

EXAMINATION REPORT OF
EMC NATIONAL LIFE COMPANY
DES MOINES, IOWA
AS OF DECEMBER 31, 2018

Des Moines, Iowa
May 29, 2020

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the business affairs and financial condition of

EMC NATIONAL LIFE COMPANY

Des Moines, Iowa

AS OF DECEMBER 31, 2018

at its home office located at 699 Walnut Ste 1100, Des Moines, Iowa.

INTRODUCTION

EMC National Life Company, hereinafter referred to as the "Company", was previously examined as of December 31, 2013 by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2014 to the close of business on December 31, 2018, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition.

HISTORY

The Company was incorporated as a legal reserve, stock life insurance company with perpetual existence on August 1, 1962 under the name of Employers Life Company. The name Employers Modern Life Company was adopted by amendment to the Articles of Incorporation on January 3, 1964.

Employers Mutual Casualty Company purchased all 250,000 outstanding common shares, effective December 31, 1991, from EMC Insurance Group for \$15,500,000 and became the Company's sole shareholder.

On March 10, 1998, at the annual meeting of the stockholders, the stockholders agreed to sell 25 percent of the shares of stock of the Company to Hamilton Mutual Insurance Company of Cincinnati, Ohio.

On March 12, 2003, the Boards of Directors of National Travelers Life Mutual Holding Company (NTLMHC), National Travelers Life Company (NTL), Employers Modern Life Company (EML), Employers Mutual Casualty Company (EMCC), and Hamilton Mutual Insurance Company (HMIC), unanimously approved an Agreement and Plan of Merger. The merger combined NTL with EML with the surviving entity called EMC National Life Company. NTLMHC remains a mutual holding company and continues to operate independently but was renamed EMC National Life Mutual Holding Company (MHC). In the merger, NTLMHC's wholly owned subsidiary, National Travelers Company (an Iowa Stock Company) changed names to EMC National Company. As a result of the merger, EMC National Company has 51% of the voting control of EMC National Life Company, EMCC has 36.75% and HMIC has 12.25%. The merger was effective July 1, 2003.

During 2008, EMCC acquired HMIC's 12.25% interest in the class A common stock and its 25% interest in the class B common stock of EMC National Life Company.

On May 14, 2009, the Board of Directors approved the dissolution of EMC National Company. As a result of the dissolution, MHC has 51% of the voting control of EMC National Life Company and EMCC has 49%.

CAPITAL STOCK AND DIVIDENDS TO STOCKHOLDERS

As a result of the merger, all of the Company's outstanding common stock was exchanged for the two new classes of the Company's stock. Under this restructuring, the aggregate number of shares of stock which the Company is authorized to issue is 1,000,000 shares consisting of two classes of stock. Of the total authorized stock, 750,000 shares are designated as Class A Voting Common Stock, par value \$10 per share, and 250,000 shares are designated as Class B Non-Voting Cumulative Common Stock, par value \$100 per share. There are 500,000 shares of Class A Voting stock and 66,667 shares of Class B Non-Voting stock issued and outstanding. At December 31, 2018, MHC owns 51% (255,000 shares) and EMCC owns 49% (245,000 shares) of the Class A Voting stock. EMCC owns 100% of the Class B Non-Voting Cumulative Common Stock.

The Class B Non-Voting Common Stockholders are entitled to receive, if declared by the Board of Directors, cumulative dividends. Dividends on the Class B Non-Voting Common Stock, including any prior declared but unpaid dividends, must be paid before any dividends for the same period are declared or paid with respect to Class A Voting Common Stock. After payment of the cumulative dividend on the Class B Non-Voting Common Stock, each share of Class A Voting Stock and Class B Non-Voting Common Stock share equally in dividends declared by the Board of Directors.

As of December 31, 2018, the Company had 500,000 shares of non-voting, redeemable preferred stock authorized, and 240,000 issued and outstanding with a par

value of \$100. The Company may, at its option, redeem the shares at any time in whole or in part, at a cash redemption price of \$100 per share, plus any and all unpaid dividends. Each share is entitled to receive cumulative cash or non-cash dividends at an amount equal to \$4.60 per share per annum, plus has the potential to receive a non-cumulative variable rate dividend that is agreed to by the holders of stock, the Company and the Iowa Insurance Division. During 2009, EMCC contributed paid-in capital of \$24,000,000 and the Company issued the above shares of preferred stock.

