

DEC 08 2022

FILED

CERTIFICATION

December 8, 2022

I, Eric Dunning, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

5 STAR LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2021

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



A handwritten signature in blue ink, appearing to read "Eric Dunning".

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

5 STAR LIFE INSURANCE COMPANY


909 N. Washington Street

ALEXANDRIA, VA 22314

dated as of December 31, 2021, verified under oath by the examiner-in-charge on October 31, 2022, and received by the company on November 22, 2022, has been adopted with modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 7th day of December 2022.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', written in a cursive style.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

5 STAR LIFE INSURANCE COMPANY

as of

December 31, 2021

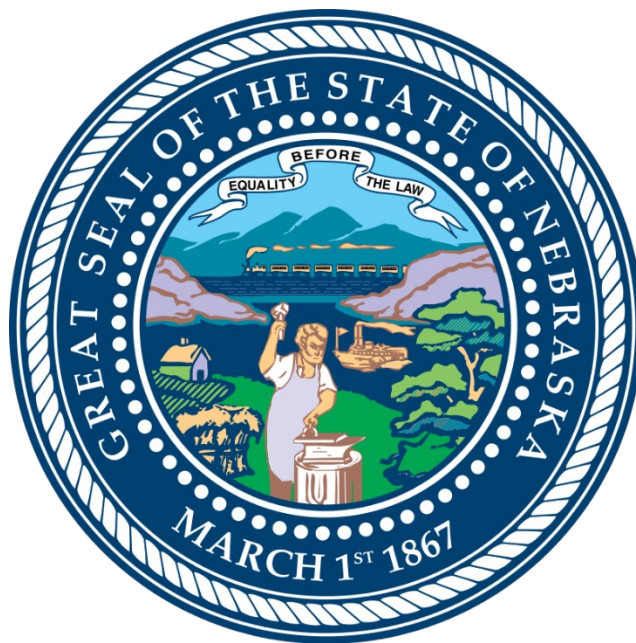


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Alexandria, Virginia
October 19, 2022

Honorable Eric Dunning
Director of Insurance
Nebraska Department of Insurance
1526 K Street, Suite 200
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

5 STAR LIFE INSURANCE COMPANY

which has its Statutory Home Office located at

**1248 O Street
Lincoln, Nebraska 68508**

with its Principal Executive Office Located at

**909 N. Washington Street
Alexandria, Virginia 22314**

(hereinafter also referred to as the “Company”), and the report of such examination is respectfully presented herein.

INTRODUCTION

The State of Nebraska last examined the Company as of December 31, 2017. The current financial condition examination covers the intervening period to, and includes the close of business on December 31, 2021 and such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

SCOPE OF EXAMINATION

The examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions when applicable to domestic state regulations.

The Nebraska Department of Insurance (NDOI) made a general review of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company." All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Shareholder, Board of Directors, and committees held during the examination period were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions, and authorization of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in the various states were inspected, and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report."

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance." Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Johnson Lambert LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2020 and 2021. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was organized on May 24, 1943 as a service insurer providing funeral expense and hospitalization coverage. Originally, the Company's name was Economy Service Insurance Company, and the Company was domiciled in Lake Providence, Louisiana. In 1967, the Company ceased issuing service policies. In 1968, the Company changed its name to United Agents Life Insurance Company of America. In 1969, the Company's Articles of Incorporation were amended to change the purpose of the Company to engage in the business of Life and Accident and Health Insurance.

Bankers General Life Insurance Company was merged into the Company in 1984. In 1985, the Company's name was changed from United Agents Life Insurance Company of America to Western Fidelity Insurance Company. On February 14, 1994, the Company was acquired by JMJ Financial Corporation.

Effective July 1, 1996, the Company was acquired by Armed Forces Benefit Services. Prior to the change in control, all business was ceded to National Group Life Insurance Company, New Era Life Insurance Company, and New Era Life Insurance Company of the Midwest, essentially rendering the Company a "shell." Subsequent to the change in ownership, Article I of the Company's Articles of Incorporation was amended changing the Company's name from Western Fidelity Insurance Company to AFBA Life Insurance Company.

