

REPORT ON EXAMINATION

OF THE

**MAGELLAN LIFE
INSURANCE COMPANY**

AS OF

DECEMBER 31, 2006

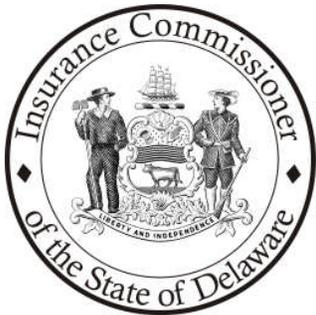
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

MAGELLAN LIFE INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 13 JUNE 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 13TH DAY OF JUHE 2008.

Matthew Denn
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
MAGELLAN LIFE INSURANCE COMPANY
AS OF
December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", written in a cursive style.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 13TH Day of JUNE 2008.

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February 22, 2008

SALUTATION

Honorable Alfred W. Gross
Chairman, NAIC Financial Condition Committee
2301 McGee, Suite 800
Kansas City, Missouri 64108-2604

Honorable Matthew Denn
Delaware Department of Insurance
841 Silver Lake Boulevard
Dover, Delaware 19904

Honorable Steven M. Goldman
Secretary, Northeastern Zone
State of New Jersey
New Jersey Division of Banking and Insurance
20 West State Street
Trenton, New Jersey 08625

Honorable Julie Mix McPeak
Secretary, Southeastern Zone
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Kentucky Office of Insurance
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Frankfort, Kentucky 40601

Honorable Merle D. Scheiber
Secretary, Midwestern Zone
South Dakota Department of Insurance
445 East Capital Avenue
Pierre, South Dakota 57501

Honorable Morris J. Chavez
Secretary, Western Zone
State of New Mexico
New Mexico Division of Insurance
Santa Fe, New Mexico 87504

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 07-037, dated May 18, 2007 an Association examination has been made of the affairs, financial condition and management of the

MAGELLAN LIFE INSURANCE COMPANY

hereinafter referred to as “Company” or “MLIC” and incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the main administrative office of the Company, located at 14100 Magellan Plaza, Maryland Heights, Missouri 63043.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2001. This examination covers the period January 1, 2002 through December 31, 2006, and consisted of a general review of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on an exception basis. The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners ("NAIC") and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware.

In addition to items hereinafter incorporated as a part of the written report, the following areas were checked and made part of the work papers of this examination:

- Fidelity Bonds and Corporate Insurance
- NAIC Ratios
- Commitments and Contingent Liabilities
- Risk Based Capital
- All Assets and Liability Items not mentioned

HISTORY

The Company was incorporated on October 2, 1981, in the State of Delaware under the name of Orion Life Insurance Company. The Company was not active until 1997, after being acquired by Merit Health Insurance Company. Merit Health Insurance Company (Merit) is a wholly owned subsidiary of Merit Behavioral Care Corporation. Merit writes group insurance policies for mental health and substance abuse, as well as, provides stop-loss and reinsurance policies for managed behavioral care programs administered by affiliates.

On February 12, 1998, Merit Behavioral Care Corporation became a wholly owned subsidiary of Magellan Health Services Incorporated. Magellan Health Services is one of the leading specialty health care management organizations in the United States, and specializes in behavioral healthcare services, radiology benefits management, and specialty pharmaceutical management.

On November 4, 2004, the Company changed its name from Orion Life Insurance Company to Magellan Life Insurance Company.

CAPITALIZATION

Common Capital Stock

As of December 31, 2006, the Company had 300,000 shares of authorized common capital stock of which 150,000 shares were issued and outstanding with a stated par value of \$10 per share.

Dividends

MLIC issued extraordinary dividends each year of the examination period as follows:

Year	Amount Declared	Amount Paid
2002	\$1,175,000	\$1,175,000
2004	\$1,375,000	\$1,375,000
2005	\$1,025,000	\$1,025,000
2006	\$1,450,000	\$1,450,000

MANAGEMENT AND CONTROL

Stockholders

The Company amended its bylaws effective November 5, 2004 as a result of the change in the Company's name to Magellan Life Insurance Company. Pursuant to Article I, Section 1, the stockholders annual meeting shall be held during the first one hundred and fifty days of the calendar year as the Board of Directors may determine.

Board of Directors

The bylaws stipulate that the number of Directors shall be fixed from time to time by the stockholders at the annual meeting or any special meeting called for that purpose. Directors shall be elected at the annual meeting of the stockholders by majority vote of the stockholders entitled to vote at the annual meeting. The term of office of all Directors shall be one year.

