

# NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES FINANCIAL CONDITION REPORT ON EXAMINATION OF THE

UNIMERICA LIFE INSURANCE COMPANY OF NEW YORK

CONDITION: DECEMBER 31, 2017

DATE OF REPORT: MAY 24, 2019

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## UNIMERICA LIFE INSURANCE COMPANY OF NEW YORK

AS OF

<u>DECEMBER 31, 2017</u>

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EXAMINER: <u>VITALIY KYRYK, CFE</u>

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Andrew M. Cuomo Governor Linda A. Lacewell Acting Superintendent

May 31, 2019

The Honorable Linda A. Lacewell Acting Superintendent of Financial Services New York, New York 10004

#### Madam:

In accordance with instructions contained in Appointment No. 31783, dated May 31, 2018, and annexed hereto, an examination has been made into the condition and affairs of Unimerica Life Insurance Company of New York, hereinafter referred to as "the Company," at the statutory home office of the Company's affiliate, Golden Rule Insurance Company, located at 7440 Woodland Dr, Indianapolis, IN 46278. The Company's statutory home office is located at One Penn Plaza, Eighth Floor, New York, NY 10119.

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. SCOPE OF EXAMINATION

The examination of the Company was a full-scope examination as defined in the National Association of Insurance Commissioners' ("NAIC") *Financial Condition Examiners Handbook*, 2018 Edition (the "Handbook"). The examination covers the four-year period from January 1, 2014, to December 31, 2017. 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, 2017, 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 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 led by the State of Indiana with participation from the states of California and Wisconsin. Since the lead and participating states are all accredited by the NAIC, all states deemed it appropriate to rely on each other's work.

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 9 branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic

- Credit
- Market
- Liquidity
- Legal
- Reputational

The Company was audited for the year 2014 by the accounting firm of Deloitte & Touche, LLP ("Deloitte") and for the years 2015 through 2017 by the accounting firm of Baker Tilly Virchow Krause, LLP ("Baker Tilly"). The Company received an unqualified opinion in all years. Certain audit workpapers of the accounting firms were reviewed and relied upon in conjunction with this examination. The Company's ultimate parent, UnitedHealth Group Incorporated ("UHG"), has an internal audit and internal control department that is tasked with assessing the internal control structure and the compliance with the Sarbanes-Oxley Act of 2002 ("SOX"). Where applicable, SOX and internal audit workpapers and reports were reviewed, and portions were relied upon for this examination.

The examiner reviewed the prior report on examination which did not contain any violations, recommendations, or comments.

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.

#### 2. <u>DESCRIPTION OF COMPANY</u>

#### A. History

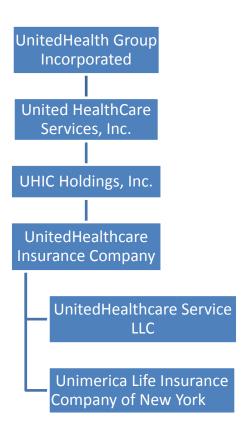
The Company was incorporated as a stock life insurance company under the laws of the State of New York on June 14, 1999, under the name United HealthCare Life Insurance Company of New York. The Company was licensed and commenced business on April 8, 2003. The Company adopted its present name on August 8, 2003. Initial resources of \$6,500,000, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$4,500,000, were provided through the sale of 2,000 shares of common stock (with a par value of \$1,000 each) for \$3,250 per share.

#### B. Holding Company

The Company is a wholly owned subsidiary of UnitedHealthcare Insurance Company ("UHIC"), a Connecticut health insurer. UHIC is a wholly owned subsidiary of UHIC Holdings, Inc., a Delaware holding company, which, in turn, is a wholly owned subsidiary of United HealthCare Services, Inc. ("UHS"), a Minnesota health services corporation. The ultimate parent of the Company is UHG, a Delaware publicly traded managed health care 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, 2017, follows:



## D. Service Agreements

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

Type of Agreement and Department File Number	Effective Date	Providers of Services	Recipient of Services	Specific Service(s) Covered	Expense* For Each Year of the Examination
Service Agreement Department File No. 31504	08/07/2013	UHS and UHSC	The Company	Policy underwriting, claim processing, marketing, agency development, personnel, legal, government, and public relations	2017 \$(1,158,603) 2016 \$(1,208,507) 2015 \$( 996,283) 2014 \$(1,014,236)

<sup>\*</sup>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 9 and not more than 13 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in first half of each year. As of December 31, 2017, the board of directors consisted of nine members. Meetings of the board are held quarterly.

