

Report
of the
Examination of
Northwestern Long Term Care Insurance Company
Milwaukee, Wisconsin
As of December 31, 2012, as amended

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

March 3, 2014

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

NORTHWESTERN LONG TERM CARE INSURANCE COMPANY
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Northwestern Long Term Care Insurance Company (the company) was conducted in 2008 as of December 31, 2007. The current examination covered the intervening period ending December 31, 2012, and included a review of such 2013 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement

presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination. Refer to the "Summary of Examination Results" section for more on the review of the external auditor's work papers.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of aggregate life and annuity reserves, aggregate accident and health reserves, dividends to policyholders, asset adequacy analysis, and deferred life insurance premiums. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in Illinois in 1953 as the Poulsen Insurance Company of America. In 1969, the Standard of America Financial Corporation (Delaware) acquired the company and changed its name to the Standard of America Life Insurance Company. In 1977, the Sundstrand Corporation (Delaware) acquired the company. In 1982, The Northwestern Mutual Life Insurance Company (NML) acquired the company by purchasing all of its outstanding shares from Sundstrand Corporation. Effective October 10, 1997, the company redomesticated from Illinois to Wisconsin and the company's name was changed to Northwestern Long Term Care Insurance Company (NLTC). NML continues to own 100% of the outstanding shares of NLTC. NML was examined concurrently with NLTC.

The company is licensed in all 50 states and the District of Columbia. In 2012, the company collected direct premium in the following states:

Illinois	\$ 32,286,338	8.4%
Wisconsin	25,006,722	6.5
New York	22,364,868	5.8
California	20,767,276	5.4
Florida	19,788,003	5.1
Texas	18,165,007	4.7
Minnesota	15,222,004	3.9
Ohio	14,724,785	3.8
North Carolina	13,539,284	3.5
Michigan	12,299,033	3.2
Georgia	11,891,229	3.1
All others	<u>179,318,690</u>	<u>46.5</u>
 Total	 <u>\$385,373,239</u>	 <u>100.0%</u>

Prior to August 1998, NLTC's insurance business consisted of paying benefits on supplementary contracts purchased by contract owners from NLTC prior to 1996. In August 1998, NLTC began selling its first long-term care insurance product, QuietCare RR, which reimburses insured for the cost of services up to a specified daily limit, ranging from \$50 to \$500 per day. The policyholder received reimbursement for some or all of the costs of care received at home, at an adult day care center, at an assisted living facility, or at a nursing home. Benefits begin after the policyholder has accrued either 90 or 180 days (chosen at time of purchase) of qualifying expenses. The policyholder could elect to receive benefits for three years, six years, or for life. The policy included a waiver of premium provision. The policy was guaranteed

renewable, but if experience by rating class had deviated from expectations, NLTC had the right to increase premiums (subject to state approvals, where required). QuietCare RR was available to individuals 18 to 79 years old. NLTC reinsured 80% of this business in order to limit its exposure to loss on any single insured and to recover a portion of benefits paid.

A new long-term care insurance product, QuietCare RS, was introduced in March 2002 and included dividend participation, alternate living facility reimbursement up to 100% of the nursing home daily benefit, and a caregiver training benefit. Certain features of the new contract were made available to existing policyowners with no increase in current premiums. Since the new participating feature was provided to existing policyowners, all in-force policies became participating. QuietCare RS was not reinsured.

Additional QuietCare RS product enhancement occurred in 2008. A weekly elimination period replaced “days of service” beginning dates. A Hospice Care benefit was added, along with a formalization of claim assistance services, and waiver of premium starting at benefit eligibility

A new long-term care insurance product, QuietCare TT, was introduced in October 2010. New features included: limited pay options (10-Pay and Paid-up at Age 65); two classified ratings (classes 1 and 2); a 52-week Elimination Period (available in most states); and home health care only available at 100% of nursing home/alternate living facility monthly maximum limit. In addition, there were changes to the spousal/companion premium discount structure. Lastly, the survivorship benefit provides a paid-up policy upon the death of a spouse or companion instead of a seven-year waiting period from the policy issue date.