Also, in 2009, EMCC contributed paid-in surplus in the form of shares of an unaffiliated private equity company of \$19,753,804.

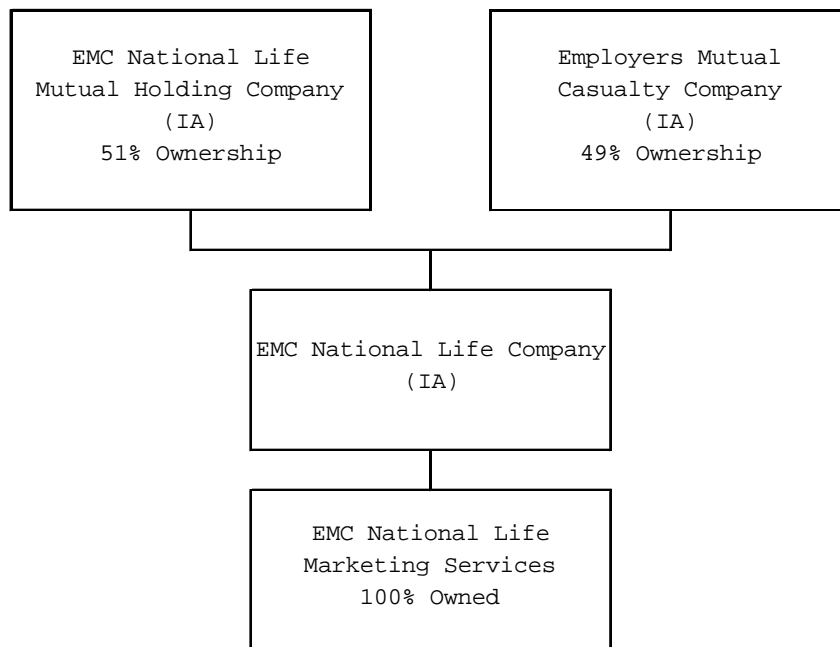
Preferred stock dividends paid to EMCC during the examination period were as follows:

<u>Year</u>	<u>Dividends Paid</u>
2014	\$1,920,000
2015	1,920,000
2016	1,920,000
2017	1,920,000
2018	1,104,000

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. MHC is the ultimate controlling person for the group. An Insurance Holding Company System Registration Statement was filed with the Iowa Insurance Division for each year of the examination period.

An abbreviated organizational chart identifying the Companies within the Holding Company System follows:



MANAGEMENT AND CONTROL

Shareholders

The regular annual meeting of the shareholders shall be held during the months of March, April or May of each year or at such other time as shall be fixed by the Chief Executive Officer or the Board of Directors, for the purpose of electing directors and for the transaction of such other business as may become before the meeting. If the day fixed for the annual meeting shall be a legal holiday in the State of Iowa, such meeting shall be held on the next succeeding business day.

If the election of the directors shall not be held on the day so designated for the annual meeting of the shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as conveniently may be.

Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the Chief Executive Officer or the Board of Directors, and shall be called by the Chief Executive Officer at the request of the holders of not less than ten percent (10%) of all outstanding shares of voting stock of the corporation entitled to vote at the meeting.

The holders of a majority of the issued and outstanding shares of voting stock of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at all meetings of the shareholders, except as may be otherwise provided by the Act or by the Corporation's Amended and Substituted Articles of Incorporation.

Except as otherwise provided by law, the Amended and Substituted Articles of Incorporation or the Bylaws, each issued and outstanding share of voting stock of the Corporation shall be entitled to one vote upon each matter submitted to a vote at a meeting of shareholders.

Any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting if a consent or consents in writing, setting forth the action(s) so taken, shall be signed by all the shareholders entitled to vote with respect to the subject matter thereof.

Board of Directors

The Amended and Substituted Articles of Incorporation prescribe that all corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation managed by or under the direction of, the Board of Directors, which shall consist of not less than five (5) nor more than twenty-one (21) members, with the exact number of directors and their term(s) of office being set forth in or determined in accordance with the Bylaws of the corporation.

Directors shall be elected for three-year (3-year) terms and, as nearly as may be, one-third (1/3) thereof shall be elected annually.

A regular meeting of the Board of Directors shall be held without other notice than the Bylaws immediately after, and at the same place as, the annual meeting of the shareholders. Additional regular meetings of the Board of Directors, if any, shall be held on call of the Chief Executive Officer or the Executive Committee at such time and place within or without the State of Iowa and upon such notice as he, she or it shall determine.

