



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

Division of Insurance

Report on the Statutory Examination of

The Paul Revere Life Insurance Company

Worcester, Massachusetts

As of December 31, 2008

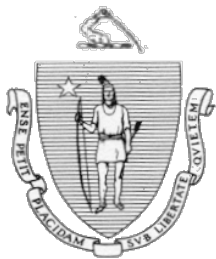
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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • <http://www.mass.gov/doi>

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

BARBARA ANTHONY
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

June 1, 2010

The Honorable Alfred W. Gross, Chairman
Financial Condition (E) Committee, NAIC
Commissioner of Insurance
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

The Honorable Paulette Thabault
Secretary, Northeastern Zone, NAIC
Commissioner of Insurance
Vermont Insurance Division
89 Main Street
Montpelier, Vermont 05620

The Honorable James J. Donelon
Secretary, Southeastern Zone, NAIC
Commissioner of Insurance
Louisiana Department of Insurance
1702 N. 3rd Street
Baton Rouge, Louisiana 70802

The Honorable Mary Jo Hudson
Secretary, Midwestern Zone, NAIC
Director of Insurance
Ohio Department of Insurance
50 West Town Street
3rd Floor, Suite 300
Columbus, Ohio 43215

The Honorable Monica J. Lindeen
Secretary, Western Zone, NAIC
Commissioner of Securities and Insurance
Montana Office of Securities and Insurance
840 Helena Avenue
Helena, Montana 59601

The Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Office of Consumer Affairs and Business
Regulation
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Honorable Commissioners and Directors:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs as of December 31, 2008, of

THE PAUL REVERE LIFE INSURANCE COMPANY

having its home office at 18 Chestnut Street, Worcester, Massachusetts and its administrative offices located at 1 Fountain Square, Chattanooga, Tennessee, 37402. The following report

thereon is respectfully submitted.

For Information Purposes Only

SCOPE OF EXAMINATION

The Paul Revere Life Insurance Company, hereinafter referred to as (“PRL” or “the Company”) was last examined for the period January 1, 2003 through December 31, 2005. The current National Association of Insurance Commissioners (“NAIC”) association examination covers the intervening period from January 1, 2006 through December 31, 2008, and any material transactions and/or events occurring subsequent and noted during the examination.

The current examination was conducted at the direction of and under the overall management and control of the examination staff of the Massachusetts Division of Insurance (the “Division”) in accordance with standards established by the NAIC Financial Condition (E) Committee as well as with the requirements of the *NAIC Financial Condition Examiner’s Handbook*, the examination standards of the Division and with Massachusetts General Laws. The principal focus of the examination was 2008 activity however transactions both prior and subsequent thereto were reviewed as deemed appropriate. The examination was conducted following the NAIC Risk Focused Examination Model. The examiners considered reliance on the Company’s external auditors, Ernst & Young LLP’s (“E&Y”) IT General Controls review, internal control evaluations and account balance testing conducted by E&Y as part of our statutory compliance examination.

Representatives from the firms Deloitte & Touche LLP, Deloitte Consulting LLP, and Deloitte Tax (collectively called “Deloitte”) were engaged by the Division to assist in the examination by performing certain examination procedures including an information systems review and an actuarial review of the Company’s actuarially determined items at the direction of and under the overall management of the Division’s examination staff.

In addition to a review of the financial condition of the Company, the examination included a review of the Company’s business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, disaster recovery plan, and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk assessment and examination efforts were directed accordingly.

This examination was performed concurrent with the examination of the Company’s wholly owned subsidiary, The Paul Revere Variable Annuity Insurance Company (“PRVAIC”), also a Massachusetts domestic insurance company.

HISTORY

General

The Company was incorporated under the laws of the Commonwealth of Massachusetts on June 10, 1930 and commenced business July 10, 1930. The Company was incorporated as a stock company and is authorized to write both life and accident and health insurance.

As of the examination date, the Company was a wholly owned subsidiary of The Paul Revere Corporation (“PRC”) which in-turn was a wholly owned subsidiary of the Unum Group, a non-insurance holding company incorporated in the State of Delaware. On June 30, 1999, Unum Corporation merged with and into Provident Companies, Inc., which changed its name to UnumProvident, and subsequently changed its name to Unum Group. Effective January 9, 2009 and subsequent to the exam date, PRC was merged with and into the Company.

THE PAUL REVERE LIFE INSURANCE COMPANY

Common Capital Stock

The Company has issued and outstanding 1,960,000 shares of common stock, with a par value per share of \$5.00. All outstanding shares are owned by the holding company, PRC. Total value of common stock as reported at December 31, 2008 by the Company is \$9,800,000 and has been at this same level over the period covered by this examination.

Gross Paid-in and Contributed Surplus

At December 31, 2008 gross paid-in and contributed surplus totaled \$476,415,878. There were no changes to gross paid-in and contributed surplus during the period of this examination.

