

Report
of the
Examination of
WEA Insurance Corporation
Madison, Wisconsin
As of December 31, 2011

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

March 5, 2013

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

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

WEA INSURANCE CORPORATION
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of WEA Insurance Corporation (WEAIC or the company) was conducted in 2007 as of December 31, 2006. The current examination covered the intervening period ending December 31, 2011, and included a review of such 2012 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
- 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. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

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.

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 and appropriateness of aggregate accident and health reserves and asset adequacy analysis. 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 1985 as the WEAIT Insurance Corporation. The present name was adopted in 1991. WEA Insurance Corporation is licensed as a stock life insurance company under ch. 611, Wis. Stat., and is controlled by its shareholder, Wisconsin Education Association Insurance Trust (WEAIT). Both WEAIT and WEAIC are recognized as Voluntary Employees' Beneficiary Associations and thus are exempt from federal income tax.

WEA Insurance Trust was established by an agreement and declaration of trust by and between the Trustees and the Wisconsin Education Association, Inc. The company is a wholly-owned subsidiary of WEA Insurance Trust and was formed to provide insurance coverage to teachers and school district employees throughout Wisconsin. Historically, the company has written group medical, dental, long-term and short-term disability, and long-term care business. The products are marketed through a staff of salaried field representatives as well as commissioned and appointed intermediaries.

On February 20, 2010, the agreement between WEAIT and WEAIC was amended to expand WEAIC's potential markets beyond school districts. The amendment allowed WEAIC to sell their products to all state and municipal public employees in Wisconsin in addition to teachers and school district employees.

The company markets a long-term care plan as part of group health and accident insurance coverage. As a result of legislative developments related to public employee compensation in 2011, there were significant changes to collective bargaining. This led to some school districts opting to obtain coverage through other carriers. Members in such districts risked losing long-term care coverage unless they converted to individual policies or achieved accelerated paid-up status. Under the accelerated paid-up option, members may qualify for accelerated paid-up status by submitting advance premium payments, either in a single lump-sum or in three installments. Lifetime maximum benefits for these members who elect to pay by installment are prorated based on amounts paid.

The company does not cede or assume any reinsurance. Management periodically reviews the need for reinsurance and thus far has concluded that the costs outweigh the benefits.

The growth of the company is discussed in the “Financial Data” section of this report. All premiums are reported as group accident and health. The following table shows the distribution of premium and reserves among various categories within the group accident and health line of business.

Category	Premiums Written	Percent of Total
Medical	\$582,648,613	75.2%
Prescription drug	102,604,010	13.2
Dental	54,098,138	7.0
Long-term care	23,794,966	3.1
Long-term disability	9,969,144	1.3
Short-term disability	<u>2,065,346</u>	<u>0.3</u>
Total	<u>\$775,180,217</u>	<u>100.0%</u>

Category	Aggregate Reserves	Percent of Total
Medical	\$ 71,437,717	21.4%
Prescription drug	3,145,408	0.9
Dental	3,398,348	1.0
Long-term care	207,871,000	62.2
Long-term disability	48,283,281	14.4
Short-term disability	<u>275,120</u>	<u>0.1</u>
Total	<u>\$334,410,834</u>	<u>100.0%</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 11 members. Directors are 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 boards of WEAC and WEAIT are typically identical in size and membership; directors of WEAIT are elected for staggered three-year terms. The board members currently receive no compensation for serving on the board but receive expense reimbursements for mileage and travel expenses to attend meetings.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Patricia Barrette Green Bay, Wisconsin	Teacher	2013
Lisa Glaser Burlington, Wisconsin	Teacher	2013
Margaret Guertler Berlin, Wisconsin	Teacher	2013
Amy Blazkovec-Johnson Milwaukee, Wisconsin	Teacher	2013
Suzanne Kahl Verona, Wisconsin	Teacher	2013
Carol Kettner Rice Lake, Wisconsin	Retired Teacher	2013
Heather Mielke Elkhorn, Wisconsin	Teacher	2013
Shelly Moore River Falls, Wisconsin	Teacher	2013
Mary Theisen, Chairperson Franklin, Wisconsin	Retired Teacher	2013
Dan Weidner Bonduel, Wisconsin	Retired Teacher	2013
Barbara Ruegsgger Blanchardville, Wisconsin	Assistant Secretary WEA Insurance Corporation	2013

Officers of the Company

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

Name	Office	2011 Compensation
Mark Moody	CEO/President	\$436,873
Michael Stoll	VP/General Counsel/Secretary	247,510
Michael Quist	CFO/Treasurer	179,049
Kathryne McGowan	Vice President	270,277
William Jollie	COO/Vice President	248,591

