

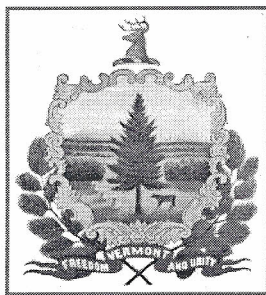
Report of the Statutory Examination
As of December 31, 2007

of

**The Vermont Life & Health Insurance Guaranty
Association**

By the:

Vermont Department of Banking, Insurance, Securities
and Health Care Administration
Division of Insurance



The attached report of examination made of the condition and affairs as of December 31, 2007 of:

The Vermont Life & Health Insurance Guaranty Association

Montpelier, VT

was recently completed by duly qualified examiners of the State of Vermont, Department of Banking, Insurance, Securities and Health Care Administration.

Due consideration has been given to the comments of the examiners regarding the operations of The Vermont Life & Health Insurance Guaranty Association and their financial condition, as reflected in this report. This report is hereby, as of this date, approved, adopted, filed and made an official record of this Department.

IN WITNESS WHEREOF, I have
hereunto set my hand, and affixed the
official seal of this Department at the
City of Montpelier this 10th day of
September, 2008.





Michael Bertrand
Acting Commissioner

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July 29, 2008

Honorable Paulette J. Thabault
Commissioner of Banking, Insurance, Securities
and Health Care Administration
State of Vermont
89 Main Street
Montpelier, VT 05620-3101

Salutation

Dear Commissioner:

In accordance with your instructions and pursuant to the provisions of the Vermont Insurance Code, an examination has been conducted for the year ended December 31, 2007 of:

The Vermont Life & Health Insurance Guaranty Association

One National Life Drive
Montpelier, VT 05604

Such report of examination is herewith respectfully submitted.

The Vermont Life & Health Insurance Guaranty Association
As of December 31, 2007

Scope of the Examination

Purpose

This is the first examination of The Vermont Life & Health Insurance Guaranty Association (hereinafter referred to as “the Association”) conducted by the Insurance Division of The Vermont Department of Banking, Insurance, Securities, and Health Care Administration (hereinafter referred to as “the Department”). This examination covered the period January 1, 2007 through December 31, 2007. As necessary, the examination team reviewed transactions occurring subsequent to December 31, 2007, but prior to the date of this report.

The scope of the examination includes a verification of assets and liabilities as of December 31, 2007, a determination of whether the Association is in compliance with applicable Vermont Statute and its Plan of Operations, and a review of the current insolvencies. We have included the December 31, 2007 financial statements in this report of examination.

Reliance on Outside Entities

Pursuant to Vermont Regulations, the Association requested the independent accounting firm of Fothergill, Segale & Valley (the “CPA”) to make available for review all work papers pertinent to the audit of the Association’s financial statements for the year ended December 31, 2007. Reliance was placed on work performed by the CPA in the following areas:

- Verification of cash and invested assets
- Testing of expense payments
- Testing of assessment calculation
- Testing of journal entries

The CPA issued their opinion on the Association’s financial statements on February 20, 2008.

Preparation of Report

The report is being prepared according to the “Alternate Format” as described in the NAIC Financial Condition Examiner’s Handbook. Only the items needing financial adjustment, procedural recommendations, or not conforming to the Plan of Operations approved by the Commissioner are commented upon.

The Vermont Life & Health Insurance Guaranty Association
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History

General

The purpose of this Association is to maintain public confidence in the promises of insurers by providing a mechanism for protecting policyholders, insureds, beneficiaries, annuitants, payees, and assignees of life insurance policies, health insurance policies, annuity contracts, and supplemental contracts against failure in the performance of contractual obligations due to the impairment of the insurer issuing such policies or contracts. To provide this protection:

- An association of insurers is created to enable the guaranty of payment of benefits and the continuation of coverages;
- Members of the Association are subject to assessment to provide funds to carry out the purpose of this chapter; and
- The Association is authorized to assist the Commission of Banking and Insurance, in the prescribed manner, in the detection and prevention of insurer impairments.

The Association is a not for profit entity which is administered by an independent third party and governed by a Board of Directors which is selected by member insurers and approved by the Commissioner.

Management

The Association's Plan of Operation was prepared to comply with Chapter 112, Title 8 Vermont Statutes Annotated. The Plan of Operations was amended during 2008 to include specific details on how the Board levies assessments. The Commissioner approved the amendment on June 11, 2008.

The Association's Plan of Operations, as amended, state the annual meeting of the Board of Directors shall be held at the Association office on the third Friday in the month of May, or such place and time as indicated by the Chairman of the Board. A majority of the Board shall constitute a quorum for the transaction of business. The purpose of the annual meeting shall be to elect Board members and to transact such other business as may properly be brought before the meeting.

