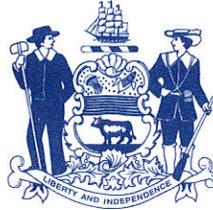


**REPORT ON EXAMINATION**  
**OF THE**  
**MAGELLAN LIFE INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2011**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 of the

**MAGELLAN LIFE INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By: Branti Biddle

Date: November 26, 2012

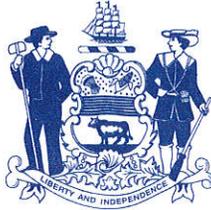


In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 26<sup>th</sup> day of November, 2012.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
MAGELLAN LIFE INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2011

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 26<sup>th</sup> day of December, 2012

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## **SALUTATION**

September 20, 2012

Honorable Karen Weldin Stewart, CIR-ML  
Delaware Department of Insurance  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 12-024, dated July 20, 2012, an Association examination has been made of the affairs, financial condition and management of the

### **MAGELLAN LIFE INSURANCE COMPANY**

hereinafter referred to as “Company” or “MLIC” incorporated under the laws of the State of Delaware with its home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the main administrative office of the Company at 14100 Magellan Plaza, Maryland Heights, Missouri 63043.

The report of this examination is respectfully submitted.

## SCOPE OF EXAMINATION

The last exam was completed as of December 31, 2006. This examination covers the period of January 1, 2007 through December 31, 2011 and encompassed a general review of the Company's business policies and practices, as well as management, and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2011. Transactions subsequent to the latter date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook (NAIC Handbook). The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risk of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risk within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulation.

During the examination, consideration was given to work performed by the Company's external accounting firm, Ernst & Young, LLP (E&Y), Baltimore, MD. Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. The Company was not required to be Sarbanes Oxley (SOX) section 404 compliant as of the examination date. The Company's ultimate parent, Magellan Health Services, Inc., is SOX compliant and we reviewed and relied on the work completed by E&Y in the SOX Compliance audit.

Arrangements were made for the Pennsylvania Insurance Department (PID) to share

information and work papers regarding a financial examination as of December 31, 2010 of Magellan Behavioral Health of Pennsylvania, Inc., an affiliate. As Pennsylvania is an accredited state, certain PID work papers have been utilized as both insurers have common management and similar systems and control processes.

In addition to items noted in this report, the following topics were reviewed without material exception and are included in the work papers of this examination:

- Conflict of Interest
- Custodial Agreements
- Risk Based Capital
- Legal Actions
- All Asset and Liability Items not mentioned

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulation or rules, or which were deemed to require special explanation or description.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings as a result of this examination.

### **SUBSEQUENT EVENTS**

Effective as of January 1, 2012, the Company entered into a mental health and substance abuse reinsurance agreement with Blue Shield of California Life & Health Insurance Company, an unaffiliated life, health and disability insurer in the State of California with terms extending through December 31, 2019.

### **COMPANY HISTORY**

Magellan Life Insurance Company is a stock company that was incorporated on October 2, 1982 as Orion Life Insurance Company and began to write business during 1997 after being acquired by Merit Health Insurance Company. The Company changed its name to Magellan Life Insurance Company on November 4, 2004.

The Company is a life, accident and health insurance company domiciled in the State of Delaware and maintains licenses in 17 states. MLIC provides stop-loss coverage for a managed behavioral healthcare program administered by an affiliate through an assumed reinsurance contract with an unaffiliated company.

**Common Capital Stock**

As of December 31, 2011, the Company had 300,000 shares of \$10.00 par value common stock authorized with 150,000 issued and outstanding, resulting in paid in capital of \$1,500,000.

**Dividends**

The Company made the following dividend distributions to its sole stockholder, Merit Health Insurance Company, during the examination period:

| <u>Amount Paid</u> | <u>Dept. Approval Date</u> | <u>Date Paid</u>  | <u>Ordinary or Extraordinary</u> |
|--------------------|----------------------------|-------------------|----------------------------------|
| \$1,200,000        | October 3, 2008            | October 27, 2008  | Extraordinary                    |
| \$580,847          | December 11, 2009          | December 29, 2009 | Ordinary                         |
| \$1,250,000        | July 21, 2011              | August 8, 2011    | Extraordinary                    |

These dividends were properly filed and approved by the Department.

**CORPORATE RECORDS**

No amendments were made to the Certificate of Incorporation or bylaws during the examination period.

The recorded minutes of the shareholder, Board of Directors (Board) and investment committee were reviewed for the period under examination. The recorded minutes adequately document the approvals, ratifications and transactions that occurred during the meetings.