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee

Mary Theisen, Chair
Margaret Guertler
Carol Kettner

Audit Committee

Margaret Guertler, Chair
Amy Johnson
Heather Mielke
Daniel Weidner

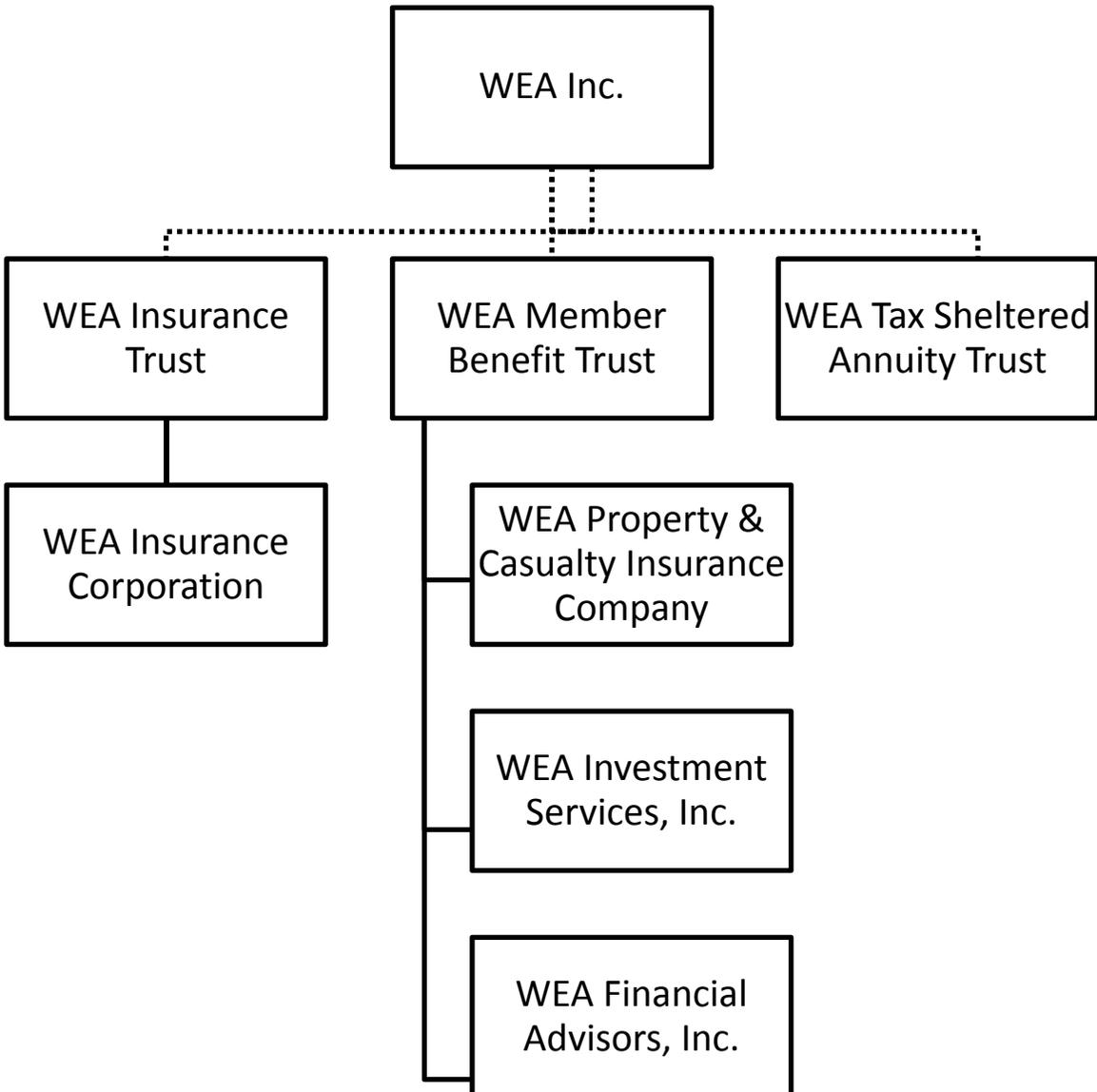
Appeals Committee

Suzanne Kahl, Chair
Carol Kettner
Shelly Moore

IV. AFFILIATED COMPANIES

WEA Insurance Corporation is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of affiliates deemed significant follows the organizational chart.

**Organizational Chart
As of December 31, 2011**



Wisconsin Education Association Council (WEAC)

WEAC is an unincorporated labor organization whose members are local unions affiliated with the National Education Association. WEAC is directed towards promoting the interests of its member school district employees.

Wisconsin Education Association, Inc.

