

STATE OF ARIZONA
FILED

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DEPT. OF INSURANCE

REPORT OF TARGETED EXAMINATION
OF
ING LIFE INSURANCE AND ANNUITY COMPANY

NAIC# 86509

AS OF

MARCH 31, 2005

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CHRISTINA URIAS
Director of Insurance

Honorable Christina Urias
Director of Insurance
State of Arizona
2910 North 44th Street, Suite 210
Phoenix, Arizona 85108-7269

Dear Director Urias:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of Arizona, a targeted examination has been made of the market affairs of:

ING LIFE INSURANCE AND ANNUITY COMPANY

NAIC # 86509

The above examination was conducted by James R. Dargavel, FLMI, CIE, Examiner-in-Charge, Sandra Lewis, JD, CIE, Senior Market Examiner and Helene I. Tomme, CPCU, CIE, Examinations Analyst.

The examination covered the period of October 1, 2004 through March 31, 2005.

As a result of that examination, the following Report of Examination is respectfully submitted.

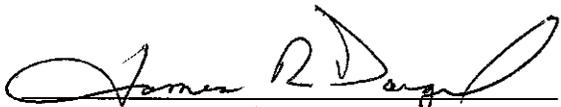
Sincerely yours,


Paul J. Hogan, JD, FLMI, ALHC, CIE
Market Oversight Administrator
Market Oversight Division

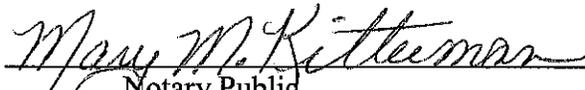
AFFIDAVIT

STATE OF ARIZONA)
) ss.
County of Maricopa)

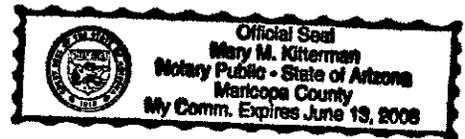
I, James R. Dargavel, FLMI, CIE, being first duly sworn state that I am a duly appointed Market Examinations Examiner-in-Charge for the Arizona Department of Insurance. That under my direction and with my participation and the participation of Sandra Lewis, JD, CIE, Senior Market Examiner and Helene I. Tomme, CPCU, CIE, Examinations Analyst, the Examination of ING Life Insurance and Annuity Company, hereinafter referred to as the "Company" was performed at the offices of the Arizona Department of Insurance. A teleconference meeting with appropriate Company officials was held to discuss this Report, but a copy was not provided to management, as the Examination was not finalized. The information contained in this Report, consisting of the following pages, is true and correct to the best of my knowledge and belief and any conclusions and recommendations contained in and made a part of this Report are such as may be reasonably warranted from the facts disclosed in the Examination Report.


James R. Dargavel, FLMI, CIE
Market Examinations Examiner-in-Charge

Subscribed and sworn to before me this 17th day of August, 2006.


Notary Public

My Commission Expires June 13, 2008



FORWARD

This targeted market examination of ING Life Insurance and Annuity Company (“Company”), was prepared by employees of the Arizona Department of Insurance (“Department”) as well as independent examiners contracting with the Department. A targeted market examination is conducted for the purpose of auditing certain business practices of insurers licensed to conduct the business of insurance in the State of Arizona. The Examiners conducted the examination of the Company in accordance with Arizona Revised Statutes (A.R.S.) §§ 20-142, 20-156, 20-157, 20-158, and 20-159. The findings in this report, including all work products developed in the production of this report, are the sole property of the Department.

The examination consisted of a review of the following components of the Company’s annuity business:

1. Provide a proper “free look period” for annuity contracts.
2. Communicate all of the required disclosures relative to annuity contracts.
3. Use of proper replacement practices.

SCOPE AND METHODOLOGY

The examination of the Company was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and the Department. The targeted market examination of the Company covered the period from October 1, 2004 through March 31, 2005 for the business reviewed. The purpose of the examination was to determine: (1) whether the Company uses annuity applications and contracts that contain the appropriate notice regarding Free Look and premium refund requirements; (2) whether the Company utilizes annuity replacement procedures and practices, and provides training to its producers that complies with the applicable statutes; (3) whether the Company uses compliant procedures for processing annuity refunds requested during the Free Look period; and (4) whether the Company provides the required disclosure documents, buyer’s guide and annual reports on all annuity applications in compliance with the applicable statutes. This examination targeted the top 75% of the Arizona individual life and annuity insurance market.

The Examiners utilized both examinations by test and examination by sample. Examination by test involves review of all records within the population, while examination by

sample involves the review of a selected number of records from within the population. Due to the small size of some populations examined, examinations by test and by sample were completed without the need to utilize computer software.

