STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF TARGETED FINANCIAL EXAMINATION

OF

BENEFICIAL LIFE INSURANCE COMPANY

OF

SALT LAKE CITY, UTAH

AS OF

JULY 1, 2003

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Filed
Utah State
Insurance Dept.

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September 18, 2003

Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, a target examination was conducted as of July 1, 2003, of

BENEFICIAL LIFE INSURANCE COMPANY
of
Salt Lake City, Utah

a stock life insurance company, hereinafter referred to as the Company.

The date of the last full-scope financial examination of the Company was December 31, 2000. This examination is limited in scope and this examination report is not intended to communicate all matters of importance for an understanding of the Company's financial condition.

SCOPE OF EXAMINATION

The purpose and scope of this examination is to review the proposed reserve methodology for the Company's new universal life policy design for compliance with the requirements of Utah Administrative Code (U.A.C.) Rule R590-198, Valuation of Life Insurance Policies Rule, and to determine whether or not it is appropriate to apply the proposed methodology to existing universal life policies issued in 2003 with a secondary guarantee.

Interpretation of the Valuation of Life Insurance Policies Model Regulation, promulgated by the National Association of Insurance Commissioners (NAIC), is contained in Actuarial Guideline XXXVIII (AG 38). AG 38, particularly Section 8, describes nine steps for determining reserves under the regulation when the universal life policy guarantees coverage will remain in force as long as the accumulation of premiums satisfies the secondary guarantee requirement. The Company's proposed methodology, as contained in information provided by the Company to the examination staff, was tested according to the standards described above.

The second paragraph of AG 38 indicates that "reserves need to be established for the guarantees provided by a policy" and that policy designs that disguise those guarantees must be reserved in a manner similar to more typical designs with similar guarantees. The Company's proposed methodology was evaluated for compliance with technical standards and also to assess whether the policy design is intended to disguise guarantees. The proposed methodology was reviewed for compliance with both the spirit and the letter of AG 38.

The actuarial firm of Milliman U.S.A. was retained to conduct the technical phases of the examination.

EXAMINATION FINDINGS

Based on procedures performed, the examination finds that:

1. The proposed reserve methodology for the Company's new universal life policy design complies with the minimum requirements of AG 38, Section 8.

2. Although the proposed reserve methodology for the Company's new universal life policy design complies with the minimum requirements of AG 38, no analysis of reserve adequacy has been performed. The examination cannot make a finding, at this time, regarding the adequacy of reserves resulting from implementation of the proposed reserve methodology.

3. Use of the proposed reserve methodology on existing universal life policies would not comply with the minimum requirements of AG 38, because of differences in new and existing policy designs, unless an exception is granted by the Utah Insurance Department.

4. The new policy design does not appear to disguise the guarantees and therefore appears to comply with both the spirit and the letter of AG 38.

RECOMMENDATIONS

The examination recommends that:

1. The Company monitor reserve adequacy to ensure compliance with both the spirit and the letter of AG 38 on an ongoing basis.

2. The Company should not use the proposed reserve methodology for existing policies issued in 2003.

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company are acknowledged. Mr. Steven G. Fry, CPA, Chief Financial Examiner, and Mr. Tomasz Serbinowski, ASA, Actuary, representing the Utah Insurance Department, participated in the examination. The actuarial firm of Milliman U.S.A. conducted the technical phases of the examination.

Respectfully submitted,

John D. Kay, CFE, CIE
Examiner-in-Charge, representing the
Utah Insurance Department