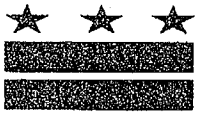
Government of the District of Columbia
Department of Insurance, Securities and Banking



Thomas E. Hampton
Commissioner

IN THE MATTER OF:		
	)	Consent Order: 07MC01
	)	
	)	Before the Department of Insurance,
	)	Securities and Banking
MID-WEST NATIONAL LIFE INSURANCE	)	
COMPANY OF TENNESSEE	)	Examination Warrant # 029
AND	)	
THE MEGA LIFE AND HEALTH INSURANCE	)	
COMPANY	)	Examination Warrant # 030

ORDER
CONSENT AGREEMENT

WHEREAS, the District of Columbia, Department of Insurance, Securities and Banking (hereinafter "Department"), conducted a Market Conduct Examination of MID-WEST NATIONAL LIFE INSUANCE COMPANY OF TENNESSEE AND THE MEGA LIFE AND HEALTH INSURANCE COMPANY (hereinafter "Respondent") at its offices at 9151 Boulevard 26, North Richland Hills, Texas 76180, pursuant to D.C. Official Code § 31-1401 et seq. for the period covering January 1, 1999 through December 31, 2001.

WHEREAS, the Market Conduct Examination disclosed an apparent exception by the Respondent, consisting of its failure to comply with D. C. Official Code § 31-1403(b) by not facilitating the examination and aiding in the examination so far as it is in their power to do so.

WHEREAS, the Respondent did voluntarily take corrective action pursuant to the recommendations of the Department;

WHEREAS, the Respondent proffers the exceptions alleged, supra, were corrected by changes to its management team that lead the examination to proceed in the normal and usual course;

WHEREAS, the Respondent wishes to resolve said violation by entering into a stipulation with the Department, subject to the approval of the Department's Commissioner, as follows:

WHEREAS, the Respondent waives his right to further notice and hearing in this matter and admits that it violated the provision of the District of Columbia's Insurance Laws:

1. The Respondent shall pay an administrative settlement of Five Thousand Dollars ($5,000.00), which reflects a civil penalty for the violation

2. The Department hereby accepts the administrative settlement, supra

Dated: District of Columbia

October 22, 2007

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

By: _____
Rhonda Blackshear
Supervisory Attorney Advisor

RESPONDENT

By: Michael Colliflower
Michael Colliflower
Executive Vice President
Mid-West National Life
Insurance Company of Tennessee
The MEGA Life and Health
Insurance Company

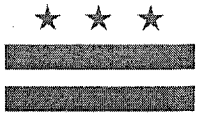
APPROVED and so ORDERED:
In Witness Whereof, I have hereunto set my hand and affixed the official seal Of this Department at the City of Washington, D.C , this 22nd day of October, 2007.

_____
Thomas E. Hampton, Commissioner

Adrian M. Fenty
Mayor

Thomas E. Hampton
Commissioner

Market Conduct Examination



Government of the District of Columbia
Department of Insurance, Securities, and Banking

(NAIC ACCREDITED)

Government of the District of Columbia
Department of Insurance, Securities and Banking

Thomas E. Hampton
Commissioner

September 25, 2007

I, Thomas E. Hampton, Commissioner of Insurance, Securities and Banking of the District of Columbia, hereby certify that I have compared the annexed copy of the

LIMITED SCOPE MARKET CONDUCT EXAMINATION REPORT

FOR THE

MID-WEST NATIONAL LIFE INSURANCE COMPANY OF TENNESSEE

AND

THE MEGA LIFE AND HEALTH INSURANCE COMPANY

AS OF DECEMBER 31, 2001

With the original on file in this Department and the same is a correct transcript there from, and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of this Department, at the City of Washington, the day and year first written

Thomas E. Hampton
Commissioner of Insurance, Securities and Banking

Market Conduct Examination Draft Report of

Mid-West National Life Insurance Company of Tennessee
and
The MEGA Life and Health Insurance Company

For the Period

January 1, 1999 through December 31, 2001

TABLE OF CONTENTS

September 25, 2007

Honorable Thomas Hampton
Commissioner, District of Columbia
Department of Insurance and Securities Regulation
810 First Street, NE, Suite 701
Washington, DC 20002