At December 31, 2006, the members of the Board of Directors together with their principal business affiliation were as follows:

<u>Name and Date Elected /Appointed</u>	<u>Principal Business Affiliation</u>
Mark S. Demillo Appointed October 3, 2001	Magellan Health Services, Inc. Chief Financial Officer
Jeffery N. West Appointed October 3 , 2001	Magellan Health Services, Inc. Senior Vice President, Controller
Irene Shapiro Appointed May 6, 2004	Magellan Health Services, Inc. Senior Vice President, Corporate Finance

It was noted that the Company is reporting appointments of Directors to the Delaware Insurance Department, but not the resignations, removals and other departures, as required by 18 Del. C. §4919, which states: “Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among it directors or principal officers.”

Therefore,

It is recommended that the Company promptly report all changes in directors and principal officers to the Delaware Insurance Department, as required by 18 Del. C. §4919. These changes must include not only appointments, but resignations, removals and departures.

Officers

The bylaws state that the officers of the Company shall be chosen by the Board of Directors and shall include a President, one or more Vice–Presidents, a Secretary, a Treasurer, and such other officers as may be deemed necessary by the Board of Directors. Also, any two or more of said positions may be held by the same person, except the President may not serve as the Secretary.

At December 31, 2006, the principal officers of the Company were as follows:

Name

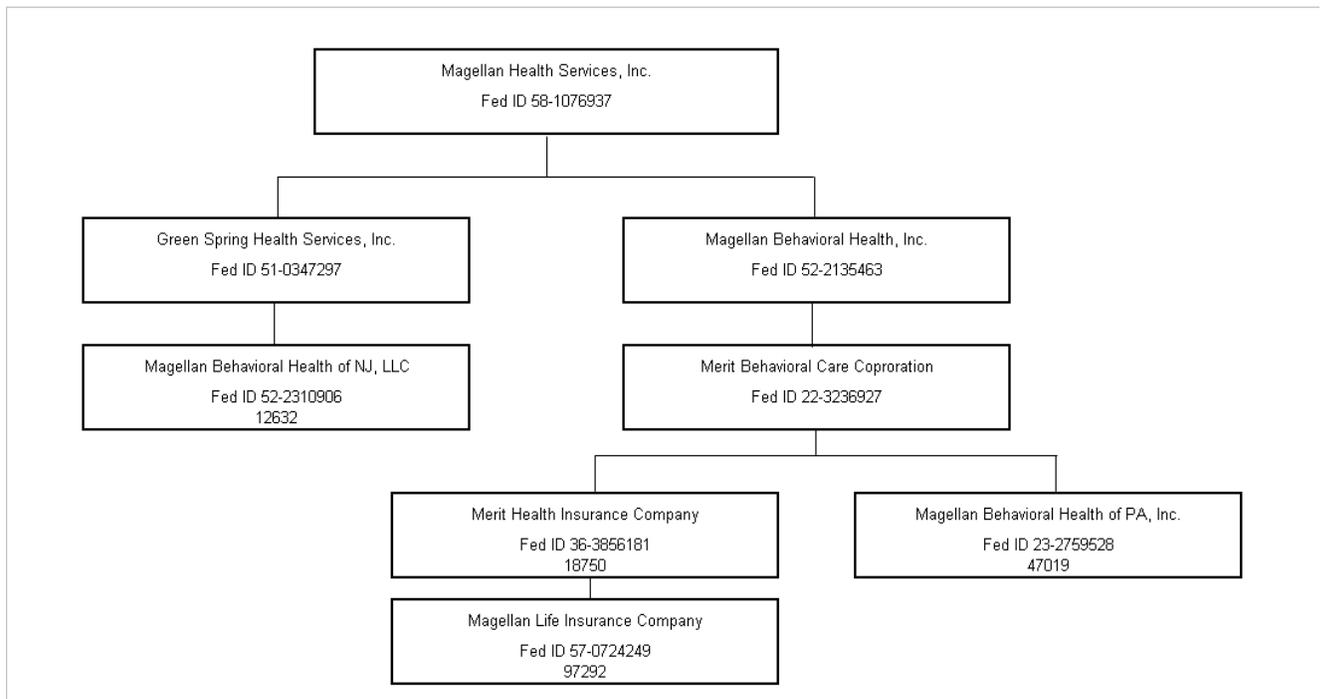
Title

Mark S. Demillo	President
Andrew M. Cummings	Secretary
Jeffery N. West	Treasurer
Susan C. Spiegel	Vice President and Assistant Secretary
Dennis J. Lazaroff	Vice President
Linton C. Newlin	Vice President
Michael P. McQuillen	Assistant Secretary

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. Magellan Life Insurance Company is a wholly owned subsidiary of Merit Health Insurance Company (Merit). Merit is a wholly owned subsidiary of Merit Behavioral Care Corporation, which is owned by Magellan Behavioral Health, Inc., a Delaware corporation and subsidiary of Magellan Health Services, Inc.

