

JUN 27 2022

FILED

# CERTIFICATION

June 27, 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

**PHYSICIANS LIFE INSURANCE COMPANY**

**AS OF**

**DECEMBER 31, 2020**

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.



  
\_\_\_\_\_  
DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

**PHYSICIANS LIFE INSURANCE COMPANY**

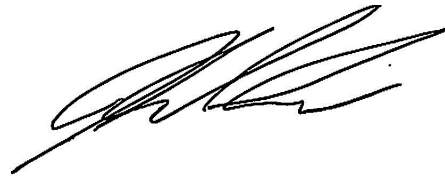
**2600 DODGE STREET**

**OMAHA, NEBRASKA 68131**

dated as of December 31, 2020, verified under oath by the examiner-in-charge on  
June 1, 2022, and received by the company on June 3, 2022, has been adopted  
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 17<sup>th</sup> day of June 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**

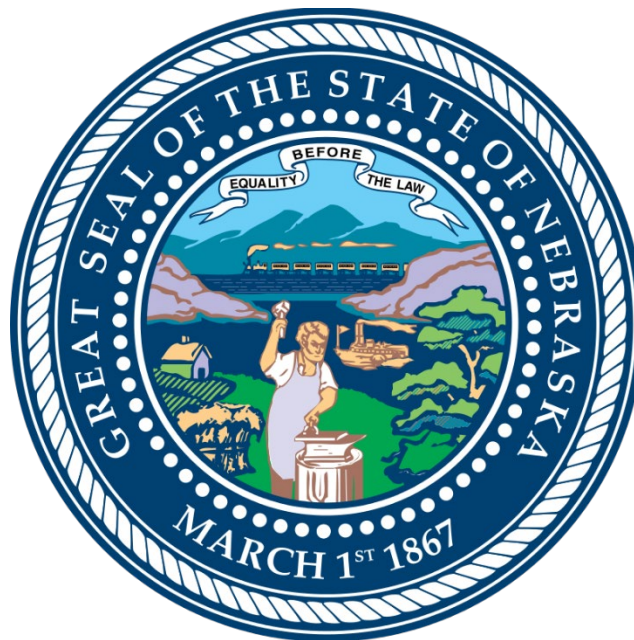
**EXAMINATION REPORT**

**OF**

**PHYSICIANS LIFE INSURANCE COMPANY**

**as of**

**DECEMBER 31, 2020**



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Omaha, Nebraska  
May 13, 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:

**PHYSICIANS LIFE INSURANCE COMPANY**  
**2600 Dodge Street**  
**Omaha, Nebraska 68131**

(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, 2016. The current financial condition examination covers the intervening period to and includes the close of business on December 31, 2020 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.

The same examination staff conducted a concurrent financial condition examination of the Company’s parent, Physicians Mutual Insurance Company (PMIC).

**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 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 authorizations 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 Deloitte & Touche LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2019 and 2020. 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 incorporated under the laws of the State of Nebraska as a capital stock life insurance company on January 15, 1970 and was licensed to commence business on January 28 of that same year. It was and has remained a wholly owned subsidiary of Physicians Mutual Insurance Company since the date of incorporation. The Articles of Incorporation provide that

the Company shall have perpetual existence. Under provisions of its current charter, and in conformity with Nebraska Statutes, the Company is authorized to write the kinds of insurance prescribed in Section 44-201, Subsections (1) and (4), of the Nebraska Insurance Statutes (life and sickness and accident).

## **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 2020 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Physicians Mutual Insurance Company
- Physicians Life Insurance Company
- Physicians Mutual Insurance Company Foundation
- Physicians Mutual Services Corporation
- Seniors Information Network, LLC
- National Association of Medicare Members, Inc.

### **Shareholder**

Article IV of the Company’s Articles of Incorporation states, “the aggregate number of shares which the Company shall have authority to issue is One Million Five Hundred Thousand (1,500,000) shares of common stock and the par value of each said share is One Dollar and 67/100 (\$1.67).” As of the examination date, Company records indicate that 1,500,000 shares are issued and outstanding for capital of \$2,505,000 and are all owned by PMIC. As of the examination date, the Company’s paid-in surplus is \$102,487,905, which is unchanged since the previous examination. There have been stock dividends totaling \$200,000 and cash dividends totaling \$5,800,000 paid since inception of the Company. There were no dividends paid during this examination period.



The By-Laws state, “the annual Shareholder meeting shall be held on the third Saturday in the month of February in each year...at the principal office of the Company, for the purposes of receiving the reports of the Officers, electing Directors, and for the transaction of such other business as may properly come before the meeting.”