The Company's Certificate of Authority was amended effective October 26, 2000 to reflect a name change from AFBA Life Insurance Company to 5 Star Life Insurance Company. The Company re-domesticated to Nebraska on December 18, 2017. The

Company markets its ordinary life products to individual and business markets and underwrites the products for the Armed Forces Benefit Association (AFBA).

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the “Ultimate Controlling Person,” as reported in the 2021 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

Armed Forces Benefit Association
Armed Forces Benefit Association Investment Trust
5Star Financial LLC
5 Star Life Insurance Company
5Star General Agency LLC

Shareholder

According to Article II of the Articles of Incorporation, “the number of shares the corporation is authorized to issue is Fifteen Thousand (15,000) shares of common stock of the par value of One Hundred Sixty-Six Dollars and Sixty-Seven Cents (\$166.67) each.”

The Company paid extraordinary cash distributions of \$2,300,000 and \$1,000,000 to the parent, 5Star Financial LLC, in 2020 and 2021, respectively. No other dividends or distributions were paid during the examination period. The Company failed to provide notice of the extraordinary distributions pursuant to Neb. Rev. Stat. §44-325 and §44-2134 and inadvertently mischaracterized the payments as dividends rather than distributions within the respective financial statements. As a result, the NDOI issued Consent Order C-2781 on June 7, 2022 for violation of Neb. Rev. Stat. §44-325 and §44-2134. Further, the Company made a correction to

the Quarterly Financial Statement as of June 30, 2022 to reverse the dividend payments and properly reflect the distributions as a reduction in paid-in capital. It is recommended that the Company provide disclosure of any future dividends and/or distributions in accordance with Neb. Rev. Stat. §44-325 and §44-2134.

Article II, paragraph 10 of the Company's By-Laws states that, "the annual meeting of Stockholders shall be held on or before June 30 of each year commencing in 2018, and continuing thereafter, at the principal office of the Company or such other place as the majority Stockholder may select, at such time as the majority Stockholder shall designate...." It was noted that the 2018 Annual Meeting was held in September 2018, which was after June 30, 2018 and was included as a finding in the prior report of examination. Annual meetings in 2019 and thereafter, have been held prior to June 30 in each year and are in compliance with the Company's By-Laws.

Board of Directors

Per Article III, paragraph 16 of the By-Laws, "all corporate powers shall be exercised by or under the authority of the Board of Directors of the Company, and the business and affairs of the Company shall be managed by or under the direction and subject to the oversight of its Board of Directors...." The Company's By-Laws, Article III, paragraph 27 states, "the Board of Directors shall consist of at least five (5) but no more than fifteen (15) persons. Directors shall be elected at an annual or special meeting of Stockholders, and the term of office of each Director shall be for one (1) year subject to the election and qualification of a successor. The term of office of a sitting member of the Board of Directors shall not be renewed after the age of 75 years, nor may a person who has reached the age of 75 years stand for election...."

The following persons were serving as Directors at December 31, 2021:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Augustus Leon Collins Madison, Mississippi	Chief Executive Officer MINACT, Inc.
Ralph Edward Eberhart Colorado Springs, Colorado	Chairman of the Board Armed Forces Benefit Association and 5 Star Life Insurance Company
Joseph Fox Rockaway Park, New York	Chief of Staff Silverseal Security, Inc.
Ronald Richard Gendreau Elgin, South Carolina	Retired
Randall Craig Horn Omaha, Nebraska	Retired
Asbury Francis Lever, III North Charleston, South Carolina	Senior Consultant American Business Development Group
Larry Oneil Spencer Lorton, Virginia	President Armed Forces Benefit Association and 5 Star Life Insurance Company
Kimberley Elizabeth Wooding Springfield, Virginia	Executive Vice President and Chief Financial Officer 5 Star Life Insurance Company

See “Subsequent Events” section of the report for additional information.