During July 2012, NLTC announced the suspension of the lifetime benefit period and limited payment options for all new sales and policy changes beginning August 24, 2012, for its long-term care products in response to the historically low interest rate environment and updated industry morbidity information. NML made a capital contribution to NLTC of \$300 million during 2012.

QuietCare is marketed through NML’s career agent distribution system consisting of 7,808 career agents.

NLTC has no employees. It has contracted with NML for management and all administrative services not provided by its contracting administrator (see below). See the "Affiliated Companies" section of this report for information on the contract with NML.

Since July 1998, NLTC has contracted with an unaffiliated third-party administrator, Long Term Care Group, Inc. (LTCG), to provide certain administrative and consulting services with regard to long-term care insurance. LTCG is a wholly owned subsidiary of Univita Health, Inc., as of 2008.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven individuals elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no additional compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
David R. Remstad Milwaukee, WI	Senior Vice President and Chief Actuary NML	2013
Jean M. Maier Mequon, WI	Executive Vice President NML	2013
Gregory C. Oberland Whitefish Bay, WI	Executive Vice President NML	2013
John M. Grogan Fox Point, WI	Senior Vice President NML	2013
Gary A. Poliner Milwaukee, WI	President – NML	2013
Todd M. Schoon Milwaukee, WI	Senior Vice President NML	2013
Steve P. Sperka Muskego, WI	President – NLTC	2013

Officers of the Company

The officers serving at the time of this examination are as follows;

Name	Office	2012 Compensation*
Gregory C. Oberland	Chairman	\$2,816,775
Steve P. Sperka	President and CEO	386,309
John C. Kelly	Vice President and Controller	559,804
Raymond J. Manista	Secretary and General Counsel	941,124
David Robert Remstad	Vice President and Chief Actuary	694,459
Gary M. Hewitt	Vice President Investment Risk Management	720,106
Ronald P. Joelson	Vice President and CIO	564,607
Michael G. Carter	Vice President and CFO	929,682

* This amount represents the total compensation paid to the individual by NML.

IV. AFFILIATED COMPANIES

NLTC is a member of a holding company system, of which NML is the ultimate parent. The organizational chart following this section depicts the relationship among selected significant affiliates in the group. A brief description of the significant affiliates of NLTC is given in the following paragraphs.

The Northwestern Mutual Life Insurance Company (NML)

NML owns 100% of the outstanding stock of NLTC. NML was organized in 1857 as The Mutual Life Insurance Company of the State of Wisconsin. The name was changed in 1865 to the current name. The company is licensed in all 50 states and the District of Columbia.

The major product market of NML is ordinary life insurance written on a participating basis. Other products include individual annuities, disability income insurance, and variable life insurance and variable annuities. NML also markets products that combine characteristics of whole life and term life insurance. The major products are marketed through NML's career agents.

Pursuant to the introduction of NLTC's QuietCare long-term care product, NML and NLTC executed two agreements, which are described below.

Effective January 1, 1998, NML and NLTC entered into a product and general service agreement, which replaced a previous service agreement. Under the terms of the current agreement, NML agreed to contribute to NLTC the long-term care product developed by NML at an amount that reflects NML's actual development expense. NLTC reported this transaction as a capital contribution. NLTC then expensed the development costs and nonadmitted the related software. No goodwill was carried as a result of the transaction. In addition to the contribution of the product, NML agreed to provide all requested services including legal, accounting, investment, marketing, and information technology services as necessary for NLTC's operation. Reimbursement to NML for these services is based on actual expenses incurred and an allocation of shared costs based on the number of employee hours of service provided to each entity. The agreement also provides that rather than direct reimbursement from NLTC for future services, NML may choose to have its capital investment in NLTC increased by the value of the

services rendered. The option was exercised for start-up costs incurred prior to the product's introduction in August 1998. Beginning in September 1998, NLTC began reimbursing NML for administrative expenses.