The Board shall consist of not less than five nor more than nine representatives of member insurers divided into three classes as nearly equal as possible. Upon the election of the Board, or replacement of a Board member, the Association shall notify the Commissioner and request his written approval of election or replacement of the Board.

Board of Directors

At December 31, 2007 the Board of Directors as reported in the annual report were as follows:

**The Vermont Life & Health Insurance Guaranty Association
As of December 31, 2007**

<u>Name</u>	<u>Principal Business Affiliation</u>
Robert S. Burke, Esq. Chairman	National Life Insurance Co. Senior Counsel
James R. Ruegg Director	Amica Life Insurance Co. Assistant Vice President
Paul C. Latchford Director	Stonebridge Life Insurance Co. Vice President, Law and Governmental Affairs
David L. Kalib Director	Berkshire Life Insurance Co. of America Vice President, General Counsel and Secretary
Robert R. Lynch Director	MetLife Assistant Vice President
John H. Beers Director	Phoenix Life Insurance Co. Corporate Risk Manager and Secretary
Walter J. Gorski, Esq. Director	Boston Mutual Life Insurance Co. Vice President, General Counsel and Secretary

The Association also has an Executive Committee, a Nominating Committee, an Auditing Committee, and a Proxy Committee.

Officers

The Board may employ such persons, firms or corporations to perform such administrative functions as are necessary for the Board's performance of the duties imposed on the association. The officers of the Association as approved in the May 4, 2007 Board minutes consist of a Chairman (Robert S. Burke), a Treasurer (Richard N. Brockway) and a Secretary (Carla Lawrence). Robert Burke is Senior Counsel for the National Life Insurance Co. Carla Lawrence works for Actuarial Services of Central Vermont, Inc., who is contracted to provide administrative and management services for the Association. Richard Brockway is the owner of Brockway Computer Services, which is contracted to provide accounting services for the Association.

Conflict of Interest Policy

The Directors and Officers of the Association are expected to conduct business in good faith and in a manner that avoids the appearance of a conflict of interest. Beginning in 2005, the Association began obtaining completed conflict of interest statements from the appropriate

The Vermont Life & Health Insurance Guaranty Association
As of December 31, 2007

individuals. A review of the statements confirmed that the Association was in compliance with its policy concerning conflict of interest.

Indemnification of Directors and Officers

The Plan of Operation indicates that the Association shall indemnify its Directors and Officers against any liability incurred by any of them in their capacity as such, to the full extent permitted by the laws of Vermont.

Corporate Records

The Company's main administrative offices and corporate records are located at One National Life Drive, Montpelier, Vermont. The minutes of the Board of Directors were reviewed for the period of examination.

Contracts

The Association paid Actuarial Services of Central Vermont, Inc. \$58,958 in contracted services for the year ended December 31, 2007. Of this amount, \$498 was allocated to insolvencies. Actuarial Services provides administrative and secretarial services for the Association. The Association entered into an agreement with Actuarial Services of Central Vermont, Inc. for support services for the following: June 1, 2007 - May 31, 2008 at a cost of \$60,000.

The Association paid Richard N. Brockway, Treasurer for Vermont Life and Health Insurance Guaranty Association, \$14,150 in contracted services for the year ended December 31, 2007. Mr. Brockway is an independent contractor doing business as Brockway Computer Services, which provides accounting and treasury support services to the Association. Vermont Life and Health Insurance Guaranty Association entered into an agreement with Brockway Computer Services for accounting and Treasury Support services for the following: June 1, 2007 - May 31, 2008 at a cost of \$14,400.

The Association rents office space from National Life Insurance Company of Vermont. The lease was recently extended through March of 2011 and includes furniture. As part of the agreement, National Life is providing free office rent for the period April 1, 2008 – March 31, 2009 as a result of incorrect rent charges in prior years. The rent increases to \$3,239 for the period April 1, 2009 – March 31, 2010 and to \$3,336.21 for the period April 1, 2010 – March 31, 2011. Furniture rental charges are \$288 per year.

Assessments

On an annual basis the Association determines the capital necessary to fund operations and to fund individual insolvencies. Once the funding need level is determined, the Association assesses member companies to cover the anticipated expenses. All licensed companies with

The Vermont Life & Health Insurance Guaranty Association
As of December 31, 2007

positive premiums are assessed a minimum charge of \$25. Premium info is received from National Organization of Life and Health Guaranty Associations ("NOLHGA"), who receives it from the National Association of Insurance Commissioners ("NAIC") and is based on figures from Schedule T and the individual State pages located in the annual statement. The latest assessment approved by the Board of Directors was for 3 years of operating expenses in the amount of \$350k. The Association decided to use a 3 year assessment as a result of the high cost of the assessment process. Assessments are based on the weighted average of each licensed company's premium in relation to the total premium for all companies.