Per Article III, paragraph 44 of the By-Laws, “outside, non-employee, members of the Board of Directors of the Company and the Chairman of the Board of Directors of the Company, may receive compensation for their services and stipends for their attendance at regular or special meetings of the Board or of committees of the Company, provided that nothing herein contained shall be construed to preclude any Director from serving the Company in any other capacity and receiving compensation therefor.” As of December 31, 2021, The Chairman of the Board received annual compensation totaling \$71,760 with a

\$1,080 stipend per meeting. Independent members of the Board received annual compensation totaling \$30,240 with a \$1,080 stipend per meeting. The Company has identified a Vice Chairman who received an additional \$5,400 in compensation annually. The Audit Committee Chairman received additional compensation annually totaling \$5,400 with a \$1,080 stipend per meeting, and Audit Committee members received additional compensation annually totaling \$3,240 with a \$1,080 stipend per meeting.

Officers

Article V, paragraph 50 of the By-Laws states, “the Company shall have a President/Chief Executive Officer, a Secretary, a Chief Financial Officer/Treasurer, and one or more Vice Presidents, each of whom shall be appointed by the Chairman of the Board of Directors and ratified by the Board of Directors. The Chairman may appoint as additional officers, one or more assistants to each of the above named officers. Any two or more offices may be held by the same individual, except the office of President.”

The following is a listing of Senior Officers appointed and serving the Company at December 31, 2021:

<u>Name</u>	<u>Office</u>
Larry Oneil Spencer	President
Kimberley Elizabeth Wooding	Executive Vice President and Chief Financial Officer
Michael Ryland Moser	Senior Vice President, General Counsel and Corporate Secretary
Michael Kimo Wong	Senior Vice President and Chief Distribution Officer
James Russell Bradford	Vice President, First Responder Market
Marc Joseph Buzzelli	Vice President, Senior Actuary
Salvatore Joseph Campanile	Vice President, Worksite Voluntary Benefit and Group Sales
Michael Eugene Houchins	Vice President, Finance and Assistant Corporate Secretary
John Christopher Sachs	Vice President, Business Insurance Markets

Name

Office

Theodore George Shuey, III
Daniel Scott Swisher

Vice President, National Guard Market
Vice President, Active Duty Military and
Department of Defense Markets

Committees

Article IV, paragraph 45 of the By-Laws states, “the Board may designate one or more committees, each committee to consist of one or more of the Directors of the Company....Any such committee, to the extent provided in the resolution of the Board or in these By-Laws, shall have and may exercise such lawfully delegable powers and duties as the Board may confer.”

According to the By-Laws, Article IV, paragraph 48, “the Board shall establish an Audit Committee whose principal purpose will be to oversee the Company’s and its subsidiaries’ accounting and financial reporting process, internal systems of control, independent auditor relationships, and audits of consolidated financial statements of the Company and its subsidiaries. The Audit Committee will also determine the appointment of the independent auditors of the Company and...will assume such other duties and responsibilities as the Board may confer upon the committee from time to time.”

The following persons were serving on the Audit Committee at December 31, 2021:

Randall Craig Horn, Chairman
Ronald Richard Gendreau

Ralph Edward Eberhart
Asbury Francis Lever, III

Per Article IV, paragraph 49 of the By-Laws, “there shall be an Investment Policy Committee composed of the Chairman of the Board of Directors, who shall serve as Chairman of the Committee, the President, the Chief Financial Officer, the Chief Actuary, and the Consulting Actuary to the Company. It shall be the responsibility of the Committee (a) to assess the Company’s investment philosophy and strategy, and, from time-to-time,

recommend desirable modifications thereof; (b) to evaluate the performance of the investment managers with respect to the implementation of the Company's investment philosophy and strategy; and (c) to consider desirable investment vehicles.”

The following persons were serving on the Investment Policy Committee at December 31, 2021:

Ralph Edward Eberhart, Chairman
Kimberley Elizabeth Wooding
Marc Joseph Buzzelli

Larry Oneil Spencer
Michael Eugene Houchins
David James Orr

TRANSACTIONS WITH AFFILIATES

Master Group Life Insurance Policy

The Company's investor, AFBA, provides its members with certificates of insurance under a master group life insurance policy (the Policy) between AFBA and the Company. The Policy renews annually and may only be terminated by the Company for non-receipt of premium. AFBA may terminate the Policy without cause with 30 day notice. AFBA uses a portion of its member contributions to pay premiums to the Company due on the Policy. The premium payments are calculated in accordance with a premium retention arrangement and are equivalent to the amount of claims incurred, increases in loss reserves during the period on the programs, and a retention fee. Under the terms of this premium agreement, premiums are limited in any given year to AFBA's annual membership contributions. AFBA has no obligation to pay premiums in excess of its annual membership contributions; however, any premium deficit may be carried forward by the Company for billing in subsequent periods to AFBA. The Company carries the risk that it will continue to pay death benefits under the Policy during the Policy year with no recoverability of premium deficiency that might arise.