Surplus Notes

On October 21, 1997, the Company received from Provident Companies, Inc. and UnumProvident Corporation \$100 million resulting from the execution of a Surplus Note. The Surplus Note was to mature on October 1, 2027 and has a fixed interest rate of 8.25% which is paid semi-annually subject to the approval of the Insurance Commissioner of the Commonwealth of Massachusetts. On June 30, 2008 the Company repaid the \$100 million surplus note.

Dividends to Stockholder

During the period of this examination, the Company's Board of Directors declared and paid dividends totaling \$1,099,243,802 to PRL, the sole stockholder, as follows:

<u>Year</u>	<u>Dividend</u>
2008	\$ 40,000,000
2007	915,743,802
2006	143,500,000

Growth of Company

The growth of the Company since the last examination as of December 31, 2005 is illustrated in the following schedule:

<u>Year</u>	<u>Premium Income</u>	<u>Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital and Surplus</u>
2008	\$ 94,924,890	\$ 4,710,076,613	\$ 4,369,773,465	\$ 340,303,147
2007	99,688,808	4,942,333,852	4,483,597,601	458,736,251
2006	604,569,282	5,286,377,977	4,251,768,900	1,034,609,097

MANAGEMENT AND CONTROL

Annual Meeting of Stockholder

The annual meeting of the stockholder shall be held within six months of the Company's fiscal year-end or, if not so held, a special meeting shall be called which shall have all of the force and effect of an annual meeting. Special meetings of the stockholder may be called by the Chairman of the Board, the President, any Vice President or the Board of Directors and shall be called by the Secretary upon written notice. The Company held the annual meetings within these guidelines.

Board of Directors

At the annual meeting of the stockholder, the stockholder shall choose by ballot not fewer than five directors, who shall hold office for one year or until their successors are elected and qualified. A majority of those directors in attendance may transact business, and four directors shall constitute a quorum. Vacancies may be filled by the Board of Directors by election for the unexpired term.

The following five directors, all of whom are considered inside directors, were serving as of December 31, 2008:

<u>Name</u>	<u>Business Affiliation</u>
Robert O. Best	Executive Vice President, Chief Operating Officer, Unum US
E. Liston Bishop III	Executive Vice President and General Counsel, Unum Group
Robert C. Greving	Executive Vice President and Chief Financial Officer, Unum Group
Kevin P. McCarthy	President and Chief Executive Officer, Unum US
Thomas R. Watjen	President, Chief Executive Officer and Chairman, Unum Group

Executive Committee

When the Board of Directors is not in session, the Executive Committee shall have all the powers of the Board of Directors, except those which are vested in the Finance Committee. The Executive Committee will keep minutes of all transactions, which shall be reported to the full Board of Directors at the next meeting thereof.

At December 31, 2008, the Executive Committee consisted of the following members:

Thomas R. Watjen, Chairman
E. Liston Bishop, III
Robert C. Greving

Finance Committee

Per Article XI of the Company's By-laws, the Board of Directors shall elect a Finance

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Committee consisting of no fewer than two members, all of whom shall be members of the Board of Directors. The Finance Committee shall have charge of the investment, sale, loan, or deposit of funds of the Company. At December 31, 2008, the Finance Committee consisted only of the following member which is not consistent with the provisions of the By-laws:

Robert C. Greving

Investment Sub-Committee

At December 31, 2008, the Investment Sub-Committee reporting to the Finance Committee consisted of the following members:

Robert C. Greving
Christopher J. Jerome
Martha D. Leiper
Susan N. Roth
Michael G. Temple
B. Frank Williamson
Thomas A. H. White

Officers

In accordance with Article VII of the Company's By-laws, the Board of Directors shall elect a President, who shall be a member of the Board of Directors, a Vice President, a Secretary, a Treasurer, a Chief Actuary, and a Medical Director. The Board of Directors may elect a Chairman of the Board, additional vice presidents, assistant secretaries, assistant treasurers, actuaries, and such other officers may be elected as deemed necessary.

The following individuals were serving as senior officers as of December 31, 2008:

<u>Name</u>	<u>Title</u>
Thomas R. Watjen	President and Chief Executive Officer
Robert C. Greving	Executive Vice President, Chief Financial Officer and Chief Actuary
Kevin P. McCarthy	Chief Executive Officer
E. Liston Bishop III	Executive Vice President and General Counsel
Robert O. Best	Executive Vice President, Chief Operating Officer
Joseph R. Foley	Senior Vice President and Chief Marketing Officer
Kevin A. McMahon	Vice President and Corporate Treasurer
Albert A. Riggieri	Vice President and Appointed Actuary
Vicki W. Corbett	Vice President, Controller

Conflict of Interest

The Unum Group and its subsidiaries, including the Company, adhere to a "Code of Conduct Policy". On an annual basis, Unum Group requires that certain categories of employees affirm their compliance with the policy by completing a conflict of interest statement. These statements were reviewed for the period covered by the examination and no exceptions were noted.

Articles of Incorporation and By-Laws

The Articles of Incorporation and By-laws of the Company were reviewed and no changes were made to these documents since the prior examination.