File sampling was based on a review of annuity new business files that were systematically selected by using Audit Command Language (ACL) software and computer data files provided by the Company's Representative, Mr. Richard Vynalek, Compliance Supervisor. Samples are tested for compliance with standards established by the NAIC and the Department. The tests applied to sample data will result in an exception ratio, which determines whether or not a standard is met. If the exception ratio found in the sample is, generally less than 5%, the standard will be considered as "met". The standard in the areas of procedures, forms and policy forms use will not be met if any exception is identified.

EXECUTIVE SUMMARY

This examination was completed by applying tests to each examination standard to determine compliance with the standard. Each standard applied during the examination is stated in this report and the results are reported beginning on page seven.

The Company failed Standard No. 1:

1. By using three annuity application forms and four annuity contract forms that failed to include a Free Look notice that contained a statement notifying applicants/contract holders who were 65 years or older on the date of the application that they had 30 days after delivery in which to return the annuity contract for a full refund of all monies paid; and
2. By using policies and procedures that incorrectly omitted the requirement of a 30-day Free Look for applicants/contract holders who were 65 or older on the date the application was taken.

The Company passed Standards Nos. 2, 3, 4 and 5.

STANDARD 1

The following Annuity-Only Replacement and Disclosure Standard Failed:

#	STANDARD	Regulatory Authority
1	Company annuity application and policy forms contain compliant notices concerning the policyholder's right to request benefit and contract provision information and the right to return the contract for a refund of premium.	A.R.S. § 20-1233(A), (B) & (C)

The Examiners reviewed the Company's annuity applications and forms to determine whether those forms contained notices that state the policyholder's right to request information regarding benefit and contract provisions, and the right to return the contract for a refund of premium.

Procedures Performed:

During the Phase I Examination, the Examiners reviewed three annuity application forms, four annuity contract forms and a sample of 12 of 12 the Company's individual annuities issued during the examination period.

Findings:

The Free Look policies and procedures incorrectly omitted the requirement of a 30-day Free Look for applicants/contract holders who were 65 or older on the date the application was taken.

The Examiners identified three annuity application forms used in 12 files reviewed that failed Standard 1 because the application forms failed to contain a Free Look notice that included a statement notifying applicants age 65 years or older on the date of the application that they had 30 days after delivery in which to return the annuity contract for a full refund of all monies paid, or for an adjusted refund as prescribed by law in the case of a variable annuity.

The Examiners identified four annuity contract face page forms that failed Standard 1 because the application forms failed to contain a Free Look notice that included a statement notifying applicants age 65 years or older on the date of the application that they had 30 days after delivery in which to return the annuity contract for a full refund of all monies paid, or for an adjusted refund as prescribed by law in the case of a variable annuity.

Application Form No.	Annuity Contract Form Number
75988-04	A060ESP96 (Aetna)
75988-97	A050SP99 (Aetna)
121665	IRA-CDA-03 (ING)

Application Form No.	Annuity Contract Form Number
	IRA-CDA-IC (Aetna)

SUMMARY OF FINDINGS:

ANNUITY CONTRACTS AND APPLICATION FORMS

Number of Exceptions	Population Reviewed	Percentage	Applicable Statute
7	Application and Contract forms	N/A	A.R.S. §20-1233(A)

Recommendation No. 1

Within 90 days of the filed date of this report, provide documentation that procedures and controls are in place to ensure that the Company uses annuity application forms and annuity contract forms that contain a compliant Free Look notice.

Subsequent Events

In response to preliminary findings of apparent violations of A.R.S. §20-1233(A) the Company stated that it has filed revised forms with the Department and the forms have been approved. The Company provided copies of the revised forms to the Examiners.

SUMMARY OF STANDARDS

#	STANDARD	PASS	FAIL
1	Company annuity application and policy forms contain notices concerning the policyholder's right to request information regarding benefit and contract provisions and the right to return the contract for a refund of premium that are in compliance with applicable statutes, rules and regulations.		X
2	Company internal producer training procedures and materials regarding replacement of existing coverage are in compliance with applicable statutes, rules and regulations.	X	
3	Company rules pertaining to producer and company requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.	X	
4	Company handling of requests for refunds using the "Free Look" option, or the 30 day option if the application involved replacement of existing coverage is in compliance with applicable statutes, rules and regulations.	X	
5	Company rules pertaining to providing disclosure documents, buyer's guides and providing an annual report to contract owners are in compliance with applicable statutes, rules and regulations.	X	