Special meetings of the Board of Directors may be called by the Chief Executive Officer or by the Executive Committee and shall be called by such officer or such committee at the request of any five of the directors, at such place within or without the State of Iowa, and on such time and date, as the Chief Executive Officer or the Executive Committee shall determine.

The First Amendment to the Amended and Substituted Articles of Incorporation prescribes that at no time shall persons who are or have been employed by or have served or are serving on the Board of Directors of Employers Mutual Casualty Company, its subsidiaries or affiliates, comprise more than one-third (1/3) of the membership of the Board of Directors, if there are six or more directors.

At no time shall persons who are or have been employed by or have served or are serving on the Board of Directors of Employers Mutual Casualty Company, its subsidiaries or affiliates, comprise one-half (1/2) or more of the membership of the Board of Directors, if there are five or fewer directors.

The directors duly elected and serving at December 31, 2018 were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Eric J. Faust Des Moines, Iowa	Chief Synergy Officer EMC Insurance Companies and Chairman, Chief Executive Officer and President, EMC National Life Company	2019
Michael A. Lovell* Urbandale, Iowa	Executive Vice President - Operations EMC Insurance Companies	2019
Edward A. Murphy Urbandale, Iowa	Retired Insurance Executive	2019
Lauren L. Burgeson Des Moines, Iowa	Executive Vice President Iowa State Bank	2020
Kevin J. Krause Des Moines, Iowa	Partner and Chief Financial Officer BPRE Management Company/BP Real Estate Group	2021

*Chairman (as of 12/31/18)

Raymond Davis, a retired insurance executive, was elected at the annual meeting of the shareholders of the Company on May 28, 2019, for a one-year term, expiring in 2020, replacing Edward A. Murphy who retired from the Board.

Michael A. Lovell was re-elected at the annual meeting of the shareholders of the Company on May 28, 2019 for a two-year term, expiring in 2021.

Eric J. Faust was re-elected at the annual meeting of the shareholders of the company on May 28, 2019 for a three-year term, expiring in 2022.

Following leadership changes at EMC further described in the "Officers" section below, Eric J. Faust was elected Chairman of the Board on December 19, 2019, effective January 3, 2020, replacing Michael A. Lovell who retired from the Board. Christopher D. Frazier, the newly appointed Chief Operating Officer and Chief Financial Officer of the Company, was nominated as Director and Vice Chairman, to serve until the next annual meeting of the shareholders.

Committees

The Bylaws provide that the Board of Directors, by resolution adopted by a majority of the full Board of Directors, shall, at its regular annual meeting, designate an Executive Committee and a Nominating Committee, and may at such meeting, or from time to time, designate such other committees, with such name or names as it may determine. The appointment of any such committee and the delegation thereto of authority shall not relieve the Board of Directors, or any member thereof, of any responsibility imposed upon it, or the member, by law.

The Executive Committee shall have authority to exercise the powers of the Board of Directors when it is not in session except for certain stated duties. All committees shall consist of three or more directors. The Chief Executive Officer shall be a member and chairman of the Executive Committee; and may be a member of any other committee.

The membership of the various committees as of December 31, 2018 was as follows:

Executive

Eric J. Faust, Chair
Michael A. Lovell
Kevin J. Krause

Investment

Kevin J. Krause, Chair
Eric J. Faust
Edward A. Murphy

Nominating

Lauren L. Burgeson, Chair
Eric J. Faust
Michael A. Lovell

Compensation

Michael A. Lovell, Chair
Lauren L. Burgeson
Kevin J. Krause

Audit

Edward A. Murphy, Chair
Lauren L. Burgeson
Kevin J. Krause

Officers

The Bylaws provide the executive officers of the corporation shall be a Chairman, a Vice Chairman, a President, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, a Secretary, a Treasurer and a General Counsel, each of whom shall be elected by the Board of Directors.

Any executive office, except that of President, one Vice President, Treasurer, and Secretary, may be left unfilled, as the Board of Directors may, from time to time, determine.

Any two or more offices may be held by the same person except the offices of President and Secretary.

The Board of Directors may elect or appoint one or more resident vice presidents, a controller and any assistant officers it may deem necessary.