Management Continuity and National Emergency

The Company provides for the continuity of management in the event of a catastrophe or other emergency in accordance with sections 180M through 180Q of Chapter 175 of the Massachusetts General Laws.

AFFILIATED COMPANIES

The Company is a member of a holding company system and as of the examination date was 100% owned by PRC which in turn was 100% owned by the Unum Group, a non-insurance holding company incorporated in the State of Delaware, and is subject to the registration requirements of Chapter 175, Section 206C, of the Massachusetts General Laws. Subsequent to the examination date, effective January 9, 2009 PRC was merged with and into the Company and all outstanding shares of the Company are now owned by Unum Group.

The Company owns 100% of the stock of PRVAIC, incorporated under the laws of the Commonwealth of Massachusetts on August 6, 1965. PRVAIC is licensed to transact variable annuity and other insurance including life insurance. Prior to 2001, the Company also owned 100% of the stock of The Paul Revere Protective Life Insurance Company ("PRPL"), a Delaware domestic life insurance company, incorporated on August 9, 1973, licensed to transact life, health, variable annuity and credit life/health. On May 18, 2000 the Board of Directors of PRL adopted a Plan of Liquidation for PRPL and during the first quarter of 2001, PRPL merged with and into PRL. The transaction was accounted for as a statutory merger. No shares of common stock were exchanged and there was no impact on PRL's surplus.

Effective December 31, 2000, the Canadian branch operations of the Company and of Unum Life Insurance Company of America were consolidated into Provident Life and Accident Insurance Company's (Provident Life) existing Canadian branch operations. As a result of this transaction, the Company obtained a 10.1% direct ownership interest in Provident Life.

Organizational Chart

An organization chart of Unum Group and its subsidiaries and affiliates as of the examination date is as follows. The abbreviations shown in parenthesis after each entity identify its legal jurisdiction of organization/chapter.

Unum Group (DE)

First Unum Life Insurance Company (NY)

Unum Life Insurance Company of America (ME)

Duncanson & Holt, Inc., (NY)

Duncanson & Holt Services Inc. (ME)

Duncanson & Holt Canada Ltd. (Canada)

TRI-CAN Reinsurance Inc. (Canada)

Duncanson & Holt Underwriters Ltd. (UK)

Duncanson & Holt Europe Ltd. (UK)

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Duncanson & Holt Syndicate Management Ltd., (UK)
Trafalgar Underwriters Agencies Ltd., (UK)
Unum European Holding Company Limited (UK) (3)
Unum Limited (UK) (4)
Claims Service International Limited (UK) (1)
Group Risk Insurance Services Limited (UK)
UnumProvident Finance Company (UK) (5)
Unum Ireland Limited (Ireland)
Colonial Life & Accident Insurance Company (SC)
UnumProvident International Ltd. (Bermuda)
Tailwind Holdings LLC (DE)
Tailwind Reinsurance Company (SC)
Northwind Holdings LLC (DE)
Northwind Reinsurance Company (VT)
The Paul Revere Corporation (MA)
The Paul Revere Life Insurance Company (MA)
The Paul Revere Variable Annuity Insurance Company (MA)
Provident Life and Accident Insurance Company (TN) (2)
Provident Life and Casualty Insurance Company (TN)
Provident Investment Management, LLC (TN)

Percentages of ownership is 100% unless otherwise indicated.

- (1) 50% owned by Unum European Holding Company Ltd. And 50% owned by Unum Limited
- (2) 85.9% owned by Unum Group; 10.1% owned by The Paul Revere Life Insurance Company; and 4.0% owned by Unum Life Insurance Company of America
- (3) 80% owned by Unum Group and 20% owned by UnumProvident Finance Company
- (4) 72% owned by Unum European Holding Company Ltd. And 28% owned by UnumProvident Finance Company
- (5) 99% owned by Unum Group; 1% owned by Provident Investment Management, LLC.

Transactions and Agreements with Affiliates

Service Agreements

The Unum Group provides the Company with facilities, managerial, administrative, investment and technical services pursuant to a General Services Agreement effective on March 28, 1998 and amended on August 8, 2006. Such shared costs and expenses are allocated based on time and usage studies. The company paid management fees of \$61 million, \$65.6 million, and \$63.2 million for the years ended 2008, 2007 and 2006, respectively.

Tax Sharing Agreement

As of December 31, 2008 the Company was a party to a written tax sharing agreement with other members of the Unum consolidated group members; Unum Life Insurance Company of America, First Unum Life Insurance Company, Colonial Life & Accident Insurance Company, Tailwind Reinsurance Company, Northwind Reinsurance Company, Provident Life and Accident Insurance Company, Provident Life and Casualty Insurance Company, The Paul Revere Variable Annuity Insurance Company, Duncanson & Holt, Inc., Duncanson & Holt Services, Inc., Colonial Companies, Inc., Benefit America, Inc., UnumProvident International, Ltd., Unum International Underwriters, Inc. and The Paul Revere Corporation. The agreement provides that the portion of the consolidated tax liability allocated to the Company is based on

THE PAUL REVERE LIFE INSURANCE COMPANY

its separate return tax liability. Under the agreement, additional tax benefits are allocated to the Company for its portion of net operating losses and tax credit carry forwards in the year they are used by the consolidated group.