The following is a presentation of the holding company system as of December 31, 2006:



MANAGEMENT AND SERVICE AGREEMENTS

Agreements with Affiliates

Consolidated Income Tax Agreement

Effective January 1, 2003, the Company, along with Magellan Health Services, Inc. and affiliates, entered into a Federal Income Tax Allocation Agreement. The Agreement provides that a consolidated federal and state income tax return shall be filed by the parent for each taxable year the affiliated group is required or permitted to file such a return.

The Agreement specifies the allocation and individual methods to use to compute each member's share of the consolidated tax liability, and stipulates that the inter-company settlement of tax liabilities or tax recoverable is to be made within thirty-days after the filing of the consolidated tax return.

Administrative Services Agreement

Effective January 1, 1997, the Company entered into an Administrative Services Agreement with its parent, Merit Behavioral Care Corporation along with affiliated companies.

Under the terms of the Agreement, services which may be performed in whole or in part under the Agreement may include, but are not limited to; general accounting, tax return preparation, cash management, legal services, preparation of statutory reports, administration of externally provided accounting and audit services, maintenance of corporate books and records, and assisting MLIC with their underwriting function. Compensation for the services has been established for each type of function.

Agreements with Non-Affiliates

Custodial Agreement

On January 9, 2008 the Company entered into a custodial agreement with Wachovia Bank for the purpose of safekeeping the Company's invested assets. The agreement does comply with NAIC requirements for custodial agreements.

It is recommended that the Company amend its custodial agreement with Wachovia Bank to comply with NAIC guidelines.

GROWTH OF THE COMPANY

The following information was extracted the Company's filed Annual Statements:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Surplus as Regards to Policyholders</u>	<u>Gross Premiums Written</u>	<u>Net Income</u>
2006	\$5,096,404	\$4,380,899	\$1,636,719	\$1,274,489
2005	5,673,573	4,557,450	2,080,669	1,101,821
2004	5,356,400	4,482,482	1,768,036	979,578
2003	5,995,074	4,849,373	1,734,152	1,269,144
2002	5,309,249	3,583,443	2,002,595	514,034

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2006, the Company is licensed to write business in seventeen states including:

- | | |
|-------------|----------------|
| Arizona | North Dakota |
| Delaware | South Carolina |
| Georgia | South Dakota |
| Indiana | Tennessee |
| Kansas | Texas |
| Mississippi | Utah |
| Montana | West Virginia |
| Nebraska | Wyoming |
| New Mexico | |

Plan of Operation

At December 31, 2006, one hundred percent of the direct premium written was produced by one stop loss contract. The Company does not plan to grow the stop loss contract business beyond current levels.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2006, as determined by this examination, along with supporting exhibits as detailed below:

- Assets
- Liabilities, Surplus and Other Funds
- Statement of Income
- Capital and Surplus Account
- Schedule of Examination Adjustments

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. Write-ups on the individual accounts in the Notes to Financial Statements section of this Report are presented on an exception basis. Only comments relative to adverse findings, material financial changes or other significant regulatory concerns are noted.

Assets
December 31, 2006

	Ledger	Assets not	Net Admitted
	<u>Assets</u>	<u>Admitted</u>	<u>Assets</u>
Bonds	\$660,208		\$660,208
Cash and short-term investments	4,069,162		4,069,162
Investment income due and accrued	13,794		13,794
Uncollected premiums and agents' balances in the course of collection			0
Amounts recoverable from reinsurers			0
Funds held by or deposited with reinsured companies			0
Net deferred tax asset			0
Guaranty funds receivable or on deposit			0
Electronic data processing equipment and software			0
Receivables from parent, subsidiaries and affiliates	353,240		353,240
Aggregate write-ins for other than invested assets:			0
Total Assets	<u>\$5,096,404</u>	<u>\$0</u>	<u>\$5,096,404</u>

