

EXAMINATION REPORT OF  
PRINCIPAL NATIONAL LIFE INSURANCE COMPANY  
DES MOINES, IOWA  
AS OF DECEMBER 31, 2017

Des Moines, Iowa  
May 14, 2019

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 records, business affairs and financial condition of

PRINCIPAL NATIONAL LIFE INSURANCE COMPANY

DES MOINES, IOWA

AS OF DECEMBER 31, 2017

at its home office located at 711 High Street, Des Moines, Iowa.

INTRODUCTION

Principal National Life Insurance Company, hereinafter referred to as the "Company", was previously examined as of December 31, 2012 by the Iowa Insurance Division.

The Company's affiliates, Principal Life Insurance Company ("PLIC"), Principal Life Insurance Company of Iowa ("PLICIA"), Principal Reinsurance Company of Vermont ("PRCVT"), and Employers Dental Services, Inc. ("EDS") were examined concurrently with this examination.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2013 to the close of business on December 31, 2017, 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 Financial Condition Examiners Handbook. The Handbook requires the examination to be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company; including corporate governance, identifying and assessing inherent risks within the organization, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The Company's assets were verified and evaluated, and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2017.

## HISTORY

The Company was incorporated in the State of Ohio on November 6, 1967 and commenced business on March 1, 1968 as Progressive National Life Insurance Company.

The Company changed its name in 1971 to Progressive American Life Insurance Company.

During 1991, ownership of the company was transferred from Progressive Casualty Insurance Company of Beachwood, Ohio, to The Progressive Corporation, a Cleveland based holding company.

In October 2003, Principal Financial Services, Inc. ("PFS") purchased Progressive American Life Insurance Company, an Ohio domiciled shell insurance company. Subsequent to the acquisition, Progressive American was renamed Principal Health Insurance Company and redomiciled to the State of Iowa.

Effective October 16, 2007, Principal Health Insurance Company was renamed Principal National Life Insurance Company.

## CAPITAL STOCK AND DIVIDENDS TO STOCKHOLDERS

Authorized capital consists of five million shares of common stock, par value of \$1 per share. As of December 31, 2017, 2.5 million shares were issued and outstanding, resulting in common capital stock of \$2.5 million. Gross paid in and contributed surplus is \$174.3 million. All outstanding stock is held by PFS.

The Company did not pay any dividends to PFS during the examination period.

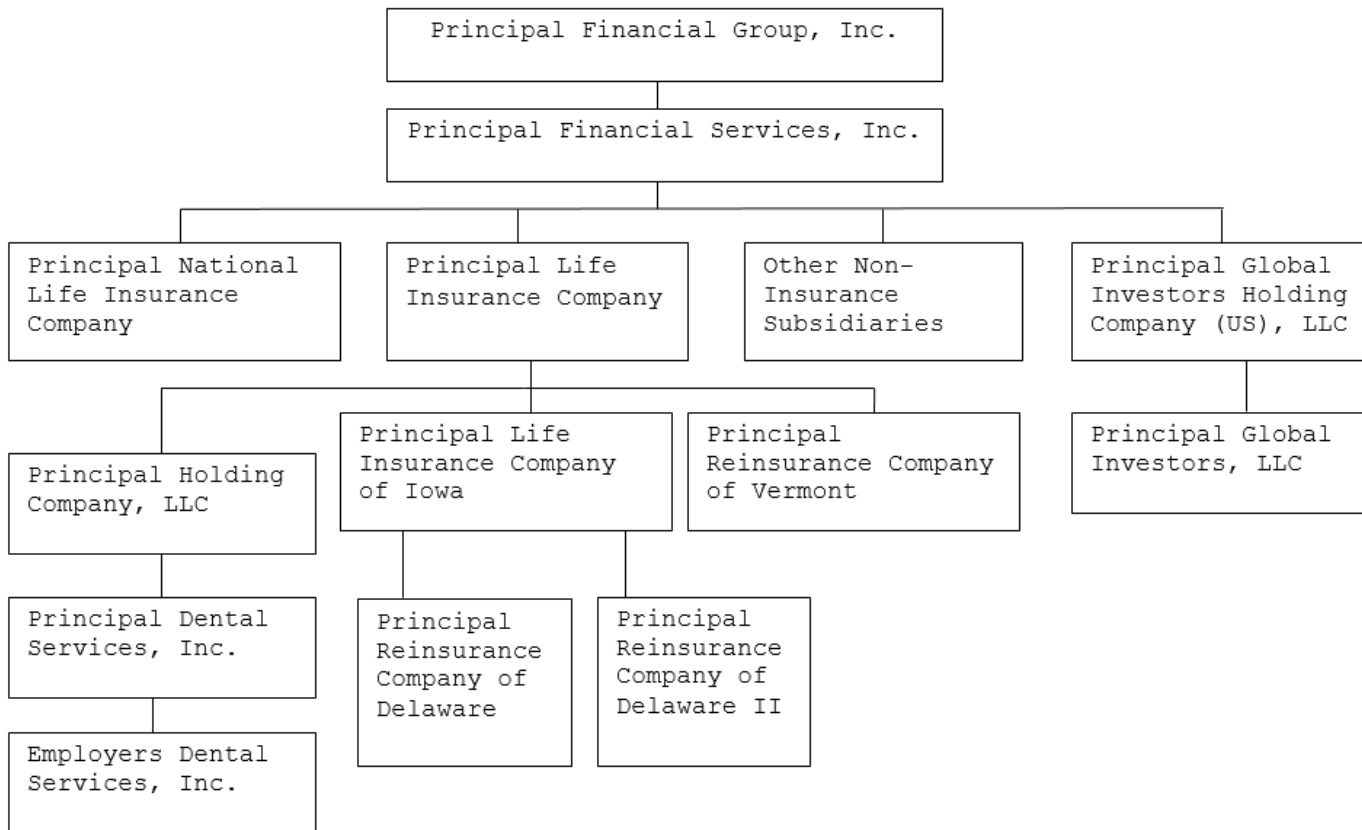
Surplus contributions from PFS during the examination period were as follows:

<u>Year</u>	<u>Contributions Received</u>
2013	\$15,000,000
2014	0
2015	17,500,000
2016	22,500,000
2017	25,000,000

## INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. Principal Financial Group, Inc. ("PFG"), a Delaware corporation, 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 annual meeting of the shareholders for the election of directors and for the transaction of such other business as may properly come before the meeting, shall be held on the third Monday in May of each year at such place and time as the Board of Directors shall each year fix, or at such other place, time and date as the Board of Directors shall fix.

Special meetings of the shareholders may be called by the Chairman of the Board, the Chief Executive Officer or the Board of Directors, and shall be called by the Board of Directors upon the written demand, signed, dated and delivered to the Secretary, of the holders of at least ten percent of all the votes entitled to be cast on any issue proposed to be considered at the meeting.

Notice of the place, date and time of all meetings of the shareholders and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be communicated not fewer than ten days nor more than 60 days before the date of the meeting to each shareholder entitled to vote at such meeting.

At any meeting of the shareholders, a majority of the votes entitled to be cast on the matter by a voting group constitutes a quorum of that voting group for action on that matter, unless the representation of a different number is required by law, and in that case, the representation of the number so required shall constitute a quorum.

Every shareholder entitled to vote may vote in person or by proxy. Unless otherwise provided by law, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of the shareholders.

Board of Directors

The business and affairs of the Company shall be managed under the direction of the Board of Directors. The directors shall be elected at the annual meeting and the number to be elected, not less than five nor more than 21, shall be determined by the shareholder or a majority of the entire Board of Directors. Each director shall serve a term of approximately three years.

Each director (whenever elected) shall hold office until his or her death, resignation or removal, except that each director who attains retirement age, as set forth in the Articles of Incorporation of the Company or as determined by the Board of Directors, during the term for which elected shall hold office only until the next annual meeting of the shareholder following attainment of retirement age, at which time a person may be elected as director to complete the unexpired term of office, if any, for which the director attaining retirement age had been elected.

Any director may be removed, but only for cause, at a meeting of the shareholder called for that purpose in the manner prescribed by law, upon the affirmative vote of the holders of a majority of the combined voting power of the then outstanding stock of the Company entitled to vote generally in the election of directors. Any director of the Company may resign at any time by delivering written notice to the Chairman of the Board, the Board of Directors, or the Company.

Regular meetings of the Board of Directors shall be held without notice once in each calendar quarter on such date and at such hour and place, within or without the State of Iowa, as may be fixed by the Board of Directors, except that the meeting in the second quarter shall be held in the principal office of the Company in Des Moines on the date of the annual meeting of the shareholders of the Company.

Special meetings of the Board of Directors may be called at any time upon two days' written notice given by the Chairman of the Board, if any, the President or a majority of directors then in office, which notice shall state the date, time and place of the special meeting.

A quorum of the Board of Directors consists of a majority of the number of directors prescribed in accordance with the By-Laws. At all meetings of directors where a quorum is present, the act of the majority of the directors present at the meeting shall be the act of the Board of Directors.