This corporation is a Wisconsin not-for-profit corporation established by a special act of the Wisconsin Legislature. Its principal functions are real estate ownership and trustee appointments.

Wisconsin Education Association Insurance Trust (WEAIT)

WEAIT was established by Wisconsin Education Association, Inc., in 1970 to provide various insurance benefits to qualified union member teachers and school district employees. WEAIT is exempt from federal income tax as a Voluntary Employees' Beneficiary Association.

WEAIT's benefit plans, including medical, dental, drug, disability, and long-term care, are underwritten exclusively by WEAIC. Life insurance coverage is underwritten by an unaffiliated insurance company. As of December 31, 2011, the audited financial statements of WEAIT reported assets of \$749,343,156, liabilities of \$432,686,840, and equity of \$316,660,316. Operations for 2011 produced net loss of \$(1,792,746).

WEA Member Benefit Trust (WMBT)

WMBT was established in 1972 to provide property and casualty insurance coverages to qualified union member teachers and school district employees. Before 1993, WMBT placed coverages with unaffiliated insurers, but now most business is underwritten by WMBT's subsidiary, WEA Property & Casualty Insurance Company. WMBT was formerly called WEA Liability and Casualty Insurance Trust until the name was changed effective January 1, 1997.

As of December 31, 2011, the audited financial statements of WMBT reported assets of \$3,866,423, liabilities of \$1,886,110, and equity of \$1,980,313. Operations for 2011 produced net loss of \$(730,709).

WEA Property & Casualty Insurance Company (WEA P&C)

WEA P&C was established in 1993 to underwrite property and casualty insurance coverages to qualified union member teachers and school district employees. Products offered by the company include auto, homeowner's, and inland marine insurance.

As of December 31, 2011, the audited financial statements of WEA P&C reported net admitted assets of \$17,137,055, liabilities of \$12,026,503, and surplus of \$5,110,552. Operations for 2011 produced net loss of \$(961,414).

WEA Tax-Sheltered Annuity Trust (WEA TSAT)

WEA TSAT was established in 1978 to facilitate the investment of funds for qualified union member teachers and school district employees in mutual funds and a tax-sheltered annuity contract. WEA TSAT holds a group annuity contract issued by Prudential Financial (formerly Connecticut General Life Insurance Company).

As of December 31, 2011, the audited financial statements of WEA TSAT reported assets of \$3,904,302, liabilities of \$1,304,743, and equity of \$2,599,559. Operations for 2011 produced net gain of \$1,022,061.

WEA Investment Services, Inc. (WEA IS)

WEA Investment Services, Inc., was established in 2003 for the purpose of facilitating mutual fund trading on behalf of its related entities. The company is an entry-level broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA).

As of December 31, 2011, the audited financial statements of WEA Investment Services, Inc., reported assets of \$124,277, liabilities of \$33,681, and stockholder's equity of \$90,596. Operations of 2011 produced net loss of \$(1,383).

WEA Financial Advisors, Inc. (WEA FA)

WEA Financial Advisors, Inc., was established in 2007 for the purpose of providing retirement income and investment advice for qualified union member teachers and school district employees.

As of December 31, 2011, the audited financial statements of WEA Financial Advisors, Inc., reported assets of \$67,954, liabilities of \$528,858, and stockholder's equity of \$(460,904). Operations of 2011 produced net loss of \$(16,233).

Agreements with Affiliates

Group Insurance Program Operating Agreement

WEAIC and WEAIT entered into a Group Insurance Program Operating Agreement which was amended on August 25, 2009. The premiums required to maintain coverage under the group life, accident, and health insurance policies issued by WEAIC are paid monthly directly to WEAIT. WEAIT transfers all funds to WEAIC in a series of installments starting in the month of receipt. The final installment is made on or about the 20th day of the next month. WEAIC is solely responsible for maintaining and administering all policies and bears all processing expenses. The final installment will include interest on the unpaid balance, at a rate equal to the rate being paid on five-year treasury notes, for each day the final payment is delayed beyond the 20th day of the next month.

Interorganizational Harmony Agreement

WEAC entered into the Interorganizational Harmony Agreement with the company and WEA P&C. WEAC is the sponsor and creator of all of the trusts. WEA P&C entered into this agreement as the administrator and agent of the WMBT (the owner of WEA P&C, WEA IS, and WEA FA) and the WEA TSAT. WEAIC entered into this agreement as the administrator and agent of the WEAIT (the owner of WEAIC). This agreement states that WEAIC will provide administrative services on a cost reimbursement basis for all entities in the group, which includes accounting and bookkeeping, mailroom, printing, purchasing, archives and records retention, business recovery, payroll, recruiting, personnel administration, employee benefits administration, investment management, financial planning, building services, information processing, telecommunication services, and limited legal services. The agreement further states that WEAIT retains title to all real estate and will provide space on a cost reimbursement basis. Settlement for accumulated balances due each other as of year-end are paid in full no later than March 31 of the following year.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2011, 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."