Commissioner:

Under the provisions of the District of Columbia Official Code, Title 31, Section 1401 et seq., a limited scope examination was made of the conduct, performance, and practices of

Mid-West National Life Insurance Company of Tennessee
and
The MEGA Life and Health Insurance Company

with administrative offices located at 9151 Boulevard 26, North Richland Hills, Texas 76180. This market conduct examination, as of December 31, 2001, reflects the association group health insurance business activities for Mid-West National Life Insurance Company of Tennessee, hereinafter referred to as "Mid-West" and Mid-West's administrator, The MEGA Life and Health Insurance Company, hereinafter referred to as "MEGA." Together, Mid-West and MEGA are hereinafter referred to as "The Companies". The assigned National Association of Insurance Commissioners (NAIC) individual code number for Mid-West is 66087. The assigned National Association of Insurance Commissioners (NAIC) individual code number for MEGA is 97055.

FORWARD

This examination is a systematic investigation of The Companies' documents, procedures, and systems conducted in accordance with the guidelines and procedures recommended by the NAIC. The examination report generally notes only those areas or items which the Department of Insurance, Securities and Banking (DISB) takes exception. A violation is any instance of Mid-West and/or MEGA activity that does not comply with a statute or regulation. The Companies' policies, practices and procedures are only commented on for the purposes of giving the reader clarity. The examination report may include management recommendations addressing areas of concern noted by DISB but for which no statutory violation exists.

The onsite phase of the examination was conducted at 9151 Boulevard 26, North Richland Hills, Texas 76180. In reviewing material for this report, the examiners relied primarily on records and materials furnished by The Companies.

SCOPE OF EXAMINATION

This examination covers the period January 1, 1999 through December 31, 2001. Subsequent events are noted and included in all sections of the report up to the last day of fieldwork. The examination fieldwork commenced on October 30, 2002 and concluded on January 30, 2005. Comments regarding scope limitation and fieldwork difficulties can be found under the caption, "Cooperation with the Market Conduct Examination Process". The purpose of the examination was to determine compliance by Mid-West and MEGA with provisions of the law and obtain facts relative to its business methods relating to its sales and administration of association group health insurance business. MEGA was also included in the scope of the examination to the extent that all administrative operations of Mid-West are provided by MEGA.

During the course of this examination, The Companies' commercial operations were reviewed using tests prescribed in the NAIC Examiners Handbook, Volume II, Chapter XVII to determine if The Companies were meeting established industry standards. Below is a list of the business areas where NAIC standards were applied. Across from each business area are the test standards that can be referenced in the NAIC Examiners Handbook. Each failed standard is commented on in the body of this report.

BUSINESS AREA	NAIC STANDARDS APPLIED
(A) Operations;	A1, A8
(B) Complaint handling;	B1, B2
(D) Marketing and sales;	D1, D2, D3, D5
(H) Policyholder service;	H1, H2, H3, H4, H5

The examiners were provided work papers by The Companies' current independent auditor, KPMG, L.L.P. for review. Certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the work papers of this examination.

When conducting an exam that reviews many of the aforementioned functional activities, there are essential tests that should be completed. The testing approach used for this examination is not limited to Chapter VI of the NAIC Market Conduct Handbook.

Some unacceptable or non-complying practices may not have been discovered in the course of this examination. Failure to identify or criticize specific practices does not constitute acceptance of such practices by DISB. This report should not be construed to endorse or discredit The Companies' or their association health insurance products.

MID-WEST PROFILE

History and Operations

Mid-West was organized under the laws of Tennessee with its principal place of business in North Richland Hills, Texas. Mid-West was redomiciled in Texas in August 2005. The Company is an indirect, wholly-owned subsidiary of HealthMarkets, Inc. (formerly UICI, a publicly-traded Delaware holding company) ("HealthMarkets"). Mid-West has no employees as all functions of the Company are performed by its largest affiliate, The MEGA Life and Health Insurance Company (MEGA), under an administrative services agreement.

Mid-West is authorized to transact insurance in the District of Columbia, Puerto Rico and all states except Maine, New Hampshire, New York, and Vermont. Mid-West primarily sells association group health insurance under master contracts issued to the Alliance for Affordable Services ("AAS"), formerly the Alliance for Affordable Healthcare, Americans for Financial Security ("AFS") and the National Association for the Self-Employed (the "NASE").