Effective April 29, 1998, NML and NLTC entered into a capital support agreement and guarantee of benefits under which NML agrees to maintain the capital and surplus of NLTC at a level that is greater than the lesser of a) 30% of earned premium plus 5% of the value of total net reserves, or b) 150% of the NAIC risk-based capital requirements applicable to NLTC. NML also guarantees to the policyholders of NLTC the ability of NLTC to pay all policy benefits due on contracts of insurance sold by NLTC during the term of the agreement. Effective September 18, 2012, NML and NLTC amended the agreement to extend the term to December 31, 2017, or at such time as NML has invested a total of \$800 million in NLTC. The guarantee to policyholders of NLTC survives the termination of the agreement.

NLTC is also party to a consolidated federal tax agreement with NML and certain of its subsidiaries, whereby NML files its federal income tax on a consolidated basis. Under this agreement, separate tax liability calculations are performed for each affiliate together with all corporations directly or indirectly controlled by each affiliate which would otherwise be entitled or required to file consolidated federal income tax returns with that affiliate. In accordance with these calculations, each affiliate then either pays NML for any taxes so calculated or receives cash or credits from NML.

As of December 31, 2012, NML's statutory annual statement reported admitted assets of \$200.9 billion, liabilities of \$184.8 billion, and capital and surplus of \$16.1 billion. Operations for 2012 produced net income of \$976 million. NML is the subject of a separate examination report.

Northwestern Mutual Capital, LLC (NMC)

During 2011, Northwestern Investment Management Company, LLC., a wholly owned subsidiary of NML, changed its name to Northwestern Mutual Capital, LLC. NMC provides investment management and advisory services to NML and its subsidiaries. The investment advisory services provided relate to the management of its general account, its group

annuity separate account, and numerous investment subsidiaries owned directly by NML or through its wholly owned subsidiaries. Effective July 1, 2011, NMC and NLTC entered into an investment management agreement. The agreement sets forth the terms and conditions under which NMC provides investment management and advisory services to NLTC with respect to NLTC's general account assets. NLTC pays NMC an investment manager fee based on the value of managed assets as of the last business day of each month.

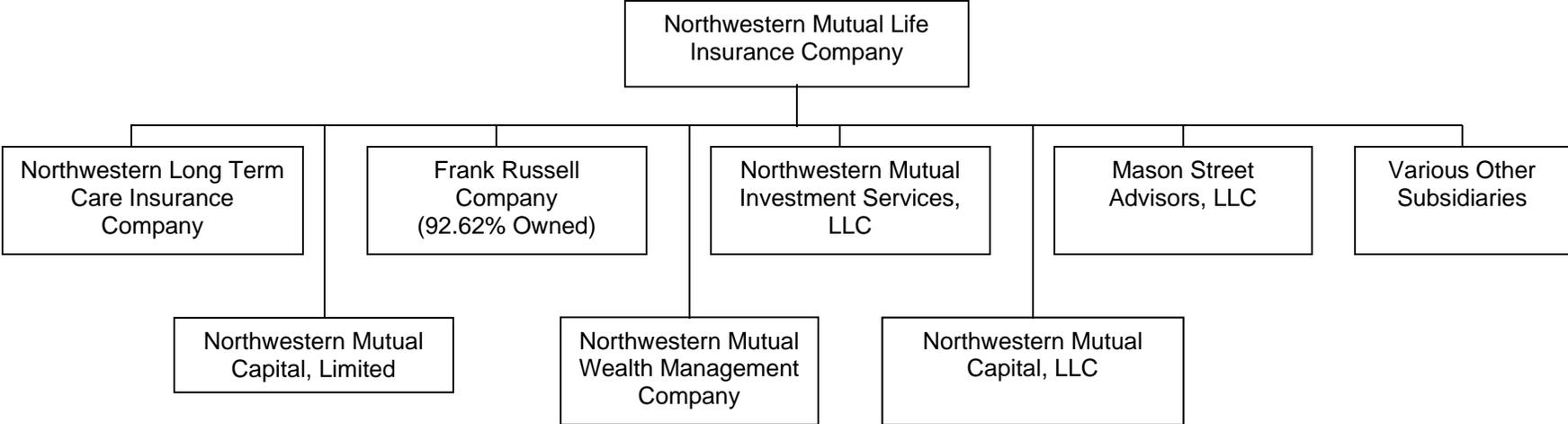
As of December 31, 2012, the unaudited financial statements of Northwestern Mutual Capital, LLC, reported assets of \$45,868,248, liabilities of \$32,998,812, and total member equity of \$12,869,437. Operations for 2012 produced net income of \$11,078,499. Northwestern Mutual Capital, LLC, is reported as a nonadmitted asset by NML.