FIDELITY BOND AND OTHER INSURANCE

The Company, along with other insurance company subsidiaries of the Unum Group, is a named insured on an Insurance Company Solutions policy. Coverages included in this policy are Directors, Officers and Entity Securities Liability; Employment Practices Liability; Fiduciary Liability; and a Blanket Bond including coverage of Fidelity, Non-Employee Agents, ERISA Plans, Property, Financial Documents, Computer/Funds Transfer, Cleanup Costs, Claims/Audit Expense, Telephone Toll Fraud and Insurance Company Professional Liability. The Company also maintains an Excess Directors' & Officers' Liability policy. The Company's fidelity coverage exceeds the NAIC suggested minimum coverage.

The Company, along with other subsidiaries within the Unum Group, is also named as an insured on separate property and general liability policies in force as of December 31, 2008.

SPECIAL DEPOSITS

The statutory deposits of the Company at December 31, 2008 are as follows:

<u>State</u>	<u>Purpose of Deposit</u>	<u>Book Value</u>	<u>Fair Value</u>
Georgia	Statutory Purpose Deposit	\$ 59,588	\$ 88,678
Kansas	Statutory Purpose Deposit	248,285	369,493
Massachusetts	Benefit of all Policyholders	1,740,066	2,345,418
New Mexico	Statutory Purpose Deposit	114,211	169,967
North Carolina	Statutory Purpose Deposit	390,381	556,441
Virginia	Statutory Purpose Deposit	120,705	167,373
Aggregate Other	Deposits for Reinsurance Agreements	<u>150,117,503</u>	<u>147,684,885</u>
Totals		<u>\$152,790,739</u>	<u>\$151,382,255</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to transact business in all fifty (50) states, the District of Columbia and Canada. Disability insurance had been the Company's primary product line since its founding. The Company no longer writes new business, however, it continues to manage and administer existing business.

The principal product of the Company's Individual Disability Income business line is primarily traditional non-cancelable disability income insurance which is also essentially a closed block, with the only increases in coverage amounts being attributable to policy changes, upgrades, exchanges, etc. The product was marketed primarily to professionals and executives, including many physicians, lawyers, and corporate executives. These individual disability policies provide monthly benefits to policyholders for qualifying disabilities after an elimination period. The definition of disability ranges from "loss of earnings" to "inability to perform your own occupation", and benefits are generally provided until age 65 or for the policyholder's lifetime. The contracts often include

optional riders such as cost of living adjustments, waiver of premium, and Social Security offsets. The policies were commonly marketed through general agents, brokerage offices, and corporate marketing arrangements. The Company also maintains an older block of group annuities.

Treatment of Policyholders- Market Conduct

Beginning in September 2003, a Multi-State Target Market Conduct Examination was initiated by the Lead State Regulators: the Division, the Maine Bureau of Insurance, and the Tennessee Department of Commerce and Insurance, concerning PRL, Unum Life Insurance Company of America, Provident Life and Accident Insurance Company (collectively, "the companies"). The market conduct examination addressed claims handling practices for both individual and group long-term disability insurance. This review culminated in Regulatory Settlement Agreements (RSA) being reached between the companies as well as First Unum Life Insurance Company (New York) and Provident Life and Casualty Insurance Company (Tennessee) and state insurance regulators in November 2004. Agreements in principal were reached on a Plan of Corrective Action, which included three key components: a Claim Reassessment Process; Changes in Claim Organization; and, Procedures and Changes in Corporate Governance. Consistent with the terms of the RSA, the lead states conducted a re-examination of provisions of the RSA including claims handling practices, including substantive changes to the claim organization and corporate governance policies. This subsequent examination, as of December 31, 2007, generated no adverse findings and noted the Companies compliance with previously mandated actions.

Although the focus of the current risk-focused examination was financial and operational in nature, actuaries from Deloitte were retained to assist the Division with its review of actuarially determined reserves and included consideration of the effects of the Plan of Corrective Action, particularly the Claim Reassessment Process and Changes in Claim Organization and Corporate Governance, when reviewing the adequacy of claim reserves for the Company's disability income business. See the Notes to Financial Statements at the conclusion of this report for additional details.

REINSURANCE

In the normal course of business, the Company assumes reinsurance from and cedes reinsurance to other reinsurance companies. The primary purpose of ceded reinsurance is to limit losses from large exposures.

In general, the maximum amount of risk retained and not ceded during the period 2006 – 2008 was \$0.6 million on any group life and accidental death and dismemberment insurance. In 2009, the retained amount increased to \$0.75 million. Below are a summary of the key agreements entered into since the last exam, as well as certain key agreements still in effect as of the examination date.