**Board of Directors**

Article III of the By-Laws states, “the Board of Directors shall consist of not less than five (5) members, divided into three (3) groups as nearly equal in number as is possible.”

The following persons were serving as Directors at December 31, 2020:

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>
Daniel E. Burkey Omaha, Nebraska	Retired Chief Financial Officer, Creighton University
James T. Canedy, M.D. Omaha, Nebraska	Practicing Physician and Treasurer of the Company
William A. Cutler III Omaha, Nebraska	Funeral Director
Timothy C. Fitzgibbons, M.D. Omaha, Nebraska	Practicing Physician
Martin M. Mancuso, M.D. Omaha, Nebraska	Practicing Physician and Secretary of the Company
Robert A. Reed Omaha, Nebraska	Executive Chairman of the Board of Directors & Senior Finance and Strategic Counsel
Robert A. Reed, Jr. Omaha, Nebraska	President and Chief Executive Officer of the Company

**Officers**

Article VI of the Articles of Incorporation states, “the Officers of the Company shall consist of a President, a Secretary and a Treasurer, who shall be elected by the Directors and who shall hold office until their successors are elected and qualified. The Directors may select one or

more Vice Presidents and may designate one or more other offices, and assign their duties and responsibilities.”

The Officers are nominated by the Compensation Committee on an annual basis with the exception of Robert Reed, Sr. and Robert Reed, Jr., who are under contract with the Company.

The following is a listing of Senior Officers elected and serving the Company at December 31, 2020:

<b><u>Name</u></b>	<b><u>Office</u></b>
Robert A. Reed	Executive Chairman of the Board of Directors and Senior Finance and Strategic Counsel
Robert A. Reed Jr.	President and Chief Executive Officer
Martin M. Mancuso, M.D.	Secretary
James T. Canedy, M.D.	Treasurer
Melissa J. Crawford	Senior Vice President – Chief Marketing Officer
Howard G. Daubert	Senior Vice President – Corporate Services Group
Robert L. Gunia	Senior Vice President – Public Affairs Group and Assistant Secretary
Edward J. Kaspar	Senior Vice President – Customer Group
Edward J. Mullen	Senior Vice President – Chief Financial Officer and Assistant Treasurer
Mark E. Lehman	Appointed Actuary

### **Committees**

Article III of the Company’s By-Laws states, “the Board of Directors... may designate from its members an Executive Committee, which shall consist of at least three Directors, together with the Chairman of the Board, the President and the Secretary, which shall have and may exercise all the authority of the Board of Directors when the entire Board of Directors are not in session; the Board of Directors may also designate one or more other committees consisting of at least two Directors...”

The following persons were serving on the Investment Committee at December 31, 2020:

Daniel E. Burkey	James T. Canedy, M.D.
Timothy C. Fitzgibbons, M.D.	Robert A. Reed, Sr.
Robert A. Reed Jr.	

The following persons were serving on the Claims and Underwriting Committee at December 31, 2020:

William A. Cutler, III	Timothy C. Fitzgibbons, M.D.
Martin M. Mancuso, M.D.	Robert A. Reed, Jr.

The following persons were serving on the Audit Committee at December 31, 2020:

Daniel E. Burkey	James T. Canedy, M.D.
William A. Cutler, III	Timothy C. Fitzgibbons, M.D.
Robert A. Reed, Sr.	Robert A. Reed, Jr.

The following persons were serving on the Compensation Committee at December 31, 2020:

Daniel E. Burkey	James T. Canedy, M.D.
Timothy C. Fitzgibbons, M.D.	Martin M. Mancuso, M.D.

The following persons were serving on the Corporate Governance Committee at December 31, 2020:

James T. Canedy, M.D.	William A. Cutler, III
Martin M. Mancuso, M.D.	Robert A. Reed, Jr.

## **TRANSACTIONS WITH AFFILIATES**

### **Service Agreement**

PMIC provides equipment, space, and personnel necessary for the operations of its subsidiaries. By agreement dated June 24, 1997 and amended January 1, 2004, PMIC agrees to perform all reasonable services necessary in connection with the solicitation, issuance, and servicing of policies and claims in connection with policies previously issued and hereafter issued by the Company. Compensation for these services is the actual salary represented by the time spent in the performance of such services and costs and expenses associated with respect to equipment, office space, and other overhead expenses represented by the time and use devoted to

such services. PMIC is also to receive payment for any direct expenses paid on behalf of the Company. Upon 60 day's prior written notice to the other party, either party may terminate the Agreement. The total expenses allocated under this agreement to the Company during 2020 and 2019 were \$36,500,407 and \$34,124,104 respectively.

