

STATE OF MICHIGAN
CIRCUIT COURT FOR THE 30TH JUDICIAL CIRCUIT
INGHAM COUNTY

KEN ROSS, COMMISSIONER OF THE OFFICE
OF FINANCIAL AND INSURANCE
REGULATION,

Petitioner,

No. 10-397-CR

v

HON. WILLIAM E. COLLETTE

AMERICAN COMMUNITY MUTUAL
INSURANCE COMPANY,

Respondent.

Christopher L. Kerr (P57131)
David W. Silver (P24781)
Assistant Attorneys General
Attorneys for Petitioner
Corporate Oversight Division
P. O. Box 30755
Lansing, MI 48909
(517) 373-1160

**EX PARTE PETITION FOR APPROVAL OF THE REHABILITATOR'S PLAN TO
ENTER INTO A REINSURANCE AGREEMENT WITH
SECURITY LIFE INSURANCE COMPANY OF AMERICA
RELATIVE TO AMERICAN COMMUNITY MUTUAL INSURANCE COMPANY'S
GROUP DENTAL AND GROUP VISION INSURANCE POLICIES**

Ken Ross, Commissioner of the Michigan Office of Financial and Insurance Regulation,
as Rehabilitator of American Community Mutual Insurance Company (the "Rehabilitator"), by
and through his attorneys, Michael A. Cox, Attorney General, and Christopher L. Kerr and
David W. Silver, Assistant Attorneys General, petitions this Court pursuant to MCL 500.8114(4)
to approve the Rehabilitator's plan to enter into a reinsurance agreement with Security Life

Insurance Company of America relative to American Community's group dental and group vision insurance policies. In support of this Ex Parte Petition, the Rehabilitator states as follows:

1. On April 8, 2010, this Court entered a Stipulated Order Placing American Community into Rehabilitation, Approving Appointment and Compensation of Special Deputy Rehabilitators, and Providing Injunctive Relief (the "Rehabilitation Order"). Pursuant to MCL 500.8113(1), the Rehabilitation Order appointed the Commissioner as the Rehabilitator of American Community.

2. As required by MCL 500.8113(1), the Rehabilitation Order directed the Rehabilitator to "take immediate possession of all the assets of American Community and administer those assets under the Court's general supervision."¹

3. The Rehabilitation Order further provides that "[p]ursuant to MCL 500.8114(2) and (4), the Rehabilitator may take such action as he considers necessary or appropriate to reform or revitalize American Community, and is empowered to pursue all avenues of reorganization, consolidation, conversion, reinsurance, merger, or other transformation of American Community to effectuate rehabilitation and maintain, to the greatest extent possible, a continuity of health care services."²

4. The Rehabilitation Order additionally provides that "[p]ursuant to MCL 500.8114(4), if the Rehabilitator determines that reorganization, consolidation, conversion, reinsurance, merger, or other transformation of American Community is appropriate, he shall prepare a plan to effect those changes and shall apply to the Court for approval of such plan."³

¹ Rehabilitation Order, p 4, ¶ 3.

² Rehabilitation Order, p 6, ¶ 10.

³ Rehabilitation Order, p 6, ¶ 11.

5. On April 26, 2010, the Court entered an Ex Parte Order approving the Rehabilitator's compensation of Cain Brothers as the exclusive financial advisor to the Rehabilitator.

6. In its role as exclusive financial advisor, Cain Brothers has marketed and solicited offers to purchase various "blocks" or segments of American Community's insurance business. That process has resulted in the negotiation of a Reinsurance Agreement between American Community and Security Life Insurance Company of America ("Security Life"). The Reinsurance Agreement will allow Security Life to first reinsure and eventually assume the entirety of American Community's group dental and group vision insurance business existing as of May 1, 2010. A copy of the executed Reinsurance Agreement is attached as Exhibit A.

7. Security Life is a niche specialty life and health insurance company, with a successful record in the dental, vision, and group life insurance marketplace.⁴ Security Life is among the country's leading providers of dental, vision and group life insurance.⁵ Security Life was formed in 1956 and is licensed in 49 states and the District of Columbia.⁶ The company markets and administers group and voluntary dental, vision, and life products, as well as individual dental and vision products.⁷ The company is rated by A.M. Best and is assigned a Best's Financial Strength rating of B++ (Good).⁸ The A.M. Best rating reflects the company's favorable profit margins, its established niche in the individual and smaller group dental and vision markets, and its expanding distribution partners.⁹

8. Based on Security Life's experience in the industry, solid financial condition, and other considerations, the Rehabilitator has determined that entering into a Reinsurance

⁴ See "About Security Life," attached as Exhibit B.

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

⁸ See A.M. Best Financial Strength Rating as of 4/28/09, attached as Exhibit C.

⁹ See Exhibit C.

Agreement with Security Life is necessary and appropriate for the effective and efficient administration of this rehabilitation proceeding and will assist in providing the maximum protection to American Community's creditors, policyholders, and the public.

9. Consistent with the Rehabilitation Order, the Rehabilitator has determined that the Reinsurance Agreement with Security Life will also maintain, to the greatest extent possible, a continuity of health care services for American Community's group dental and group vision policyholders.

10. Specifically, effective May 1, 2010 and going forward, the Reinsurance Agreement will transfer all underwriting risk associated with claims against American Community's group dental and group vision insurance policies to Security Life.¹⁰ On or around September 1, 2010, Security Life will take over administration of these policies.¹¹ As soon as reasonably possible, Security Life will also assume the American Community policies, eventually transitioning American Community's group dental and group vision policyholders into Security Life group policies.¹² Accordingly, within approximately four months, American Community will have completely transferred all administration and all post-May 1, 2010 underwriting risk associated with its group dental and vision business to Security Life. At the same time, American Community's group dental and group vision policyholders will experience a smooth transition to a reputable replacement insurer.

11. The Reinsurance Agreement will also bring funds into the American Community rehabilitation estate to pay the company's ongoing operating expenses and for benefit of the company's creditors. Pursuant to the Reinsurance Agreement, Security Life will pay American

¹⁰ Exhibit A, Section 3.A.

¹¹ Exhibit A, Section 4.C.

¹² Exhibit A, Section 6.

Community a 23% ceding commission until such time as Security Life takes over administration of the policies.¹³ In addition, Security Life will pay American Community a 2.5% profit-sharing commission for a one-year period from May 1, 2010 through April 30, 2011.¹⁴

12. Time is of the essence in securing this Court's approval of the Reinsurance Agreement. The Agreement has a May 1, 2010 effective date and assumes prompt commencement in order to preserve the policies in force and begin the transitioning process. Moreover, despite Cain Brothers actively marketing American Community's group dental and group vision business since at least April 26, 2010, only two companies other than Security Life showed any interest in acquiring this business. One of those companies failed to submit a formal, competing offer by the deadline imposed by Security Life, while the other submitted an inferior offer in terms of both coverage and compensation. For these reasons, the Rehabilitator requests this Court to waive any hearing on this petition and instead approve the Rehabilitator's plan to enter into the Reinsurance Agreement with Security Life on an ex parte basis. Such approval is expressly allowed by the permissive language in MCL 500.8114(4), which provides that "[u]pon application of the rehabilitator for approval of the plan, and after notice and hearings as the court may prescribe, the court may either approve or disapprove the plan proposed, or may modify it and approve it as modified." (emphasis added).