Ceded Reinsurance

Each year catastrophe excess of loss reinsurance is purchased. In 2008, this coverage included four layers of coverage to limit exposure under life, accidental death and dismemberment, long-term care, and disability policies. The catastrophic coverage was for any accident involving eleven, twenty-eight, fifty-five, and eighty-four or more lives for the four layers, respectively, in a single event. PRL had 80 percent reinsurance coverage in each of the four layers for a total of

\$144 million of catastrophic reinsurance coverage, after a \$20.0 million deductible. The first \$30.0 million layer included terrorism coverage other than that resulting from biological, chemical and nuclear terrorism, whereas the second, third and fourth layers each provided \$50.0 million of coverage for all catastrophic events, including acts of war and any type of terrorism. Similar catastrophic coverage is also in place for 2009, however, events may occur which limit or eliminate the availability of catastrophic reinsurance coverage in future years.

Effective January 1, 2007, the Company reinsured to Northwind Reinsurance Company, an affiliate, a closed block of individual disability business. The modified coinsurance transaction was executed on an arms-length basis. The Company received a ceding commission of \$412,403,678. The deferred gain, net of tax, was \$257,503,825 and will be amortized based on the earnings stream of the reinsured business. The modified coinsurance reserve at the initiation of the transaction was comprised of \$3,680,065,033 of reserves held by the Company and \$878,983,522 of reserves previously assumed by the Company on a modified coinsurance basis from an unaffiliated insurer.

Effective January 1, 2007, the Company partially commuted a closed block of individual disability insurance business originally assumed from AXA Equitable Insurance Company in 1987 and 1989. The commuted business included \$39,593,964 in reserves. The effect of this transaction was a decrease in 2007 net gain from operations, before and after tax, of \$5,144,670 and \$3,344,035, respectively.

The Company cedes to Lincoln National Reinsurance Company Limited (Barbados) 80% for the future liability on direct business of individual disability claims incurred prior to July 1, 1993, and still open as of June 30, 1995. This treaty applies to business written directly by the Company. The treaty was effective as of July 1, 1995. As of December 31, 2005, a reserve credit of \$279.4 million, including paid and unpaid losses, was established as a result of the arrangement; the reserve credit, including paid and unpaid losses, was \$254.2 million as of December 31, 2008.

The Company cedes to Reassure America Life Insurance Company, an affiliate of Swiss Re Life & Health Inc, 100% of the liability of substantially all of the individual life insurance written by the Company.

The Company cedes to Max Re Ltd, 100% indemnity coinsurance basis of non New York policies and 90% basis for New York policies for the future claim payments on long duration group long-term disability claims which were incurred prior to January 1, 1996.

Effective April 30, 1998 the Company ceded to Variable Annuity Life Insurance Company ("VALIC") 100% coinsurance basis of its variable annuity policies. VALIC, an affiliate of AIG Annuity Insurance Company is entitled to all premiums and other amounts payable after the effective date with respect to the reinsured contracts. Under the terms of the agreement, AIG is responsible for the administration service of the reinsured contracts.

The Company has a non-proportional reinsurance agreement with National Indemnity Company "NICO" that was entered into on April 1, 2004. NICO will pay the Company 66.67% of the ultimate net loss in excess of a retention balance. The initial retention balance of \$4.1 billion was approximately 90% of the current reserves for the block as of March 31, 2004. The retention balance is adjusted each quarter less the ultimate net losses paid by the Company plus interest at a fixed quarterly rate of 1.0648%. The statutory reserve credit taken by the Company is equal to the present value of net expected future cash flows recovered under the agreement

discounted at a best estimate interest rate. The initial credit as of April 1, 2004 was \$196.0 million and this amount was calculated based on projected recoveries in years 2030-2033 at a discount rate of 5.2%. The credit as of December 31, 2008 was \$208.3 million.

Assumed Reinsurance

Most of the assumed risk is assumed from the Metropolitan Life Insurance Company (MetLife) and New York Life Insurance Company (NYLIC). Additional risk is assumed on a coinsurance basis from various insurers. The Company also assumes risk through small excess over retention arrangements.

The assumed reinsurance agreement MetLife was effective January 1, 1990, and was originally entered into by the New England Mutual Life Insurance Company before it was acquired by MetLife. The Company assumed, on a coinsurance basis, 40% of policy benefit liabilities for claims incurred prior to January 1, 1990, and 80% of policy benefit liabilities otherwise. This is a closed block of business.

Effective January 1, 2000, the Company reinsured the IDI block of business of NYLIC on a 100% modified coinsurance basis. This block included non-cancelable, guaranteed renewable, and business overhead expense business. This is a closed block of business.