Mason Street Advisors, LLC (MSA)

Mason Street Advisors, LLC, is a single member limited liability company whose sole member is NML. MSA was formed on May 31, 2001, by NML and is wholly owned and controlled by the company. Effective October 2, 2011, MSA entered into separate investment management and investment advisory agreements with NML, NLTC and other clients. Pursuant to these agreements MSA, a federally registered investment advisor, provides investment management and advisory services to these entities with respect to publicly traded securities and related investments. In addition, MSA is also the investment advisor to Northwestern Mutual Series Fund, Inc., an open-end registered management investment company consisting of 27 separate investment portfolios, which underlie the investment options for NML's variable life and variable annuity products. For MSA's service with respect to the public market securities group, NLTC pays a management fee based on the value of assets in the investment portfolio as of the last business day of each calendar month.

As of December 31, 2012, the unaudited financial statements of MSA reported assets of \$52,072,868, liabilities of \$30,646,745 and member's equity of \$21,426,123. Operations for 2012 produced a net income of \$18,239,384. NML's investment in MSA was reported as a nonadmitted asset on the 2012 statutory annual statement.

**Organizational Chart
As of December 31, 2012**



V. REINSURANCE

As stated earlier, NLTC introduced its first long-term car product, QuietCare, in August 1998. NLTC reinsured 80% of this business in order to limit its exposure to significant losses in the event that adverse experience developed on a sizeable portion of the business and to recover a portion of benefits paid. In 2002 NLTC began marketing its new QuietCare RS product while retaining 100% of the risk. As the new product was introduced in the various states, sales of the older products ceased, resulting in a closed block of reinsurance. That block has been in runoff status since that time.

NLTC currently retains 100% of the risk for all products introduced since QuietCare RS. However, NLTC and its policyholders are provided protection from a capital support agreement and guarantee of benefits with its parent, NML. See the section of this report titled "Affiliated Companies" for additional information on this and other affiliated contracts.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2012, annual statement. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Northwestern Long Term Care Insurance Company
Assets
As of December 31, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$1,320,612,611	\$	\$1,320,612,611
Stocks:			
Preferred stocks	867,600		867,600
Common stocks	153,782,908		153,782,908
Mortgage loans on real estate:			
First liens	239,500,620		239,500,620
Cash, cash equivalents, and short-term investments	80,687,304		80,687,304
Other invested assets	11,420,997		11,420,997
Receivables for securities	535,596		535,596
Investment income due and accrued	17,008,436		17,008,436
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	13,357,108	423,663	12,933,445
Reinsurance:			
Amounts recoverable from reinsurers	364,072		364,072
Other amounts receivable under reinsurance contracts	276,747		276,747
Net deferred tax asset	99,041,423	78,007,823	21,033,600
Guaranty funds receivable or on deposit	2,412,080		2,412,080
Write-ins for other than invested assets:			
Remittances and Items not Allocated	<u>116,886</u>	<u> </u>	<u>116,886</u>
Total Assets	<u>\$1,939,984,388</u>	<u>\$78,431,486</u>	<u>\$1,861,552,902</u>