The principal elected officers serving at December 31, 2018 were as follows:

<u>Name</u>	<u>Title</u>
Eric J. Faust	President, Chief Operating Officer
Michael A. Lovell	Chief Executive Officer
Jenifer L. Mercer-Klimowski	Secretary, Senior Vice President and Corporate Counsel
Christopher D. Frazier	Treasurer, Senior Vice President and Chief Financial Officer
Mark C. Rowley	Managing Actuary, Vice President
Cameron S. Torstenson	Senior Vice President, Marketing
Mark A. Unkrich	Senior Vice President, Claims and Underwriting
Kevin R. Lund	Senior Vice President, Policy and Technology Administration
Julie K. Hanson	Vice President, Marketing Operations
Sandra K. Struthers	Assistant Vice President, Controller, & Assistant Treasurer
David J. Pokorny	Assistant Secretary, Corporate Compliance
Steven C. Brown	Assistant Vice President, New Business & Claims Administration

Mark Devries was elected Assistant Vice President, Supervising Actuary on February 8, 2019.

EMC announced the following leadership changes on January 15, 2020:

- Eric J. Faust was named Chief Synergy Officer of EMC. At the same time, he was named Chief Executive Officer and President of the Company, replacing Michael A. Lovell.
- Christopher D. Frazier replaced Eric J. Faust as Chief Operating Officer of the Company and continued to serve as Chief Financial Officer and Treasurer.
- Cameron S. Torstenson was named Executive Vice President, Chief Marketing Officer of the Company.

The total compensation during 2018 for the officers serving at December 31, 2018 is shown in Exhibit A to be found immediately following the signature page of this report.

CONFLICT OF INTEREST

The Company has an established procedure for the annual disclosure to its Board of Directors of any material interest or affiliation on the part of all employees, which is in conflict with, or is likely to be in conflict with the official duties of such persons. The Company requires its officers and directors to complete conflict-of-interest statements and disclose any known or potential conflict of interest as part of the annual disclosure process.

The examiners requested to review the conflict of interest statements completed by the Company's officers and directors for each year of the period covered by this examination. No exceptions were noted in review of conflict of interest statements completed by the officers and directors.

CORPORATE RECORDS

The Articles of Incorporation were amended on December 12, 2017 to amend Article IV, effective January 1, 2018. The aggregate number of shares the corporation is authorized to issue was amended to 1,500,000, composed of 750,000 shares of Class

A common voting stock, \$10 par value; 250,000 shares of Class B non-voting common stock, \$100 par value; and 500,000 shares of preferred non-voting cumulative stock, \$100 par value.

The Bylaws were not amended during the examination period.

The recorded minutes of the meetings of the shareholders, the Board of Directors, and committees were read and noted.

The Company reviewed the findings of the Iowa Insurance Division's Examination Report as of December 31, 2013 at the Board of Directors' meeting held on August 25, 2015.

FIDELITY BONDS AND OTHER INSURANCE

The Company is protected by a Financial Institution Bond up to a single loss limit of \$3,000,000. This policy as well as the other various policies of insurance are all with authorized insurers.

RELATED PARTY AGREEMENTS

EMCC provides certain management, legal, operational and administrative services to the Company necessary for the conduct of its business, pursuant to a Services Agreement dated July 1, 2003 and amended October 24, 2007 and September 1, 2010. Services are performed on a cost-allocation basis.

The Company has an investment management agreement with EMCC dated July 1, 2003 and amended July 1, 2012 and January 1, 2019. Under the agreement, EMCC is appointed and authorized to be an investment manager for the Company and to act for the Company with respect to acquisition, retention, management and disposition of all assets the Company may put under the supervision of EMCC. On January 1, 2019, the agreement was amended to change the method of reimbursement from cost allocation to an asset-based fee.

EMPLOYEES' WELFARE

The Company provides qualified employees with retirement and group life and disability income benefits on a noncontributory basis. Group health and dental insurance benefits and group accidental death and dismemberment indemnity are provided on a contributory basis. The employee may contribute to a 401(k) stock deferral plan wherein the Company will match a portion of the employee's contribution.

Additionally, the Company makes a provision for paid time off and holidays, flexible hours, and tuition assistance programs.

REINSURANCE

All the Company's reinsurance contracts contained the necessary insolvency clauses and were placed with authorized reinsurers.

Life - Ceded

Excess universal life writings over the Company's desired retention are ceded automatically to reinsurers. All agreements are on the yearly renewable term plan and provide for automatic cessions of up to \$1,000,000 per life provided the Company

retains its maximum retention of \$250,000. Excesses over automatic amounts or amounts the Company prefers not to cede automatically may be ceded on a facultative basis.