The Company has several treaties in which it assumes 80% of IDI risk on a coinsurance basis. These treaties are closed to new business. The treaties are with the following companies: New England Life Insurance Company (NELICO); AXA Equitable Life Insurance Company (formerly The Equitable Life Assurance Society of the United States); Great-West Life Insurance Company; and General American Life Insurance Company

ACCOUNTS AND RECORDS

The internal controls structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent certified public accounting firm, Ernst & Young LLP. A review and evaluation of the control environment of PRL's information systems was performed. The NAIC's Information Systems Questionnaire completed by the Company was reviewed and interviews with Company staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. A review was also made of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Planning Controls, Personal Computer, Local Area Network (LAN), Wide Area Network (WAN) and Internet Controls. The control environment of the Company's information systems was found to have in place sufficient internal controls.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2008 Annual Statement. No significant exceptions were noted.

The books and records of the Company are audited annually by Ernst & Young LLP, independent certified public accountants, in accordance with 211 CMR 23.05.

COMMITMENTS AND CONTINGENCIES

The Company, along with its parent the Unum Group and other affiliates, are defendants in a number of policyholder class actions, and regulatory examinations and investigations. The Company has disclosed this information and other details of each particular case in its "Notes to Financial Statements" to the 2008 NAIC Annual Statement filing, and monitors each case closely and defends itself accordingly. Given the inherent unpredictability of litigation, it is possible that an adverse outcome in certain litigation involving punitive damages could, from time to time, have a material adverse effect on the Company's results of operations in a particular reporting period.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts and by the National Association of Insurance Commissioners, as of December 31, 2008.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2008

Summary of Operations for the Year Ended December 31, 2008

Statement of Changes in Capital and Surplus for the Year Ended December 31, 2008

Reconciliation of Capital and Surplus for the Three Year Period Ended December 31, 2008

THE PAUL REVERE LIFE INSURANCE COMPANY

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2008

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	\$ 4,097,902,665	\$ 0	\$ 4,097,902,665
Stocks:			
Preferred stocks	98,255,967		98,255,967
Common stocks	144,659,205		144,659,205
Mortgage loans on real estate:			
First liens	58,165,508		58,165,508
Real estate:			
Properties occupied by the company	18,917,854		18,917,854
Cash, cash equivalents and short-term investments	34,057,879		34,057,879
Other invested assets	37,657,647		37,657,647
Receivable for securities	15,607		15,607
Subtotals, cash and invested assets	4,489,632,332		4,489,632,332
Investment income due and accrued	70,213,712		70,213,712
Premiums and considerations:			
Uncollected premiums and agents' balances	7,990,649		7,990,649
Deferred premiums booked but not yet due	250,388		250,388
Reinsurance:			
Amounts recoverable from reinsurers	69,025,239		69,025,239
Other amounts receivable under reinsurance contract	20,486,962		20,486,962
Net deferred tax asset	51,836,368		51,836,368
Guaranty funds receivable or on deposit	613,196		613,196
Aggregate write-ins for other than invested assets	27,767		27,767
Total Assets	\$ 4,710,076,613	\$ 0	\$ 4,710,076,613

THE PAUL REVERE LIFE INSURANCE COMPANY

Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2008

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination
Aggregate reserve for life contracts	\$ 171,446,599	\$ 0	\$ 171,446,599
Aggregate reserve for accident and health contracts	3,920,298,085		3,920,298,085
Liability for deposit-type contracts	2,066,293		2,066,293
Contract claims:			
Life	706,661		706,661
Accident and health	52,896,629		52,896,629
Premiums and annuity considerations received in advance	7,059,658		7,059,658
Contract liabilities not included elsewhere:			
Other amounts payable on reinsurance	25,142,534		25,142,534
Interest Maintenance Reserve	68,600,768		68,600,768
Commissions to agents due or accrued	5,820,750		5,820,750
Commissions and expense allowances payable on reinsurance assumed	270,452		270,452
General expenses due or accrued	175,000		175,000
Taxes, licenses and fees due or accrued, excluding federal income taxes	691,325		691,325
Current federal and foreign income taxes due	229,679		229,679
Amounts withheld or retained by company as agent or trustee	129,630		129,630
Remittances and items not allocated	2,069,669		2,069,669
Borrowed money and interest thereon	5,004,375		5,004,375
Asset valuation reserve	26,953,272		26,953,272
Reinsurance in unauthorized companies	46,588,401		46,588,401
Payable to parent, subsidiaries and affiliates	6,836,251		6,836,251
Payable for securities	1,568		1,568
Aggregate write-ins for liabilities	26,785,866		26,785,866
Total Liabilities	4,369,773,466		4,369,773,466
Common capital stock	9,800,000		9,800,000
Aggregate write-ins for other than special surplus funds	231,072,696		231,072,696
Gross paid-in and contributed surplus	476,415,878		476,415,878
Unassigned funds (surplus)	(376,985,426)		(376,985,426)
Total capital and Surplus	340,303,147		340,303,147
Total Liabilities, Capital and Surplus	\$ 4,710,076,613	\$ 0	\$ 4,710,076,613