Premium Agreement for Term Insurance

The premium agreement between the Company and AFBA was initially entered into on May 1, 1997 and amended and restated on July 10, 2001, January 1, 2010, December 31, 2014, May 1, 2017, and January 1, 2018. The current agreement covers group term insurance programs under Policy #LT050197 and Group Policy #060101 (collectively referred to as “the AFBA Policies”), and any additional group life insurance program sponsored by AFBA, (designated in attachment to the agreement as Group Ultimate Select Term, Policy #G-UST100, AFBA Multi-Association Group Insurance Alliance Trust FBO National Guard Association of California, Policy #MAT-CA 05012017, and AFBA Multi-Association Group Insurance Alliance Trust, Policy #AFBA/MAT 090116).

The premium agreement states that AFBA shall remit contracted premiums to the Company as the sum of:

- (a) Claims incurred under the AFBA Policies and related interest expense;
- (b) Retention charges of 3% of the Policyholder member contributions collected;
- (c) Provision for premium tax based on the effective state premium tax rate;
- (d) Reserves determined under the Commissioners’ Reserve Valuation Method; and
- (e) Except that, the payment amount is limited, in the annual premium due to the Company from AFBA in any policy year cannot exceed the member contributions received by AFBA during the same policy year.

The premium agreement provides that AFBA, as policyholder, unconditionally guarantees payment of premiums and conversion fees due to the Company as calculated in the agreement within 30 days of receipt of written notice from the Company. AFBA represents and warrants that it has on hand cash funds and other liquid assets in amounts sufficient to collateralize fully all premiums payable to the Company.

The premium agreement states that premiums payable to the Company shall be reviewed retrospectively on an annual basis and increased or decreased as considered necessary. Such premiums shall be remitted to the Company by AFBA within 30 days following termination of the agreement or promptly upon written request from the Company, whichever occurs first.

Premiums related to the reserve calculations (as noted in (d) above) are carried as Accrued Retrospective Premiums (ARP) asset and do not exceed 20% of admitted surplus at December 31, 2021. Beginning in 2003, the Company obtained a Promissory Note from AFBA to secure 100% of the ARP asset and to provide assurance that the secured amount is due on demand. The note is rewritten on a yearly basis to correspond to the annually changing ARP balance. The amount due for ARP and corresponding Promissory Note at December 31, 2021 was \$0.

Amounts due to AFBA were \$1,501,760 and due from AFBA were \$2,598,694 at December 31, 2021.

Agreement to Provide Common Services Support and Pension Benefits

The Company operates under an intercompany management agreement with AFBA through the AFBA Investment Trust, and 5Star Financial LLC (the Parent). Under this agreement, which was effective December 18, 2017, the Parent shall be appointed as the Employer Agent for the Company for the purpose of the payment of wages, remittance of employment taxes and backup withholding. The Company will reimburse the Parent for the payment of wages and related remittances incurred on its behalf. Employee service costs are shared by the parties on an equitable reimbursement basis as described in exhibits attached to the agreement. The parties to the agreement share in the services of the Internal

Audit Department of AFBA. The Company will reimburse AFBA for a percentage of total salary and benefit costs as outlined in the agreement. The Company pays AFBA its pro-rata share of the net periodic pension costs calculated by AFBA's pension actuary at the commencement of each plan year and is outlined in exhibits attached to the agreement.

AFBA agrees to provide promotional mailing for the Company, free of charge as long as additional promotional mailing pieces do not result in increased postage at which time the additional costs will be borne by the Company. AFBA shall perform, or cause to be performed, application processing, medical underwriting review services, computer imaging services, contract administration, customer and field service representative support service, and death claims processing for all insurance certificates/policies directly or indirectly underwritten by the Company with the exception of the Master Service Agreement between the Company and Transaction Applications Group. The Company is charged on a per certificate basis for acquisition costs and on the average in-force outstanding for processing and administration costs.