Except for one case, Group life insurance with premium waiver is ceded 100 percent in excess of the Company's retention of \$50,000. There are also accidental death and dismemberment benefits that are ceded 100 percent in excess of the Company's retention of \$25,000. The maximum amount of insurance issued to an individual with evidence of insurability is \$500,000. Amounts over \$500,000 the Company may cede on a facultative basis up to \$1,000,000.

For one case of Group Life insurance, the Company retains 50% quota share of the first \$100,000 of Basic & Supplemental Group Life per insured; reinsurer accepts 50% quota share of the first \$100,000 and 100% in excess of \$100,000. For that case, the Company also retains 50% quota share of the first \$50,000 of Basic & Supplemental Group AD&D per insured; reinsurer accepts 50% quota share of the first \$50,000 and 100% in excess of \$50,000.

Effective May 1, 2003, the Company entered into an automatic first dollar quota share coinsurance agreement with a reinsurer. Value term plans are ceded for 80 percent up to a maximum of \$100,000 Company retention and 100 percent for amounts in excess of the Company's retention up to \$2,000,000. Amounts in excess of the Company's retention may be ceded on a facultative basis.

Effective November 18, 2005, a coinsurance treaty covering increasing whole life plans, insured term riders and paid up additions riders was placed in effect with two reinsurers. The Company retains 50% of the first dollar up to a maximum of \$250,000 while the remaining 50% and amounts exceeding retention are split equally between the two reinsurers.

Effective December 1, 2006, the Company entered into an automatic first dollar quota share coinsurance agreement with a reinsurer. The Critical Illness Version 3 Product is 50 percent ceded up to a maximum of \$100,000 Company retention. Amounts in excess of the Company's retention may be ceded on a facultative basis.

The Company entered into two reinsurance agreements with one reinsurer for their Ultra Value term plans, effective April 1, 2007. The first was an automatic YRT treaty on 10 and 15-year term plans whereby the Company retains 20%, not to exceed \$100,000, and cedes the remaining 80% on a first dollar quota share basis up to an automatic issue maximum of \$1,000,000. The second was a coinsurance treaty on 20 and 30-year term plans whereby the Company retains 20%, not to exceed \$100,000, and cedes the remaining 80% on a first dollar quota share basis up to an automatic issue of \$500,000.

Effective June 1, 2009 the Company entered into two reinsurance agreements with a different reinsurer for their Ultra Value term plans. The first was an automatic YRT treaty on 10 and 15-year term plans whereby the Company retains 20%, not to exceed \$100,000, and cedes the remaining 80% on a first dollar quota share basis up to an automatic issue maximum of \$1,000,000. The second was a coinsurance treaty on 20 and 30-year term plans whereby the Company retains 20%, not to exceed \$50,000, and cedes the remaining 80% on a first dollar quota share basis up to an automatic issue of \$500,000.

The treaties referenced in the paragraph above were amended effective December 1, 2009 for the new product EMCNL Term. There were no changes to retention or anything else mentioned in the paragraph above.

Effective September 1, 2009 the Company entered into a reinsurance agreement with a reinsurer for their Instant Issue term plans. The treaty was coinsurance whereby the Company retains 50%, not to exceed \$100,000, and cedes the remaining 50% on a first dollar quota share basis up to an automatic issue of \$250,000.

Effective November 1, 2011 the Company entered into two reinsurance agreements with two different reinsurers for their Term Select 2011 plans. One reinsurer assumed 80% of the ceded amounts and the other reinsurer 20%. The treaty was a coinsurance treaty whereby the Company retains 20%, not to exceed \$100,000, and cedes the remaining 80% on a first dollar quota share basis up to an automatic issue of \$2,000,000.

Effective June 1, 2014 the Company entered into a reinsurance agreement with one reinsurer for its Term Select 2014 plans. The treaty was a coinsurance treaty whereby the Company retains 20%, not to exceed \$100,000, and cedes the remaining 80% on a first dollar quota share basis up to an automatic issue of \$2,000,000.

Effective January 1, 2017 the Company entered into two reinsurance agreements with two different reinsurers for their Term Select 2017 plans. Each reinsurer assumed 50% of the ceded amounts. The treaty was a coinsurance treaty whereby the Company retains 20%, not to exceed \$100,000, and cedes the remaining 80% on a first dollar quota share basis up to an automatic issue of \$2,000,000.