Northwestern Long Term Care Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2012

Aggregate reserve for life contracts	\$541,884
Aggregate reserve for accident and health contracts	1,392,221,999
Liability for deposit-type contracts	2,311,766
Contract claims:	
Accident and health	1,895,084
Policyholders' dividends and coupons due and unpaid	3,229,404
Provision for policyholders' dividends and coupons payable in following calendar year:	
Not yet apportioned	6,360,000
Premiums and annuity considerations received in advance	4,218,617
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	954,468
Interest maintenance reserve	49,745,299
General expenses due or accrued	60,600
Taxes, licenses, and fees due or accrued, excluding federal income taxes	1,200,000
Current federal and foreign income taxes	2,364,964
Amounts withheld or retained by company as agent or trustee	650,000
Miscellaneous liabilities:	
Asset valuation reserve	36,167,521
Payable to parent, subsidiaries and affiliates	48,546,470
Derivatives	375,331
Payable for securities	32,868,633
Write-ins for liabilities:	
Reserve for Guaranty Fund	3,123,000
Derivative Payable	<u>584</u>
Total Liabilities	1,586,835,624
Common capital stock	\$ 2,500,000
Gross paid in and contributed surplus	640,045,146
Unassigned funds (surplus)	<u>(367,827,868)</u>
Total Capital and Surplus	<u>274,717,278</u>
Total Liabilities, Capital and Surplus	<u>\$ 1,861,552,902</u>

Northwestern Long Term Care Insurance Company
Summary of Operations
For the Year 2012

Premiums and annuity considerations for life and accident and health contracts		\$ 387,116,275
Net investment income		54,266,560
Amortization of interest maintenance reserve		6,209,304
Commissions and expense allowances on reinsurance ceded		2,872,001
Miscellaneous income:		
Write-ins for miscellaneous income:		
Policy exchange program reinsurance reversal		<u>417,559</u>
Total income items		450,881,699
Disability benefits and benefits under accident and health contracts	\$ 20,257,199	
Interest and adjustments on contract or deposit-type contract funds	137,227	
Payments on supplementary contracts with life contingencies	87,083	
Increase in aggregate reserves for life and accident and health contracts	<u>454,014,221</u>	
Subtotal	474,495,730	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	90,305,020	
General insurance expenses	65,840,518	
Insurance taxes, licenses, and fees excluding federal income taxes	12,343,427	
Write-in for deductions:		
Fines and penalties	<u>6,870</u>	
Total deductions		<u>642,991,565</u>
Net gain (loss) from operations before dividends to policyholders and federal income taxes		(192,109,866)
Dividends to policyholders		<u>6,479,198</u>
Net gain (loss) from operations after dividends to policyholders and before federal income taxes		(198,589,064)
Federal and foreign income taxes incurred (excluding tax on capital gains)		<u>(3,961,576)</u>
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses		(194,627,488)
Net realized capital gains or (losses)		<u>1,774,411</u>
Net Loss		<u>\$ (192,853,077)</u>