AFBA and the Company share in the resources of the 5Star Life Policy Administration System and a claims administration system. AFBA pays a system usage fee to the Company for the use of both systems. AFBA, the Parent, and the Company share in the costs associated with acquiring and operating the computing communication infrastructure with costs allocated as outlined in exhibits attached to the agreement. AFBA and the Company pay rental fees for office space to the parent.

Total gross benefits received and gross costs incurred under the agreement for processing, administration, and other related services were \$53,129 and \$2,140,580, respectively, in 2021.

During the examination period, the Company failed to file a Form D for amendments to the agreement in accordance with Neb. Rev. Stat. §44-2133. It is recommended that all subsequent amendments to this agreement be filed with the NDOI in compliance with Neb. Rev. Stat. §44-2133. The Form D filing for subsequent amendment has not been made as of the date of examination.

Consolidated Federal Income Tax Return

Effective June 1, 2006, the Company was included in a written tax agreement with 5Star Financial LLC, 5Star Bank, and AFBA 5Star Investment Management Company. This agreement was approved by the Company's Board of Directors. Under the agreement, Federal income taxes are calculated as if each of the companies filed taxes on a separate return basis. The agreement properly includes settlement dates in accordance with SSAP 101, paragraph 17.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in all states with the exception of New York and in the District of Columbia, American Samoa, Guam, Puerto Rico, and the U.S. Virgin Islands.

The Company's primary objective is to be the select provider of life insurance products, without war or terrorism clauses nor occupational or geographic restrictions, to AFBA members. Additionally, the Company targets other niche markets and customers not restricted by AFBA's membership requirements. The markets are split into two distribution channels, one supporting sales to the AFBA membership, First Responders, and National Guard markets, and the other supporting sales to employers and worksite markets.

The Company's primary distribution system within each channel is through an independently contracted agent sales force. Distribution is separated by line of business to include the Company's employer/employee worksite insurance market and member benefit insurance programs for AFBA. Member benefit markets for AFBA include the First Responder markets, National Guard markets, and Active-Duty military markets. The First Responder and National Guard markets are represented by two exclusive general agencies and their national briefing teams. The Active-Duty military market utilizes legacy regional sales directors (RDs) located near military installations throughout the country. The Company's worksite team uses independent agent brokers and specialty enrollment benefit firms for distribution. Regional Marketing Directors (RMDs) for the worksite markets are employees of the Company, whereas the RDs in the AFBA markets are independently contracted with the organization. The RDs, RMDs, and key brokers are responsible for recruiting, training, meeting and developing sales objectives, local conflict resolution, and marketing for their region. Approximately 440 agents report to the AFBA RDs, and there are 1,625 agents, brokers and enrollment firms servicing the worksite/group employer markets.

The Company has developed an online application system for certain of its products, whereby potential customers and agents can utilize web-based platforms to complete insurance applications, sign via electronic signature and receive secure electronic delivery of policy documents. The online system is not available directly to consumers, however, and requires access through an agent. The Company's worksite products are typically applied for utilizing various electronic enrollment platforms. Additionally, auto-

issue programming has been designed for certain products with minimal underwriting requirements.

REINSURANCE

Assumed

The Company reported two small assumed reinsurance treaties at year-end 2021. The first of these arrangements has been in effect since 1996 with John Hancock Life & Health Insurance Company (John Hancock) and covers business written for AFBA by John Hancock in the State of New York where the Company is not licensed. At year-end 2021, it accounted for assumed premiums and reserves totaling approximately \$53,161 and \$680,639, respectively.

The second assumed treaty is with National Guardian Life Insurance Company covering Group Accident Only and Group Fixed Indemnity Benefit policies. This arrangement became effective January 1, 2016 and terminated for new business effective December 31, 2020 and for renewal business on December 31, 2021. At year-end 2021, it accounted for assumed premiums and reserves totaling approximately \$292,524 and \$0, respectively.