THE PAUL REVERE LIFE INSURANCE COMPANY

Summary of Operations
For the Year Ended December 31, 2008

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premium and annuity considerations	\$ 94,924,890	\$ 0	\$ 94,924,890
Net investment income	332,506,519		332,506,519
Amortization of interest maintenance reserve	4,712,324		4,712,324
Commissions and expense allowances on reinsurance ceded	114,958,715		114,958,715
Reserve adjustments on reinsurance ceded	3,854,245		3,854,245
Aggregate write-ins for miscellaneous income	58,523,976		58,523,976
Totals	609,480,669		609,480,669
Death benefits	3,217,199		3,217,199
Annuity benefits	18,796,299		18,796,299
Disability benefits and benefits under A&H policies	38,442,559		38,442,559
Group conversions	1,091		1,091
Interest and adjustments on contract or deposit-type contract funds	109,397		109,397
Payments on supplementary contracts with life contingencies	248,112		248,112
Increase in aggregate reserves for life and accident and health policies and contracts	31,555,050		31,555,050
Totals	92,369,706		92,369,706
Commissions on premiums, annuity considerations and deposit-type contract funds	31,232,384		31,232,384
Commissions and expense allowances on reinsurance assumed	7,969,067		7,969,067
General insurance expenses	62,082,437		62,082,437
Insurance taxes, licenses and fees, excl. federal income taxes	14,426,863		14,426,863
Increase in loading on deferred and uncollected premiums	102,810		102,810
Aggregate write-ins for deductions	266,787,971		266,787,971
Totals	474,971,239		474,971,239
Net gain from operations before dividends to policyholders and federal income taxes	134,509,430		134,509,430
Federal income taxes incurred (excluding tax on capital gains)	23,627,994		23,627,994
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	110,881,436		110,881,436
Net realized capital gains or (losses)	(32,320,103)		(32,320,103)
Net Income	\$ 78,561,334	\$ 0	\$ 78,561,334

THE PAUL REVERE LIFE INSURANCE COMPANY

**Statement of Changes in Capital and Surplus
For the Year Ended December 31, 2008**

	As Reported by the Company	Examination Changes	Per Statutory Examination
Capital and surplus, December 31, prior year	\$ 458,736,251	\$ 0	\$ 458,736,251
Net income	78,561,334		78,561,334
Change in net unrealized capital gains less capital gains tax	(20,367,251)		(20,367,251)
Change in net unrealized foreign exchange capital gains and (loss)	(159,515)		(159,515)
Change in net deferred income tax	28,236,381		28,236,381
Change in nonadmitted assets	(4,428,080)		(4,428,080)
Change in liability for reinsurance in unauthorized companies	(46,588,401)		(46,588,401)
Change in asset valuation reserve	10,930,556		10,930,556
Surplus Adjustment:			
Change in surplus as a result of reinsurance	(24,618,127)		(24,618,127)
Dividends to stockholders	(40,000,000)		(40,000,000)
Aggregate write-ins for gains and losses in surplus	(100,000,000)		(100,000,000)
Net change in capital and surplus for the year	(118,433,104)		(118,433,104)
Capital and surplus, December 31, 2008	\$ 340,303,146	\$ 0	\$ 340,303,146

THE PAUL REVERE LIFE INSURANCE COMPANY

**Reconciliation of Capital and Surplus
For the Three Year Period Ended December 31, 2008**

	2008	2007	2006
Capital and surplus, December 31, prior year	\$ 458,736,251	\$ 1,034,609,097	\$ 1,138,139,228
Net income	78,561,334	194,208,023	95,874,127
Change in net unrealized capital gains or (losses)	(20,367,251)	(64,564,002)	(12,316,731)
Change in net unrealized foreign exchange capital gains and (loss)	(159,515)	35,526	(747,918)
Change in net deferred income tax	28,236,381	(21,234,792)	10,733,653
Change in nonadmitted assets	(4,428,080)	15,443,635	(14,763,298)
Change in liability for reinsurance in unauthorized companies	(46,588,401)		175,098
Change in reserve on account of change in valuation basis		(72,665,655)	
Change in asset valuation reserve	10,930,556	(1,939,444)	(11,797,456)
Surplus adjustment:			
Change in Surplus as a result of reinsurance	(24,618,127)	226,764,354	(5,187,606)
Dividends to stockholders	(40,000,000)	(915,743,802)	(143,500,000)
Aggregate write-ins for gains and (losses) in surplus	(100,000,000)	63,823,312	(22,000,000)
Net change in capital and surplus for the year	(118,433,104)	(575,872,845)	(103,530,131)
Capital and surplus, December 31, current year	\$ 340,303,146	\$ 458,736,251	\$ 1,034,609,097

NOTES TO FINANCIAL STATEMENTS**Aggregate Reserves for Life and Accident and Health Contracts**

Independent actuaries from Deloitte Consulting LLP were retained by the Division to perform a review and certain actuarial analyses - principally reserves and asset adequacy analysis testing - as of December 31, 2008. In accordance with applicable Division and NAIC insurance guidance, the Company records as liabilities in its financial statements actuarially determined interest-discounted reserves that are calculated to meet future contractual obligations under outstanding policies and claims. The recorded reserves are based on statutorily recognized methods, using morbidity and mortality tables and interest rates that produce reserves at least as great as those required by the General Laws of Massachusetts, Chapter 175, Section 10: *Liability of Companies Upon Their Contracts of Insurance; Other Than Life Companies and Health Maintenance Organizations*.