13. Similarly, providing personalized notice of this Ex Parte Petition and any resulting Order to all parties that have a general interest in American Community's rehabilitation is impractical at this time because there has been no claims submission or other process to identify such interested parties. Moreover, attempting to identify and personally notify every party having a general interest would be time-intensive and costly to American Community's

¹³ Exhibit A, Section 8.A.

¹⁴ Exhibit A, Section 9.

rehabilitation estate. For these reasons, the Rehabilitator requests that the Court authorize and ratify service of this Ex Parte Petition and any resulting Order by posting electronic copies on the OFIR website, www.michigan.gov/ofir, under the section "Who We Regulate", and the subsection "American Community." Service in this manner is reasonably calculated to give interested parties actual notice of these proceedings and is otherwise reasonable under the circumstances.

WHEREFORE, the Commissioner, as Rehabilitator of American Community, respectfully requests this Court to approve the Rehabilitator's plan to enter into the attached Reinsurance Agreement with Security Life relative to all American Community group dental insurance and group vision insurance policies in force as of May 1, 2010. Further, the Rehabilitator requests the Court to waive any hearing on this petition and to approve it on an ex parte basis. Finally, the Rehabilitator requests this Court to authorize and ratify service of this Ex Parte Petition and any resulting Order by posting electronic copies on the "American Community" section of OFIR's website.

Respectfully submitted

Michael A. Cox
Attorney General



Christopher L. Kerr (P57131)
David W. Silver (P24781)
Assistant Attorneys General
Corporate Oversight Division
Attorneys for Petitioner
P.O. Box 30755
Lansing, Michigan 48909
(517) 373-1160

Dated: May 21, 2010

**E
X
H
I
B
I
T
A**

REINSURANCE AGREEMENT

This Agreement is made and entered into as of this 17th day of May, 2010, by and between Security Life Insurance Company of America, a Minnesota insurance company ("Security"), and American Community Mutual Insurance Company, a Michigan insurance company ("American").

In consideration of the mutual terms and conditions contained herein, the parties hereby agree as follows:

1. Definitions

- A. "Benefits" means and includes only benefits payable under Reinsured Policies.
- B. "Effective Date" means May 1, 2010, regardless of the date when this Agreement was executed by the parties thereto.
- C. "Reinsured Policies" means only those policies, certificates and contracts of insurance ceded and reinsured under this Agreement as more particularly described in Exhibit A-1. This does not include any coverage for medical claims.
- D. "In-Force" means Reinsured Policies in effect and providing coverage as of the Effective Date. A policy is deemed In-Force if the premium for a Reinsured Policy has been paid to or beyond the Effective Date or if it shall be paid to or beyond the Effective Date within the grace period permitted in the policy and by American's customary practice. If, on the Effective Date, the premium on a Reinsured Policy is unpaid beyond such grace period, it will be deemed not to be In-Force, except that if the holder thereof pays the requisite premium and complies with American's usual and customary reinstatement requirements, the Reinsured Policy will be deemed to be In-Force on the Effective Date.

2. Reinsurance Coverage

- A. As of the Effective Date of this Agreement, American hereby cedes to Security, and Security accepts, reinsures and assumes liability hereunder agreeing to indemnify American 100% of the Benefits provided by each Reinsured Policy.
- B. This Agreement shall not create any legal relationship whatsoever between Security and persons who own or who are insured under the Reinsured Policies.
- C. American does not cede, and Security shall not be liable for, any Benefits that were incurred prior to the Effective Date of this Agreement.
- D. All references to currency and all monetary transactions shall be in U.S. Dollars.

3. Reinsurance Premiums

- A. All premiums earned, losses or Benefits incurred and gains from Reinsured Policies on or after May 1, 2010, shall inure to Security.

- B. The reinsurance premiums payable by American to Security shall be equal to 100% of the earned and received premiums on the Reinsured Policies on and after the Effective Date.
- C. All premiums earned and received by American on the Reinsured Policies during any month after the Effective Date shall be paid to Security on or before the 15th day of the following month. The premium payments to Security will be reduced by any payments made by American for Benefits, premium taxes and assessments generated from the Reinsured Policies. Upon request by Security, American shall provide copies of information necessary to substantiate these payments.

4. Administration

- A. As of the Effective Date and until Security becomes the administrator of the Reinsured Policies, American will continue to provide administration of the Reinsured Policies, including premium billing and collection, payment of agent commissions and service fees, claims payment, policyholder inquiries and all other policyholder service activities ("Administration"). During this time, Security shall be responsible for all taxes (including premium taxes) and any assessments, which American shall pay relating to the Reinsured Policies.
- B. During the time that American Administers the Reinsured Policies, Security agrees to accept and be bound by and hold American harmless for any decision regarding payment of Benefits on Reinsured Policies, except in the case of gross negligence or intentional misconduct. During this time, American agrees not to materially change, alter or modify its claims paying or administrative practices with respect to the Reinsured Policies without the prior written consent of Security. Upon request by Security, American shall submit copies of proof of loss documentation to Security and will, upon request, consult with Security regarding any claim.
- C. As soon as practicable, but no earlier than September 1, 2010, Security will become the administrator and be responsible for the Administration of the Reinsured Policies as of the Effective Date; and shall continue to be responsible and pay all taxes (including premium taxes), assessments and any other obligation related to the Reinsured Policies. American will continue to administer and pay all Benefits incurred prior to the Effective Date.
- D. American shall provide Security with all records, electronic and otherwise, necessary for the Administration of the Reinsured Policies.
- E. Until a Reinsured Policy has been assumed by Security pursuant to Section 6 of this Agreement, premium rates and policyholder dividend payments for Reinsured Policies will not be changed without the written consent of American.

5. Accounting, Reports & Settlements

- A. During the period during which American is administering the Reinsured Policies, American shall provide monthly reports to Security containing each month's

premiums, commissions, and claims paid. Each monthly report shall be provided by the 15th day of the following month.

- B. After the period during which American is administering the Reinsured Policies, Security shall provide monthly reports to American containing each month's collected premiums and a calculation of the 2.5% profit-sharing commission under Section 9 of this Agreement. Each monthly report shall be provided by the 15th day of the following month.
- C. Each party also agrees to provide the other party with any other information reasonably required by the other party during the term of this Agreement.

6. Security To Assume The Reinsured Policies

- A. As soon as reasonably possible, Security shall issue an assumption certificate to the holders of the Reinsured Policies that:
 - 1. Transfers American's insurance obligations and the risks of the Reinsured Policies to Security; and
 - 2. Serves to effect a novation of the Reinsured Policies with American with the result that Security becomes directly liable to the holders of the Reinsured Policies and American's insurance obligations and risk under the Reinsured Policies is extinguished.
- B. American and Security will cooperate with each other to use the best of their efforts to obtain regulatory and/or court authority for Security to assume the business then in force.

7. Extra-Contractual Damages

Security agrees to indemnify American for bad faith, punitive and any other extra-contractual damages or liability arising from the actions of Security in connection with its Administration of the Reinsured Policies, including any legal or other expenses applicable to the defense of any claim relative to any such liability.

8. Payment of Ceding Commission

- A. Security shall pay a ceding commission to American on the Reinsured Policies each month equal to 23% of collected policy premiums for Reinsured Policies for such month, less refunds for Reinsured Policies during such month, for American's Administration of Reinsured Policies and selling commissions.
- B. Security shall pay this ceding commission through August 31, 2010, or if later, the date on which Administration of the Reinsured Policies has been transferred to Security.
- C. The ceding commission for each month shall be paid by the 15th day of the following month.