The AAS and AFS are organized under the laws of the District of Columbia as not-for-profit associations. AFS and AAS file DC domestic not-profit registration statements along with a fee every two (2) years. Both registration statements indicate their principal DC office is their registered agent's office, i.e., CT Corporation System 1025 Vermont Ave. NW Washington DC 20005. AAS produced numerous pieces of advertising, including print ads, the Alliance Guidance (its official quarterly publication), brochures and radio scripts for use in the DC marketplace. AAS's benefits portfolio states, "...you have a powerful voice in Washington, D.C., and that's legislative advocacy role is one of its many benefits. AAS conducted its "Alliance Legislative Survey" using the address of 1225 I Street NW, Suite 500 Washington, DC 20005-3914.

The examiners determined that neither AFS nor AAS had any physical operating presences in the District of Columbia other than an appointed agent for service of process and

a mail forwarding agent. The examiners were not able to determine that AFS or AAS existed for any purpose other than providing health insurance.

In order for a consumer to be eligible to apply for coverage under a group master policy issued to one of the associations, the consumer must be a member of such association. The target market for Mid-West includes individuals and self-employed individuals (AAS, AFS and the NASE are hereinafter collectively referred to as the "Associations.")

Mid-West utilizes a dedicated agency field force, Cornerstone America (CA), a division of Mid-West. CA agents also act as field service representatives on behalf of the associations. The field service representatives act as enrollers of new members for the associations and provide field support services, for which the field service representatives receive compensation. In other words, the salesperson that a prospective member or prospective insured speaks with about association membership and about insurance products serves as both a licensed insurance agent of Mid-West and as a field service representative for new members of the association. The agent receives compensation from Mid-West for the sale of insurance. The field service representative receives compensation from the association for the sale of association memberships.

Specialized Association Services, Inc. (SAS), a company controlled by the adult children of the late Ronald L. Jensen, HealthMarket's founder, is a party to an agreement with the associations to provide administrative and benefit procurement services to the associations. An affiliate of The Companies, HealthMarkets Lead Marketing Group (f/k/a UICI Marketing, Inc.) ("HMLMG"), generates new membership sales prospect leads for CA for use by the field service representatives (agents) and provides video and print services to the associations and to SAS. In addition to health insurance premiums derived from the sale of health insurance, MEGA (as the administrator for Mid-West) receives fees for association membership administrative services pursuant to an administrative service agreement with the associations. MEGA previously received fees for certain association membership benefits, however, such benefits are provided through an unrelated insurance carrier as of January 1, 2007, and MEGA no longer receives such fees. The agreements

with these associations requiring the associations to continue as the master policyholder and to make Mid-West's insurance products available to their respective members are terminable by Mid-West and the associations upon not less than one year's advance notice to the other party.

During the course of the examination the relationships between Mid-West, its affiliates and the associations were documented regarding the flow of premium and association membership dues. Exhibit 1 details this flow of funds.

HealthMarkets, Inc.

Effective April 5, 2006 UICI merged with affiliates of The Blackstone Group, Goldman Sachs Capital Partners and DLJ Merchant Banking Partners, each of which is a private equity firm. With this acquisition, UICI became a non-publicly traded company. The name of the Company was changed from UICI to HealthMarkets, Inc. on April 17, 2006 following the acquisition. MEGA and Mid-West are indirect wholly-owned subsidiaries of HealthMarkets.

HealthMarkets sold the StarHRG and Student Insurance divisions of The Companies in July 2006 and December 2006, respectively, and is now focused on growing its individual and association group health insurance business and its Oklahoma City life insurance division.