These reserves include provisions for unearned premiums; future claims in excess of future premium (i.e. active life reserves); and future payment on claims that have been incurred, whether reported or not reported as of December 31, 2008 (i.e. claim reserves). In addition, there is a reserve for claim settlement expenses on such future claim payments for incurred claims.

Active life reserves on individual disability policies as established as of December 31, 2008 were demonstrated to be calculated reasonably using assumptions consistent with prescribed statutory minimum standards.

Claim reserves are established for future payments not yet due on claims already incurred, primarily relating to individual disability. Individual disability tabular claim reserves are calculated using morbidity and interest rate assumptions based on past Company experience. Reported reserves were demonstrated to be greater than those calculated using the prescribed statutory minimum standards for morbidity and interest.

For the incurred but not reported (IBNR) claim reserves, the Company was able to demonstrate that established reserves were in excess of reserves calculated on a minimum standard basis. While the methodology used to calculate reopen claims reserve does not consistently meet statutory minimum standards, shortfalls on the reopen reserves from minimum standards reserves are offset by excesses in tabular and IBNR claim reserves.

The Company has consistently failed the Schedule H – Part 3 runoff test, which demonstrates the one year runoff of claim reserves, during the period of time covered by the examination. The Company has failed the runoff test in each of the three years leading up to December 31, 2008, even on an interest-adjusted basis. However, the meaningfulness of the Schedule H – Part 3 test is limited in the context of long-tail products (such as IDI) and thus it should not necessarily be an overarching consideration in a statutory actuarial examination. Ultimately cash flow testing and a gross premium valuation analysis (the ultimate test of reserve adequacy) demonstrate that there are excess reserves for the IDI product line in total, with significant margins in the active life reserves.

The Company's asset adequacy analysis test (cash flow testing) was reviewed during the examination to determine that the assets supporting the Company's statutory reserves would be sufficient to meet the Company's obligations to its policyholders.

THE PAUL REVERE LIFE INSURANCE COMPANY

Cash flow testing as of September 30, 2008, for the IDI line showed significant surplus margins across all interest rate scenarios for active life reserves and claim reserves combined. Additionally, two sensitivity tests, whereby the Company considered adverse morbidity scenarios, were performed and both resulted in positive surplus margins. Supporting documentation was reviewed and found the testing to be sound and reasonable. Given the volatility of financial markets at the end of 2008 and the significant changes in the treasury yield curve, credit spreads, and the market value of assets supporting reserves, the Company performed additional cash flow testing procedures as of December 31, 2008, under updated and more conservative assumptions. Such procedures showed a still significant positive surplus margin across the Company. These results support the examination conclusions regarding reserve adequacy for the disability lines of business. The examination concluded that reserves are adequate and in aggregate meet or exceed minimum statutory standards under Massachusetts law.

Cash flow testing was performed for two product lines: Individual Disability Income (IDI) and Group pension (Group Annuity). The cash flow testing results of the Company was deemed to be sufficient.

The review of the Company reserves as of December 31, 2008, yielded no material exceptions. The reserves have been demonstrated to be calculated in an actuarially sound manner and to make adequate provision for claims and policy obligations. The methods and bases used comply with the laws and regulations of the Commonwealth of Massachusetts and make adequate provision for The Paul Revere Life Insurance Company's contractual obligations.

COMMENTS AND RECOMMENDATIONS

Compliance with By-Laws - Article XI – Finance Committee

Article XI of the Company's By-laws, state that the Board of Directors shall elect a Finance Committee of no fewer than two, all of whom shall be members of the Board of Directors, who shall have charge of the investment, sale, loan, or deposit of funds of the Company. According to the Minutes of the Meeting of the December 19, 2008 meeting of the Board of Directors, the Board appointed only one member to the Finance Committee, Mr. Robert C. Greving.

The Company recognizes that there was only one member of the Finance Committee at times during the period of the examination and that this is inconsistent with the By-laws. The Company has noted that members of the Finance Committee met concurrently with the Finance Committee of Unum Group and in those meetings, oversight is provided for the investments of PRL along with those of the other subsidiaries and the parent company. Mr. Greving also served as a member of the Investment Sub-Committee, a seven member body which has been appointed to provide day to day oversight of the investments in accordance with Investment Policy and Guidelines for the Company as approved by the Board.

The Company has asserted that it will either elect another member to the Finance Committee or amend the By-laws to remove the requirement that there be two members, and will therefore be in compliance with the By-laws going forward.

For Information Purposes Only

ACKNOWLEDGEMENT

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company to all the examiners during the course of the examination.

John M. Curran, CFE
Supervising Examiner and Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance
Representing Northeastern Zone, NAIC

For Information Purposes Only