### **Net Worth Agreement**

The Company entered into a Net Worth Agreement with PMIC effective January 1, 1993, whereby PMIC agrees to take any actions necessary to maintain the Company's financial position with a surplus level in excess of Risk Based Capital requirements.

This agreement can be canceled by either party with a written 90-day notice provided such termination does not eliminate the obligation of PMIC to infuse cash into the Company with respect to the obligation to support, supplement or permit the timely payment of contractual claims received by the Company from policyholders of insurance contracts or annuity contracts during the term of the agreement.

### **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 the District of Columbia.

During the period covered by this examination, business was produced by direct mail, television, radio, newspaper, email, internet advertisement, and face-to-face solicitation through the Company's integrated distribution channels. The Company also uses an independent marketing organization to distribute its preneed insurance product.

The integrated distribution channels include the Demand Generation, Journey Management, Telesales, eCommerce, and Agency Departments. These departments are each

under the direction of an Officer of the Company and focus on both the acquisition of new customers and gaining additional sales from existing customers.

The Agency Department oversees over 1,000 sales agents. These agents are independent contractors who act as career agents for the Company. All contracted agents receive commissions and can also earn cash bonuses and lead or advertising credits by meeting production and persistency requirements.

## **REINSURANCE**

### **Assumed**

The Company entered into an automatic 50% coinsurance life agreement with AAA Life Insurance Company (AAA), effective January 1, 1999 and amended September 27, 2001 and July 31, 2002. The recent amendment added PMIC as a party to the agreement.

Effective February 1, 2003, the Company entered into a retrocession agreement whereby Transamerica International Re retroceded 20% of the yearly renewable term business to the Company under a quota share agreement.

### **Ceded**

Effective January 1, 2004, the Company entered into a reinsurance agreement with PMIC that replaced the previous reinsurance agreement effective January 1, 2003. Per the January 1, 2004 agreement, the Company cedes 100% of the liabilities associated with Medicare Supplement insurance. The Company is paid a “front fee allowance” of 3% of premiums. The Company discontinued sales of its Medicare Supplement business between 7/1/2010 and 6/30/2019. Medicare Supplement policies were again sold by the Company starting 7/1/2019 and continuing through the date of this report. The agreement with PMIC is still in effect with premiums of \$86,937,749 and reserves ceded of \$14,798,267 in 2020.

The Company uses a series of reinsurance agreements to cede life insurance coverages exceeding the Company's desired retention limit (\$100,000 on some products, \$250,000 on others). Coverages are reinsured with Employer Reassurance Corporation, Transamerica Occidental Life Insurance Company, General Re Life Corporation, or RGA Reinsurance Company (RGA). The underlying policies are fully underwritten term policies except for a series of fully underwritten whole life policies issued between August 2000 and January 2020. New sales for all policies subject to these reinsurance agreements have ceased, except for a fully underwritten term policy with 15, 20 or 30 year plans and 20% retention up to \$250,000 that are ceded to RGA.

### **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>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>
Bonds	\$1,492,411,127	1,555,076,171	1,588,692,317	1,632,719,463
Admitted assets	1,632,082,414	1,678,227,389	1,726,294,376	1,752,164,076
Aggregate reserves				
for life contracts	1,347,586,210	1,383,762,844	1,422,351,662	1,437,640,893
Total liabilities	1,480,688,843	1,519,609,605	1,553,481,838	1,579,899,298
Capital and surplus	151,393,571	158,617,784	172,812,538	172,264,779
Premium income	268,148,399	268,833,032	283,958,636	260,436,531
Net investment income	67,989,049	70,923,452	74,501,613	72,489,439
Death benefits	146,004,486	154,415,436	143,892,564	171,934,800
Net income	8,715,264	7,233,588	15,961,097	(1,953,027)

## **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, 2020. 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, 2020**

<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	\$1,632,719,463		\$1,632,719,463
Preferred stocks	33,818,063		33,818,063
Common stocks	2,694,000		2,694,000
Cash and cash equivalents	14,750,667		14,750,667
Contract loans	24,143,829	\$ 121,438	24,022,391
Derivatives	9,140,839		9,140,839
Other invested assets	3,928,781		3,928,781
Receivables for securities	<u>5,250</u>	<u>          </u>	<u>5,250</u>
Subtotal, cash and invested assets	\$1,721,200,891	\$ 121,438	\$1,721,079,453
Investment income due and accrued	15,999,324		15,999,324
Amounts recoverable from reinsurers	540,489		540,489
Other amounts receivable under reinsurance contracts	550,546		550,546
Current federal income tax recoverable	1,743,379		1,743,379
Net deferred tax asset	32,182,140	21,457,599	10,724,541
Guaranty funds receivable	500,176		500,176
Receivables from parent, subsidiary and affiliates	658,261		658,261
Healthcare and other amounts receivable	594,355	226,448	367,907
Debit suspense items	811,926	811,926	
Prepaid expenses	<u>13,397</u>	<u>13,397</u>	<u>          </u>
Totals	<u>\$1,774,794,884</u>	<u>\$22,630,807</u>	<u>\$1,752,164,076</u>