Officers and Directors

The officers of The Companies as of December 31, 2001, were:

Phillip Jerome Myhra, President
Maria Consuelo Palacios, Treasurer
John Francis Ames, Vice President
Matthew Robert Cassell, Vice President
Mark Dean Hauptman, Vice President
Emmanuel Joseph Pendola, Vice President
Glenn William Reed, Vice President
Robert Jack Thomas, Jr., Vice President
Peggy Gibbons Simpson, Secretary
Phillip Jerome Myhra, Actuary
Steve Keith Arnold, Vice President
Donnie Ray Germany, Vice President
William John O'Connor, Vice President
James Nelson Plato, Vice President
Peggy Miller Rubin, Vice President
Robert Burns Vlach, Vice President
Robert Marvin Williams, Vice President

The Directors of The Companies as of December 31, 2001, were:

Steven Keith Arnold
Mark Dean Hauptman
Phillip Jerome Myhra
James Nelson Plato
Matthew Robert Cassell
Gregory Thomas Mutz
Emmanuel Joseph Pendola
Glenn William Reed
Robert Burns Vlach

The authority of each officer is spelled out in the bylaws and further defined by employment contracts and/or job descriptions. The president, Phillip Myhra, has the overall executive responsibility for the management of The Companies.

The board of directors is the overall governance body for The Companies. Board members, like officers, have a fiduciary duty to act in the best interests of The Companies.

COOPERATION WITH THE MARKET CONDUCT EXAMINATION PROCESS

Initially the contract market conduct examiners retained by the District of Columbia Department of Insurance ("DC DOI") believed that The Companies were not willing to cooperate during the examination process primarily due to the following reasons:

- Management's unwillingness to allow the examiners direct access to certain records and documents in a manner that would facilitate and aid the examination. This was due to The Companies' disagreement with the scope of the examination with respect to the examiners' request for nationwide data on various topics;
- Management's failure to provide certain documents in response to both general written requests and to specific oral requests. Again, this was due to the Company's disagreement with the scope of the examination with respect to the examiners' request for nationwide data on various topics. Specifically, the examination was a Limited Scope Market Conduct Examination, and The Companies did not believe that the examiner's request for national data and records was a "reasonable request" pursuant to Section 31-1403(b).

With changes to The Companies' management team and to the examination team, cooperation increased after the initial stages of the examination. The examination proceeded in the normal and usual course with full cooperation by The Companies.

METHODOLOGY

The examination process consists of a sequence of activities. Obtaining and confirming an understanding of the company's operational system is vital in the examination process. This step is performed through transaction reviews and interviews with company personnel.

After obtaining operational knowledge, an evaluation or risk assessment is performed of the company's unique characteristics, identifying and summarizing the major risks that then drive the individual exam area strategies.

Although the sequence of activities outlined above occurs in every DISB market conduct exam, a significant portion of the examination is based on NAIC Handbook standards and tests. Some standards are measured using an analysis of general data gathered by the examiner, or provided by the company in response to queries. Some standard findings are developed through direct reviews of random sampling of files.

The examiner's judgment determines the specific procedures and tests appropriate for each exam area. The standards were measured using tests designed to adequately measure how the company met the standard. Each standard applied is listed under the caption, "Scope of Examination". Each failed standard is later described in the body of the report under its respective area of review.

Areas of review failing an NAIC standard show the NAIC standard inside borders followed by "Comments", followed by examiner "Findings, and by "Observations". Violations of a D.C. Official Code Section are found at the end of the report under the caption, "Summary of Findings". Areas of review where NAIC standards applied were not found

in violation of a D.C. Official Code Section contain only "Comments" and "Observations".

NAIC STANDARDS REVIEWED BY BUSINESS AREA

Operations

NAIC Standard A-8 The Company cooperates in a timely basis with examiners performing the examination.

Comments: The evaluation of standards in this business area is based on a review of The Companies responses to the information requested, questions asked, staff interviews and general representations made to the examiners. The review methodology for this standard does not have a direct statutory requirement, however the standard is inferred by D.C. Official Code § 31-1403(b) that states in pertinent part every company or person from whom information is sought must provide free access to all documents and affairs under examination at all reasonable hours at its offices. This standard is intended to assure that the company is cooperating with the regulatory jurisdiction in the completion of an open and cogent review of the company's operations in the District.

Findings: The Companies initially failed to cooperate with the examination process to the extent noted under "Cooperation with the Market Conduct Examination Process." With changes to The Companies' management team and to the examination team, cooperation increased after the initial stages of the examination. The examination proceeded in the normal and usual course with full cooperation by The Companies.

Observations: Refer to the section of report captioned "Cooperation with the Market Conduct Examination Process."