Effective March 1, 2018 the Company entered into a reinsurance agreement with one reinsurer for their Accelerated Term plans. The treaty was a coinsurance treaty whereby the Company retains 20%, not to exceed \$100,000, and cedes the remaining 80% on a first dollar quota share basis up to an automatic issue of \$2,000,000.

The Company has other contracts with policies in force under which new cessions are not being made.

Life - Assumed

The Company participates in the Servicemen's Group Life Insurance (SGLI) pool.

The Company assumed 55.90% of the risks of a block of various universal life and traditional life plans in force with the exception of Alabama risks, as of January 1, 1999, from an unaffiliated company under a modified coinsurance agreement. The Company is the administrator for this assumed business through an administrative services agreement.

Effective July 1, 1999, the Company automatically assumes from an unaffiliated company 50% quota share from first dollar, new issues of a 20 Year Level Term to Age 70 Plan, along with an accelerated death benefit rider. This agreement is on the coinsurance plan and provides that the amount issued on any case ceded automatically shall not exceed \$100,000. Excesses over automatic amounts or amounts the ceding company prefers not to cede automatically may be ceded on a facultative basis.

Accident and Health - Ceded

On January 1, 2007, the Company entered into an agreement whereby the Company ceded 100% quota share for Group Short and Long-Term Disability Income business to a reinsurer. This agreement is winding down and termination will be complete as of 4/1/20.

On July 1, 2009, the Company entered into an agreement for the purpose of selling its cancer block of business. The agreement ceded 100% of the business on a

coinsurance basis. The reinsurer has gone through a process state by state to make the reinsurance assumption reinsurance which, when successful in particular states, has the effect of removing the business fully from the Company's books.

On January 1, 2011, the Company entered into an agreement for the purpose of selling its miscellaneous health business, which was made up of primarily disability income policies but also included a number of other health coverages. The agreement ceded 100% of the business on a coinsurance basis. The reinsurer has gone through a process state by state to make the reinsurance assumption reinsurance which, when successful in particular states, has the effect of removing the business fully from the Company's books.

STATUTORY DEPOSIT

The Company had securities and other assets on deposit with the Iowa Insurance Division in excess of the minimum statutory requirements.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact business in the District of Columbia and all states except for New Jersey and New York.

The Company sells individual life, individual annuity, workplace life, and group term life insurance products through independent agents.

GROWTH OF COMPANY

The growth of the Company is reflected by the following data taken from the Company's copies of filed annual statements for the years indicated:

(000's omitted)

<u>Year</u>	<u>Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Life Premiums</u>	<u>Annuity Premiums</u>	<u>A&H Premiums</u>	<u>Life Insurance In Force</u>
2014	\$1,009,848	\$ 98,846	\$35,148	\$22,169	\$439	\$12,489,047
2015	978,865	99,470	36,632	23,724	496	12,665,507
2016	947,885	103,978	37,716	21,816	527	12,980,363
2017	954,780	105,576	38,697	17,391	497	13,133,818
2018	909,549	115,622	38,804	14,937	614	13,423,442

ACCOUNTS AND RECORDS

The Company uses electronic data processing equipment and related software for processing and maintaining its accounts, records and files. In certain areas, an imaging system is used to maintain documents on the computer system rather than maintaining the original documents (paper) or other media (microfilm, microfiche etc.). The Information Systems controls were reviewed by this examination. No material exceptions were noted to accepted control practices and procedures.

Trial balances of the Company's general ledgers were taken for each year under examination and were found to be in agreement with the office copies of the filed annual statements for those years.

The records in the Company's policy master file were sampled and tested by comparing data contained in supporting documents to data contained in the computer records. No material discrepancies were noted.

During the course of examination, no statutory violations or material differences with the amounts reflected in the financial statements, as presented in the annual statement at December 31, 2018, were identified.

The Company's external auditors found the Company did not account for its interest maintenance reserve in accordance with statutory accounting guidance resulting in the interest maintenance reserve being understated by \$4,497,003 and surplus being overstated by \$4,497,003 at December 31, 2018. The Company recorded the entry to adjust the accounts in the second quarter of 2019.

No statutory compliance issues were discovered during the course of the examination.

SUBSEQUENT EVENTS

COVID-19 Pandemic

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is significant uncertainty as to the impact the pandemic will have on the economy, insurance industry and the Company. In addition, this uncertainty has contributed to extreme volatility in the financial markets. As such, the Iowa Insurance Division will continue to monitor COVID-19 developments.