WEA Insurance Corporation
Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$443,905,719	\$ 0	\$443,905,719
Stocks:			
Common stocks	110,203,209	0	110,203,209
Cash, cash equivalents, and short-term investments	56,913,594	0	56,913,594
Other invested assets	3,090,474	3,090,474	0
Receivables for securities	1,073,798	0	1,073,798
Investment income due and accrued	3,771,626	0	3,771,626
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	27,542,477	467,089	27,075,388
Electronic data processing equipment and software	358,974	0	358,974
Furniture and equipment, including health care delivery assets	568,285	568,285	0
Receivable from parent, subsidiaries and affiliates	365,617	0	365,617
Write-ins for other than invested assets:			
Prepaid expense	1,346,459	1,346,459	0
Other assets	<u>1,496,482</u>	<u>1,496,482</u>	<u>0</u>
Total Assets	<u>\$650,636,714</u>	<u>\$6,968,789</u>	<u>\$643,667,925</u>

WEA Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2011

Aggregate reserve for accident and health contracts		\$278,502,998
Contract claims:		
Accident and health		55,907,876
Premiums and annuity considerations received in advance		20,428,082
Interest maintenance reserve		10,249,761
Commissions to agents due or accrued		63,874
General expenses due or accrued		22,158,958
Taxes, licenses, and fees due or accrued, excluding federal income taxes		3,656,484
Amounts withheld or retained by company as agent or trustee		106,112
Miscellaneous liabilities:		
Asset valuation reserve		23,437,764
Payable to parent, subsidiaries and affiliates		25,836
Drafts outstanding		6,262,938
Payable for securities		<u>1,404,738</u>
Total liabilities		422,205,421
Common capital stock	\$ 2,000,000	
Unassigned funds (surplus)	<u>219,462,504</u>	
Total capital and surplus		<u>221,462,504</u>
Total Liabilities, Capital and Surplus		<u>\$643,667,925</u>

**WEA Insurance Corporation
Summary of Operations
For the Year 2011**

Premiums and annuity considerations for life and accident and health contracts		\$770,287,256
Net investment income		16,973,999
Amortization of interest maintenance reserve		2,415,574
Write-ins for miscellaneous income:		
Miscellaneous income		18,304
Gain on sale of assets		<u>69,790</u>
Total income items		<u>789,764,923</u>
Disability benefits and benefits under accident and health contracts	\$695,551,230	
Increase in aggregate reserves for life and accident and health contracts	<u>27,450,981</u>	
Subtotal	<u>723,002,211</u>	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	681,213	
General insurance expenses	67,266,992	
Insurance taxes, licenses, and fees excluding federal income taxes	<u>6,171,092</u>	
Total deductions		<u>797,121,508</u>
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses		(7,356,585)
Net realized capital gains or (losses)		<u>6,846,825</u>
Net Loss		<u>\$ (509,760)</u>

**WEA Insurance Corporation
Cash Flow
For the Year 2011**

Premiums collected net of reinsurance		\$756,550,853
Net investment income		19,285,590
Miscellaneous income		<u>88,095</u>
Total		775,924,538
Benefit- and loss-related payments	\$710,938,294	
Commissions, expenses paid, and aggregate write-ins for deductions	<u>73,411,568</u>	
Total deductions		<u>784,349,862</u>
Net cash from operations		(8,425,324)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$217,134,179	
Stocks	60,213,449	
Other invested assets	225,019	
Miscellaneous proceeds	<u>330,940</u>	
Total investment proceeds		277,903,587
Cost of investments acquired (long-term only):		
Bonds	247,560,045	
Stocks	59,458,407	
Other invested assets	<u>720,000</u>	
Total investments acquired		<u>307,738,452</u>
Net cash from investments		(29,834,865)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>985,072</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		(37,275,117)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>94,188,711</u>
End of Year		<u>\$ 56,913,594</u>

**WEA Insurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2011**

Assets		\$643,667,925
Less liabilities		<u>422,205,421</u>
Adjusted surplus		221,462,504
Annual premium:		
Group life and health	\$752,406,560	
Factor	<u>10%</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>75,240,656</u>
Compulsory Surplus Excess or (Deficit)		<u>\$146,221,848</u>
Adjusted surplus (from above)		\$221,462,504
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>88,783,974</u>
Security Surplus Excess or (Deficit)		<u>\$132,678,530</u>