Business Owners and Commercial Crime Insurance

The Association maintains a business owners policy with Union Mutual with liability coverage of \$2 million. The Association also maintains a commercial crime policy with The F&D Companies covering employee theft in the amount of \$500,000.

Accounts and Records

The Association accounting records are maintained on Quickbooks and the insolvency data for assessments is maintained in an access database. Each year the Company's independent auditor, Fothergill, Segalle and Valley audits the records. An annual report is provided to the Board of Directors and to the Commissioner of BISHCA.

Findings and Recommendations

No items of significance were noted during the course of our examination.

Financial Statements

The December 31, 2007 Statement of Financial Position and the Statement of Activities are as follows:

The Vermont Life & Health Insurance Guaranty Association
As of December 31, 2007

Vermont Life and Health Guaranty Association
Statement of Financial Position
December 31, 2007

ASSETS

Current Assets

Cash - Merchants Bank	\$ 681,642
Cash - Sentinel Funds	10,600
Accrued Interest	<u>7,460</u>
	<u><u>\$ 699,702</u></u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts Payable	<u>5,237</u>
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Net Assets

Unrestricted - undesignated	273,263
Unrestricted - designated	<u>421,202</u>
Total net assets	<u>694,465</u>
Total liabilities and net assets	<u><u>699,702</u></u>

The Vermont Life & Health Insurance Guaranty Association
As of December 31, 2007

Vermont Life and Health Guaranty Association
Statement of Activities
Year Ended 12/31/2007

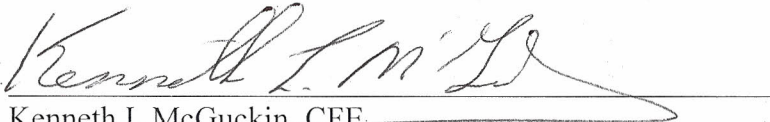
	Total	Unrestricted			
		Undesignated		Designated	
		Admin	Life	Health	Annuity
Revenues					
Insolvency estate distributions	\$ 95	\$ -	\$ 35	\$ -	\$ 60
Assessments	351,399	351,399	0	0	0
Interest and dividends	25,821	25,821	0	0	0
Total revenues	\$ 377,315	\$ 377,220	\$ 35	\$ -	\$ 60
Expenses					
Insolvency expenses	3,416	0	77	268	3,071
National Organization of Life and Health Insurance Guaranty Associations					
Data survey	5,679	5,679	0	0	0
Dues	28,689	28,689	0	0	0
Total NOLHGA	34,368	34,368	0	0	0
Administrative services					
Administrative services	72,610	72,610	0	0	0
Office expenses and supplies	1,654	1,654	0	0	0
Audit	3,625	3,625	0	0	0
Rent and equipment rental	9,005	9,005	0	0	0
Travel	8,880	8,880	0	0	0
Total administrative services	95,774	95,774	0	0	0
Total expenses	133,558	130,142	77	268	3,071
Change in net assets	243,757	247,078	(42)	(268)	(3,011)
Net assets - January 1, 2007	450,708	26,185	168,517	65,120	190,886
Net assets - December 31, 2007	\$ 694,465	\$ 273,263	\$ 168,475	\$ 64,852	\$ 187,875

The Vermont Life & Health Insurance Guaranty Association
As of December 31, 2007

Examiner's Signature and Acknowledgement

The customary insurance examination practices and procedures as promulgated by the Insurance Laws of the State of Vermont have been followed in ascertaining the financial condition of the Vermont Life and Health Insurance Guaranty Association as of December 31, 2007. In addition to the undersigned, Dan Petterson, Administrative Insurance Examiner participated in the examination on behalf on the Vermont Department of Banking, Insurance, Securities and Health Care Administration.

Respectfully submitted,

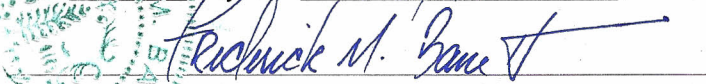


Kenneth L McGuckin, CFE
Director of Company Licensing and Examinations
Vermont Department of Banking, Insurance, Securities
and Health Care Administration

STATE OF VERMONT
COUNTY OF WASHINGTON

Kenneth L McGuckin, CFE being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

Subscribed and sworn to before me
this 19 day of August, 2008



Notary Public

My Commission expires _____ (date)
Frederick M. Barrett
Notary Public State of Vermont at Large
My Commission Expires February 10, 2011