The directors duly elected and serving as of December 31, 2017 were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Gerald W. Patterson West Des Moines, IA	Senior Vice President - Retirement and Income Solutions Principal Financial Group, Inc. and Principal Life Insurance Company	2018
Amy C. Friedrich West Des Moines, IA	President - U.S. Insurance Solutions Principal Financial Group, Inc. and Principal Life Insurance Company	2018
Gregory A. Linde* Waukee, IA	Senior Vice President - Individual Life Principal Financial Group, Inc. and Principal Life Insurance Company	2019

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Kenneth A. McCullum West Des Moines, IA	Vice President and Chief Actuary Principal Financial Group, Inc. and Principal Life Insurance Company	2019
Deanna D. Strable-Soethout Urbandale, IA	Executive Vice President and Chief Financial Officer Principal Financial Group, Inc. and Principal Life Insurance Company	2020

\*Chair

On April 15, 2019 Srinivas D. Reddy was appointed Director, replacing Gerald W. Patterson, who resigned from the Company effective April 15, 2019.

#### Committees

The Board of Directors shall appoint an Executive Committee whose members shall be appointed by and serve at the pleasure of the Board of Directors. The Executive Committee shall have and may exercise all of the powers of the Board of Directors in the management and affairs of the Company except when the Board of Directors is in session.

The membership of the Executive Committee as of December 31, 2017 was as follows:

<u>Name</u>	<u>Position</u>
Deanna D. Strable-Soethout	Member, Chair
Gregory A. Linde	Member

The Board of Directors, by resolution adopted by the affirmative vote of a majority of the number of directors then in office, may establish one or more other committees of the Board of Directors, each committee to consist of two or more directors appointed by the Board of Directors. Each such committee shall have the powers and duties delegated to it by the Board of Directors. The Board of Directors has not established any other committees.

The Board of Directors has appointed a corporate committee to provide oversight of the Company's investments. Any proposed investment transaction in excess of limits established by the Board of Directors must be approved by the Executive Committee.

#### Officers

The Bylaws provide that the Board of Directors shall elect a President of the Company to serve at the pleasure of the Board of Directors. The Board of Directors shall empower either the Chairman of the Board, if one is elected, or the President to serve as the Chief Executive Officer of the Company. The Board of Directors shall appoint a Secretary to serve at the pleasure of the Board of Directors. At any meeting of the Board of Directors, the Board of Directors may elect such other officers of the Company as the Board of Directors may deem necessary, to serve at the pleasure of the Board of Directors. The Board of Directors may authorize the Company to elect or appoint other officers, each of whom shall serve at the pleasure of the Company.

The officers duly elected and serving as of December 31, 2017, were as follows:

<u>Name</u>	<u>Title</u>
Gregory A. Linde	Chairman and President
Clinton L. Woods	Secretary
Gina L. Graham	Vice President and Treasurer

<u>Name</u>	<u>Title</u>
Kenneth A. McCullum	Vice President and Chief Actuary
Amy C. Friedrich	Executive Vice President
Timothy M. Dunbar	Executive Vice President & Chief Investment Officer
Karen E. Shaff	Executive Vice President and General Counsel
Gregory B. Elming	Senior Vice President and Chief Risk Officer
Deanna D. Strable-Soethout	Executive Vice President & Chief Financial Officer
Gary P. Scholten	Executive Vice President and Chief Information Officer

On March 2, 2018, Julia M. Lawler was appointed Senior Vice President and Chief Risk Officer, replacing Gregory B. Elming who was removed as an officer of the Company.

On September 10, 2018, Julia M. Lawler was appointed Executive Vice President and Chief Risk Officer.

The total compensation paid during 2017 to the officers serving at December 31, 2017 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 annual disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors, or key employees which is in, or likely to, conflict with the official duties of such person. 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 directors. The Company was not able to produce evidence from its automated process that conflict of interest statements were completed by all of its officers for the years 2013 through 2016. In 2017, the Company enhanced its conflict of interest process and recordkeeping. Review of evidence from the process in 2017 indicated no exceptions.

#### CORPORATE RECORDS

Neither the Articles of Incorporation nor the Bylaws were amended during the examination period.

The minutes of the meetings of the stockholders, the Board of Directors and the committees of the Board were reviewed for the examination period. All minutes provided were signed and properly attested.

The minutes of the Board meetings did not show that the Report of Examination as of December 31, 2012 by the Iowa Insurance Division was received by the Board.