9. Payment of Profit-Sharing Commission

Security shall pay American a profit-sharing commission each month equal to 2.5% of the collected policy premiums for Reinsured Policies for such month, less refunds for Reinsured Policies during such month, for the 12-month period beginning May 1, 2010, and ending April 30, 2011. The profit-sharing commissions shall be paid on the same schedule as the ceding commissions.

10. Renewals, Conversions and Other Policies

- A. Prior to Security assuming the Reinsured Policies, as referenced in Section 6, Security shall accept renewals of any of the Reinsured Policies at their current rates and forms and conversions from the Reinsured Policies to Security policies at their current rates and forms.
- B. During the periods when such commissions are payable, calculation of the ceding commission and profit-sharing commission under Section 8 and Section 9 of this Agreement shall include collected policy premiums both for Reinsured Policies that are renewed and Reinsured Policies that are converted to a Security policy that is substantially similar to the Reinsured Policies.
- C. Except as provided in Section 11.B., Security shall be free to market other products and policies to the holders of the Reinsured Policies, and no ceding commissions or profit-sharing commissions shall be payable on any such new policies.

11. Agents

- A. Included on Exhibit A-2 is a complete list of the names and addresses of the agents who sold any of the Reinsured Policies.
- B. Security may use the list to appoint agents or sell policies, except that, during the period that Security is paying profit-sharing commissions, Security will not use any of such agents to sell policies that are substantially similar to the policies then being sold by such agents on behalf of American.

12. Termination

- A. This agreement may only be terminated:
 - i. upon mutual written consent of the parties hereto;
 - ii. when all Reinsured Policies have terminated and all benefits payable on Reinsured Policies have been satisfied; or
 - iii. by either party if the other party breaches a material term of the Agreement and such breach is not substantially cured by the other party within 60 days of the receipt of written notification from the other party.
- B. In the event American becomes insolvent this Agreement shall remain in effect and shall not provide a basis for either party to terminate the Agreement.

13. Arbitration

- A. All differences between American and Security with respect to this Agreement will be settled by arbitration with the arbiters to interpret this Agreement in accordance with usual business and reinsurance practices rather than on a strict technical or legal basis.
- B. Three arbiters will decide any differences. They must be former or present executive officers of life, health dental or vision insurance companies other than Security and American (or their affiliates). One of the arbiters is to be appointed by American and the other by Security, and these two will select the third. The rules and procedures to be followed in any such arbitration shall be those of the American Arbitration Association. The place of meeting will be Lansing, Michigan unless otherwise unanimously agreed to by the arbiters. Upon request from either party the arbiters will issue their decision and the basis for such decision in writing. There will be no appeal from the decision of the arbiters.
- C. The provisions of this article relate to all aspects of this Agreement, including its formation and execution, and shall survive the termination thereof.
- D. Each party will be responsible for its own expenses of arbitration, including the expenses of its arbiter and any outside attorney fees. The parties will share equally the expenses of the third arbiter. Any remaining costs of the arbitration proceedings will be paid by the party incurring such expenses unless otherwise determined by the arbiters.

14. General Provisions

- A. This Agreement constitutes the entire agreement between the parties on the subject matter hereof, superseding all prior oral and written agreements. This Agreement may only be amended in writing, signed by both parties.
- B. This Agreement may not be assigned by either party without the prior written consent of the other party. This Agreement is binding upon, and shall inure to the benefit of, the successors and permitted assigns of the parties.
- C. All exhibits referred to in this Agreement are attached hereto and incorporated herein by reference.
- D. Any payments due to either party hereunder may be offset against each other.
- E. Any necessary regulatory approval required for this Agreement to take effect shall be the responsibility of, and at the expense of, Security.
- F. As American is in rehabilitation, this Agreement is contingent upon receipt of approval of the Ingham County Circuit Court, State of Michigan, at no cost to Security.
- G. Each of the parties shall maintain the confidentiality of all information related to the Reinsured Policies and all other information deemed confidential by the party

providing it in connection with this Agreement pursuant to the Privacy Agreement attached as Exhibit B.

- H. No forbearance on the part of either party to insist upon compliance by the other party with the terms of this Agreement shall be construed as, or constitute, a waiver of any of the terms of this Agreement.
- I. To the extent that this Agreement may be in conflict with any applicable law or regulation, this Agreement will be amended, at the mutual agreement of both parties, to the extent possible, to comply with such law and regulation. If any term or provision of this Agreement will be found by a court of competent jurisdiction to be illegal or otherwise unenforceable, the same will not invalidate the whole of this Agreement, but such term or provision will be deemed modified to the extent necessary in the court's opinion to render such term or provision enforceable, and the rights and obligations of the parties will be construed and enforced accordingly preserving to the fullest permissible extent the intent and agreements of the parties set forth herein.
- J. This Agreement shall be governed in accordance with Michigan law, and any litigation shall be venued in Ingham County, Michigan.
- K. All notices hereunder shall either be personally delivered, sent by overnight express mail, or sent certified mail, postage prepaid, at the following addresses:

To American:

James Gerber, Deputy Rehabilitator
American Community Mutual Insurance Company
39201 Seven Mile Road
Livonia, MI 48152

To Security:

Gil Rohde Jr., President & CEO
Security Life Insurance Company of America
10901 Red Circle Drive
Minnetonka, MN 55343-9137

IN WITNESS WHEREOF, the parties have caused the execution of this Agreement as of the day and year first above written.

Security Life Insurance Company of America

By: 
Its: President & CEO

American Community Mutual Insurance Company

By: *[Signature]*

Its: *Deputy Rehabilitator*

Exhibit A-1

Business Subject to Reinsurance

The business subject to reinsurance is American's entire book of policies, certificates and contracts of Group dental insurance and Group vision insurance, which shall include the following pieces of business:

<u>Form Number</u>	<u>State(s) with Active Policies</u>
ALLGRP	AZ, IL, IN, MI, NE, OH
AMT	AZ, IA, IL, IN, MI, MO, NE, OH
SGR	MI
DEN	AZ, IL, IN, MI, MO, NE, OH
VIS	AZ, IL, IN, MI, MO, NE, OH

EXHIBIT A-2

Brokers

[Broker information redacted from court filing because this information is proprietary and/or confidential in nature and could be used by competitors]

EXHIBIT B

Privacy Agreement

This Privacy Agreement ("Agreement"), effective May 1, 2010 ("Effective Date"), is entered into by and between Security Life Insurance Company of America hereinafter referred to as ("Business Associate") and American Community Mutual Insurance Company hereinafter referred to as ("ACMIC"). Collectively ACMIC and Business Associate shall be known as the "Parties".

WHEREAS, the Parties have a business relationship in which the Business Associate will use and/or disclose Protected Health Information ("PHI") in its performance of certain services arising from that relationship ("Services");

WHEREAS, both Parties are committed to complying with all laws that regulate the use and disclosure of PHI, including but not limited to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and applicable state laws;

WHEREAS, both Parties agree that this Agreement shall amend any type of service agreement or other type of contractual relationship between the Parties to which this Agreement is attached ("Business Contract");

WHEREAS, this Agreement sets forth the terms and conditions pursuant to which PHI that is provided by, or created or received by, the Business Associate from or on behalf of ACMIC will be handled between the Business Associate and ACMIC and with third parties during the term of their Agreement and after its termination.