## MANAGEMENT AND CONTROL

### **Board of Directors**

The Board of Directors shall not exceed 25 members. As of the examination date, the Board was comprised of three members. Individuals elected and serving on the Board of Directors at December 31, 2011 were:

Jonathan Rubin, Chairman

Andrew Cummings

Irene Shapiro

### **Officers**

The bylaws of the Company state that officers shall be elected or appointed by the Board. As of December 31, 2011, the Company's principal officers and their respective titles are as follows:

Jonathan Rubin            President

Andrew Cummings      Secretary

Jeffrey West             Treasurer

Officers of the Company serve as employees of Magellan Health Services, Inc. (MHS).

### **Committees**

The Company's bylaws provide for the Board to designate one or more internal committees. As of December 31, 2011, the Board had appointed the following committees and members:

#### **Investment Committee**

Jonathan Rubin

Irene Shapiro

#### **Audit Committee**

Andrew Cummings

Jonathan Rubin

Irene Shapiro

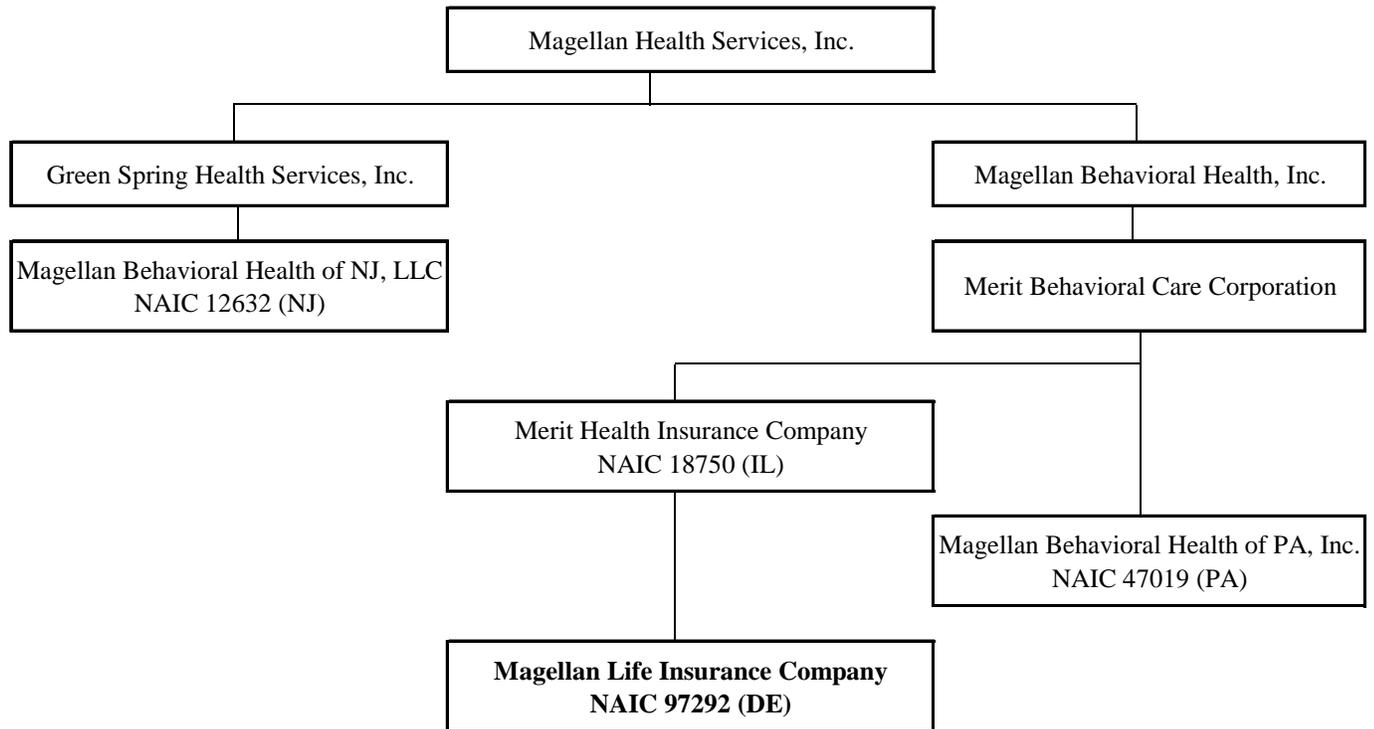
**Conflict of Interest**

The Company has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any director, officer or employee which is likely to conflict with their official duties. The signed conflict of interest disclosure statement for each director and officer serving during 2011 was reviewed with no exceptions noted.