**WEA Insurance Corporation
Analysis of Surplus
For the Five-Year Period Ending December 31, 2011**

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:

	2011	2010	2009	2008	2007
Capital and surplus, beginning of year	\$233,220,691	\$240,175,615	\$223,926,410	\$243,345,820	\$218,952,411
Net income	(509,760)	(14,727,396)	2,687,643	5,409,998	23,406,797
Change in net unrealized capital gains/losses	(10,852,256)	12,785,867	19,573,863	(33,613,882)	1,663,006
Change in nonadmitted assets and related items	(1,304,018)	(1,081,721)	189,408	710,309	944,568
Change in asset valuation reserve	<u>907,847</u>	<u>(3,931,674)</u>	<u>(6,201,709)</u>	<u>8,074,165</u>	<u>(1,620,962)</u>
Capital and Surplus, End of Year	<u>\$221,462,504</u>	<u>\$233,220,691</u>	<u>\$240,175,615</u>	<u>\$223,926,410</u>	<u>\$243,345,820</u>

**WEA Insurance Corporation
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2011**

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	2011	2010	2009	2008	2007
#1 Net change in capital and surplus	-5%	-3%	7%	-8%	11%
#2 Gross change in capital and surplus	-5	-3	7	-8	11
#3 Net income to total income	0*	-2*	0*	1	3
#4 Adequacy of investment income	NR	NR	NR	NR	NR
#5 Nonadmitted to admitted assets	1	1	1	1	1
#6 Total real estate and mortgage loans to cash and invested assets	0	0	0	0	0
#7 Total affiliated investments to capital and surplus	0	0	0	0	0
#8 Surplus relief	0	0	0	0	0
#9 Change in premium	-11*	-1	0	-5	0
#10 Change in product mix	0.0	0.0	0.0	0.0	0.0
#11 Change in asset mix	0.8	0.7	0.6	1.1	0.2
#12 Change in reserving	0	0	0	0	0

Ratio No. 3 compares the net income to total income. The exceptional result for Ratio No. 3 was due to the company reporting a net loss, net realized capital gain and a change in

amortization of interest maintenance reserve. Ratio No. 4 compares beginning and ending reserves which is reported as zero, this results in no results or NR, due to no tabular interest. Ratio No. 9 compares changes in premium in current year to prior year. Premiums earned decreased 9% from prior year.

Growth of WEA Insurance Corporation

Year	Admitted Assets	Liabilities	Capital and Surplus
2011	\$643,667,925	\$422,205,421	\$221,462,504
2010	654,384,936	421,164,245	233,220,691
2009	596,587,550	356,411,935	240,175,615
2008	540,989,433	317,063,023	223,926,410
2007	559,113,106	315,767,286	243,345,820
2006	516,790,181	297,837,770	218,952,411

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2011	\$773,708,995	\$735,782,913	\$681,213	\$64,079,123	103.5%
2010	843,106,378	819,746,432	0	60,467,047	104.4
2009	863,434,902	822,213,217	0	57,857,878	101.9
2008	856,331,185	801,831,255	0	58,580,573	100.4
2007	897,723,058	826,255,311	0	71,645,098	100.0
2006	909,894,670	829,708,725	0	69,575,096	98.8

* Includes increase in contract reserves

** Includes taxes, licenses, and fees

The company has reported a decrease in net premiums earned of 9% in 2011; this decrease was due to lower enrollment as well as members shifting to lower cost plans. Effective January 1, 2011, the company began providing coverage to state employees in the eastern third of the state. Beginning January 1, 2012, the company expanded coverage to state employees in the northwestern part of the state.

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, 2011, is accepted.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were seven specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Corporate Records—It is recommended that the company file any amendments to its bylaws with the commissioner, pursuant to s. 611.12 (4), Wis. Stat.

Action—Compliance

2. Invested Assets—It is recommended that the company's custodial agreements include the following clause:
In the event of a loss of securities for which the custodian is obligated to indemnify WEAIC, the securities and the value of any loss of rights or privileges resulting from the loss of securities shall be promptly replaced.

Action—Compliance

3. Invested Assets—It is recommended that the company update the agreements with its banks.

Action—Compliance

4. Invested Assets—It is recommended that the company accurately disclose each security's SVO designation in the annual statement as required by the NAIC Annual Statement Instructions – Life, Accident and Health.

Action—Compliance

5. Limited Partnerships—It is recommended that the company report Schedule BA according to the NAIC Annual Statement Instructions – Life, Accident and Health.

Action—Compliance

6. Payable to Parent, Subsidiaries and Affiliates—It is again recommended that the company follow the terms of its operating agreement with regard to the settlement of balances.