NOW, THEREFORE, the Parties agree as follows:

1. PERMITTED USES AND DISCLOSURES OF PROTECTED HEALTH INFORMATION

1.1 **Services.** Business Associate provides certain Services that involve the use and/or disclosure of PHI. Except as otherwise specified herein, the Business Associate may make any and all uses of PHI necessary to perform its obligations under the Business Contract. All other uses not authorized by this Agreement are prohibited. Moreover, Business Associate may disclose PHI for the purposes authorized by this Agreement only,

- (i) to its employees, subcontractors and agents, in accordance with Section 2.1(e),
- (ii) as directed by ACMIC, or
- (iii) as otherwise permitted by the terms of this Agreement including, but not limited to, Section 1.2 below.

1.2 **Business Activities of the Business Associate.** Except as otherwise limited in this Agreement:

- (a) Business Associate may use PHI for the proper management and administration of the Business Associate or to carry out the legal responsibilities of the Business Associate.

- (b) Business Associate may disclose PHI for the proper management and administration of the Business Associate, provided that disclosures are required or permitted by law, or Business Associate obtains reasonable assurances from the person to whom the information is disclosed that it will remain confidential and used or further disclosed only as required or permitted by law or for the purpose for which it was disclosed to the person, and the person notifies the Business Associate of any instances of which it is aware in which the confidentiality of the information has been breached.

1.3 Additional Activities of Business Associate. In addition to using the PHI to perform the Services set forth in Section 1.1 of this Agreement, Business Associate may de-identify any and all PHI provided that the de-identification conforms to the requirements of 45 C.F.R. § 164.514(b), and further provided that ACMIC maintains the documentation required by 45 C.F.R. § 164.514(b) which may be in the form of a written assurance from the Business Associate. Pursuant to 45 C.F.R. § 164.502(d)(2), de-identified information does not constitute PHI and is not subject to the terms of this Agreement.

2. RESPONSIBILITIES OF THE PARTIES WITH RESPECT TO PROTECTED HEALTH INFORMATION

2.1 Responsibilities of the Business Associate. With regard to its use and/or disclosure of PHI, the Business Associate hereby agrees to do the following:

- (a) not use or further disclose PHI other than as permitted or required by this Agreement or as required or permitted by law.
- (b) to use appropriate safeguards to prevent use or disclosure of the PHI other than as provided for by this Agreement.
- (c) to mitigate, to the extent practicable, any harmful affect that is known to Business Associate of a use or disclosure of PHI by Business Associate in violation of the requirements of this Agreement.
- (d) to report to the designated Privacy Officer of ACMIC, in writing, any use and/or disclosure of the PHI that is not permitted or required by this Agreement of which Business Associate becomes aware within five (5) days of the Business Associate's discovery of such unauthorized use and/or disclosure.
- (e) to ensure that any agent, including a subcontractor, to whom it provides PHI received from, or created or received by Business Associate on behalf of ACMIC agrees to the same restrictions and conditions that apply through this Agreement to Business Associate with respect to such information.
- (f) to provide access, at the request of ACMIC and in the time and manner designated by ACMIC, to PHI in a Designated Record Set to ACMIC in order to meet the requirements under 45 CFR § 164.524.
- (g) to make any amendment(s) to PHI in a Designated Record Set that ACMIC directs or agrees to pursuant to 45 CFR § 164.526 at the request

of ACMIC or an Individual, and in the time and manner designated by ACMIC.

- (h) to make internal practices, books, and records relating to the use and disclosure of PHI received from, or created or received by Business Associate on behalf of ACMIC available to the Secretary of the Department of Health and Human Services, in a time and manner designated by the Secretary, for purposes of the Secretary determining ACMIC's compliance with the Privacy Rule.
- (i) to document such disclosures of PHI and information related to such disclosures as would be required for ACMIC to respond to a request by an Individual for an accounting of disclosures of PHI in accordance with 45 CFR § 164.528.
- (j) upon prior written request, make available during normal business hours at Business Associate's offices all records, books, agreements, policies and procedures relating to the use and/or disclosure of PHI to ACMIC for purposes of enabling ACMIC to determine the Business Associate's compliance with the terms of this Agreement.
- (k) to disclose to its subcontractors, agents or other third parties, and request from ACMIC, only the minimum PHI necessary to perform or fulfill a specific function required or permitted hereunder.

2.2 Responsibilities of ACMIC. With regard to the use and/or disclosure of PHI by the Business Associate, ACMIC hereby agrees:

- (a) to inform the Business Associate of any changes in the form of notice of privacy practices (the "Notice") that ACMIC provides to individuals pursuant to 45 C.F.R. §164.520, and provide the Business Associate a copy of the Notice currently in use.
- (b) To provide Business Associate with any changes in, or revocation of, permission by Individual to use or disclose PHI, if such changes affect Business Associate's permitted or required uses and disclosures.
- (c) to inform the Business Associate of any opt-outs exercised by any individual from marketing activities of ACMIC pursuant to 45 C.F.R. § 164.514(e).
- (d) to notify the Business Associate, in writing and in a timely manner, of any arrangements permitted or required of ACMIC under 45 C.F.R. part 160 and 164 that may impact in any manner the use and/or disclosure of PHI by the Business Associate under this Agreement, including, but not limited to, restrictions on use and/or disclosure of PHI as provided for in 45 C.F.R. § 164.522 agreed to by ACMIC.
- (e) that Business Associate may make any use and/or disclosure of PHI permitted under 45 C.F.R. § 164.512 except uses or disclosure for research are not permitted without prior approval by ACMIC.

3. TERMS AND TERMINATION

- 3.1 **Term.** This Agreement shall become effective on the Effective Date and shall continue in effect until all obligations of the Parties have been met, unless terminated as provided in this Section 3. In addition, certain provisions and requirements of this Agreement shall survive its expiration or other termination.
- 3.2 **Termination by ACMIC.** As provided for under 45 C.F.R. § 164.504(e)(2)(iii), ACMIC may immediately terminate this Agreement and the Business Contract, and any related agreements, if ACMIC makes the determination that the Business Associate has breached a material term of this Agreement and Business Associate either fails to cure the breach or a cure is not possible. ACMIC shall: (i) provide the Business Associate with written notice of the existence of an alleged material breach; and (ii) afford the Business Associate an opportunity to cure said alleged material breach upon mutually agreeable terms. Nonetheless, in the event that mutually agreeable terms cannot be achieved within five (5) days of receipt of the written notice, Business Associate must cure said breach to the satisfaction of ACMIC within thirty (30) days. Failure to cure in the manner set forth in this paragraph is grounds for the immediate termination of this Agreement and the Business Contract.
- 3.3 **Effect of Termination.** Upon the event of termination pursuant to this Section 3, Business Associate agrees to return or destroy all PHI pursuant to 45 C.F.R. § 164.504(e)(2)(i) if it is feasible to do so. Prior to doing so, the Business Associate further agrees to recover any PHI in the possession of its subcontractors or agents. If it is not feasible for the Business Associate to return or destroy said PHI, the Business Associate will notify ACMIC in writing. Said notification shall include: (i) a statement that the Business Associate has determined that it is infeasible to return or destroy the PHI in its possession, and (ii) the specific reasons for such determination. Business Associate further agrees to extend any and all protections, limitations and restrictions contained in this Agreement to the Business Associate's use and/or disclosure of any PHI retained after the termination of this Agreement, and to limit any further uses and/or disclosures to the purposes that make the return or destruction of the PHI infeasible. If it is infeasible for the Business Associate to obtain, from a subcontractor or agent any PHI in the possession of the subcontractor or agent, the Business Associate must provide a written explanation to ACMIC and require the subcontractors and agents to agree to extend any and all protections, limitations and restrictions contained in this Agreement to the subcontractors' and/or agents' use and/or disclosure of any PHI retained after the termination of this Agreement, and to limit any further uses and/or disclosures to the purposes that make the return or destruction of the PHI infeasible.