#### FIDELITY BONDS AND OTHER INSURANCE

The Company is protected by a Financial Institution Bond with Computer Crime Endorsement up to a single loss limit of \$15,000,000.

This policy as well as the other various policies of insurance under the insurance program of PFG are all with authorized insurers.

#### RELATED PARTY AGREEMENTS

The Company is provided certain administrative services by PLIC necessary for the conduct of the Company's business, pursuant to a Services Agreement dated as of February 20, 2008.

The Company has an investment management agreement with Principal Global Investors, LLC ("PGI"), under which PGI provides certain investment advisory and management services to the Company.

The Company and its affiliates, PLIC and PLICIA, agreed to the allocation of cost and expense amounts for PFG's sponsorship of certain plans that provide benefits to employees of PFG, subsidiaries, and, in certain instances, individual field agents, pursuant to a Cost Allocation Agreement dated as of December 10, 2014.

PFG has agreed that so long as it continues to be the indirect parent of the Company it will maintain capital and surplus in the Company to meet or exceed the minimum levels of capital and surplus required under Iowa Insurance law, pursuant to a Net Worth Maintenance Agreement dated as of August 17, 2010. The agreement can be canceled by either party at any time.

#### EMPLOYEES' AND AGENTS' WELFARE

The Company did not have any employees or facilities as of December 31, 2017.

#### REINSURANCE

The reinsurance contracts of the Company were reviewed, and no contract provisions were found to be outside the custom of the industry. All contracts had acceptable insolvency clauses and transfer of risk.

##### Assumed

During 2006, the Company began assuming reinsurance from PLIC. As of December 31, 2017, the Company had assumed 59 policies at 50 percent net amount at risk, with reserves totaling \$13,403.

##### Ceded

During 2009, the Company began ceding direct business to PLIC on a coinsurance basis for all non-variable life policies. In 2011, the Company entered into a modified coinsurance agreement for all variable life policies. As of December 31, 2017, the reserve credit taken was \$4,847.7 million and the modified coinsurance reserve was \$120.8 million.

#### STATUTORY DEPOSIT

The Company had securities on deposit with the Iowa Insurance Division in excess of the minimum statutory requirement.

#### TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact the business of insurance in the District of Columbia and all fifty states except New York.

The Company offers traditional term, universal life, variable universal life and indexed universal life insurance products.



Products and services are provided through a variety of distribution channels including affiliated financial representatives, non-affiliated brokers, independent advisors, and agents.

The five states with the largest direct premium collected in 2017 were:

<u>State</u>	<u>Direct Premium Collected</u>	<u>Percentage of Total</u>
California	\$80,281,119	11.3%
Florida	52,810,379	7.4
Texas	43,254,156	6.1
Iowa	39,108,779	5.5
Minnesota	35,870,357	5.0
Total all states	\$709,775,933	100.0%

#### GROWTH OF COMPANY

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

(000's Omitted)

<u>Year</u>	<u>Admitted Assets*</u>	<u>Capital and Surplus</u>	<u>Life Premium Income</u>	<u>Life Insurance In Force</u>
2013	\$110,351	\$ 84,237	\$6	\$ 78,094
2014	141,248	84,813	7	110,473
2015	185,055	103,668	5	138,065
2016	239,848	127,876	7	170,937
2017	316,904	148,872	7	211,215

\*Includes Separate Accounts

#### 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 ledger accounts were prepared for each year under examination and were found to be in agreement with the office copies of the filed annual statements for those years. Cash receipts and disbursements were tested to the extent deemed necessary.

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 the examination, no material aggregate surplus difference was identified from the amount reflected in the financial statements, as presented in the annual statement of December 31, 2017.

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

SUBSEQUENT EVENTS

The Company received surplus contributions from PFS of \$55.0 million in 2018 and \$6.3 million year-to-date in 2019.

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: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2017, and the assets and liabilities as of that date. The schedules may not add or tie precisely due to rounding.

ASSETS

	<u>Assets</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$ 131,151,730	\$	\$ 131,151,730
Cash, cash equivalents and short-term investments	13,231,319		13,231,319
Investment income due and accrued	1,279,923		1,279,923
Other amounts receivable under reinsurance contracts	1,511,912		1,511,912
Net deferred tax asset	23,916,065	13,664,775	10,251,290
Guaranty funds receivable or on deposit	7,051		7,051
Receivables from parent, subsidiaries and affiliates	39,413		39,413
Health care and other amounts receivable	279,437	279,437	
Miscellaneous accounts receivable	37,122		37,122
Total assets excluding separate accounts	\$ 171,453,972	\$ 13,944,212	\$ 157,509,761
From Separate Accounts	159,393,881		159,393,881
Total Assets	\$ 330,847,853	\$ 13,944,212	\$ 316,903,642