Complaint Handling and Grievance Procedures

Comments: The examiners reviewed The Companies' underlying written policies and procedures, the complaint registers, listened to selected recorded calls to customer service and reviewed complaint files. The evaluation of standards in this business area was also based on The Companies' responses to the information requested, questions asked, staff interviews and general representations made to the examiners.

Observations: The most common complaints centered on the complexity of the health insurance product with its multiple deductibles and limited benefits. Complaints were found to have been addressed timely.

The Companies' have taken the following actions which to address concerns with complaints involving its products:

- In August 2005, MEGA began development of a new series of products – the "CareOne" product suite. MEGA believes these products are more easily understood by consumers for the following reasons:
    - Under these new products, there are fewer benefit choices for an insured to make at the time of application. MEGA has eliminated the need for the consumer to separately select a room and board amount, a miscellaneous hospital amount and a surgeon amount and have given them the option of three different benefit choices. Under our more comprehensive products, benefits that would have otherwise been optional riders under the currently marketed plans have been built into the base plan so that more of these benefits would apply toward the deductible.

  MEGA began introduction of the CareOne product suite in February 2006, and roll out of these products continues as new regulatory approvals are received. This MEGA product series is solicited by both the UGA and CA field forces.

- To further promote consumer understanding, The Companies implemented a benefit confirmation call process beginning on a test basis in April 2005 and fully operational by August 2005. A benefit confirmation call is made to applicants that have been issued coverage under a health benefit plan following the issuance of coverage. This is done in an effort to ensure that the applicant understands the coverage for which he/she applied. In this confirmation call, The Companies confirm the plan selected and specifically informs the applicant that this type of plan is different from a comprehensive major medical type plan. With respect to the scheduled benefit plans, The Companies advise the applicant that the plan covers medically necessary hospitalizations and surgeries up to the applicant's pre-selected benefit limits. In this call, The Companies also reference how the deductible is applied (i.e., per admission, per period of confinement or per sickness or injury period of treatment) and reviews each benefit listed on the schedule page including benefit limitations and maximums. The Companies also encourage the applicant to review his/her insurance contract carefully, including the definitions, schedule page and exclusions and limitations and to call the Company if he/she has any questions regarding his/her coverage.

Marketing and Sales

Comments: The evaluation of standards in this business area is based on review of The Companies' responses to the information requested, questions asked, staff interviews and general representations made to the examiners. This review area of the examination is designed to evaluate the representation made by The Companies' product(s). The material considered in this kind of review includes all media (radio, television, internet, etc.), written and verbal advertising and sales materials.

Observations: The Companies' sales of insurance are accomplished through agents who are appointed with MEGA or Mid-West. During the timeframe covered by this examination, the Company received a number of complaints regarding the truthfulness of its agents with respect to the limited benefits of their basic health insurance policies.

In 2003, the Company initiated an extensive training program to enhance agent training. This uniform training platform, referred to as "TTACC" (for Training, Testing, Auditing, Compliance and Complaints) is mandatory for all agents, including the sales leaders. The TTACC program takes place over a three day period and covers topics such as marketing guidelines for the market served in the state, advertising guidelines, unfair trade practices, complaint handling and products. All new agents are required to complete the TTACC program before they may solicit insurance for The Companies. In addition, existing agents are required to complete the TTACC program annually.

Policyholder Service

Comments: The policyholder service review was designed to test for compliance with statutes and regulations regarding notice of billings, premium refunds, coverage questions, and policy changes. No policies examined were determined to have renewal issues. The tests performed found no failed standards.

Observations: Most sales result in the policyholder's authorization for direct payment to The Companies from his or her financial institution. Direct billing is initiated by The Companies in cases where the policyholder has insufficient funds in his or her account. The Companies require written confirmation on a specified form signed by the policyholder who wishes to cancel coverage.

The Companies' agents serve dual roles; for the most part, each is a field service representative for the respective associations, and also, as an appointed agent of Mid-West or MEGA. As an association field service representative, the agent receives compensation on association registration fees and dues. The agent receives commissions from Mid-West or MEGA, as applicable, for the sale of health insurance.

As a result of settled class action litigation (refer to "Subsequent Events" below), in September 2004 The Companies implemented the use of consumer disclosure forms that describes the business relationship between the insurance company and the association.