4. MISCELLANEOUS

- 4.1 **Business Associate.** For purposes of this Agreement, Business Associate shall include the named Business Associate herein. However, in the event that the Business Associate is otherwise a covered entity under the Privacy Regulation,

that entity may appropriately designate a health care component of the entity, pursuant to 45 C.F.R. § 164.105, as the Business Associate for purposes of this Agreement.

- 4.2 Regulatory References. A reference in this Agreement to a section in the Privacy Rule means the section as in effect or as amended, and for which compliance is required.
- 4.3 Amendment. The Parties agree to take such action as is necessary to amend this Agreement from time to time as is necessary for ACMIC to comply with the requirements of the Privacy Rule and the Health Insurance Portability and Accountability Act, Public Law 104-191 and any other applicable law.
- 4.4 Survival. The respective rights and obligations of Business Associate under Section 4 of this Agreement shall survive the termination of this Agreement.
- 4.5 Interpretation. Any ambiguity in this Agreement shall be resolved in favor of a meaning that permits ACMIC to comply with the Privacy Rule and the Security Rule.
- 4.6 Security Rule. The "Security Rule" means the Security Standards at 45 C.F.R. Parts 160 and 164, Subparts A and C. Commencing on the effective date of the Security Rule, any PHI that is transmitted via electronic media or maintained in electronic media by Business Associate will be protected under standards and specifications no less stringent than those described in the Security Rule. In accordance with the Security Rule, the Business Associate will: (i) implement administrative, physical, and technical safeguards that protect the confidentiality, integrity, and availability of the electronic PHI that it creates, receives, maintains, or transmits on behalf of ACMIC (ii) ensure that any agent (including a subcontractor) to whom it provides such electronic PHI agrees to implement reasonable and appropriate safeguards to protect it; (iii) report to ACMIC any security incident of which it becomes aware; and (iv) authorize termination of any Business Contract by ACMIC if it determines that the Business Associate violated a material term of this Agreement.

5. DEFINITIONS.

ALL CAPITALIZED TERMS USED IN THIS AGREEMENT AND NOT OTHERWISE DEFINED HEREIN, SHALL HAVE THE SAME MEANING AS SET FORTH UNDER THE PRIVACY RULE AND THE SECURITY RULE.

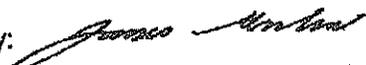
- 5.1 Designated Record Set. "Designated Record Set" shall have the meaning set out in its definition at 45 C.F.R. § 164.501, as such provision is currently drafted and as it is subsequently updated, amended, or revised.
- 5.2 Individual. "Individual" shall have the same meaning as the term "individual" in 45 CFR § 160.103 and shall include a person who qualifies as a personal representative in accordance with 45 CFR § 164.502(g).

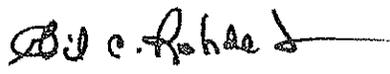
- 5.3 Privacy Officer. "Privacy Officer" shall have the meaning as set out in its definition at 45 C.F.R. § 164.530(a)(1) as such provision is currently drafted and as it is subsequently updated, amended or revised.
- 5.4 Privacy Rule. "Privacy Rule" shall mean the Standards for Privacy of Individually Identifiable Health Information at 45 CFR Part 160 and Part 164, Subparts A and E.
- 5.5 Protected Health Information. "PHI" shall have the meaning as set out in its definition at 45 C.F.R. § 160.103, as such provision is currently drafted and as it is subsequently updated, amended or revised, limited to the PHI created or received by Business Associate from or on behalf of ACMIC.
- 5.6 Required By Law. "Required By Law" shall have the same meaning as the term "required by law" in 45 CFR § 164.103.
- 5.7 Secretary. "Secretary" shall mean the Secretary of the Department of Health and Human Services or his designee.

IN WITNESS WHEREOF, each of the undersigned has caused this Agreement to be duly executed in its name and on its behalf.

AMERICAN COMMUNITY MUTUAL
INSURANCE COMPANY

SECURITY LIFE INSURANCE
COMPANY OF AMERICA

By: 
Print Name: James Gerber
Print Title: Deputy Rehabilitator
Date: May 18, 2010

By: 
Print Name: Gil C. Rohde, Jr.
Print Title: President & CEO
Date: 5-18-2010

**E
X
H
I
B
I
T
B**

ABOUT SECURITY LIFE

Security Life Insurance Company of America is a niche specialty Life and Health Insurance Company, with a long and successful history in the dental, vision and group life marketplace. We develop long term business partnerships with various marketing organizations to deliver quality products at competitive prices while providing outstanding service. Throughout Security Life's history (founded in 1956), we have demonstrated a commitment to our policyholders, business partners and our employees by focusing on meeting and satisfying the needs of each constituency.

Security Life markets and administers group (employer paid) and voluntary dental, vision and group life products. The company also markets and administers individual dental and vision products. In 2006 the company also began marketing and administering an innovative senior dental and vision product for those consumers over the age of 60.

Company Overview: Security Life Insurance Company of America

Security Life is among the country's leading providers of dental, vision and group life programs. Licensed in 49 states (excluding New York), the District of Columbia. Security Life markets and administers dental, vision and group Life programs as well as administers numerous life and health programs no longer in production. Security Life Insurance Company of America is a subsidiary of SAFE.

Company Overview: Security Health Insurance Company of America, New York

Security Health Insurance company of America, New York was formed on Dec. 28, 2009. Operating only in the state of New York the company will market and administer dental, vision and group life programs to groups and individuals. Security Health Insurance Company of America, New York is a subsidiary of SAFE.

Corporate Overview: Security American Financial Enterprises (SAFE)

SAFE is an Insurance holding company. In April of 2007 SAFE was acquired by Safe Partners LLC. Safe Partners LLC was formed by Minnesota –based private Equity group organized by Private Capital Management (PCM) in order to acquire SAFE.

Corporate Offices:

Security life Insurance Company of America

10901 Red Circle Drive

Minnetonka, MN 55343

Financial Information:

Administrative Offices:

Security Life Insurance Company of America

461 Clinton Street EXT

Schenectady, NY 12305

**E
X
H
I
B
I
T
C**

Ultimate Parent: Safe Partners, LLC

SECURITY LIFE INSURANCE COMPANY OF AMERICA

10901 Red Circle Drive, Minnetonka, Minnesota, United States 55343-9137

Web: www.securitylife.com

Tel: 952-544-2121

Fax: 952-945-3419

AMB#: 007030

NAIC#: 68721

Ultimate Parent#: 055391

FEIN#: 41-0808596

Report Revision Date: 04/28/2009

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the company's Financial Strength, it is assigned a Best's Financial Strength Rating of B++ (Good). The company's Financial Size Category is Class V.