Northwestern Long Term Care Insurance Company
Cash Flow
For the Year 2012

Premiums collected net of reinsurance		\$377,662,647
Net investment income		50,732,842
Miscellaneous income		<u>3,289,560</u>
Total		431,685,049
Benefit- and loss-related payments	\$ 20,027,715	
Commissions, expenses paid, and aggregate write-ins for deductions	151,666,193	
Dividends paid to policyholders	11,110,961	
Federal and foreign income taxes paid (recovered)	<u>11,029,170</u>	
Total deductions		<u>193,834,039</u>
Net cash from operations		237,851,010
Proceeds from investments sold, matured, or repaid:		
Bonds	\$1,235,542,314	
Stocks	406,533,813	
Mortgage loans	393,897	
Other invested assets	3,586,605	
Net gains (losses) on cash, cash equivalents, and short-term investments	(1,206)	
Miscellaneous proceeds	<u>32,807,271</u>	
Total investment proceeds		1,678,862,695
Cost of investments acquired (long-term only):		
Bonds	1,770,753,794	
Stocks	360,506,984	
Mortgage loans	15,381,176	
Other invested assets	13,853,153	
Miscellaneous applications	<u>5,166,743</u>	
Total investments acquired		<u>2,165,661,850</u>
Net cash from investments		(486,799,156)
Cash from financing and miscellaneous sources:		
Capital and paid-in surplus less treasury stock	300,000,000	
Net deposits on deposit-type contracts and other insurance liabilities	594,079	
Other cash provided (applied)	<u>2,037,710</u>	
Net cash from financing and miscellaneous sources		<u>302,631,789</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		53,683,643
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>27,003,661</u>
End of Year		<u>\$ 80,687,304</u>

**Northwestern Long Term Care Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2012**

Assets		\$1,861,552,902
Less liabilities		<u>1,586,835,924</u>
Adjusted surplus		274,716,978
Annual premium:		
Individual life and health	\$366,603,910	
Factor	<u>15%</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>54,990,586</u>
Compulsory Surplus Excess or (Deficit)		<u>\$ 219,726,392</u>
Adjusted surplus (from above)		\$ 274,716,978
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum of 110%)		<u>71,487,761</u>
Security Surplus Excess or (Deficit)		<u>\$ 203,229,217</u>

**Northwestern Long Term Care Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2012**

The following schedule details items affecting the company's total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	2012	2011	2010	2009	2008
Capital and surplus, beginning of year	\$ 210,118,694	\$149,648,217	\$ 71,402,953	\$ 63,402,756	\$ 53,565,663
Net income	(192,853,077)	10,523,616	(49,539,830)	(17,112,025)	(17,643,231)
Change in net unrealized capital gains/losses	8,754,120	(16,197,820)	11,430,588	8,883,624	(8,698,179)
Change in net unrealized foreign exchange capital gains/losses	(147,621)			(87)	
Change in net deferred income tax	63,804,633	(10,657,362)	13,782,320	4,620,263	6,785,782
Change in nonadmitted assets and related items	(39,905,759)	3,385,668	(7,636,632)	106,962	(11,393,945)
Change in reserve on account of change in valuation bases	(59,179,444)				
Change in asset valuation reserve	(15,874,268)	1,596,054	(13,390,766)	(8,498,540)	6,622,145
Surplus adjustments:					
Paid in	300,000,000	72,000,000	124,000,000	20,000,000	35,000,000
Write-ins for gains and (losses) in surplus:					
Prior period adjustment	_____	(179,679)	(400,416)	_____	(835,479)
Capital and Surplus, End of Year	<u>\$ 274,717,278</u>	<u>\$210,118,694</u>	<u>\$149,648,217</u>	<u>\$ 71,402,953</u>	<u>\$ 63,402,756</u>

**Northwestern Long Term Care Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2012**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

Ratio	2012	2011	2010	2009	2008
#1 Net change in capital and surplus	(112)*%	(8)%	(64)*%	(19)*%	(47)*%
#2 Gross change in capital and surplus	31	40	110*	13	18
#3 Net income to total income	(43)*	3	(14)*	(8)*	(10)*
#4 Adequacy of investment income	129	124*	126	144	152
#5 Nonadmitted to admitted assets	4	3	5	6	9
#6 Total real estate and mortgage loans to cash and invested assets	13	0	0	0	0
#7 Total affiliated investments to capital and surplus	0	0	0	0	0
#8 Surplus relief	1	1	(21)	8	9
#9 Change in premium	26	(11)*	81*	18	27
#10 Change in product mix	0.0	0.0	0.0	0.0	0.0
#11 Change in asset mix	2.0	0.7	1.2	0.9	1.1
#12 Change in reserving	0	0	0	0	0