Preferred Stock Redemption

After approval from the Iowa Insurance Division, the Board of Directors of the Company approved the redemption of 120,000 shares of redeemable preferred stock at \$100 per share effective September 30, 2019. Following the redemption, the Company now has 500,000 shares of non-voting, redeemable preferred stock authorized, and 120,000 shares issued and outstanding with a par value of \$100. The Company may, at its option, redeem the shares at any time in whole or in part, at a cash redemption price equal to \$100 per share, plus any and all unpaid cumulative dividends.

F I N A N C I A L S T A T E M E N T S
A N D C O M M E N T S T H E R E O N

NOTE: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2018.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Assets</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$745,041,165	\$	\$745,041,165
Preferred stocks	11,007,426		11,007,426
Common stocks	19,175,592		19,175,592
Mortgage loans on real estate, first liens	43,606,905		43,606,905
Real estate occupied by the Company	1,009,051		1,009,051
Cash, cash equivalents and short-term investments	17,333,174		17,333,174
Contract loans	18,606,191		18,606,191
Other invested assets	5,702,532	57,083	5,645,449
Investment income due and accrued	9,207,928		9,207,928
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	1,198,738	154,326	1,044,412
Deferred premiums	14,901,652		14,901,652
Reinsurance:			
Amounts recoverable from reinsurers	1,238,470		1,238,470
Other amounts receivable under reinsurance contracts	197,419		197,419
Federal & foreign income tax recoverable	1,310,101		1,310,101
Net deferred tax asset	5,865,380	2,075,207	3,790,173
Guaranty funds receivable or on deposit	654,282		654,282
Electronic data processing equipment & software	236,636	112,298	124,339
Furniture and equipment	5,777	5,777	
Receivable from parent, subsidiaries and affiliates	21,718		21,718
Write-ins for other than invested assets:			
Deferred compensation plan assets	15,615,396		15,615,396
Premium tax receivable	6,976		6,976
Other assets	10,932	246	10,686
Qualified pension plan prepaid expenses	2,201,871	2,201,871	
Policy liens - LTC & ADB benefits	713,992	713,992	
Other prepaid expenses	416,564	416,564	
Prepaid annuity and supplemental contract payments	172,030	172,030	
Automobiles	35,098	35,098	
 Total Assets	 <u>\$915,492,996</u>	 <u>\$5,944,491</u>	 <u>\$909,548,506</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	\$740,997,040
Aggregate reserve for accident and health contracts	651,093
Liability for deposit-type contracts	21,731,253
Contract claims:	
Life	5,112,336
Accident and health	59,336
Policyholder dividends due and unpaid	1,160
Provision for policyholders' dividends apportioned for payment	304,698
Premiums and annuity considerations received in advance	130,684
Interest maintenance reserve	(4,497,003)
Commissions to agents due or accrued	175,330
General expenses due or accrued	4,017,286
Taxes, licenses and fees, excluding federal income taxes	630,348
Unearned investment income	643,443
Amounts withheld or retained by company as agent or trustee	14,310,772
Amounts held for agents' account	148
Remittances and items not allocated	77,312
Asset valuation reserve	6,626,581
Payable to parent, subsidiaries and affiliates	437,642
Write-ins for liabilities:	
Reinsurance payable	1,475,320
Qualified pension plan liability not recognized in income	768,606
Guaranty funds payable	518,661
Nonqualified pension plan liability not recognized in income	160,542
Postretirement benefit plans liability not recognized in income	(405,947)
Total Liabilities	<u>\$793,926,640</u>
Common capital stock	\$ 11,666,700
Preferred capital stock	24,000,000
Gross paid in and contributed surplus	34,830,042
Unassigned funds (surplus)	<u>45,125,124</u>
Total Capital and Surplus	<u>\$115,621,866</u>
Total Liabilities, Surplus and Other Funds	<u>\$909,548,506</u>