RATING RATIONALE

Under Review Rationale: The rating of Security Life Insurance Company of America (Security Life) has been placed under review following the announcement on May 4, 2010 that the company has reached a definitive agreement to acquire Eastern Life and Health Insurance Company (Eastern Life and Health). The purchase will be primarily financed through Security Life's capital and surplus funds. The sale is currently expected to close prior to third quarter 2010, subject to regulatory approval. A.M. Best believes this transaction could present some potential long-term strategic benefits for Security Life providing both geographic and product diversity, and enhancing cross-selling opportunities and expenses efficiencies.

Rating Rationale: The rating assignment of Security Life Insurance Company of America (Security Life) reflects the company's favorable profit margins, its established niche in the individual and smaller group dental and vision markets, and its expanding distribution partners. Offsetting factors include the challenges the company faces in managing future premium growth, the general competitive nature within its core market, and the need for continued focus on expense management.

Over the past several years, Security Life has reported generally favorable operating results in its core dental and vision segments. These profits have enabled it to build to its surplus position. The company markets an innovative portfolio of dental and vision products targeted primarily to individuals and small to mid-sized groups. Historically, there have been less competitive pressures in these segments, however, some larger carriers have been showing interest in the smaller case market more recently.

Additionally, Security Life has been actively establishing new relationships with many larger, well respected organizations to market its dental and vision products, which gives the company considerable future premium growth potential.

While Security Life's capital position is currently more than adequate for the current amount of business it is writing, A.M. Best believes the company may be challenged to maintain a favorable level of risk-adjusted capital if new business growth were to increase sharply in the near-to-medium term. Security Life's core dental and vision markets continue to experience pricing competition, heightened in the past year or so as larger carriers move down into the company's smaller-sized target market. With unemployment up from prior years, and many workers' salaries frozen, sales across the industry have suffered more recently. However, Security Life's focus on voluntary offerings with numerous budgetary options has helped the company retain and attract profitable business during troubled times. Additionally, Security Life will be challenged to diligently focus on expense efficiencies going forward, especially as it grows its premium base through acquisitions.

Best's Financial Strength Rating: B++u

**Implication:
Developing**

FIVE YEAR RATING HISTORY

<u>Date</u>	Best's <u>FSR</u>
04/16/09	B++
04/29/08	B++
04/20/07	B+
03/08/06	B
06/10/05	B
06/04/04	B

KEY FINANCIAL INDICATORS (\$000)

<u>Year</u>	<u>Assets</u>	Total Capital		Net <u>Premiums</u> <u>Written</u>	Net <u>Invest</u> <u>Income</u>	Net <u>Income</u>
		Capital <u>Surplus</u> <u>Funds</u>	Condit'l <u>Reserve</u> <u>Funds</u>			
2005	83,064	12,359	240	105,810	3,354	2,796
2006	79,093	14,858	226	111,066	3,518	4,228
2007	96,471	24,647	244	138,082	3,783	5,069
2008	93,961	25,276	51	164,576	3,634	3,135
2009	79,206	24,450	63	75,749	3,252	3,186

BUSINESS REVIEW

Security Life Insurance Company of America (Security Life) is a wholly-owned subsidiary of Security American Financial Enterprises (SAFE), an insurance holding company. In April of 2007, SAFE was acquired by Private Capital Management, LLC (PCM). As part of the merger, PCM agreed to buy out the remainder of the ESOP and pay off the balance of SAFE's existing debt. Security Life continues to operate under the same management team. Effective May 4, 2010 the company signed a definitive agreement to purchase Eastern Life and Health Insurance Company. Pending regulatory approval, the transaction is anticipated to close around June 30th, 2010.

Security Life focuses primarily on short-term specialty health insurance. All major medical policies have been terminated. Discontinued long-term life insurance and annuity products are serviced in run-off. Operations are conducted in 49 states and the District of Columbia. Distribution is conducted primarily by general agents and third party administrators (TPAs). The company established a New York only subsidiary in December of 2009 for the marketing of dental and vision products in that state. Marketing of products is expected to begin in the second half of 2010.

Security Life currently emphasizes individual voluntary and small group dental and vision products and small group term life insurance. The company partners with a subsidiary of the world's largest eyeglass manufacturer (Eye Med) to distribute vision insurance. However, as of January 1, 2009, Security Life no longer retained the large group portion of this business, which represented a sizable amount of premium income. In 2006, the company launched a one life "senior" dental product. Security Life operates primarily in the small-to-medium size group market. The company has established relationships with several Internet portals to provide support for distribution as well as online sales capabilities. Security Life remains committed to finding new distribution sources while maintaining strong relationships with current partners.

PREMIUM AND RESERVE ANALYSIS

<u>Direct Premiums</u> (000)	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Ordinary life	3,730	4,303	4,948	5,794	6,924
Group life	1,695	1,658	1,893	2,246	2,226
Individual annuities	58	71	72	67	86
Individual A&H	472	519	569	623	683
Group A&H	57,941	59,168	55,819	58,082	65,701
Total	63,896	65,719	63,300	66,812	75,621
 <u>Reins Assumed</u> <u>Prem (000)</u>	 <u>2009</u>	 <u>2008</u>	 <u>2007</u>	 <u>2006</u>	 <u>2005</u>
Group life	...	...	0	...	0
Group A&H	16,854	104,687	98,923	88,720	88,757
Total	16,854	104,687	98,923	88,720	88,757

<u>Reins Ceded Premiums</u> <u>(000)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Ordinary life	1,645	2,096	2,715	3,336	4,341
Group life	118	326	324	352	359
Individual A&H	40	47	53	57	61
Group A&H	3,199	3,361	21,049	40,722	53,808
Total	5,002	5,830	24,141	44,466	58,568

<u>Net Premiums &</u> <u>Deposits (000)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Ordinary life	2,085	2,207	2,233	2,458	2,584
Group life	1,577	1,332	1,568	1,894	1,867
Individual annuities	123	261	186	159	121
Group annuities	7	7	7	8	33
Individual A&H	432	472	516	566	622
Group A&H	71,596	160,494	133,693	106,080	100,650
Total	75,821	164,773	138,203	111,166	105,878
Deposits (incl. above)	72	197	121	100	68

<u>General Account</u> <u>Reserve Distribution</u> <u>(000)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Ordinary life	24,627	24,803	24,955	25,120	25,392
Group life	703	702	719	795	785
Supplementary contracts	168	177	187	176	283
Individual annuities	8,342	8,804	9,715	10,386	10,994
Group annuities	27	36	38	37	36
Deposit type contracts	628	660	660	603	530
Individual A&H	1,026	1,217	1,338	1,351	1,428
Group A&H	602	597	576	553	563
Total	36,123	36,996	38,188	39,020	40,011

Geographical breakdown of direct premium writings (\$000): California, \$17,303 (26.8%); Minnesota, \$6,395 (9.9%); Virginia, \$4,043 (6.3%); Washington, \$3,588 (5.6%); Georgia, \$3,323 (5.2%); other jurisdictions, \$29,808 (46.2%).

EARNINGS

For 2008, Security Life's operating gains were lower than plan due to a temporary higher than expected loss ratio in a particular group, a lawsuit settlement, and realized losses.

Operating gains declined again in 2009 due to continued economic pressures on sales and higher claims incidence. Prior to 2008, Security Life had been reporting improving operating gains and net income. The company's dental, vision and group term life segments continue to be profitable, accounting for approximately four-fifths of the company's total earnings. Security Life has continued to reduce operating expenses in recent years by reducing staff and automating processes. Additionally, the company has signed agreements with several new distributors to increase their presence in the senior dental and vision markets.