Ceded

The Company has historically marketed several fixed term products and at all relevant times has reinsured roughly one-half of its mortality risk arising from these products. This reinsurance has generally been placed with “A-rated” counterparties who have reinsured a portion of the risk arising from the various life insurance products sold by the Company.

The oldest of these arrangements is an agreement initially effective in 2000 with Lincoln National Life Insurance Company (Lincoln National) wherein the Company cedes

both individual and group “XXX Term” business to Lincoln National on a 50% coinsurance basis. The contract accounts for ceded premiums and reserve credits of approximately \$1.57 million and \$30.27 million respectively at year-end 2021. This treaty was closed to new business effective August 15, 2005.

Following the closing of the Lincoln National contract, the Company entered into a new coinsurance arrangement with Swiss Re Life & Health Insurance Company (Swiss Re). This contract covered business written after August 15, 2005 through a 50% coinsurance of ordinary and group guaranteed level term programs that required “XXX” reserves. This contract was ultimately closed to new business effective June 30, 2009 at which time it was replaced through a new 50% coinsurance treaty with Swiss Re which covered term products issued after the effective date. Effective April 1, 2014, the Company and Swiss Re entered into a third coinsurance arrangement. This contract provided the Company with 80% coinsurance reinsurance covering the Company’s “final expense” product line. This product was discontinued effective December 31, 2016 at which time the reinsurance agreement was concurrently closed to new business.

Based on these reinsurance arrangements as described above, at all relevant dates in time, the maximum net per-life exposure to the Company has been \$500,000. Collectively, these contracts accounted for ceded premiums and reserve credits totaling \$8 million and \$44 million, respectively, at the December 31, 2021 examination date.

Through a treaty effective December 31, 2016, the Company entered into a 100% coinsurance with funds held treaty with Hannover Life Reassurance Company of America covering an in-force block of certain 2016 issues of ordinary term life insurance sold through the Company’s “worksite market” business line. Under the terms of this arrangement, the

Company received a \$5.7 million ceding commission in exchange for the future underwriting profits associated with this block of business. Beginning in 2017, the Company is entitled to receive a quarterly experience refund if underwriting profits exceed established target thresholds stipulated in the reinsurance treaty. During 2021, the Company recorded \$2.46 million in ceded premiums net of any experience refunds through this arrangement. Ceded reserve credits totaled less than \$2.42 million at year-end 2021.

In addition to the above described reinsurance arrangements, the Company also has a coinsurance treaty with Optimum Reinsurance Company covering a 50% share of their critical illness benefit losses. During 2021, a total of \$136,814 premiums were ceded pursuant to this arrangement, and at year-end 2021, no reserve credits were recorded under the treaty.

The largest segment of the Company's business involves insuring the AFBA Group Life Insurance program. For all intents and purposes, this program is fully reinsured through a treaty in effect with the U.S. Branch of Canada Life Assurance Company (Canada Life) which covers the Group Life business issued under the AFBA Group Policy. The arrangement is structured such that Canada Life is responsible for the amount by which death claims and related expenses paid by the Company exceed the aggregate premium received from the AFBA. The net cost for this coverage is \$2.50 per \$1,000 of Net Amount at Risk accompanied by an experience refund which can lower the net cost to a "risk charge" of \$1.40 per \$1,000. This pricing structure, when compared with the "retention charge," i.e. the comparable component of the Company AFBA group program, provides the Company a minimal spread of approximately \$0.50 per \$1,000.

Under this arrangement, gross premiums ceded and experience refunds received during 2021 were \$110.3 million and \$109.8 million, respectively. The activity associated

with this reinsurance contract also accounts for the majority of both a receivable for amounts due from reinsurers of \$26.8 million as well as a write-in liability for amounts due to reinsurers totaling \$28.3 million at year-end 2021. The reinsurance agreement contains an industry standard offset clause allowing the receivable to be netted against the payable, thus ensuring the collectability of this significant asset reported on the 2021 Annual Statement.

General

The contracts reviewed contained a standard insolvency, arbitration, errors and omissions, and termination clause where applicable. The contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Bonds	\$223,380,295	\$230,387,294	\$234,588,924	\$234,362,659
Admitted assets	302,153,187	310,614,674	313,483,288	324,192,055
Aggregate reserves for				
life contracts	200,474,499	201,808,861	201,406,866	199,403,485
Total liabilities	274,096,403	279,820,390	285,505,078	293,909,138
Capital and surplus	28,056,784	30,794,284	27,978,210	30,282,917
Premiums earned	129,960,989	124,287,774	135,651,330	165,172,210
Net investment income	9,676,770	9,187,197	9,309,968	9,780,873
Death benefits	105,470,312	102,121,982	116,884,531	146,079,944
Disability benefits	89,791	359,541	317,650	1,583,766
Net income	(342,973)	2,393,732	1,172,173	1,976,837
Life insurance in-force (000s omitted)	52,238,878	54,205,345	54,549,759	53,393,198

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the NDOI and present the financial condition of the Company for the period ending December 31, 2021. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2021

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$234,362,659		\$234,362,659
Common stocks	756,800		756,800
Cash and cash equivalents	3,845,155		3,845,155
Contract loans	6,616,869		6,616,869
Other invested assets (Schedule BA)	<u>2,799,517</u>	<u>148,113</u>	<u>2,651,404</u>
Subtotals, cash and invested assets	\$248,381,000	\$ 148,113	\$248,232,887
Investment income due and accrued	2,400,206		2,400,206
Uncollected premiums and agents' balances in the course of collection	38,191,998	182,609	38,009,389
Amounts recoverable from reinsurers	2,010,458		2,010,458
Other amounts receivable under reinsurance contracts	26,789,829		26,789,829
Current federal income tax recoverable and interest thereon	44,508		44,508
Net deferred tax asset	9,349,159	5,415,155	3,934,004
Guaranty funds receivable or on deposit	123,699		123,699
Electronic data processing equipment and software	1,125,951	1,125,951	
Furniture and equipment	4,716	4,716	
Receivables from parent, subsidiaries and affiliates	2,598,820		2,598,820
Prepaid expenses	440,691	440,691	
Miscellaneous receivables	49,005	750	48,255
Agent balance	<u>340,931</u>	<u>340,931</u>	
Totals	<u>\$331,850,971</u>	<u>\$7,658,916</u>	<u>\$324,192,055</u>

Liabilities, Capital and Surplus

Aggregate reserve for life contracts	\$199,403,485
Aggregate reserve for accident and health contracts	22,062
Contract claims: Life	37,998,798
Contract claims: Accident and health	679,785
Premium and annuity considerations for life and accident and health contracts received in advance	889,661
Provision for experience rating refunds	212,829
Interest maintenance reserve	866,773
Commissions to agents due or accrued	702,266
Commissions and expense allowances payable on reinsurance assumed	403
General expenses due or accrued	3,080,496
Taxes, licenses and fees due or accrued, excluding federal income taxes	781,282
Unearned investment income	160,092
Remittances and items not allocated	223,267
Borrowed money	14,000,000
Asset valuation reserve	1,427,301
Payable to parent, subsidiaries and affiliates	1,501,858
Funds held under coinsurance	1,781,448
Escheat funds liability	1,737,372
Amounts due to reinsurers	28,339,870
Guaranty fund assessment liability	<u>100,090</u>
Total liabilities	<u>\$293,909,138</u>
Common capital stock	\$ 2,500,050
Gross paid in and contributed surplus	50,521,049
Unassigned funds (surplus)	<u>(22,738,182)</u>
Total capital and surplus	<u>\$ 30,282,917</u>
Totals	<u>\$324,192,055</u>

SUMMARY OF OPERATIONS - 2021

Premiums and annuity considerations for life and accident and health contracts	\$165,172,210
Net investment income	9,780,873
Amortization of interest maintenance reserve	367,320
Commissions and expense allowances on reinsurance ceded	1,371,194
Other income	52,377
System usage fee	53,129
Conversion charge	<u>749,871</u>
Totals	\$177,546,974
Death benefits	\$146,079,944
Disability benefits and benefits under accident and health contracts	1,583,766
Surrender benefits and withdrawals for life contracts	2,144,725
Increase in aggregate reserves for life and accident and health contracts	<u>(1,981,319)</u>
Totals	\$147,827,116
Commissions on premiums, annuity considerations and deposit-type contract funds	\$ 7,915,491
Commissions and expense allowances on reinsurance assumed	100,693
General insurance expenses	15,749,106
Insurance taxes, licenses and fees, excluding federal income taxes	<u>4,100,850</u>
Totals	\$175,693,256
Net gain from operations before federal income taxes and net realized capital gains	\$ 1,853,718
Federal income taxes incurred	(120,058)
Net realized capital gains	<u>3,061</u>
Net income	<u>\$ 1,976,837</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Capital and surplus, beginning	\$28,861,212	\$28,056,784	\$30,794,284	\$27,978,210
Net income	\$ (342,973)	\$ 2,393,732	\$ 1,172,173	\$ 1,976,837
Change in net unrealized capital gains (losses)	25,069	49,568	(46,977)	(7,563)
Change in net deferred income tax	315,292	(751,617)	35,073	(615,720)
Change in nonadmitted assets	(934,578)	1,161,990	(1,652,518)	2,021,573
Change in asset valuation reserve	132,762	(116,173)	(23,825)	(70,419)
Surplus adjustment: Paid in dividends to stockholders	_____	_____	_(2,300,000)	_(1,000,000)
Net change for the year	\$ (804,428)	\$ 2,737,500	\$ (2,816,074)	\$ 2,304,707
Capital and surplus, ending	\$28,056,784	\$30,794,284	\$ 27,978,210	\$30,282,917

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$(22,738,182), as reported in the Company's 2021 Annual Statement, have been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

2018 Annual Meeting of Stockholder – It is recommended that the Company comply with its By-Laws and hold the annual meeting of the Stockholder on or before June 30 of each year.

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There are no additional comments or recommendations that have been made as a result of this examination.

SUBSEQUENT EVENTS

DIRECTORS

The following changes in Directors were made subsequent to the examination period.

- Effective September 1, 2022, John F. Sampa has been elected Director.
- Effective December 31, 2022, Ralph Edward Eberhart, Chairman of the Board of Directors will retire as a Director.
- Effective December 31, 2022, Asbury Francis Lever III will retire as a Director.
- Effective January 1, 2023, Larry Oneil Spencer, President of 5 Star Life Insurance Company and current Director, will become the Chairman of the Board.
- Effective January 1, 2023, Ronald Richard Gendreau will become Lead Independent Director.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination:

Dividends - It is recommended that the Company provide the adequate disclosure of its dividends and/or distributions in compliance with Neb. Rev. Stat. §44-325 and §44-2134.

Amendments to Cost Sharing Agreements - It is recommended that all subsequent amendments to cost sharing agreements be submitted as a Form D filing with the NDOI in compliance with Neb. Rev. Stat. §44-2133.

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, W.A. O'Connell, CPA, CFE, CFE (Fraud); Brad Myers, CISA, CISM, CISSP and Stefan Obereichholz-Bangert, AES, CISA, CISM, CDPSE, IT Examiners; all with Noble Consulting Services, Inc.; Skyler Lawyer, CFE and Brian Davis, CFE with the Nebraska Department of Insurance; and Mark Alberts, FSA, MAAA, of Alberts Actuarial Consulting LLC, Actuarial Examiner; all with or representing the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Julie K. Smith, CFE
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the Department of Insurance
State of Nebraska



Andrea Johnson, CFE
Assistant Chief Examiner – Field
Department of Insurance
State of Nebraska

State of Colorado,

County of Douglas,

Julie K. Smith, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of 5STAR LIFE INSURANCE COMPANY.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of 5STAR LIFE INSURANCE COMPANY was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

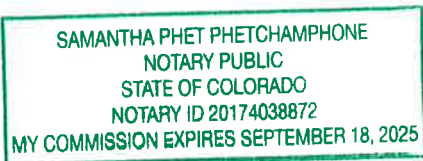
The affiant says nothing further.

Julie K. Smith
Examiner-in-Charge's Signature

Subscribed and sworn before me by Julie K. Smith on this 31st day of October, 20 22.

(SEAL)

Samantha Phet Phetchamphone
Notary Public



My commission expires September 18, 2025 [date].