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and accident and health contracts	\$54,355,761
Considerations for supplementary contracts with life contingencies	210,835
Net investment income	40,509,376
Amortization of interest maintenance reserve	93,663
Commissions and expense allowances on reinsurance ceded	2,493,934
Miscellaneous income	76,226
Total	<u>\$97,739,795</u>
Death benefits	\$29,560,891
Matured endowments	62,765
Annuity benefits	15,967,563
Disability benefits and benefits under accident and health contracts	336,841
Surrender benefits and other withdrawals for life contracts	49,165,652
Group conversions	(1,569)
Interest and adjustments on contract or deposit-type contract funds	1,540,517
Payments on supplementary contracts with life contingencies	542,312
Increase in aggregate reserves for life and accident and health contracts	(27,829,086)
Total	<u>\$69,345,887</u>
Commissions on premiums, annuity considerations and deposit-type funds	7,368,081
Commissions and expense allowances on reinsurance assumed	51,465
General insurance expenses	13,601,316
Insurance taxes, licenses and fees, excluding federal income taxes	1,679,093
Increase in loading on deferred and uncollected premiums	(31,860)
Write-ins for deductions:	
Deferred compensation plan expense	534,685
Modco adjustment	(131,634)
Total	<u>\$92,417,033</u>
Net gain from operations before dividends to policyholders and federal income taxes	\$ 5,322,762
Dividends to policyholders	297,604
	<u>\$ 5,620,366</u>
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 5,025,158
Federal income taxes incurred	1,152,990
	<u>\$ 3,872,168</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	\$ 3,872,168
Net realized capital gains or (losses)	11,119,803
	<u>\$ 15,000,000</u>
Net income	<u>\$ 14,991,970</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, 2017	<u>\$105,576,072</u>
Net income	\$ 14,991,970
Change in net unrealized capital gains (losses)	(1,057,564)
Change in net deferred income tax	(36,323)
Change in nonadmitted assets	778,706
Change in asset valuation reserve	689,010
Dividends to stockholders	(1,104,000)
Aggregate write-ins for gains and losses in surplus:	
Change in postretirement benefit plans prepaid expenses not recognized in income	(2,589,763)
Change in postretirement benefit plans liability not recognized in income	(1,448,400)
Change in qualified pension plan liability not recognized in income, net of tax	(315,049)
Change in nonqualified pension plan liability not recognized in income, net of tax	<u>137,206</u>
Net change in capital and surplus for the year	<u>\$10,045,794</u>
Capital and surplus, December 31, 2018	<u>\$115,621,866</u>

CASH FLOW

CASH FROM OPERATIONS

Premiums collected net of reinsurance	\$ 53,876,898
Net investment income	42,516,499
Miscellaneous income	(458,452)
Total	<u>\$ 95,934,945</u>
Benefit and loss related payments	\$ 97,411,965
Commissions, expenses paid and aggregate write-ins for deductions	20,366,733
Dividends paid to policyholders	310,243
Federal and foreign income taxes paid (recovered)	3,125,000
Total	<u>\$121,213,940</u>
Net cash from operations	<u>\$(25,278,995)</u>

CASH FROM INVESTMENTS

Proceeds from investments sold, matured or repaid:	
Bonds	\$214,783,148
Stocks	5,850,783
Mortgage loans	12,063,670
Real estate	105,394
Total investment proceeds	<u>\$232,802,995</u>
Cost of investments acquired (long-term only):	
Bonds	\$187,832,347
Stocks	3,110,749
Mortgage loans	25,000,000
Other invested assets	5,645,449
Miscellaneous applications	(150,486)
Total investments acquired	<u>\$221,438,060</u>
Net increase (or decrease) in policy loans and premium notes	<u>(968,249)</u>
Net cash from investments	<u>\$ 12,333,184</u>

CASH FROM FINANCING AND MISCELLANEOUS SOURCES

Cash provided (applied):	
Net deposits on deposit-type contracts and other insurance liabilities	\$(21,218,967)
Dividends to stockholders	1,104,000
Other cash provided (applied)	<u>(1,970,337)</u>
Net cash from financing and miscellaneous sources	<u>\$(24,293,304)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments	\$(37,239,115)
Cash, cash equivalents, and short-term investments:	
Beginning of year	54,572,289
End of year	<u>\$ 17,333,174</u>

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company during the course of this examination is hereby acknowledged.

In addition to the undersigned, examiners from the Iowa Insurance Division, Risk & Regulatory Consulting, LLC, information systems specialists, and Insurance Strategies Consulting, LLC, actuarial specialists, participated in the examination and the preparation of this report.

Respectfully submitted,

_/s/ Thomas Allen_____
Thomas Allen, CFE
Examiner-in-Charge
Examination Resources, LLC on behalf of the
Iowa Insurance Division

_/s/ Daniel Mathis_____
Daniel Mathis, CFE
Supervisor and Assistant Chief Examiner
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