The nine board members and their principal business affiliation, as of December 31, 2017, were as follows:

Name and Residence	Principal Business Affiliation	Year First <u>Elected</u>
Timothy C. Archer Avon, Connecticut	Vice President, Finance, Employee & Individual UnitedHealth Group Incorporated.	2014
Andrew W. Attivissimo* Westbury, New York	Former President and Chief Executive Officer Empire Insurance Group	2002
Robert L. Brommer Rosemount, Minnesota	Director, Finance, Employee & Individual UnitedHealth Group Incorporated	2014
Andrew J. Fabula Baldwin, Maryland	Chief Financial Officer Unimerica Life Insurance Company of New York	2011
Richard J. Fleder* New York, New York	President ELMC, LLC	2008
William J. Golden Northport, New York	Chief Executive Officer Unimerica Life Insurance Company of New York	2011
Michael McGuire Wycoff, New Jersey	Chief Executive Officer, Healthplan Northeast UnitedHealth Group Incorporated	2014
Richard A. Perrine* Edina, Minnesota	Senior Vice President Hays Company	2005
Robert T. Secovnie* Kinderhook, New York	Director Insurance Training Institute, Inc.	1999

<sup>\*</sup>Not affiliated with the Company or any other company in the holding company system

In June 2018, Timothy C. Archer resigned from the board and was replaced by James F. Bedard.

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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, 2017:

<u>Name</u> <u>Title</u>

William J. Golden President

Gavin G. Galimi\* Secretary, General Counsel

Robert W. Oberrender Treasurer

Andrew J. Fabula Chief Financial Officer

\*Designated consumer services officer per Section 216.4(c) of 11 NYCRR 216 (Insurance Regulation 64)

In June 2018, Peter M. Gill replaced Robert W. Oberrender as Treasurer.

#### 3. 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 New York and the District of Columbia. In 2017, all life and accident and health premiums were received from New York. Policies are written on a non-participating basis.

#### A. Statutory and Special Deposits

As of December 31, 2017, the Company had \$ 424,487 (par value) of United States Treasury Bond on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company.

#### B. <u>Direct Operations</u>

The Company offers group term life insurance, group short and long-term disability insurance, and group accidental death and dismemberment coverage. The Company offers its insurance products to all segments of the New York group life and group disability insurance markets, which primarily consists of employee groups. The Company's target market is employee groups in the 2 to 10,000 employee range.

The Company's agency operations are conducted on a general agency and branch office basis. The Company obtains business through national and regional insurance brokers as well as employee benefits consultants who represent large employers. The Company also markets to one large association, on a direct response basis.

#### C. Reinsurance

As of December 31, 2017, the Company had reinsurance treaties in effect with three companies, all of which were authorized, accredited, or certified. The Company's life and accident and health business is reinsured on a coinsurance basis. Reinsurance is provided on an automatic, facultative, or automatic and facultative basis

The maximum retention limit for individual life contracts is \$750,000. The total face amount of life insurance ceded as of December 31, 2017, was \$1,701,000, which represents 0.14% of the total face amount of life insurance in force.

#### 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,	December 31,	Increase
	<u>2013</u>	<u>2017</u>	(Decrease)
Admitted assets	\$ <u>35,556,221</u>	\$ <u>39,795,568</u>	\$ <u>4,239,347</u>
Liabilities	\$ <u>16,034,074</u>	\$ <u>18,530,777</u>	\$ <u>2,496,703</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	14,500,000	14,500,000	0
Unassigned funds (surplus)	3,022,147	4,764,791	<u>1,742,644</u>
Total capital and surplus	\$19,522,147	\$21,264,791	\$ <u>1,742,644</u>
-			
Total liabilities, capital and surplus	\$ <u>35,556,221</u>	\$ <u>39,795,568</u>	\$ <u>4,239,347</u>

The Company's invested assets as of December 31, 2017, comprised bonds (88%) and cash and short-term investments (12%).

The Company's entire bond portfolio as of December 31, 2017, was composed 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):

Group Life

<u>Year</u>	Issued & Increases	In Force
2014	\$299,647	\$ 842,811
2015	\$189,471	\$ 747,300
2016	\$220,702	\$ 833,293
2017	\$381,700	\$1,183,597

The fluctuation in the group life insurance business during the examination period was primarily due to larger-than-usual acquisitions in 2014 and 2017.