This disclosure makes clear to consumers that the insurance companies and the associations are separate business entities whose only relationship is through agreements pursuant to which the associations have agreed to make available to their members certain insurance products offered by the insurance companies. This disclosure form also advises the consumer of the dual roles served by the agent as an agent for the insurance companies with respect to the solicitation of insurance and as a field service representative for the association with respect to the solicitation of association membership Since none of the initial association registration fees are retained by the associations, but are paid to the respective agency responsible for soliciting enrollment/insurance, it is possible that these fees constitute insurance premium.

As of January 1, 2006, the Associations implemented a single one-time new members association administration fee in the amount of $75 for all new members in the states where association group insurance is offered by the Companies. The same fee is charged whether insurance is purchased or not purchased.

In addition, as of November 6, 2006, the fulfillment packages for the association membership documents and the insurance documents were separated. Members / insureds now receive separate mailings of the association benefit materials / information and the insurance coverage materials.

Finally, as of January 1, 2007, a requirement for agents / field service representatives to obtain separate checks for the association membership fees / dues and the insurance premium was implemented for initial payments. The check for association membership is made payable to the association, and the check for insurance premium is made payable to the insurance company.

These changes to disclosures, processes and requirements work to ensure that consumers are appropriately informed of the relationship between the associations and insurance companies.

SUBSEQUENT EVENTS

During the period covered by the examination, a number of lawsuits were filed by or on behalf of purchasers of health insurance from Mid-West and MEGA and/or purchasers of Association Memberships from the NASE and/or AFS and/or AAS against Mid-West, MEGA, UICI, the NASE, AFS, AAS and/or various other defendants each asserting substantially similar allegations regarding the purported interrelationships among UICI, MEGA, Mid-West, the NASE, AFS and/or AAS, the purported failure to disclose those relationships, and the marketing of Association Memberships and Association Group Health Insurance Policies.

On October 15, 2004 the U.S. District Court for the Northern District of Texas issued a final order and judgment approving the settlement of a class action case originally filed in Mississippi and a representative action originally filed in California challenging the relationship between Mid-West and the Associations that make available to their members the Company's health insurance products. Pursuant to the Court's order, the Court, among other things, certified a nationwide settlement class consisting of current and former members of the Associations and current and former insureds of MEGA and Mid-West. In addition, the Court approved the terms of the settlement as fair, reasonable and adequate and in the best interest of the settlement class.

Pursuant to the terms of the settlement, MEGA and Mid-West have agreed to include enhanced disclosures in their marketing and sales materials with respect to the contractual relationships between the insurance companies, on the one hand, and the Associations, on the other hand, and MEGA and Mid-West have also agreed to enter into an injunction with respect to certain business practices. In addition, members of a nationwide class consisting of current and former MEGA and Mid-West insureds were entitled to relief in the form of free insurance coverage for a period of months under a personal accident policy to be issued by an indirect, wholly-owned subsidiary of HealthMarkets, The Chesapeake Life Insurance Company, and members of a nationwide class consisting of current

and former members of the Associations were eligible to receive discounts on association membership fees.

Even though Mid-West and the other defendants denied all of the plaintiff's allegations and believed that the lawsuits were without merit, they agreed to enter into the settlement to avoid further litigation expense and inconvenience and to remove the distraction of burdensome and protracted litigation.

SUMMARY OF FINDINGS

In the specific area of "Operations", the examiners determined Mid-West to be in violation of D.C. Official Code § 31-1403(b).

ACKNOWLEDGMENT

In addition to the undersigned, Wayne E. Williams, CPA, of JAGI Capital Group, Inc., and Craig Gardner, CFE, CIE, FLMI, of Gardner and Associates, performed various examination phases under the on-site direction of Billy Bostick, CFE, CPA, of Bostick/Crawford Consulting Group, while Brian Schraeder, Alon Israely, and Joseph Caruso, all of Business Intelligence Associates, performed discrete digital investigative support.

Respectfully submitted,

William F. McCune, MBA,CCP,CIPP,CFE(Fraud),CIE,CIDM,CPCU,CFE(Financial),CLU,LIFA, FLMI,FLHC,RHU,PAHM,AIAF,AIAA,AIRC,AIC,API,ACS

Market Analysis Chief
For the DC Department of Insurance, Securities and Banking