Action—Compliance

7. General Expenses Due and Accrued—It is recommended that the company report a liability for HIRSP assessments and charge it to expense in the year the premiums were written using management's best estimate to determine the amount of this liability in accordance with SSAP No. 5.

Action—Compliance

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.

Business Continuity Plan

The purpose of the business continuity plan is to identify in advance the actions necessary and resources required to enable the insurer to manage an interruption regardless of its cause. Examples include, but are not limited to: the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The plan should be a formal documentation of the insurer's business continuity strategy and should be considered a "living document." Some basic elements that should be included in a business continuity plan include: crisis management and incident responses, roles and responsibilities within the organization, recovery of all critical business functions and supporting systems, clearly identified alternate recovery sites, and communication with policyholders, employees, primary regulators and other stakeholders. The business continuity plan should be in writing and should include a step-by-step framework that is easily accessible and able to be read in an emergency situation. The insurer's business continuity plan should be reviewed, tested, and updated on an annual basis.

The examination disclosed that the company had not identified any alternate site for IT staff or equipment. Their business continuity plan specifies that the WEA Insurance Corporation's Facilities Department will identify a site for them to work in at the time of the disaster. It is critical to identify alternate work sites in the business continuity plan in advance for sustainable business operations. It is recommended that the company identify alternate sites for their IT systems and employees as a key element in their business continuity plan.

The examination disclosed that the company has not had a formal test of their business continuity plan as well as a business impact analysis since April of 2006. Testing of business continuity plans should be performed annually to determine the plan's viability and the company's readiness to operate continuously in the event of business interruption. It is

recommended that key aspects of the business continuity plan be tested annually and that the test be based on clear objectives that will allow the results of the test to be scored to determine the effectiveness of the plan.

The examiner noted that the company's business continuity plan was out of date at the time of examination. In addition to being tested annually, the plan should be updated regularly to ensure that the organization remains ready to handle incidents despite internal and external changes that may affect the plan. The company's business continuity plan had been in the process of being updated in 2011, but the corporate project closed and ownership reassigned in 2012 and 2013. It is recommended that the company conduct a business impact analysis of all business functions and update their business continuity plans accordingly.

Affiliated Agreements

The Interorganizational Harmony Agreement, described under the "Affiliated Companies" section of this report, was reviewed during the examination. The parties to the agreement are the company, WEA Property & Casualty Insurance Company (WEA P&C), and the Wisconsin Education Association Council (WEAC). WEAC is the sponsor and creator of all of the trusts. WEA P&C entered into this agreement as the administrator and agent of the WMBT [the owner of WEA P&C, WEA Investment Services, Inc. (WEA IS), and WEA Financial Advisors, Inc. (WEA FA)] and the WEA Tax-Sheltered Annuity Trust (WEA TSAT). WEAIC entered into this agreement as the administrator and agent of the WEAIT (the owner of WEAIC). The review of affiliated transaction details provided by WEAIC disclosed that WMBT and WEA TSAT are directly transferring monthly payments to WEAIC for management and services. The examination review of year-end settlement detail disclosed WEA IS and WEA FA, who are not party to the agreement, were included in the year-end settlement. Under the NAIC Accounting Practices and Procedures Manual, (SSAP) No. 25, transactions between related parties must be in the form of a written agreement and the agreement must provide for timely settlement of amounts owed, with specified due date. Pursuant to s. Ins 40.04 (1), Wis. Adm. Code, and s. 617.21 (1), Wis. Stat., the company is required to have procedures in place to ensure all transactions with affiliates are reasonable and fair to the interests of the insurer. Since

transactions are occurring for services rendered by WEAIC that are not covered under the written agreement, the company is not in compliance with this requirement. It is recommended that the company adopt management and service agreements that clearly identify all entities participating in the arrangement as well as the reimbursement and settlement arrangements between the entities, pursuant to SSAP 25, s. Ins 40.04 (1), Wis. Adm. Code, and s. 617.21 (1), Wis. Stat.

Holding Company Transactions

Schedule Y, Part 2, of the annual statement provides information about insurer members of a holding company group and an overview of transactions among insurance holding company system members. The examination noted that no amounts were reported under Column 8, Management Agreements and Service Contracts, on Schedule Y, Part 2, as required by NAIC Annual Statement Instructions – Life. According to WEAIC's holding company registration statements filing (Form B), item 5, the company reported two cost allocation agreements, the Interorganizational Harmony Agreement and the Group Insurance Program Operating Agreement. It is recommended that the company report all revenues/expenditures resulting from any intercompany agreements on Schedule Y, Part 2, as required by NAIC Annual Statement Instructions – Life.