The following has been extracted from the Exhibits of Accident and Health Insurance in the filed annual statements for each of the years under review:

		<u>)</u>			
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	
Outstanding, end of previous year Issued during the year Other net changes during the year	14,725 1,653 (4,482)	11,896 3,672 (1,282)	14,286 1,043 (700)	14,629 2,973 (2,560)	
Outstanding, end of current year	<u>11,896</u>	14,286	14,629	15,042	

The increase in group accident and health insurance issued in 2015 and 2017 resulted from the addition of new, larger-than-usual groups during these years. The other net changes during the years consist of groups' terminations and changes in the number of certificates for the existing groups. During 2014 and 2017, terminations increased significantly; and in 2014 and 2017, the total number of certificates issued decreased significantly when compared with other years.

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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Group life	\$ <u>98,199</u>	\$355,902	\$ <u>377,367</u>	\$ <u>112,888</u>
Group accident and health	\$335,599	\$ <u>566,241</u>	\$ <u>1,475,891</u>	\$ <u>321,083</u>
Total	\$ <u>433,798</u>	\$ <u>922,143</u>	\$ <u>1,853,258</u>	\$ <u>433,971</u>

The increase in group life and group accident and health insurance net gain from operations in 2015 and 2016 compared with 2014 was primarily due to benefit costs decreasing at a higher rate than premiums as a result of a favorable change in retroactive life to date to disability life reserve balances, given improved year-over-year experience as reserves were released early due to death, recoveries, or enrollees hitting their maximum age. The decrease in 2017 was primarily due to benefit cost increasing at a higher rate than premiums.

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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Premiums earned	<u>100.0</u> %	<u>100.0</u> %	<u>100.0</u> %	<u>100.0</u> %
Incurred losses	71.0%	61.7%	31.4%	64.6%
Commissions	11.3	13.0	13.4	15.5
Expenses	<u>21.0</u>	23.4	24.0	22.8
	<u>103.3</u> %	<u>98.1</u> %	68.8%	<u>102.9</u> %
Underwriting results	<u>(3.3</u> %)	<u>1.9</u> %	<u>31.2</u> %	<u>(2.9</u> %)

The lower incurred loss ratio in 2016 was primarily due to a \$1.7 million favorable change in retroactive life to date to disability life reserve balances, given improved year-over-year experience as reserves were released early due to death, recoveries, or enrollees hitting their maximum age.

#### 5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, and capital and surplus as of December 31, 2017, as contained in the Company's 2017 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, 2017, filed annual statement.

#### A. Independent Accountants

The firm of Baker Tilly was retained by the Company to audit the Company's combined statutory basis statements of financial position as of December 31 of the years 2015, 2016, and 2017, and the related statutory basis statements of operations, capital and surplus, and cash flows for the years then ended, while Deloitte was retained to audit the Company's combined statutory basis statements of financial position as of December 31, 2014.

Baker Tilly and 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	\$34,411,929
Cash, cash equivalents and short term investments	4,086,965
Investment income due and accrued	182,496
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	478,571
Reinsurance:	
Amounts recoverable from reinsurers	16,925
Other amounts receivable under reinsurance contracts	524
Net deferred tax asset	227,376
Receivables from parent, subsidiaries and affiliates	390,782
Total admitted assets	\$ <u>39,795,568</u>

## C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$ 1,141,893
Aggregate reserve for accident and health contracts	11,398,009
Liability for deposit-type contracts	108,487
Contract claims:	
Life	375,996
Accident and health	335,267
Premiums and annuity considerations for life and accident and health	
contracts received in advance	12,571
Contract liabilities not included elsewhere:	
Provision for experience rating refunds	4,448,530
Interest maintenance reserve	90,102
Commissions to agents due or accrued	147,731
General expenses due or accrued	252,050
Taxes, licenses and fees due or accrued, excluding federal income taxes	47,273
Current federal and foreign income taxes	79,538
Miscellaneous liabilities:	
Asset valuation reserve	76,699
Unclaimed property	16,631
Total liabilities	\$18,530,777
Common capital stock	2,000,000
Gross paid in and contributed surplus	14,500,000
Unassigned funds (surplus)	4,764,791
Surplus	\$ <u>19,264,791</u>
Total capital and surplus	\$21,264,791
Total liabilities, capital and surplus	\$ <u>39,795,568</u>