Ratio No. 1 exceptional results are due to capital contributions made by NML in compliance with the capital support agreement described earlier in the "Affiliated Companies" section of this report. Ratio No. 2 for 2010 had an exceptional result due to a large capital contribution received in that year. Ratio No. 3 reflects the company's reporting of net losses during the examination period. Ratio No. 4 involves a line of business (supplementary contracts) that is minimal compared to its long-term care business. As a result this ratio is more sensitive to minor changes in investment yields which were lower in 2011. Ratio No. 9 exceptional results for 2011 and 2010 were due to the recapture in 2010 of previously ceded long-term care insurance business from two unaffiliated reinsurers which resulted in approximately \$104 million additional earned premium.

Growth of Northwestern Long Term Care Insurance Company

Year	Admitted Assets	Liabilities	Capital and Surplus
2012	\$1,861,552,902	\$1,586,835,624	\$274,717,278
2011	1,193,901,501	983,782,807	210,118,694
2010	926,197,529	776,549,312	149,648,217
2009	528,230,845	456,827,892	71,402,953
2008	402,674,628	339,271,872	63,402,756
2007	287,379,918	233,814,255	53,565,663

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2012	\$368,490,799	\$520,398,988	\$87,433,019	\$72,634,305	184.6%
2011	290,666,533	223,171,909	56,946,380	58,374,076	116.5
2010	326,676,801	276,491,242	79,808,432	53,762,602	125.5
2009	181,856,452	125,391,809	36,120,580	52,180,365	117.6
2008	153,585,680	95,402,655	32,035,404	43,426,975	111.2
2007	120,076,389	70,015,402	28,677,809	36,146,642	112.3

* Includes increase in contract reserves

** Includes taxes, licenses, and fees

The combined loss and expense ratio is reflective of the company's continued development of its long-term care product. In 2012 the company reported increase in policy reserves of \$516 million. The increase reflected a strengthening of active life and claim reserves during 2012 coupled with the continued growth of new long-term care business. The unusually high combined loss and expense ratio that year is a product of those factors. Capital and surplus has increased by 81% or \$221 million during the exam period. The continued capital support from NML and the 2010 recapture of ceded reinsurance were contributing factors. NLTC had 168,000 in-force policies on December 31, 2012.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2012, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no adverse comments or recommendations in the previous examination report.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

CPA Audit Work Papers

This examination was conducted using a risk-focused approach, as noted under the "Introduction" section of this report. A risk-focused examination, per NAIC examination guidelines and for efficiency reasons, relies on tests and conclusions documented in work papers of the insurer's engaged auditor, rather than duplicating audit work previously performed and determined to be reliable. Under s. Ins 50.13, Wis. Adm. Code, the engaged auditor annually provides this office with an "Accountant's Letter of Qualifications" in which the auditor agrees in advance to make its work papers available for copy and retention by the Office of the Commissioner of Insurance (OCI) examiners. OCI allows for the electronic production of work papers if provided in useable form.

In preparation for this examination, the examiners reviewed and requested copies of the CPA 2012 audit work papers created by NLTC's engaged auditing firm. Many of the work papers were originally created by the auditor in an electronic spreadsheet format. The engaged firm's auditors initially provided the examiners with copies of these work papers in a format that made them difficult to access and work with. After raising concerns with NLTC's management, the auditors agreed to provide replacement work papers.

While there is no requirement that work papers be provided in an electronic format, properly formatted electronic work papers aid OCI in conducting examinations more timely and efficiently. OCI respectfully requests that where electronic work papers are contemplated, they be provided as fully functional electronic spreadsheet copies of their original electronic spreadsheet work papers in a format that can be utilized and incorporated into OCI work papers. Password protection is acceptable for access to electronic documents but passwords that disable features of individual documents should be avoided if possible.

