
Suspense items	836,274
Amounts due from non-affiliates	112,079
Prepaid ceded premium (N.Y.C.L.11)	1,328,338
From separate accounts, segregated accounts and protected cell accounts	78,506,110
Total admitted assets	$956,858,496

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$756,501,420
Aggregate reserve for accident and health contracts	7,530
Liability for deposit-type contracts	13,797,748
Contract claims:	
Life	2,503,637
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts -	
Dividends apportioned for payment	75,786
Premiums and annuity considerations for life and accident and health contracts received in advance	295,323
Contract liabilities not included elsewhere:	
Provision for experience rating refunds	21,169
Interest maintenance reserve	191,401
Commissions to agents due or accrued	458,884
General expenses due or accrued	1,366,969
Transfers to separate accounts due or accrued	(58,915)
Taxes, licenses and fees due or accrued, excluding federal income taxes	(38,792)
Current federal and foreign income taxes	439,206
Unearned investment income	714,928
Amounts withheld or retained by company as agent or trustee	21,416
Amounts held for agents' account	1,782,098
Remittances and items not allocated	1,908,493
Miscellaneous liabilities:	
Asset valuation reserve	5,054,875
Reinsurance in unauthorized companies	186,616
Funds held under reinsurance treaties with unauthorized reinsurers	29,755,147
Payable to parent, subsidiaries and affiliates	3,680,317
Drafts outstanding	426,906
Abandoned Property	1,970,433
Amounts Due Non-Affiliates	15,800
Liability For Interest Due And Unpaid On Policy Claims	12,316
From Separate Accounts statement	78,506,110
Total liabilities	$899,596,823

Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	$ 59,650,000
Group contingency life reserve	2,709,463
Unassigned funds (surplus)	(7,097,790)
Surplus	$ 55,261,673
Total capital and surplus	$ 57,261,673
Total liabilities, capital and surplus	$956,858,496

D. Condensed Summary of Operations

	2012	2013	2014
Premiums and considerations	$ 90,654,706	$ 84,940,193	$ 96,819,406
Investment income	37,959,629	37,288,042	39,406,888
Commissions and reserve adjustments on reinsurance ceded	1,985,997	2,298,776	4,961,347
Miscellaneous income	423,890	621,983	672,272
Total income	$131,024,222	$125,148,994	$141,859,913
Benefit payments	$ 58,557,005	$ 63,303,472	$ 61,923,720
Increase in reserves	28,574,219	26,153,508	46,268,501
Commissions	7,688,098	7,304,040	8,140,470
General expenses and taxes	24,996,815	24,780,541	26,722,126
Increase in loading on deferred and uncollected premiums	332,098	151,053	70,439
Miscellaneous deductions	1,316,689	1,297,582	1,340,727
Total deductions	$121,464,924	$122,990,196	$144,465,983
Net gain (loss)	$ 9,559,298	$ 2,158,798	$ (2,606,070)
Dividends	59,222	69,872	72,069
Federal and foreign income taxes incurred	2,811,930	1,467,332	2,738,067
Net gain (loss) from operations before net realized capital gains	$ 6,688,146	$ 621,594	$ (5,416,206)
Net realized capital (losses)	(8,333)	(313,529)	(48,769)
Net income (loss)	$ 6,679,815	$ 308,063	$ (5,464,975)

The $20.1 million change in reserves from 2013 to 2014 was primarily due to: 1) an increase of $9.3 million in life reserves, of which $8.5 million was due to an increase in the asset adequacy reserves and $0.9 million was due to an increase in deficiency reserves; 2) a $5.9 million increase in individual annuity reserves was primarily due to the increased Single Premium Immediate Annuity sales and; 3) a $5.4 million increase in group annuity reserves was primarily due to the increase in group annuity sales.

In 2013, the Company reported net income of $0.3 million, a decrease of 6.4 million, as compared to the prior year-end. The decrease was mainly due to decreased premiums and annuity considerations and unfavorable claims experience and higher insurance taxes. The decrease was partially offset by decreases in general insurance expenses and aggregate reserves for life and A&H contracts and less federal income tax expenses.

The loss in 2014 was primarily driven by continual reserve strengthening requirements and the persistent low interest rate environment as well as increased claims experience in death benefits.

E. Capital and Surplus Account

	2012	2013	2014
Capital and surplus, December 31, prior year	$ 65,693,739	$ 58,924,774	$47,009,876
Net income	$ 6,679,815	$ 308,063	$ (5,464,975)
Change in net unrealized capital gains (losses)	0	(756,380)	69,566
Change in net deferred income tax	4,839,020	5,351,393	3,765,027
Change in non-admitted assets and related items	(787,349)	(4,000,454)	(1,696,859)
Change in liability for reinsurance in unauthorized companies	(8,429)	(54,745)	22,779
Change in reserve valuation basis	(14,329,052)	(12,988,097)	0
Change in asset valuation reserve	(55,286)	170,918	(443,740)
Surplus adjustments:			
Paid in	0	0	14,000,000
Change in loading on deferred premium asset corresponding to valuation basis change in exhibit 5A	(1,342,204)	0	0
Increase in admitted DTA (SSAP No. 10R paragraph 10.E.)	(3,939,461)	0	0
Prior year adjustments	2,173,982	54,404	0
Net change in capital and surplus for the year	$ (6,768,965)	$(11,914,898)	$10,251,797
Capital and surplus, December 31, current year	$ 58,924,774	$ 47,009,876	$57,261,673

F. Reserves

The Department conducted a review of reserves as of December 31, 2014. This review included an examination of formulaic reserves and additional actuarial reserves related to asset adequacy analysis. During the review, concerns were raised regarding Department Regulation No. 147 formulaic reserving methodology for certain Group Term Life Insurance policies. In response, the Company agreed to calculate the reserves in a manner acceptable to the Department. As a result, the Company increased the gross reserves by $7 million and net reserves by $700,000 as of December 31, 2015.

During the review, concerns were also raised regarding the degree of conservatism in the stand-alone asset adequacy analysis for certain universal life policies with secondary guarantees. In response, the Company agreed to refine its stand-alone analysis and to strengthen reserves in a manner acceptable to the Department. The refined analysis indicated the need for additional reserves in the amount of $24.5 million. As agreed with the Department, the Company established additional reserves in the amount of $16.5 million as of December 31, 2015 and, to the extent the situation remains unchanged, will further strengthen reserves in the amount of $4 million as of December 31, 2016 and in the amount of $4 million as of December 31, 2017.

The examiner recommends that the Company continue to compute and strengthen its reserves using the assumptions and methodology as agreed upon with the Department.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the violation 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 4228(h) of the New York Insurance Law by failing to demonstrate that pricing was performed prior to the date these various statements of self-support were signed. The review revealed that the pricing was performed prior to the signatures on the statements of self-support.

9. SUMMARY AND CONCLUSIONS

The following is the recommendation contained in this report:

Item	Description	Page No(s).
A	The examiner recommends that the Company continue to compute and strengthen its reserves using the assumptions and methodology as agreed upon with the Department.	21

Respectfully submitted,

/s/
Joshua J. Johnson, CFE
Examiner-In-Charge
Risk & Regulatory Consulting

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

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

/s/
Joshua J. Johnson, CFE

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 31282

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

JOSH JOHNSON
(RISK & REGULATORY CONSULTING, LLC)

as a proper person to examine the affairs of the

COMPANION LIFE INSURANCE COMPANY

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

COMPANY

with such other information as he shall deem requisite.

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

this 9th day of April, 2015

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

MICHAEL MAFFEI
ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU