

JUN 13 2019

# CERTIFICATION

FILED

June 13, 2019

I, Bruce R. Range, 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

**ASSURITY LIFE INSURANCE COMPANY**

**2000 Q STREET**

**LINCOLN, NE 68503-3608**

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.



*Bruce R. Range*  
\_\_\_\_\_  
DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

**ASSURITY LIFE INSURANCE COMPANY**

**2000 Q STREET**

**LINCOLN, NE 68503-3608**

dated as of December 31, 2017 verified under oath by the examiner-in-charge on  
May 31, 2019 and received by the company on June 3, 2019, has been adopted  
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 11th day of June 2019.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', is written over a horizontal line.

Justin C. Schrader, CFE  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**ASSURITY LIFE INSURANCE COMPANY**

**as of**

**December 31, 2017**



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Lincoln, Nebraska  
April 19, 2019

Honorable Bruce R. Ramage  
Director of Insurance  
Nebraska Department of Insurance  
1135 M Street, Suite 300  
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:

**ASSURITY LIFE INSURANCE COMPANY**  
**2000 Q Street**  
**Lincoln, Nebraska 68503-3608**

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

**INTRODUCTION**

The Company was last examined as of December 31, 2013 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2017, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska and New York participated in this examination and assisted in the preparation of this report.

The same examination staff conducted a concurrent financial condition examination of the Company’s subsidiary, Assurity Life Insurance Company of New York.

**SCOPE OF EXAMINATION**

This 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 examination was completed under coordination of the holding company group approach with the Nebraska Department of Insurance as the coordinating state and the New York Department of Financial Services. The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

A general review was made 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, and approval of investment transactions were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. 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 KPMG LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2016 and 2017. 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 can trace its roots back to three Nebraska insurance companies, Woodmen Accident and Life Company (Woodmen), Security Mutual Life Insurance Company and Lincoln Mutual Life Insurance Company. These three companies, including their respective mutual holding companies and related subsidiaries, are the underpinnings of Assurity Life Insurance Company.

Grand Insurance Company (Grand) was organized and commenced business March 20, 1964 as a Michigan insurance company specializing in credit insurance. Grand's Articles of Incorporation were amended to that of a life and disability insurance company effective January 1, 1969. Foremost Life Insurance Company, an Arizona company, was merged into the Company during 1969. On the effective date of the merger, Grand any changed its name to Foremost Life Insurance Company.

On June 11, 1996, one hundred percent of the Company's outstanding capital stock was acquired by Woodmen. Effective August 12, 1996 the name of the Company was changed to Assurity Life Insurance Company. The Company was redomesticated to the State of Nebraska on April 1, 1998.

On August 26, 1999, Woodmen filed a Plan of Reorganization with the Nebraska Department of Insurance. The Plan, which was approved by eligible policyholders and the



Nebraska Department of Insurance, became effective on December 31, 1999. Under the Plan, Woodmen was reorganized from a mutual life insurance company to a stock life insurance company. Further, a mutual insurance company, WFR Mutual Insurance Holding Company (WFR), and an intermediate stock holding company, Woodmen Financial Resources, Inc., were formed. On the effective date, Woodmen issued ten million shares of common stock to WFR. Immediately upon this issuance, WFR exchanged the shares of the Company for one hundred million shares of the capital stock of Woodmen Financial Resources, Inc.

On March 1, 2001, with the approval of the Nebraska Department of Insurance, Lincoln Mutual Holding Company (LML) was merged into WFR. Similarly, LML was merged into the intermediate stock holding company of WFR, Woodmen Financial Resources, Inc. The mutual holding company changed its name to Lincoln Insurance Group. The intermediate stock holding company changed its name to LIG, Inc. All policyholders became members of Lincoln Insurance Group. All policy obligations were unaffected by the consolidation.

Effective October 1, 2003, Woodmen merged with and into the Company. For purposes of voting rights under the Nebraska Mutual Holding Company Act, policy owners/members of Woodmen on the effective date and those persons who became policy owners of the Company after the effective date, were voting members of the Mutual Holding Company. The owners of policies issued by the Company prior to the effective date were not considered members of the Mutual Holding Company and were not granted membership rights as a result of the merger.

On September 1, 2004, the Nebraska Department of Insurance approved the merger of Security Mutual Life Nebraska Holding Co. into Lincoln Insurance Group, Inc. with the surviving mutual holding company changing its name to Assurity Security Group, Inc. Also

merging were SML Holding Co into LIG, Inc. LIG, Inc. then changed its name to ASG, Inc. The mergers were effective January 1, 2005.

Effective January 1, 2005, Lincoln Direct Life Insurance Company, an affiliate since the March 1, 2001 holding company mergers, was merged with and into the Company.

Effective January 1, 2007, Security Financial Life Insurance Company, an affiliate since the September 1, 2004 merger of mutual holding companies, was merged with and into Assurity Life Insurance Company. Also effective January 1, 2007, the intermediate stock holding company's name was changed from ASG Inc. to Security Financial Inc.

In 2015, Assurity Security Group, Inc. and Security Financial Inc. changed names to Assurity Group, Inc. and Assurity Holdings, Inc. respectively.

## **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 2017 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Assurity Group, Inc.
  - Assurity Holdings, Inc.
    - Assurity Life Insurance Company
      - Assurity PEO Holdings Inc.
        - Resourcing Edge Holding Company LLC (83% Membership Interest)
    - Assurity Life Insurance Company of New York
    - Assurity Ventures Inc.
    - Assurity Real Estate Development Inc.

## **Shareholder**

Article II, Section 2.1 of the Company's By-Laws states that, "not later than June 30 of each year, the Shareholder of the Corporation will elect or designate the members of the Board of Directors of the Corporation and transact such business as is necessary or appropriate."

Article V of the Company's Articles of Incorporation further states that, "the aggregate number of shares which the Corporation shall have authority to issue is Fifty Thousand (50,000) shares of capital stock having a par value of Fifty Dollars (\$50) per share." Company records indicate that 50,000 shares were issued and outstanding at year-end 2017. All of the issued capital stock of the Company is held by Assurity Holdings, Inc.

## **Board of Directors**

Article III, Section 3.1 of the Company's By-Laws states that, "the business and affairs of the Corporation shall be managed by its Board of Directors." Section 3.2 of Article III further states that, "the Board of Directors shall consist of not less than five (5) members. Directors shall be elected or designated for one-year terms and until their successors have been qualified and elected, but shall serve at the pleasure of the Shareholder and may be removed at any time, with or without cause."

The following persons were serving as Directors at December 31, 2017:

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>
William Robert Cintani Lincoln, Nebraska	President and Chief Executive Officer Mapes Industries
Ryan David Downs Omaha, Nebraska	President and Chief Executive Officer Proxibid, Inc.
Steven Duane Erwin Lincoln, Nebraska	President U.S. Bank National Association
Kathleen Anne Farrell Lincoln, Nebraska	Dean, College of Business Administration University of Nebraska, Lincoln

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>
David Swanson Graff Lincoln, Nebraska	Chief Executive Officer HUDL
Caren Lee Hamilton Omaha, Nebraska	Owner Beardmore Chevrolet
Thomas Edward Henning Lincoln, Nebraska	President and Chief Executive Officer of the Company
Marc Edward LeBaron Lincoln, Nebraska	Chairman and Chief Executive Officer Lincoln Industries
Angela Lynn Muhleisen Lincoln, Nebraska	President and Chief Executive Officer Union Bank and Trust Company
Paul Michael Schudel Lincoln, Nebraska	Partner Woods & Aitken, LLP
Lyn Wallin Ziegenbein Omaha, Nebraska	Director Emerita Peter Kiewit Foundation

### **Officers**

Article V, Section 5.1 of the Company’s By-Laws states that, “the Officers of the Corporation may include a Chairman of the Board of Directors and shall include a Chief Executive Officer, President, one or more Executive or Senior Vice Presidents, a Chief Financial Officer, a Chief Investment Officer, a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors. Such other Officers and Assistant Officers as may be deemed necessary may be elected or appointed by the Board of Directors or Chief Executive Officer. Any two or more offices may be held by the same person, except that the Chairman or President may only additionally hold the office of Chief Executive Officer.” Section 5.2 of Article V further states, “the Officers shall be elected by the Board of Directors annually. The Board of Directors, in its discretion, may elect or appoint a Chairman. The term of office for each Officer shall be for one year or until the due election and qualification of his or her successor.”

The following is a listing of Officers elected and serving the Company at December 31, 2017:

<u>Name</u>	<u>Office</u>
Thomas E. Henning	Chairman, President and Chief Executive Officer
Susan L. Keisler-Munro	Senior Vice President, Chief of Operations
Todd W. Reimers	Senior Vice President, Chief Marketing Officer
Marvin P. Ehly	Vice President, Chief Financial Officer and Treasurer
David D. Lockwood	Vice President, Chief Investment Officer
John A. Sharp	Vice President, General Counsel and Secretary

#### Committees

Article IV, Section 4.1 of the Company's By-Laws states that, "each year, the Board shall elect not less three (3) of its members to serve with the Chief Executive Officer as the Executive Committee. The Executive Committee shall exercise all of the powers of the Board between meetings of the Board, except as prohibited by law."

The following persons were serving on the Executive Committee at December 31, 2017:

William Cintani	Steven Erwin
Kathy Farrell	Thomas Henning
Marc LeBaron	Paul Schudel

Article IV, Section 4.2 of the Company's By-Laws states that, "each year, the Board shall elect not less three (3) of its members, each of whom shall be independent Directors, as defined by the Corporation's Board Policies and all applicable laws or regulations, to serve as the Audit Committee. The Committee shall be responsible for assisting the Board of Directors in fulfilling its oversight responsibilities related to the financial reporting process, internal controls and risk

management, the internal and external audit functions, and significant regulatory and compliance activities.”

The following persons were serving on the Audit Committee at December 31, 2017:

William Cintani	Steven Erwin
Marc LeBaron	Lyn Ziegenbein

Article IV, Section 4.3 of the Company’s By-Laws states that, “each year, the Board shall elect not less three (3) of its members to serve as the Investment and Finance Committee. A majority of the Directors shall be independent Directors as defined by the Corporation’s Board Policies. The Investment and Finance Committee’s role is to oversee the Corporation’s investment and corporate finance transactions, management, policies and guidelines.”

The following persons were serving on the Investment and Finance Committee at December 31, 2017:

William Cintani	Steven Erwin
Angie Muhleisen	Caren Hamilton
Thomas Henning	Marv Ehly
Kevin Faltin	Kevin Hammond
Steve Hill	Susie Keisler-Munro
David Lockwood	Todd Reimers
Vic Weber	Brett West

Article IV, Section 4.4 of the Company’s By-Laws states that, “each year, the Board shall elect not less three (3) of its members, each of whom shall be independent Directors as defined in the Corporation’s Board policies, as the Corporate Governance Committee. The Corporate Governance Committee’s role is to assist the Board of Directors in implementing and monitoring corporate governance policies and practices of the Corporation.”

The following persons were serving on the Corporate Governance Committee at December 31, 2017:

Kathleen Farrell	David Graff
Lyn Ziegenbein	Marc LeBaron
Paul Schudel	Tom Henning

Article IV, Section 4.5 of the Company's By-Laws states that, "each year, the Board shall elect not less three (3) of its members, each of whom shall be independent Directors as defined in the Corporation's Board policies, as the Compensation Committee. The Compensation Committee's role is to assist the Board of Directors in the discharge of responsibilities in relation to compensation of the Corporation's employees and Executive Officers.

The following persons were serving on the Compensation Committee at December 31, 2017:

Ryan Downs	Kathleen Farrell
Caren Hamilton	Angie Muhleisen
Paul Schudel	

Article IV, Section 4.6 of the Company's By-Laws states that, "the Board may establish and discontinue standing committees as it may from time to time consider necessary and proper, delegating to each of them such responsibilities and authority as it may deem appropriate and designate a chairman of each committee." This authority was utilized to establish an Innovation and Technology Committee.

The following persons were serving on the Innovation and Technology Committee at December 31, 2017:

Ryan Downs	David Graff
Marc LeBaron	Tom Henning
Susie Keisler-Munro	Eric Otterstein

## **TRANSACTIONS WITH AFFILIATES**

### **Service Agreement**

The Company entered into a Service Agreement between the Company and Assurity Life Insurance Company of New York (ALICNY), effective December 11, 2015. The Company shall provide the following services to ALICNY: general management, policyholder, producer, claims management, policy filing, information technology, new business and underwriting, corporate actuarial, product actuarial, accounting, marketing, and legal and compliance. ALICNY agrees to reimburse the Company at cost for services and facilities provided by the Company pursuant to this agreement. Payments shall be made on no less than a quarterly basis. This agreement may be terminated by any party by giving 90 days written notice to the other parties.

### **Investment Service Agreement**

The Company entered into an Investment Service Agreement between the Company and ALICNY, effective December 11, 2015. The Company shall provide treasury and investment services to ALICNY. ALICNY agrees to pay a fee to the Company of 25 basis points of investable assets for performing services pursuant to the agreement. ALICNY shall bear the cost of all reasonable out-of-pocket costs incurred by the Company. The invoice of the fees and expenses incurred by the Company during the previous quarter shall be due within 30 days from the date of the invoice. This agreement shall not be modified except by writing duly signed by each of the parties, and may be terminated by any party by giving 60 days written notice to the other parties.

### **Tax Allocation Agreement**

The Company entered into a Tax Allocation Agreement with Assurity Group, Inc., Assurity Holdings, Inc., and ALICNY, effective December 11, 2015. According to the terms of



the agreement, the Company, on behalf of the parties, will file a consolidated federal income tax return for each tax for which it is eligible to do so. The Company shall also compute and accrue the separate liabilities or benefits, if applicable, for federal and state income taxes of each party. The computation shall take into account all taxable income and tax deductible expense items of each party on an individual basis and shall be performed so as to compute the separate tax liability or tax benefit of each party, independent of any other members of the consolidated group. Each party's liability may be paid to the Company annually or, at the Company's option, quarterly at or around the 15th of April, June, September, and December, when the Company is lawfully obligated to make estimated federal income tax payments. The parties shall make final settlement of prior year's tax liability not later than 10 days after filing the Federal and State consolidated income tax returns. This agreement shall not be modified or terminated except by writing duly signed by each of the parties, and may be terminated by any party by giving 30 days written notice to the other parties.

#### **TERRITORY AND PLAN OF OPERATION**

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in the District of Columbia and all states except New York. Business is produced primarily through two divisions, Individual and Worksite Sales, and is based on a regional team structure. All sales are under the direction of the Senior Vice President and Chief Marketing Officer. Assurity has two distinct sales channels – an individual sales channel and a business sales channel. Both are independent, general brokerage system operations. The individual sales channel is focused on recruiting national marketing organizations and smaller managing general agents who provide a varying degree of services to their downline hierarchy and bring their network of producers to Assurity, usually for selected product offerings. The

business sales channel is primarily focused on developing a network of worksite brokers to work with directly versus through a hierarchy of other management.

## **REINSURANCE**

### **Assumed – Disability Income**

Commencing September 1, 2000, the Company assumed the individual disability income business in force of Farm Bureau Life Insurance Company of West Des Moines, Iowa (Farm Bureau Life) on a 100% coinsurance basis.

Beginning September 1, 2001 the Company entered into a treaty with Farm Bureau Life. Under this agreement, the Company again assumed the individual disability business acquired by Farm Bureau Life from the Kansas Farm Bureau Life of Manhattan, Kansas on a 100% coinsurance basis.

### **Ceded – Individual Life**

Whole Life products are reinsured on a yearly renewable term basis. The Company retains the first \$275,000, all ages, standard and substandard risks with a minimum cession of \$25,001. The reinsurer will automatically bind the Company to a maximum of \$1,500,000 ages Zero to Seventy, Standard to Table 16. The Waiver of Premium benefit is proportionally reinsured and the Company retains the first \$75,000 of Accidental Death Benefit. Accelerated Benefits Rider is also proportionally reinsured.

Universal Life products are reinsured on a yearly renewable term basis. The Company retains the first \$275,000, all ages, standard and substandard risks with a minimum cession of \$25,000. The reinsurer will automatically bind the Company to a maximum \$2,500,000 for ages 0-85, mortality up to Table 16 or 500%. The Waiver of Premium benefit is proportionally reinsured. Accelerated Benefits Rider is also proportionally reinsured.

GEAR and LP 85 conversion products are reinsured on a yearly renewable term basis. The Company retains the first \$275,000, all ages, standard and substandard risks with a minimum cession of \$25,001. The reinsurer will automatically bind the Company to a maximum of eight times the retention for all ages, all mortality tables. The Waiver of Premium benefit is retained up to \$7,500 annual premium with a minimum cession of \$1,000. Accelerated Benefits Rider is also proportionally reinsured.

Two first dollar quota share and excess treaties effective May 1, 2008 reinsure the Company's newer term products and riders. Under one agreement, the NonMed Term 350 agreement, covering 10, 15, 20 and 30 Year Term (less than or equal to \$350,000), Other Insured Rider, Return of Premium Rider and Accelerated Death Benefit, the Company retains 10% of the risk until its maximum retention of \$275,000 is reached at which time the reinsurer accepts 100% of the remaining risk. The minimum amount of reinsurance accepted on an individual life under this agreement is \$45,000 with an automatic binding limit of \$315,000. However, if the Company is fully retained, reinsurer will accept an additional amount up to \$350,000. The Company retains 50% of the Critical Illness Rider. This agreement was amended effective March 1, 2015, such that for policies with application dates 3/1/2015 and after, the Company retains 50% of the risk up to its maximum retention of \$275,000 and the reinsurer accepts 100% of the remaining risk. The minimum amount of reinsurance accepted on an individual life under the agreement is now \$25,000 with an automatic binding limit of \$175,000.

The second first dollar quota share agreement, the Term 350+ agreement, reinsures 10, 15, 20 and 30 Year Term (greater than \$350,001 for all ages and greater than \$100,001 for ages 66-74), Other Insured Rider, Return of Premium Rider, Critical Illness Rider and Accelerated Death Benefit, the Company retains 10% of the risk until its maximum retention of \$275,000 is

reached at which time the reinsurer accepts 100% of the remaining risk. The minimum amount of reinsurance accepted on an individual life under this agreement is \$315,001 (\$90,001 for ages 66-74) with an automatic binding limit of \$2,250,000. The Company retains 50% of the Critical Illness Rider. Effective March 1, 2015, the Term 350+ agreement was terminated and replaced with a standard yearly renewable term basis treaty. Under this treaty the Company retains the first \$275,000 of face amount. The reinsurer will automatically bind the Company to a maximum \$2,250,000. As with the prior treaty, the Company retains 50% of the Critical Illness Rider on a first dollar quota share basis.

For individual accidental death benefit riders, a bulk agreement exists which provides 100% reinsurance for those riders.

For business not currently being sold, various treaties remain to provide combination automatic and facultative reinsurance for amounts in excess of the Company's retention or on a first dollar quota share basis for individual ordinary business.

Individual monthly indemnity policies are reinsured under various automatic/facultative agreements.

Effective January 1, 2016 the Company entered into a Group Life Insurance Automatic Reinsurance Agreement with First National Life Insurance Company of the USA. Under the terms of the agreement, the Company cedes a 90% quota share of different classes of credit life business associated with student loan lending.

### **Ceded – Disability Income**

Disability income business acquired from Farm Bureau Life Insurance Company effective September 1, 2000 is ceded to two reinsurers on a split alphabet basis effective January 1, 2001. The Company retains \$3,000 of monthly benefit for benefit periods of five years or less

and \$1,500 of monthly benefit on to age 65 policies. Automatic issue limits for reinstatements are the difference between the Company's retention and \$5,000 of monthly indemnity benefit. Issue and participation limits vary by reinsurer, occupational class and product from \$2,000 to \$6,000.

Recaptured disability income policies are also reinsured on a split alphabet basis effective January 1, 2002. The Company retains \$3,000 of monthly benefit for benefit periods of five years or less and \$1,500 of monthly benefit on to age 65 policies. Automatic issue limits for reinstatements are the difference between the Company's retention and \$5,000 of monthly indemnity benefit. Issue and participation limits vary by reinsurer, occupational class and product from \$2,000 to \$6,000.

Disability income business acquired from Farm Bureau Life Insurance Company effective September 1, 2001 and identified as the business of the Manhattan Kansas Regional Office is ceded to two reinsurers on a split alphabet basis effective April 1, 2002. The Company retains \$2,500 of monthly benefit for benefit periods of five years or less and \$1,500 of monthly benefit for the benefit period to age 65 policies. Automatic issue limits for reinstatements are the difference between the Company's retention and \$4,000 of monthly indemnity benefit. Issue and participation vary by reinsurer, occupational class and product from \$3,000 to \$10,000.

Disability income business acquired from Nationwide Life Insurance Company is ceded effective January 1, 2007. The Company retains \$3,000 of monthly benefit for benefit periods of five years or less and \$1,500 of monthly benefit for the benefit period to age 65 policies.

For new business the reinsurance consists of excess of loss coverage on a coinsurance basis. Benefit periods of ten years or less have a retention of \$3,000. To age sixty-five or sixty-seven benefit periods have a retention of \$1,500. Overhead expense benefits all benefit periods

have a retention of \$3,000. The reinsurer will automatically accept 100% of the excess over the Company's retention to the issue limit of \$4,000 (provided that total amount applied for on the same risk with all insurance companies does not exceed \$4,000 of monthly indemnity benefit). Maximum participation limits range from \$8,000 to \$15,000 based on Occupation class.

Graded benefit disability income policies and approved riders produced through Inn Re Underwriters, Inc. are ceded on a coinsurance basis under an agreement effective November 1, 2003. The Company has authorized Inn Re Underwriters, Inc. to underwrite said business as its underwriting manager pursuant to an administrative services agreement. The Company will retain a 20% quota share to its maximum retention of \$2,200. The reinsurer will accept 80% up to \$6,000 per life. The automatic issue limit is \$7,500 per life. Issue and participation limits by occupational class range from \$6,000 to \$11,000.

The Company reinsurers Specified Illness Living Benefit products under a coinsurance agreement effective January 1, 2003. The Company retains 20% of the risk to its maximum retention of \$50,000. The reinsurer automatically accepts up to five times the Company's retention to a maximum of \$100,000. Risks may be facultatively reinsured to a maximum of \$250,000. The minimum cession is \$5,000 per insured.

Effective October 1, 2004, the Company reinsured the Specified Illness Living Benefit products under a different agreement. The Company retains 15% to a maximum of \$100,000 on Simplified Issue Critical Illness policies and 20% to a maximum of \$100,000 on regular Critical Illness policies. The reinsurer automatically accepts \$50,000 for the simplified issues and \$0 for the regular issues. Risks may be facultatively reinsured to a maximum of \$50,000 for the simplified issues and \$500,000 for the regular issues. The minimum cession is \$1,000 for the simplified issues and \$5,000 for the regular issues.

Effective January 1, 2007, the Company reinsures the Specified Illness Living Benefit product marketed through worksite under yet another treaty. The Company retains 50%. The maximum policy issued is \$100,000.

**Ceded – Group Life and Group Accident and Health**

Effective July 1, 2000 the Company entered into a Master Agreement and a Reinsurance Contract with GMS Reinsurance Company, Ltd. Under these agreements the Company cedes 100% of its Group Life, Group Health and Group Disability coverage issued to, by or through The Great Lakes Employers Association, Inc., to GMS. The Great Lakes Employers Association, Inc. is an affiliate of GMS. A separate Administrative Services Agreement between the Company and Group Marketing Services, Inc. provides for underwriting and marketing services and claims processing. Monthly fees under this agreement equal 10% of processed claims plus \$2,500 for the precertification/recertification services. In addition to expenses and other amounts that are the Company's responsibility, taxes, charges or fees assessed against GMS are also reimbursed. This business is considered monthly renewable term and as such there are no unearned premiums. GMS is considered an unauthorized reinsurer and as such, its liabilities are secured by a letter of credit.

Group Life business is ceded under an automatic treaty, with facultative option, as follows:

Basic and optional life	excess of \$80,000 up to \$920,000
TPA and Self-Billed Dependent Life	100% up to \$25,000 per person
TPA and Self-billed life	50% of the first \$160,000 and 100% of excess up to \$840,000 to a max of \$1,000,000 per person

Voluntary Term Life	100% up to \$160,000 less the Company's retention of the lesser of 50% of the first \$160,000 or \$80,000 and 100% of the excess up to \$840,000 with maximum of \$1,000,000
Voluntary Term life – Spouse rider	50% of \$160,000
Accidental Death and Dismemberment for all plans	100% up to \$1,000,000 per person
Critical Illness Accelerated Benefit rider	50% up to \$50,000 per person

Reinsurance ceded under this agreement is eligible for an experience refund.

### **Ceded – Qualified Corporate Pension**

The Company's decision to exit the qualified corporate pension market was accomplished with the execution of an agreement providing 100% coinsurance and assumption reinsurance through North American Life. Corporate pension policies and corporate tax sheltered annuities issued prior to September 1, 1997, excluding certificates for and related to the Company's 401(k), were coinsured. The reinsurer assumed the Company's reserves and liabilities. As the terms and conditions of each state were satisfied, including notice to policyholders, assumption reinsurance became effective with all of the Company's obligations, liabilities, rights and benefits ceded, assigned and transferred to the reinsurer. Any previous reinsurance in effect at the date of this agreement was recaptured or assigned by the Company. A trust account is maintained by the reinsurer indemnifying the Company against any loss resulting from failure or refusal by the reinsurer to discharge its obligations under the reinsurance agreement and/or an Administrative Service Agreement. A Trustee holds authorized investments having a market value equal to 102% of the coinsurance reserves. The reinsurer without compensation provides required services in connection with the policies in this program.



Effective December 1, 2014, the North American Life reinsured business was recaptured by the Company and assets equal to reserves were transferred from the trust to the Company.

### **General**

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All 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:

	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
Bonds	\$1,734,432,426	\$1,705,692,871	\$1,803,589,377	\$1,780,530,359
Admitted assets	2,463,612,964	2,472,008,499	2,605,020,410	2,632,271,199
Aggregate life reserves	1,633,320,170	1,633,417,614	1,655,840,722	1,654,247,489
Total liabilities	2,163,065,748	2,153,926,757	2,280,110,234	2,297,591,524
Capital and surplus	300,547,225	318,081,745	324,910,180	334,679,677
Premium income	189,727,043	189,476,480	193,337,720	189,153,340
Net investment income	111,659,228	109,192,684	106,430,073	104,519,519
Death benefits/annuity benefits/disability benefits	99,734,094	100,175,613	110,613,461	112,255,318
Net income	19,184,476	20,829,794	11,951,415	16,768,280
Life insurance in-force (in thousands)	15,214,456	15,642,893	17,559,940	17,162,058

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2017. 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, 2017**

<b><u>Assets</u></b>	<b><u>Assets</u></b>	<b><u>Assets Not Admitted</u></b>	<b><u>Net Admitted Assets</u></b>
Bonds	\$1,780,530,359		\$1,780,530,359
Preferred stocks	13,492,764		13,492,764
Common stocks	119,087,708	\$ 5,993,700	113,094,008
Mortgage loans	418,617,409		418,617,409
Real estate occupied by the company	46,226,627		46,226,627
Real estate held for production of income	3,878,425		3,878,425
Real estate held for sale	3,884,989		3,884,989
Cash and cash equivalents	6,559,405		6,559,405
Contract loans	120,217,118	92,247	120,124,871
Other invested assets	<u>45,577,819</u>	<u>329,544</u>	<u>45,248,275</u>
Subtotal, cash and invested assets	\$2,558,072,622	\$ 6,415,491	\$2,551,657,131
Investment income due and accrued	19,330,761		19,330,761
Uncollected premiums and agents' balances in the course of collection	10,066,571	21,171	10,045,400
Deferred premiums and agents' balances not yet due	26,588,775		26,588,775
Reinsurance recoverable	1,435,170		1,435,170
Other amounts receivable under reinsurance	1,305,412		1,305,412
Current federal income tax recoverable	4,890,972		4,890,972
Net deferred tax asset	24,033,444	9,244,790	14,788,654
Guaranty funds receivable or on deposit	916,932		916,932
Electronic data processing equipment and software	3,447,081	2,825,890	621,192
Furniture and equipment	1,079,735	1,079,735	
Receivable from parent, subsidiaries	8,927		8,927
GMS receivable	681,874		681,874
Other non-admitted assets	1,624,886	1,624,886	
Prepaid expenses	738,976	738,976	
Prepaid financing – TIF	189,955	189,955	
Notes receivable	76,130	76,130	
Miscellaneous receivable	<u>861</u>	<u>861</u>	
Totals	<u>\$2,654,489,083</u>	<u>\$22,217,885</u>	<u>\$2,632,271,199</u>

## **Liabilities, Surplus, and Other Funds**

Aggregate reserve for life contracts	\$1,654,247,489
Aggregate reserve for accident and health contracts	192,204,607
Liability for deposit-type contracts	166,037,808
Contract claims:	
Life	14,595,292
Accident and health	11,489,942
Provision for policy holders' dividends	13,000,000
Premium and annuity considerations	535,381
Contract liabilities:	
Provision for experience rating refunds	483,900
Other amounts payable on reinsurance	2,347,722
Interest maintenance reserve	16,865,535
Commissions to agents due or accrued	606,533
General expenses due or accrued	18,142,573
Taxes, licenses and fees due or accrued	2,017,674
Amounts withheld or retained by company as agent or trustee	578,687
Amounts held for agents' account	18,242
Remittances and items not allocated	4,530,974
Borrowed money	138,723,500
Asset valuation reserve	36,678,226
Payable for securities	5,062,465
Liability for pension plans	15,144,478
Deferred gain	1,518,205
Tif financing obligation	1,514,135
Liability for other post-retirement benefits	925,806
Interest accrued on unpaid life and annuity claims	161,218
Payable for capitalized items	<u>161,133</u>
Total liabilities	<u>\$2,297,591,524</u>
Common capital stock	\$ 2,500,000
ACA funds	50,000
Unassigned funds (surplus)	<u>332,129,677</u>
Total capital and surplus	<u>\$ 334,679,677</u>
Totals	<u>\$2,632,271,201</u>

## SUMMARY OF OPERATIONS – 2017

Premiums and annuity considerations	\$189,153,340
Considerations for supplementary contracts with life contingencies	414,125
Net investment income	104,519,519
Amortization of interest maintenance reserve	8,827,827
Commissions and expense allowances on reinsurance ceded	14,877,327
Miscellaneous income	<u>779,831</u>
 Total	 \$318,571,969
 Death benefits	 69,350,970
Matured endowments	562,394
Annuity benefits	9,110,058
Disability benefits and benefits under accident and health contracts	33,794,290
Surrender benefits and withdrawals for life contracts	61,581,490
Interest and adjustments on contract or deposit-type contract funds	4,241,129
Payments on supplementary contracts with life contingencies	2,470,470
Increase in aggregate reserves for life and accident and health contracts	<u>255,520</u>
 Totals	 \$181,366,320
 Commissions on premiums, annuity considerations, and deposit-type contracts	 41,277,183
Commissions and expense allowances on reinsurance assumed	516,436
General insurance expenses	60,947,646
Insurance taxes, licenses and fees	7,310,018
Increased loading on deferred and uncollected premiums	(467,189)
Fund deposit fees	<u>4,148</u>
 Totals	 <u>\$290,954,561</u>
 Net gain from operations before dividends, federal income taxes and net realized capital gains	 \$ 27,617,409
 Dividends to policyholders	 12,950,409
Federal income taxes incurred	(3,176,497)
Net realized capital gains	<u>(1,075,217)</u>
 Net income	 <u>\$ 16,768,280</u>

**CAPITAL AND SURPLUS ACCOUNT**

	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
Capital and surplus, beginning	\$306,426,022	\$300,547,229	\$318,081,746	\$324,910,180
Net income	\$ 19,184,476	\$ 20,829,794	\$ 11,951,415	\$ 16,768,280
Change in net unrealized capital gains	1,049,661	(4,964,985)	1,326,123	8,590,108
Change in net deferred income tax	(145,099)	7,425,219	1,455,739	(23,648,583)
Change in nonadmitted assets	827,419	(8,995,734)	1,448,626	6,355,734
Change in asset valuation reserve	148,389	627,288	(4,156,561)	(2,923,994)
Change in surplus notes	(10,000,000)			
Cumulative effect of changes in accounting principles		(906,822)		(4,982,162)
Changes in transition pensions	(14,655,790)	701,826	4,056,053	8,301,244
Change in transition other post retirement	308,736	311,061	721,212	(271,332)
Change in HO & FF pension	(2,590,830)	(656,036)	(285,829)	(1,080,899)
Joint policy reserves correction		3,754,923		(2,321,064)
Term RPO reserve correction of error		(592,017)		
SPIA and Supp contract reserve correction	685,574			
Premium tax over accrual	360,645			
Due and deferred loading correction	(468,169)			
Disabled life reserve correction	(583,804)			
Deferred premium return of premium correction of error			964,631	
Term reserves correction of error			(658,396)	
Term policy and deficiency reserves correction of error			(1,646,478)	
Joint life reserves correction	_____	_____	(3,365,939)	_____
Net change for the year	\$ (5,878,794)	\$ 17,534,517	\$ 6,828,434	\$ 9,769,494
Capital and surplus, ending	<u>\$300,547,229</u>	<u>\$318,081,746</u>	<u>\$324,910,180</u>	<u>\$334,679,674</u>

**EXAMINATION CHANGES IN FINANCIAL STATEMENTS**

Unassigned funds (surplus) in the amount of \$332,129,677, as reported in the Company's 2017 Annual Statement, has 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:

**Election of Board of Directors Subsidiary Committees** – It is recommended that the Company’s Board of Directors formally elect subsidiary committees, as outlined in Article IV of its By-Laws or the By-Laws be amended to reflect the current practice.

**Action:** The Company has complied with this recommendation.

**Quarterly Approval of Investment Activity** – It is recommended that the Company ensure that its Board of Directors, or subsidiary Investment and Finance Committee, approves quarterly investment activity, and this approval is documented in meeting minutes.

**Action:** The Company has not complied with this recommendation. This recommendation will be repeated under the caption “Commentary on Current Examination Findings” in this report.

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

### **Quarterly Approval of Investment Activity**

The Company is in violation of Nebraska Statue §44-5105 (3) which states in part that, “on no less than a quarterly basis, and more often if deemed appropriate, the Board of Directors or committee of the Board of Directors shall: (a) Receive and review a summary report on the insurer’s investment portfolio, investment activities, and investment practices engaged in under delegated authority, in order to determine whether the investment activity of the insurer is consistent with its written plan.” It was noted that the Company procedure had investment activity formally reviewed and approved by either the Board or the Investment and Finance Committee on a semi-annual basis. It is recommended that the Company ensure that its Board of Directors, or subsidiary Investment and Finance Committee, approves quarterly investment activity, and that this approval is documented in meeting minutes.

## **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

**Quarterly Approval of Investment Activity** – It is recommended that the Company ensure that its Board of Directors, or subsidiary Investment and Finance Committee, approves investment activity every quarter, and that this approval is documented in meeting minutes.



## ACKNOWLEDGMENT

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

In addition to the undersigned, Kim Hurst, CFE, Skyler Lawyer CFE, Linda Scholl CFE, CISA, Daniel Rousseau, Olivia Satterfield, and John Wiatr, Financial Examiners; Gary Evans, CISA, AES, CFE, Information Systems Specialist; and Rhonda Ahrens, FSA, MAAA, Chief Actuary and Derek Wallman, Actuarial Examiners; all with the Nebraska Department of Insurance, as well as Roshi Fekrat, CPA, CFE, CIA, AMCM, Financial Examiner, contracted by the New York Department of Insurance; participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



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Tadd K. Wegner, CFE  
Supervisory Examiner  
Department of Insurance  
State of Nebraska

State of Nebraska,

County of Lancaster,

Tadd K. Wegner, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examinations of Assurity Life Insurance Company. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
2. I have reviewed the examination work papers and examination report, and the examinations of Assurity 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.

Tadd K. Wegner  
Examiner-in-Charge's Signature

Subscribed and sworn before me by Taddk.wegner on this 31 day of May, 20 19.



(SEAL)

Brandis J. Bauer  
Notary Public

My commission expires July 25, 2022 [date].