## D. Condensed Summary of Operations

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Premiums and considerations	\$7,005,541	\$5,963,496	\$6,174,261	\$7,414,761
Investment income	759,233	819,096	832,210	837,501
Commissions and reserve				
adjustments on reinsurance ceded	86,898	77,666	43,204	(3,362)
Total income	\$ <u>7,851,672</u>	\$ <u>6,860,258</u>	\$ <u>7,049,675</u>	\$8,248,900
Benefit payments	\$3,403,604	\$2,713,106	\$2,560,779	\$3,660,076
Increase in reserves	1,295,397	612,648	(723,731)	1,069,448
Commissions	823,274	802,362	854,767	1,058,368
General expenses and taxes	1,656,472	1,373,779	1,509,956	1,628,573
Miscellaneous deductions	0	36,153	0	0
Total deductions	\$ <u>7,178,747</u>	\$ <u>5,538,048</u>	\$ <u>4,201,771</u>	\$ <u>7,416,465</u>
Net gain (loss)	\$ 672,925	\$1,322,210	\$2,847,904	\$ 832,435
Federal and foreign income taxes incurred	239,127	400,067	994,646	398,464
Net gain (loss) from operations before net realized capital gains Net realized capital gains (losses)	\$ 433,798 (3,667)	\$ 922,143 (4,552)	\$1,853,258 (2,714)	\$ 433,971 (1,981)
Net income	\$ <u>430,131</u>	\$ <u>917,591</u>	\$ <u>1,850,544</u>	\$ <u>431,990</u>

The decline in increase in reserves in 2016 was primarily due to a favorable change in retroactive life to date disability life reserve balances given improved year-over-year experience as reserves were released early due to death, recoveries, and enrollees hitting their maximum age.

## E. Capital and Surplus Account

		<u>2014</u>		<u>2015</u>	<u>2016</u>	<u>2017</u>
Capital and surplus, December 31, prior year	\$ <u>19.</u>	522,147	\$ <u>19</u>	9,954,479	\$ <u>20,805,481</u>	\$ <u>22,651,121</u>
Net income	\$	430,131	\$	917,591	\$ 1,850,544	\$ 431,990
Change in net deferred income tax		34,514		(43,586)	31,355	18,047
Change in non-admitted assets and related items Change in asset valuation reserve Dividends to stockholders		(20,831) (11,482) <u>0</u>		(10,138) (12,865) <u>0</u>	(24,318) (11,941) 0	(25,578) (10,789) (1,800,000)
Net change in capital and surplus for the year		432,332	_	851,002	1,845,640	(1,386,330)
Capital and surplus, December 31, current year	\$ <u>19</u> ,	954,479	\$ <u>20</u>	0,805,481	\$ <u>22,651,121</u>	\$ <u>21,264,791</u>

Respectfully submitted,

Vitaliy Kyryk, CFE

Noble Consulting Services, Inc.

STATE OF NEW YORK

SS:

COUNTY OF NEW YORK

<u>Vitaliy Kyryk</u>, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

Vitaliy Kyryk

Subscribed and sworn to before me

this 10th day of June, 2019

ROCHELLE ATKINS
Notary Public, State of Indiana
Hendricks County
Commission Number NP0716900
My Commission Expires
November 08, 2026

June 10, 2019

	Respectfully submitted,
	/s/
	Vincent Targia
	Principal Insurance Examiner
STATE OF NEW YORK  COUNTY OF NEW YORK  Vincent Targia, being duly sw by him, is true to the best of h	vorn, deposes and says that the foregoing report, subscribed
	Vincent Targia
Subscribed and sworn to befo	re me
thisday of	

#### **NEW YORK STATE**

## DEPARTMENT OF FINANCIAL SERVICES

I, <u>MARIA T. VULLO</u>, 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:

### VITALIY KYRYK (NOBLE CONSULTING SERVICES, INC.)

as a proper person to examine the affairs of the

#### UNIMERICA LIFE INSURANCE COMPANY OF NEW YORK

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 <u>31st</u> day of <u>May</u>, 2018

MARIA T. VULLO Superintendent of Financial Services

*By:* 

mad m Zevel

MARK MCLEOD DEPUTY CHIEF - LIFE BUREAU