PROFITABILITY TESTS

<u>Year</u>	<u>Ben Paid to NPW & Dep</u>	<u>Comm & Exp to NPW & Dep</u>	<u>NOG to Tot Assets</u>	<u>NOG to Tot Rev</u>	<u>Operating Return on Equity</u>	<u>Net Yield</u>	<u>Total Return</u>
2005	65.6	36.2	3.6	2.1	23.4	4.81	5.59
2006	66.8	33.1	5.2	3.2	30.7	4.84	5.45
2007	68.0	31.3	5.8	3.4	25.7	4.74	13.20
2008	70.0	30.2	3.9	2.2	14.7	4.21	4.22
2009	65.9	35.1	3.9	4.2	13.6	4.20	4.19

PROFITABILITY ANALYSIS

<u>Net Operating Gain (000)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Ordinary life	-24	74	-43	-116	-202
Group life	378	104	316	72	462
Supplementary contracts	-13	-7	5	71	-22
Individual annuities	239	340	407	326	333
Group annuities	1	5	2	1	1
Individual A&H	195	148	128	140	275
Group A&H	2,609	3,008	4,255	3,687	1,973
Total	3,385	3,671	5,069	4,182	2,821

ACCIDENT & HEALTH STATISTICS

<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Premiums Earned</u>	<u>Loss Ratio</u>	<u>Exp. Ratio</u>	<u>Under- writing Results</u>
2005	101,273	101,277	63.0	35.3	1,770
2006	106,646	106,655	64.2	32.1	3,876
2007	134,208	134,216	66.1	30.6	4,321
2008	160,966	160,964	68.5	29.7	2,923

2009	72,028	72,034	62.8	34.6	1,813
Current Year Experience:					
Group	71,596	71,596	62.9	34.7	1,676
Non-can	16	16	55.9	8.8	6
Guaranteed renew	416	421	45.7	23.4	132

CAPITALIZATION

Security Life currently maintains a more than adequate level of risk-adjusted capitalization for its current book of business. Under the 2007 merger contract with PCM, both the previous debt and existing ESOP were eliminated. During 2008, capital and surplus increased slightly over the prior year, driven primarily by Security Life's operating earnings in their core lines of business being partially offset by increased dividends to PCM. Capital declined slightly in 2009 as Security Life continued to pay dividends to its ultimate parent. The pending acquisition of Eastern Life and Health has potential to significantly reduce its risk-based capital ratio as business risk increases and capital is used to fund the transaction.

LEVERAGE TESTS

<u>Year</u>	<u>C&S to Liabilities</u>	<u>Surplus Relief</u>	<u>Reins Leverage</u>	<u>NPW & Dep to Capital</u>	<u>Change in NPW & Dep</u>	<u>Change in Capital</u>
2005	17.9	174.7	999.9	8.4	16.5	4.9
2006	23.6	106.3	843.1	7.4	5.0	19.7
2007	34.8	32.3	428.7	5.6	24.3	65.0
2008	36.9	1.2	349.8	6.5	19.2	1.7
2009	44.8	0.8	319.5	3.1	-54.0	-3.2

2008 BCAR: 179

SOURCES OF CAPITAL GROWTH (\$000)

<u>Year</u>	<u>Net Gain</u>	<u>Realized Capital Gains</u>	<u>Unrealized Capital Gains</u>	<u>Change AVR</u>	<u>Other Changes</u>	<u>Change in C&S</u>
2005	2,821	-25	515	-30	-2,724	556
2006	4,182	46	396	14	-2,140	2,499
2007	5,069	...	6,617	-18	-1,879	9,790
2008	3,671	-537	539	193	-3,238	629
2009	3,385	-199	189	-13	-4,188	-826

CAPITAL TRENDS (\$000)

<u>Year</u>	<u>Year end C&S</u>	<u>Surplus Notes</u>	<u>Stockholder Divs</u>	<u>Policyholder Divs</u>	<u>Asset Valuation Reserve</u>	<u>Interest Maintenance Reserve</u>
2005	12,359	...	2,459	...	240	2
2006	14,858	...	2,144	...	226	-29
2007	24,647	...	1,805	...	244	...
2008	25,276	...	3,094	...	51	...
2009	24,450	...	4,356	...	63	37

INVESTMENTS AND LIQUIDITY

Security Life's investment portfolio is comprised largely of bonds, mortgage loans, cash and short-term investments. Bonds are primarily invested in publicly-traded, investment grade, non-callable corporate issues, with smaller amounts of government agency and public utility securities. Average maturity is currently approximately 7 years. Although most of the bond portfolio is invested in high investment grade bonds, there is a small percentage now invested in non-investment grade bonds due to the current market conditions. Additionally, in 2008 the company's fixed income portfolio declined in value due to weakening in its MBS/CMO, CMBS and financial sector holdings, though these positions improved modestly the following year. An outside investment firm manages the bond portfolio under the supervision of Security Life. The company holds nearly one-tenth of its invested assets in mortgage loans, which are mostly comprised of apartments and commercial office buildings retail with none currently reported as delinquent. These mortgage loans support the company's run-off senior life segment. A.M. Best expects Security Life's mortgage portfolio will continue to contract in the coming years.

LIQUIDITY TESTS

<u>Year</u>	<u>Operating Cash Flow (\$000)</u>	<u>Quick Liquidity</u>	<u>Current Liquidity</u>	<u>Non-Inv Grade Bonds to Capital</u>	<u>Delnq & Foreclsd Mtg to Capital</u>	<u>Mtg & Cred Ten Lns & RE to Cap</u>	<u>Affil Invest to Capital</u>
2005	8,269	84.8	92.7	...	...	91.3	...
2006	-2,983	86.0	94.2	...	...	66.0	...
2007	10,545	110.8	119.1	0.1	...	36.1	...
2008	-4,688	106.7	115.3	0.9	...	29.4	12.7
2009	-14,455	104.5	113.3	8.4	...	26.2	...

INVESTMENT YIELDS

<u>Year</u>	<u>Net Yield</u>	<u>Bonds</u>	<u>Stocks</u>	<u>Mortgages</u>	<u>Cash & Short Term</u>	<u>Real Estate Gross</u>	<u>Net</u>	<u>Invest. Exp. Ratio</u>
2005	4.81	5.59	...	6.06	2.25	...	...	7.98

2006	4.84	5.49	...	6.35	3.26	...	...	8.73
2007	4.74	5.43	...	6.45	3.06	...	...	7.81
2008	4.21	5.47	...	6.42	0.97	...	...	8.31
2009	4.20	5.48	...	5.83	0.09	...	...	8.78

INVESTMENT DATA

Current Year Distribution of Bonds By Maturity

	-----Years-----					Yrs-Avg Maturity
	<u>0-1</u>	<u>1-5</u>	<u>5-10</u>	<u>10-20</u>	<u>20-</u>	
Government	12.6	5.3	...	1.1	0.4	3
Gov't Agencies & Muni	...	0.4	3.7	5.2	4.5	16
Industrial & Misc	0.5	37.2	21.7	1.5	5.9	7
Total	13.1	42.9	25.4	7.8	10.7	7

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Bonds (000)</u>	53,171	58,732	57,314	49,743	47,533
US Government	7.9	6.4	7.4	9.9	13.4
Foreign Government	1.0	...	...	...	0.5
Foreign - All Other	0.8	1.8	2.0	2.4	2.7
State/Special Revenue - US	15.6	16.0	19.0	20.2	17.7
Public Utilities - US	...	8.3	8.2	9.2	8.3
Industrial & Misc - US	74.7	67.5	62.9	57.5	56.3
Credit Tenant Lns - US	...	0.0	0.4	0.7	0.9
Private Issues	0.6	1.5	2.2	3.4	6.3
Public Issues	99.4	98.5	97.8	96.6	93.7

<u>Bond Quality (%)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Class 1	88.8	89.5	92.5	90.4	90.0
Class 2	7.8	10.2	7.5	9.6	10.0
Class 3	2.0	...	0.0	...	...
Class 4	1.2	...	...	...	...
Class 5	...	0.3	...	...	...
Class 6	0.3	0.0	...	...	...