**HOLDING COMPANY SYSTEM**

The Company is a member of an insurance holding company system. Magellan Life Insurance Company is a wholly owned subsidiary of Merit Health Insurance Company (MHIC). MHIC is a wholly owned subsidiary of Merit Behavioral Care Corporations which is owned by Magellan Behavioral Health, Inc. and is a subsidiary of Magellan Health Services, Inc., the ultimate controlling party.

The following is an organizational chart as of December 31, 2011:



#### **AFFILIATED AGREEMENTS**

The Company was party to the following affiliated agreements during the current examination period and subsequent:

##### Administrative Services Agreement

Effective January 1, 1997, the Company entered into an Administrative Services Agreement with Merit Behavioral Care Corporation (Merit), an affiliate, whereby Merit provides certain administrative and management services related to the operation of the Company. This agreement was properly filed with the Department and approved.

##### Tax Allocation Agreement

Effective January 1, 2003, the Company was included as a member in a Tax Allocation Agreement with Magellan Health Services, Inc., the Company's ultimate parent. The agreement sets forth the manner in which the total consolidated federal income tax liability or benefit is allocated to MLIC. This agreement was properly filed with the Department and approved.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintains fidelity insurance coverage in the amount of \$15,000,000 which meets the minimum amount suggested by the National Association of Insurance Commissioners.

Review of the other insurance coverage policies in force reveal the Company maintains adequate coverage for the types of hazards to which the Company is exposed.

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2011, the Company was licensed to conduct business in the following seventeen states:

|          |             |                |               |
|----------|-------------|----------------|---------------|
| Arizona  | Mississippi | North Dakota   | Texas         |
| Delaware | Montana     | South Carolina | Utah          |
| Georgia  | Nebraska    | South Dakota   | West Virginia |
| Indiana  | New Mexico  | Tennessee      | Wyoming       |
| Kansas   |             |                |               |

The Company provides stop-loss coverage for a managed behavioral healthcare program administered by an affiliate through an assumed reinsurance contract with an unaffiliated company.

## **GROWTH OF THE COMPANY**

The following exhibit reflects the Company's operating trends as reported in its Annual Statements for the examination period:

|                           | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Net Admitted Assets       | \$4,189,533 | \$5,469,499 | \$5,290,440 | \$5,585,640 | \$5,914,673 |
| Total Capital and Surplus | \$3,706,831 | \$4,625,116 | \$4,059,417 | \$4,006,401 | \$4,714,674 |
| Gross Premium Written     | \$558,772   | \$797,220   | \$1,051,648 | \$1,280,768 | \$1,544,277 |
| Net Income                | \$331,715   | \$565,699   | \$544,743   | \$580,847   | \$320,267   |

During 2011, total admitted assets decreased \$1.3 million or 24% primarily attributed to the payment of a \$1,250,000 dividend to stockholder. Net admitted assets as of December 31, 2011 are primarily comprised of cash (\$993), one bond (\$554,840) and short-term investments in four money market funds (\$3,193,287) and one U.S. Treasury Note (\$416,071). Total liabilities decreased

approximately \$361,000 and are attributable to the payment of hospital and medical claims on assumed business. There was no change to capital stock or paid in surplus during this exam period.

During 2011, net underwriting gain decreased \$355,000 as revenue from the direct stop-loss contract terminated on June 30, 2011. Revenue from the assumed reinsurance contract remained consistent. Claim and general expenses were consistent with the prior year. Net investment income represents interest earned on Company's bonds and short-term investments.

## **REINSURANCE**

### Assumed

The Company has had an assumed reinsurance contract with ACE American Insurance Company, an unaffiliated company, since January 1, 2007. The Company provides stop-loss coverage for a managed behavioral healthcare program administered by an affiliate. This contract is open for renewal on an annual basis with the current term expiring December 31, 2012.

### Ceded

The Company does not cede reinsurance business.

## **ACCOUNTS AND RECORDS**

All records are maintained at the Company's administrative office in Maryland Heights, MO. The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure and the processing structure. The general ledger account balances were reconciled and traced to amounts reported in the annual statement for the most recent year under review. All balance sheet accounts were summarized and traced to the appropriate asset exhibits and liability lines within the annual statement.

Ernst & Young, LLP (E&Y) audits the statutory financial statements of the Company and certain affiliates annually. E&Y reviewed the internal control structure in order to establish necessary

audit procedures required to express an opinion on the December 31, 2011 financial statements. No material qualifying deficiencies were found to exist in either the design or oversight of the internal control structure.

Based on the examination review of the Company's accounts and records related to its filed annual statements, observations, discussions with management, and the review of financial reporting processes and controls, the Company's accounting systems, processes, and procedures were found to conform to required insurance accounting practices.