The company included the cost allocation agreements of the Group Insurance Program Operating Agreement on the holding company registration statements. The agreement filed with the 2012 holding company filing was dated July 15, 2003. The company provided the Group Insurance Program Operating Agreement that was amended on August 25, 2009, for review. Pursuant to s. Ins 40.04, Wis. Adm. Code, an insurer shall file a request for non-disapproval at least 30 days before the insurer enters into a transaction. It is recommended that the revised agreements be filed with the commissioner in compliance with s. Ins 40.04 (2), Wis. Adm. Code.

Advanced Premiums

The examination reviewed premium transfers made from WEAIT to WEAIC for December 2011. The total of the transfers matches the annual statement total of \$20,428,098 for advance premiums. The company also provided a detail of cash receipts for actual premiums

received by WEAIT in 2011 for 2012 coverage in the amount of \$30,304,506. SSAP No. 54, paragraph 26, defines advance premiums as those premiums that have been received by the reporting entity prior to the valuation date but which are due on or after the next policy anniversary date. Although the actual amount transferred from WEAIT to WEAIC as of December 31, 2011, was \$20,428,098, the cash receipts received of \$30,304,506 is considered advance premiums as defined in SSAP No. 54. It is recommended that the company report the advance premiums based on cash receipts and transfer this amount from WEAIT to WEAIC, pursuant to SSAP No. 54.

Actuarial Examination

As mentioned previously, the Office of the Commissioner of Insurance contracted with an actuary to review the company's aggregate reserves for accident and health contracts (policy reserve), contract claims liability, and asset adequacy analysis. The actuary concluded that the company generally followed accurate and appropriate procedures in determining the policy reserve and contract claims liability. The reserves were found to be reasonable.

The actuary noted a couple deficiencies in the company's annual statement preparation. According to the NAIC Annual Statement Instructions – Life:

1. In Exhibit 6, the long-term care disabled life reserve should be reported as Present Value of Amounts Not Yet Due rather than as Reserves for Future Contingent Benefits. Both of these balances are part of the aggregate reserve for accident and health contracts; therefore, no annual statement balances are effected.
2. The unaccrued portions of incurred but not reported claims should be reported in aggregate reserve for accident and health contracts (annual statement Exhibit 6) rather than including it as part of the contract claims liability (Exhibit 8). The amount involved was not considered material for purposes of the examination; therefore, no reclassification is proposed.

It is recommended that the company properly report the long-term care disabled life reserve and unaccrued portions of incurred but not reported claims according to NAIC Annual Statement Instructions – Life.

Section Ins 50.78, Wis. Adm. Code, requires that the actuarial opinion be based on an asset adequacy analysis; s. Ins 50.79, Wis. Adm. Code, contains the requirements for the documentation of the asset adequacy analysis in an Actuarial Memorandum and a Regulatory

Asset Adequacy Issues Summary (RAAIS). The consulting actuary noted several deficiencies in the company's actuarial opinion and supporting documents, as described in the paragraphs that follow. It should be noted that the company has appointed a different actuary to perform all of the valuation work and provide an opinion on the reserves for year-end 2012.

The actuarial memorandum consisted merely of a compilation of the appointed actuary's reserving work papers. It did not explicitly discuss the adequacy of the reported reserves and liabilities, and it contained no discussion of how the cash flow testing and other methodologies were performed. For long-term care, the company's appointed actuary indicated in the RAAIS that he relied on another firm's analysis. The other firm's work included an exhibit demonstrating the surplus strain to the company as a result of statutory reserving requirements. In the opinion of our consulting actuary, that exhibit was not intended to be relied on as an asset adequacy analysis. In addition, the company's appointed actuary should have taken additional steps to determine reserve adequacy or, at the very least, demonstrated in more detail why the second actuary's analysis supports reserve adequacy. It is recommended that the company's appointed actuary prepare an actuarial memorandum documenting the asset adequacy analysis that is in compliance with s. Ins 50.79, Wis. Adm. Code. Subsequently, the company contracted with a third actuary to perform a gross premium valuation of the long-term care reserves, which our consulting actuary was able to rely on for purposes of reserve adequacy.

The consulting actuary noted several deficiencies in the statement of actuarial opinion filed by the company as of December 31, 2011:

1. The company's appointed actuary relied on another actuary for the long-term care line of business, but there was no reliance paragraph in the statement of actuarial opinion as required by s. Ins 50.78 (1) (c), Wis. Adm. Code.
2. Reserves totaling about \$25 million were released in 2011; however, this was not disclosed in the statement of actuarial opinion as required by s. Ins 50.78 (1) (e) 3., Wis. Adm. Code.
3. The statement of actuarial opinion does not address a reconciliation of the underlying data to the annual statement as required by s. Ins 50.78 (2) (d) and (e), Wis. Adm. Code.