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Mortgages (000)</u>	6,419	7,432	8,694	9,544	10,991
Commercial	99.4	99.3	99.3	99.3	99.3
Residential	0.6	0.7	0.7	0.7	0.7

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Other Inv Assets (000)</u>	11,731	19,311	23,591	13,146	16,541

Cash	31.6	36.1	32.8	36.1	28.1
Short-Term	59.0	58.1	63.1	57.0	65.1
Schedule BA Assets	0.2	0.5	...	...	1.0
All Other	9.2	5.3	4.1	6.9	5.8

HISTORY

Date Incorporated: 05/17/1956
07/20/1956

Date Commenced:

Domicile: MN

In late 1972, the company formed Security American Financial Enterprises, Inc., (SAFE) to serve as the parent organization. The holding company was organized as a general business corporation with broad powers for diversification into other areas of financial services. In November 1972, Security American Financial Enterprises offered to exchange its stock, on a share for share basis, for that of Security Life. This exchange offer expired effective February 28, 1973, at which time the parent company had acquired 98% (now 100%) of the outstanding shares. During November 1989, Security American Financial converted to a private ownership status following the acquisition of the majority of its outstanding shares by an established employee stock ownership plan. The plan borrowed \$15 million for the purpose of purchasing the holding company. There is \$0 outstanding on this note as of April 2007. In 1997, all of the in-force business of Congress Life Insurance Company, a former subsidiary which was sold in October of 2000, was assumed by Security Life. In March 2007, Security Life's parent company, SAFE, was acquired by SAFE Partners LLC in a cash merger, and became a wholly owned subsidiary. All prior shareholders of SAFE, including the ESOP, surrendered all of their shares in the corporation in exchange for cash.

OFFICERS

President and Chief Executive Officer, Gilbert C. Rohde, Jr.; Executive Vice President and Secretary, Bryan V. Anderson; Executive Vice President and Treasurer, Kevin J. Stangler; Executive Vice President, Theron M. Williams; Vice President and Controller, Frank J. Radermacher.

DIRECTORS

Scott Becker, Michael T. Davies, William Peterson, Gilbert C. Rohde, Jr., Brian Smith.

REINSURANCE

Security Life has reinsurance contracts with Alabama RE, Allianz, Transamerica Life and Fringe Benefit Life for the individual life business, though the company has been able to recapture some of the previously ceded risk from Fringe Benefit Life. Optimum RE

remains the significant reinsurer for the group life business. Maximum net retention is \$100,000 for individual and \$100,000 for group life contracts. The large group vision reinsurance agreement with Combined Insurance Company was terminated as of January 1, 2009.

REGULATORY

An examination of the financial condition is being made as of December 31, 2005 by the Insurance Department of Minnesota. The 2009 annual independent audit of the company was conducted by Ernst & Young, LLP. The annual statement of actuarial opinion is provided by Milliman, USA.

Territory: The company is licensed in the District of Columbia, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY.

Reserve basis: (Current ordinary business): 1980 CSO 4%, 5%, 5 1/2% and 6%; CRVM valuation. (Current group business): 1980 CSO 3%; Net Level valuation.

FINANCIAL INFORMATION

BALANCE SHEET (\$000) - December 31, 2009

	Assets		Liabilities	
*Total bonds	53,171		+Net policy reserves	35,495
Mortgage loans	6,419		Policy claims	7,052
Contract loans	1,085		Deposit type contracts	628
Cash & short-term inv	10,619		Interest maint reserve	37
Premis and consid due	5,393		Comm taxes expenses	2,218
Accrued invest income	580		Unallocated items	5,194
Other assets	1,938		Asset val reserve	63
			Funds held reinsurance	2,711
			Other liabilities	1,358
			Total Liabilities	54,755
			Common stock	2,500
			Paid in & contrib surpl	148
			Unassigned surplus	21,803
Assets	79,206		Total	79,206

*Securities are reported on the bases prescribed by the National Association of Insurance Commissioners. + Analysis of reserves; Life \$24,519; annuities \$8,369; supplementary contracts with life contingencies \$168; accidental death benefits \$0; disability active lives

\$8; disability disabled lives \$475; miscellaneous reserves \$327; accident & health \$1,628.

SUMMARY OF OPERATIONS (\$000)

Premiums:		Death benefits	3,276
Ordinary life	2,085	Matured endowments	20
Individual annuities	58	Annuity benefits	902
Group life	1,577	Surrender benefits	222
Acc & health group	71,596	Acc & health benefits	45,447
Acc & health other	432	Int on policy funds	54
Total premiums	75,749	Supplementary contracts	24
Net investment income	3,252	Incr life reserves	-655
Amort interest maint res	-4	Incr a & h reserves	-186
Comm & exp reins ceded	194	Commissions	12,704
Reinsurance income	672	Comm exp reins assumed	3,900
Other income	-11	Insur taxes lic & fees	1,752
Mgt and/or service fee	175	General ins expenses	8,431
Total	80,027	Total	75,891
Gain from operations before FIT & div to policyholders			4,136
Federal income taxes incurred			751
Net gain from operations after federal income taxes			3,385

CASH FLOW ANALYSIS (\$000)

Funds Provided		Funds Applied	
Gross cash from oper	80,408	Benefits paid	50,523
Long-term bond proceeds	11,248	Comm, taxes, expenses	32,202
Other cash provided	1,268	Other cash applied	17,785
Decr cash & short-term	7,585		
Total	100,509	Total	100,509

NEW LIFE BUSINESS ISSUED (\$000)

Year	Whole Life & Endow	Term	Credit	Group	Industrial	Total Insurance Issued	Non-Par (%)	Par (%)
2005	199	...	...	...	...	199	100	...
2006	60	...	...	...	...	60	100	...
2007	20	...	...	...	...	20	100	...
2008	...	...	...	...	...	...	...	...
2009	20	...	...	...	...	20	100	...

LIFE INSURANCE IN FORCE (\$000)

<u>Year</u>	Whole Life <u>Endow & Adds</u>	<u>Term</u>	<u>Credit</u>	<u>Group</u>	<u>Industrial</u>	Total Insurance <u>In Force</u>
2005	196,844	21,761	...	587,692	1,696	807,993
2006	181,267	20,349	...	608,458	1,636	811,710
2007	168,130	18,928	...	408,541	1,601	597,200
2008	154,652	18,926	...	399,451	1,558	574,587
2009	144,640	17,194	...	393,688	1,511	557,033