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

Aggregate reserves for life contracts	\$1,437,640,893
Liability for deposit-type contracts	21,339,906
Contract claims for life	28,449,608
Premiums and annuity considerations	1,238,977
Other amounts payable on reinsurance	126,284
Interest maintenance reserve	5,151,665
Commissions to agents due or accrued	468,715
General expenses due or accrued	924,831
Taxes, licenses and fees	1,299,456
Unearned investment income	800,914
Amounts withheld or retained by company as agent or trustee	776,108
Remittances and items not allocated	442,111
Borrowed money and interest thereon	56,715,953
Asset valuation reserve	14,421,410
Drafts outstanding	8,016,183
Payable for securities	2,006,842
Miscellaneous interest	<u>79,441</u>
Total liabilities	<u>\$1,579,899,298</u>
Common capital stock	\$ 2,505,000
Gross paid in and contributed surplus	102,487,905
Unassigned funds	<u>67,271,874</u>
Total capital and surplus	<u>\$ 172,264,779</u>
Totals	<u>\$1,752,164,076</u>

## SUMMARY OF OPERATIONS – 2020

Premiums and annuity considerations	\$260,436,531
Considerations for supplementary contracts with life contingencies	1,090,036
Net investment income	72,489,439
Amortization of interest maintenance reserve	942,464
Commissions and expense allowances on reinsurance ceded	1,814,990
Income on derivatives	9,857,460
Change in market value on derivatives	(1,520,695)
Miscellaneous income	<u>2,898,764</u>
Totals	\$348,008,989
Death benefits	171,934,800
Matured endowments	294,000
Annuity benefits	20,911,743
Surrender benefits and withdrawal for life contracts	45,280,447
Interest and adjustments on contract or deposit-type contract funds	628,052
Payments on supplementary contracts with life contingencies	2,583,886
Increase in aggregate reserves for life and accident and health contracts	<u>15,289,232</u>
Totals	\$256,922,161
Commissions on premiums, annuity considerations, and deposit type contract funds	15,362,410
Commissions and expense allowances on reinsurance assumed	321,076
General insurance expenses	60,564,456
Insurance taxes, licenses and fees	7,423,970
Cost of derivatives	<u>6,899,742</u>
Totals	\$347,493,813
Net gain from operations	515,176
Federal income taxes incurred	(2,575,665)
Net realized capital gains	<u>107,463</u>
Net income	<u>\$ (1,953,027)</u>

## CAPITAL AND SURPLUS ACCOUNT

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Capital and surplus, beginning	<u>\$150,779,382</u>	<u>\$151,393,573</u>	<u>\$158,617,786</u>	<u>\$172,812,541</u>
Net income	\$ 8,715,264	\$ 7,233,588	\$ 15,961,097	\$ (1,953,027)
Change in net unrealized capital gains	467,724	81,596	144,649	93,124
Change in net deferred income tax	(23,371,371)	10,914,525	3,930,215	2,699,012
Change in nonadmitted assets	14,376,632	(10,216,364)	(4,378,863)	1,417,619
Cumulative effect of changes in accounting principles				
Change in asset valuation	425,941	(789,132)	(1,462,343)	(2,218,444)
Policyholder surplus tax	_____	_____	_____	(586,042)
Net change for the year	<u>\$ 614,191</u>	<u>\$ 7,224,213</u>	<u>\$ 14,194,755</u>	<u>\$ (547,758)</u>
Capital and surplus, ending	<u>\$151,393,573</u>	<u>\$158,617,786</u>	<u>\$172,812,541</u>	<u>\$172,264,783</u>

### EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$67,271,874, as reported in the Company's 2020 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

No recommendations were made as a result of the previous examination.

### COMMENTARY ON CURRENT EXAMINATION FINDINGS

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

### SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

## 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, John Wiatr, CFE, Linda Scholl, CISA, CFE, APIR, Financial Examiners; Gary Evans, CISA, AES, Information Systems Specialist; and Derek Wallman, ASA, Actuarial Examiner; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



---

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 Physicians Mutual Insurance Company and Physicians 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 examinations of Physicians Mutual Insurance Company and Physicians 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 Tadd K. Wegner on this 1<sup>st</sup> day of June, 2022.



(SEAL)

Shelly G. Storie  
Notary Public

My commission expires 1/16/24 [date].