It is recommended that the company submit a statement of actuarial opinion that is in compliance with s. Ins 50.78, Wis. Adm. Code, in future annual statements.

The consulting actuary also found that the RAAIS prepared by the company's appointed actuary did not comply with s. Ins 50.79 (3), Wis. Adm. Code. The regulation lists six specific items that need to be addressed in the RAAIS, including a description of the analysis methods and results of testing, changes in assumptions compared to the prior year, changes in items tested compared to the prior year, comments on any interim results, methods used to recognize the effects of reinsurance, and a statement as to whether the actuary is satisfied that all options have been appropriately considered in the asset adequacy analysis. The document prepared by the company's appointed actuary did not specifically address these items. It is recommended that the company submit a RAAIS that adequately addresses each item required by s. Ins 50.79 (3), Wis. Adm. Code, in future annual statements.

VII. CONCLUSION

The examination found that WEA Insurance Corporation had admitted assets of \$643,667,925, liabilities of \$422,205,421 and surplus of \$221,462,504 as of December 31, 2011.

On February 20, 2010, the Trust Agreement between WEAIT and WEAIC was amended to expand WEAIC's potential markets beyond school districts. The amendment allowed WEAIC to sell their products to all state and municipal public employees in addition to teachers and school district employees. WEAIC has reported a 9% decrease in net premium earned from \$846,528,120 in 2010 to \$770,267,256 in 2011.

In the past two years surplus has decreased from \$240,175,615 in 2009 to \$233,220,691 in 2010 and \$221,462,504 in 2011. The decrease to surplus over the last two years was primarily due to a net loss, net unrealized capital loss and a change in nonadmitted assets. Assets decreased in 2011 by 1.6% from \$654,384,936 in 2010 to \$643,667,925.

The company complied with all of the seven recommendations from the previous examination. The current examination resulted in eleven recommendations, with no reclassifications or adjustments to surplus.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Business Continuity Plan—It is recommended that the company identify alternate sites for their IT systems and employees as a key element in their business continuity plan.
2. Page 21 - Business Continuity Plan—It is recommended that key aspects of the business continuity plan be tested annually and that the test be based on clear objectives that will allow the results of the test to be scored to determine the effectiveness of the plan.
3. Page 22 - Business Continuity Plan—It is recommended that the company conduct a business impact analysis of all business functions and update their business continuity plans accordingly.
4. Page 23 - Affiliated Agreements—It is recommended that the company adopt management and service agreements that clearly identify all entities participating in the arrangement as well as the reimbursement and settlement arrangements between the entities, pursuant to SSAP 25, s. Ins 40.04 (1), Wis. Adm. Code, and s. 617.21 (1), Wis. Stat.
5. Page 23 - Holding Company Transactions—It is recommended that the company report all revenues/expenditures resulting from any intercompany agreements on Schedule Y, Part 2, as required by NAIC Annual Statement Instructions – Life.
6. Page 23 - Holding Company Transactions—It is recommended that the revised agreements be filed with the commissioner in compliance with s. Ins 40.04 (2), Wis. Adm. Code.
7. Page 24 - Advanced Premiums—It is recommended that the company report the advance premiums based on cash receipts and transfer this amount from WEAIT to WEAC, pursuant to SSAP No. 54.
8. Page 24 - Actuarial Examination—It is recommended that the company properly report the long-term care disabled life reserve and unaccrued portions of incurred but not reported claims according to NAIC Annual Statement Instructions – Life.
9. Page 25 - Actuarial Examination—It is recommended that the company's appointed actuary prepare an actuarial memorandum documenting the asset adequacy analysis that is in compliance with s. Ins 50.79, Wis. Adm. Code.
10. Page 25 - Actuarial Examination—It is recommended that the company submit a statement of actuarial opinion that is in compliance with s. Ins 50.78, Wis. Adm. Code, in future annual statements.
11. Page 26 - Actuarial Examination—It is recommended that the company submit a RAAIS that adequately addresses each item required by s. Ins 50.79 (3), Wis. Adm. Code, in future annual statements.

IX. 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
Karl Albert	Insurance Financial Examiner
Raymond Kangogo	Insurance Financial Examiner
Holly Poore	Insurance Financial Examiner
Marisa Rodgers	Insurance Financial Examiner
Victoria Chi	IT Specialist
Jerry DeArmond	Reserve Specialist
Fred Thornton	Workpaper Specialist

Respectfully submitted,

Judith Michael
Examiner-in-Charge