LIABILITIES, SURPLUS and OTHER FUNDS

Aggregate reserve for life contracts	\$	13,403
Interest maintenance reserve		145,939
Transfers to Separate Accounts due or accrued (net)		(83,367)
Taxes, licenses and fees due or accrued, excluding federal income taxes		3,370,711
Current federal income taxes		1,619,837
Remittances and items not allocated		2,858,646
Asset valuation reserve		533,636
Payable to parent, subsidiaries and affiliates		111,763
Uncashed checks/drafts pending escheatment		67,657
Total liabilities excluding Separate Accounts business	\$	8,638,224
From Separate Accounts		159,393,881
Total Liabilities	\$	168,032,105
Common capital stock		2,500,000
Gross paid in and contributed surplus		174,313,304
Unassigned funds (surplus)		(27,941,768)
Total Surplus and Other Funds	\$	148,871,537
Total Liabilities, Surplus and Other Funds	\$	316,903,642

SUMMARY OF OPERATIONS

Premiums for life contracts	\$ 6,432
Net investment income	3,681,744
Amortization of Interest Maintenance Reserve	91,996
Commissions and expense allowances on reinsurance ceded	286,898,798
Reserve adjustments on reinsurance ceded	27,836,446
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	11,304,263
Service fee income	258,214
Total Income	<u>\$ 330,077,893</u>
Increase in aggregate reserves for life contracts	53
Total Policy Benefits	<u>\$ 53</u>
Commissions on premiums	63,058,675
General insurance expenses	203,802,728
Insurance taxes, licenses and fees, excluding federal income taxes	22,842,408
Net transfers to Separate Accounts net of reinsurance	39,141,039
Regulatory fines and penalties	790
Total Policy Benefits and Expenses	<u>\$ 328,845,694</u>
Net gain from operations before dividends to policyholders and federal income taxes	<u>\$ 1,232,200</u>
Dividends to policyholders	
Net gain from operations after dividends to policyholders and before federal income taxes	<u>\$ 1,232,200</u>
Federal and foreign income taxes incurred	<u>5,131,256</u>
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	<u>\$ (3,899,056)</u>
Realized capital gains (losses)	
Net income (loss)	<u>\$ (3,899,056)</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and Surplus, December 31, 2016	<u>\$ 127,875,862</u>
Net income (loss)	\$ (3,899,056)
Change in net deferred income tax	(9,761,320)
Change in nonadmitted assets	6,160,862
Change in asset valuation reserve	(125,160)
Surplus adjustment:	
Paid in	28,903,836
Miscellaneous surplus adjustment	<u>(283,487)</u>
Net change in capital and surplus for the year	<u>\$ 20,995,674</u>
Capital and Surplus, December 31, 2017	<u>\$ 148,871,537</u>

CASH FLOW

CASH FROM OPERATIONS

Premiums collected net of reinsurance	\$ 6,432	
Net investment income	4,557,751	
Miscellaneous income	11,552,534	
Total		\$ 16,116,717
Benefit and loss related payments	\$ (27,836,446)	
Net transfers to Separate Accounts	39,096,853	
Commissions, expenses paid and other deductions	(2,135,013)	
Federal and foreign income taxes paid, net	5,068,171	
Total		\$ 14,193,566
Net cash from operations		\$ 1,923,151

CASH FROM INVESTMENTS

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 72,374	
Total investment proceeds		\$ 72,374
Cost of investments acquired (long-term only):		
Bonds	\$ 17,000,090	
Miscellaneous applications	550,332	
Total investments acquired		\$ 17,550,422
Net cash used for investments		\$ (17,478,049)

CASH FROM FINANCING AND MISCELLANEOUS SOURCES

Cash provided (applied):		
Capital and paid in surplus	\$ 25,000,000	
Other cash provided	4,634,822	
Net cash from financing and miscellaneous sources		\$ 29,634,822

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments		\$ 14,079,924
Cash and short-term investments:		
Beginning of year		\$ (848,605)
End of year		\$ 13,231,319

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, Assurity Resources, Inc., Risk & Regulatory Consulting, LLC, information systems specialists, JP Consulting, investment 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  
Assurity Resources, Inc. on behalf of the  
Iowa Insurance Division

\_/s/ Daniel Mathis\_\_\_\_\_  
Daniel Mathis, CFE  
Supervisor and Assistant Chief Examiner  
Iowa Insurance Division