**Liabilities, Capital and Surplus
December 31, 2006**

General expenses due and accrued	\$	15,734
Current Federal and Foreign Income Tax Payable and Interest		686,263
Aggregate write-ins for other liabilities		<u>13,508</u>
Total liabilities	\$	<u>715,505</u>
Common capital stock	\$	1,500,000
Gross paid in and contributed surplus		1,380,000
Unassigned funds		<u>1,500,899</u>
Total Capital and Surplus	\$	<u>4,380,899</u>
Total liabilities, capital and surplus	\$	<u><u>5,096,404</u></u>

**Statement of Revenue and Expenses
As of December 31, 2006**

Member months	<u>14,370,310</u>
Net premium income	\$ 1,636,719
Change in unearned premium reserves and reserve for rate credits	
Fee for service	
Risk revenue	
Aggregate write-ins for other health care related revenues	
Aggregate write-ins for other non-health revenues	
Total revenues	<u>\$ 1,636,719</u>
Less:	
Net reinsurance recoveries	
Total hospital and medical	\$ (263,468)
Non-health claims	
Claims adjustment expenses	
General administrative expenses	183,070
Increase in reserves for life and accident and health contracts	
Total underwriting deductions	<u>\$ (80,398)</u>
Net underwriting gain or (loss)	<u>\$ 1,717,117</u>
Net investment income earned	<u>243,635</u>
Net income or loss after capital gains tax and before all other federal income taxes	<u>\$ 1,960,752</u>
Federal and foreign income taxes incurred	<u>686,263</u>
Net income	<u>\$ 1,274,489</u>

Capital and Surplus Account
as of
December 31, 2006

Capital and surplus, December 31, 2005	\$4,557,450
Net income	1,274,489
Dividends to stockholders	(1,450,000)
Change in asset valuation reserves	<u>(1,041)</u>
Net change in capital and surplus	<u>\$ (176,552)</u>
Capital and surplus, December 31, 2006	<u>\$4,380,899</u>

SCHEDULE OF EXAMINATION ADJUSTMENTS

No financial changes were made as a result of this examination.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

A review was performed of appropriate balance sheet and forepart files to verify corrective action had been taken with regards to prior examination report comments and recommendations.

1. It was recommended that the Company comply with its bylaws and hold annual stockholders meetings, establish an executive and finance committee and elect officers annually.

The Company has complied with the recommendation.

2. It was recommended that the Company comply with 18 Del. C. §5005 of the Delaware Insurance code and file a written tax allocation agreement with the Delaware Department of Insurance.

The Company has complied with the recommendation.

3. It was recommended that the Company comply with 18 Del. C. §5005 (of the Delaware Insurance Code) and file affiliate transactions with the Delaware Department of Insurance for prior approval.

The Company has complied with the recommendation.

4. It was recommended that the Company amend its custody agreement and incorporate satisfactory safeguards and controls as recommended by the NAIC.

The Company has not complied with the recommendation.

5. It was recommended that the Company comply with 18 Del. C. §1305 of the Delaware Insurance Code and adhere to the investment limitations established under the Section.

The Company has complied with the recommendation.

SUMMARY OF RECOMMENDATIONS

1. It is recommended that the Company promptly report all changes in directors and principal officers to the Delaware Insurance Department, as required by 18 Del. C. §4919. These changes must include not only appointments, but resignations, removals and departures. (Page 5, Management and Control)
2. It is recommended that the Company amend its custodial agreement with Wachovia Bank to comply with NAIC guidelines. (Pages 8 and 14)

CONCLUSION

As a result of this examination, the financial condition of Magellan Life Insurance Company as of December 31, 2006 was determined as follows:

<u>Description</u>	12/31/06 Current <u>Examination</u>	12/31/01 Prior <u>Examination</u>	Changes Increases (Decreases)
Assets	\$5,096,404	\$6,162,530	\$(1,066,126)
Liabilities	715,505	1,885,266	(1,169,761)
Capital and surplus	\$4,380,899	\$4,277,264	\$ 103,635

Since its last examination, the Company's assets decreased from \$6,162,530 to \$5,096,404, a decrease of \$1,066,126. Liabilities for the same period went from \$1,885,266 to \$715,505, a decrease of \$1,169,761. Capital and surplus went from \$4,277,264 to \$4,380,899, an increase of \$103,635 or 2.4%.

Respectfully submitted,



Patrick R. White, CFE
 Examiner-in-Charge
 State of Delaware
 Northeastern Zone, NAIC