### **STATUTORY AND SPECIAL DEPOSITS**

In compliance with various statutory and special deposit requirements, the Company maintained the following deposits as of December 31, 2011:

| <u>State</u>   | <u>Type of Security</u>     | <u>Par Value</u>   | <u>Fair Value</u>  |
|----------------|-----------------------------|--------------------|--------------------|
| Arizona        | U.S. Treasury Note          | \$115,000          | \$115,360          |
| Delaware       | Federal Home Loan Bank Bond | \$550,000          | \$558,008          |
| Georgia        | Money Market Mutual Funds   | \$59,839           | \$59,839           |
| New Mexico     | U.S. Treasury Note          | \$125,000          | \$125,391          |
| South Carolina | U.S. Treasury Note          | \$175,000          | \$175,548          |
| Totals         |                             | <u>\$1,024,839</u> | <u>\$1,034,146</u> |

### **FINANCIAL STATEMENTS**

The financial condition of the Company and the results of its operations for the five-year period under examination are reflected in the following statements:

- Statement of Assets, Liabilities, Capital and Surplus;
- Statement of Revenue and Expenses;
- Statement of Capital and Surplus

**STATEMENT OF ASSETS, LIABILITIES, CAPITAL AND SURPLUS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

|  | 2011                       |
|--|----------------------------|
| Bonds  | \$ 554,840                 |
| Cash and short term investments                    | <u>3,610,350</u>           |
| Subtotals  | <u>\$ 4,165,190</u>        |
| Investment income due and accrued                  | 1,120                      |
| Uncollected premiums                               | <u>23,223</u>              |
| Total Assets                                       | <u><u>\$ 4,189,533</u></u> |
|  |                            |
| Claims unpaid                                      | \$ 236,129                 |
| General expenses due or accrued                    | 40,000                     |
| Current federal income tax payable                 | 178,616                    |
| Amounts due to parent, subsidiaries and affiliates | <u>27,957</u>              |
| Total Liabilities                                  | <u>\$ 482,702</u>          |
|  |                            |
| Common capital stock                               | \$ 1,500,000               |
| Gross paid in and contributed surplus              | 1,380,000                  |
| Unassigned funds (surplus)                         | <u>826,831</u>             |
| Total Capital and Surplus                          | <u>\$ 3,706,831</u>        |
| Total Liabilities, Capital & Surplus               | <u><u>\$ 4,189,533</u></u> |

**STATEMENT OF REVENUE AND EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

|  | 2011         |
|--|--------------|
| Member months                          | 220,640      |
| Net premium income                     | \$ 558,772   |
| Total Revenues                         | \$ 558,772   |
| Other professional services            | \$ (442,773) |
| Net reinsurance recoveries             | 224,070      |
| General administrative expenses        | 272,205      |
| Total underwriting deductions          | \$ 53,502    |
| Net underwriting gain (loss)           | \$ 505,270   |
| Net investment income earned           | \$ 5,061     |
| Net realized capital gains (losses)    | 0            |
| Net investment gain (loss)             | \$ 5,061     |
| Net income before federal income taxes | \$ 510,331   |
| Federal income taxes incurred          | 178,616      |
| Net Income                             | \$ 331,715   |

**STATEMENT OF CAPITAL AND SURPLUS**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

|  |                            |
|--|----------------------------|
| Capital and Surplus, December 31, 2010 | <u>\$ 4,625,116</u>        |
| Net income                             | 331,715                    |
| Change in Asset Valuation Reserve      | 0                          |
| Change in nonadmitted assets           | 0                          |
| Dividends to stockholders              | <u>(1,250,000)</u>         |
| Net change in capital and surplus      | <u>\$ (918,285)</u>        |
| Capital and Surplus, December 31, 2011 | <u><u>\$ 3,706,831</u></u> |

## COMMENTS ON THE FINANCIAL STATEMENTS

There are no proposed financial adjustments to the Company's filed 2011 Annual Statement based on the results of this examination.

### COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The prior examination report contained the following recommendations:

1. It is recommended the Company promptly report all changes in directors and principal officers to the Delaware Insurance Department as required by 18 Del. C. § 4919.

The Company has complied with this recommendation.

2. It is recommended that the Company amend its custodial agreement with Wachovia Bank to comply with NAIC guidelines.

The Company has complied with this recommendation.

### SUMMARY OF RECOMMENDATIONS

No recommendations were made as a result of this examination.

### ACKNOWLEDGEMENT

The examiner-in-charge would like to acknowledge that the Company's personnel were cooperative and helpful during the examination process.



Richard Kramer, CFE, AIE, FLMI

Examiner-In-Charge