Accident and Health Contracts—Claim Reserve

\$155,937,349

The examination included a test of the accuracy of the claim reserve data file provided by the company's actuarial department using a sample of January 2013 claim payments. One of the data elements being tested was the claim incurred date from the reserve file, as compared to the claim administration system, and the documented date when NLTC was notified of a potential claim. For each long-term care claim received by NLTC the claims administration department records the following dates into its system:

- Claim Notice Date: The date they receive notice of a potential claim.
- Claim Decision Date: When the Chronically Ill Certification is completed by a licensed health care practitioner indicating that the insured met the need for long-term care.
- Onset Date: The date they determined the insured first met the need for long-term care.
- Beginning Date: Per contractual definition, benefits are payable as of this date, which is the day following the elimination period.

According to the company, the claim notice date was when the claim was opened and also the date that feeds the actuarial reserve system as the incurred date. Theoretically, the claim notice date and the claim incurred date should be the same on both systems. However, inconsistencies were found during the examination as noted below.

During the testing of NLTC claim reserve it was found that the policy information was properly reflected in the reserve database but the incurred date often varied from any "notice" dates in the claim system or from the documentation provided by NLTC. One such document was a notification form completed by claim handling personnel when a pending claim was called into NLTC. In most cases the differences found were a day or 2 but in one instance the dates were more than 20 days apart. The call in notification form was dated August 8, 2008, compared to the claim incurred date of August 28, 2008, recorded in the reserve file. These findings were sent to the independent actuary for review and he agreed with the examiner-in-charge that these errors would not materially affect reserve calculations. Although these differences would not materially affect the reserve calculations, it does indicate the need for a consistent policy that includes some form of monitoring to ensure that the actuarial system is being updated with the correct information. It is recommended that the company adopt a standard procedure on which

date is to be considered the incurred date by the actuarial department. It is also recommended a process be adopted for accuracy verification to ensure that claim data being supplied to the actuarial department is accurate and in agreement with the supporting documentation.

VIII. CONCLUSION

NLTC has been a wholly owned subsidiary of NML since 1982. The company redomiciled to Wisconsin and changed its name in 1997. In 1998, the company introduced its first long-term care insurance product, QuietCare, and in 2002 the QuietCare RS which included dividend participation. In 2010 QuietCare TT was introduced with new product features including monthly benefits and limited pay options. During July 2012, NLTC announced it had suspended the lifetime benefit period and limited payment options for all new long-term care products in response to the historically low interest rate environment and updated industry morbidity information.

NLTC benefits from the well-established career agent distribution system of NML, as well as a capital support and guarantee of benefits agreement that maintains adequate capital levels during product development and refinement. The capital support and guarantee of benefits agreement also guarantees to the policyholders of NLTC the ability of NLTC to pay all policy benefits due on contracts of insurance.

The examination resulted to two recommendations. No adjustments to surplus or reclassification were made as a result of this examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Accident and Health Contracts—Claim Reserve—It is recommended that the company adopt a standard procedure on which date is to be considered the incurred date by the actuarial department.
2. Page 24 - Accident and Health Contracts—Claim Reserve—It is also recommended a process be adopted for accuracy verification to ensure that claim data being supplied to the actuarial department is accurate and in agreement with the supporting documentation

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Eleanor Oppriecht	Examiner-in-Charge
Shelly Bueno	Insurance Financial Examiner
Margaret Callahan	Insurance Financial Examiner
Vickie Ostien	Insurance Financial Examiner
Holly Poore	Insurance Financial Examiner
Marisa Rodgers	Insurance Financial Examiner
Tom Houston	IT Specialist
Dave Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Rebecca Easland
Director,
Bureau of Financial Analysis and Examinations