Report

of the

Examination of

American Family Life Insurance Company

Madison, Wisconsin

As of December 31, 2016

TABLE OF CONTENTS

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

April 30, 2018

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

AMERICAN FAMILY LIFE INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of American Family Life Insurance Company (AFLIC or the company) was conducted in 2012 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2016, and included a review of such 2017 and 2018 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of affiliated companies domiciled in California, Georgia, Illinois, New York, and Texas, with Wisconsin acting in the capacity as the lead state for the coordinated examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

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, annual statement instructions, and Wisconsin laws and regulations. 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 at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of aggregate life and annuity reserves, aggregate accident and health reserves, dividends to policyholders, and asset adequacy analysis. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

American Family Life Insurance Company was incorporated in 1957 as a stock life and disability insurance company. AFLIC is a wholly owned subsidiary of American Family Mutual Insurance Company (AFMIC) through its downstream holding company, AmFam, Inc. Collectively, AFMIC and its subsidiaries are known as the American Family Group. The company is currently licensed in 49 states and the District of Columbia. It is not licensed in New York.

Formation of Mutual Holding Company

On May 23, 2016, the board of directors of the company's ultimate parent, AFMIC, passed a resolution to reorganize AFMIC into a mutual holding structure, pursuant to s. 644.07 (2), Wis. Stat. As part of the proposed reorganization, AFMIC would form two new holding company entities: a mutual holding company, American Family Insurance Mutual Holding Company (AFIMHC), and a wholly owned subsidiary of AFIMHC, AmFam Holdings, Inc. (AmFam Holdings). AFMIC would then convert to a stock insurance company under the new name American Family Mutual Insurance Company, S.I. (AFMICSI). The proposed reorganization was subject to the approval of the Office of the Commissioner of Insurance (OCI) and policyholders as required by ss. 644.07 (7) and 644 (8), Wis. Stat.

On June 8, 2016, AFMIC submitted documents to OCI proposing the restructuring. OCI reviewed the proposed transaction and crafted a Stipulation and Order governing the proposed mutual holding company. The Stipulation and Order was accepted by AFMIC as part of OCI's approval of the transaction, which was granted on December 6, 2016. Policyholders voted to approve the transaction on December 7, 2016.

Effective January 1, 2017, AFMIC's corporate structure was reorganized. As part of the reorganization, AFMIC converted to a stock insurer, changed its name to AFMICSI, and issued three million shares of $1 par common stock to AmFam Holdings. AmFam Holdings issued 100% of its voting securities to AFIMHC, which became the ultimate controlling party of the American Family Enterprise. Membership interest in AFMIC was replaced with membership interest in AFIMHC. Policyholders of American Standard Insurance Company of Ohio (ASICO) and American Family Insurance Company (AFIC) were also granted membership rights in AFIMHC. There are currently no plans for AFMICSI to sell stock publicly. However, if this were to happen at a future date, AmFam Holdings would be required to hold at least 51% of the stock of AFMICSI under s. 644.04 (3) (b), Wis. Stat.

In 2016, the company collected direct premium in the following states:

Wisconsin	$ 75,758,136	18.2%
Missouri	50,684,990	12.2
Minnesota	47,155,550	11.3
Illinois	44,038,109	10.6
Colorado	30,623,254	7.4
All others	167,925,157	40.3
Total	$416,185,196*	100.0%

* Dividends or refunds applied to purchase paid-up additions and annuities, and premium or annuity considerations waived under disability or other contract provisions, are not included.

The core products marketed by the company include traditional whole life, fully underwritten term life, simplified term life, fixed universal life, and small amount of group life insurance as a service to its affiliates. Core products are marketed through AFMIC's exclusive agency system.

In 2015, the company launched an initiative to expand into new operating states using a direct distribution model called Direct Life. Direct Life policies are term life and are marketed online and through a call center.

The following chart is a summary of premium income as reported by the company in 2016. The growth of the company is discussed in the "Financial Data" section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Whole life	$168,862,485	$ 0	$ 469,375	$168,393,110
Term life	179,654,737	6,788	62,765,846	116,895,679
Universal life	47,066,656	0	756,949	46,309,707
Variable universal life	17,075,658	0	17,075,658	0
Group life	4,809,366	0	244,812	4,564,554
Long-term care- health	0	4,491,940	(106,049,940)	110,541,880
Deferred annuities	11,009,755	0	0	11,009,755
Variable annuities	3,432,527	0	3,432,527	0
Total All Lines	$431,911,184	$4,498,728	$ (21,304,774)	$457,714,686

The company ceased writing new variable universal life and variable annuity products in September 2009, and continued to service the variable products through 2012. In 2013, the variable block of business was ceded to Kansas City Life Insurance Company (Kansas City Life). As a result, AFMIC's agency force no longer services the business.

In 2014, the company ceased writing new deferred and immediate annuities, and a brokerage arrangement was put in place to allow AFMIC agents to continue to provide these products through other companies when required by customers.

The company assumes long-term care business from AFMIC. This book of business had been retroceded to Ability Insurance Company (Ability); however, AFLIC recaptured the book of business in 2016. This transaction is discussed in the "Reinsurance" section of this report.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of six members who are elected annually, each of whom is an officer of AFMIC. As inside directors, they receive no additional compensation for serving on the board. Officers are elected at the annual board meetings and are to hold those positions for a term of one year and until their successors are elected and qualified.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Richard M. Steffen Waunakee, WI	President American Family Life Insurance Company	2019
Daniel J. Kelly DeForest, WI	Treasurer and Chief Financial Officer American Family Mutual Insurance Company, S.I.	2019
David C. Holman Verona, WI	Secretary and Chief Strategy Officer American Family Mutual Insurance Company, S.I.	2019
Gerry W. Benusa Waunakee, WI	Chief Sales Officer American Family Mutual Insurance Company, S.I.	2019
Jessica J. Stauffacher Deerfield, WI	Chief Operating Officer- American Family Agency American Family Mutual Insurance Company, S.I.	2019
William B. Westrate Sun Prairie, WI	President American Family Mutual Insurance Company, S.I.	2019

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2017 Compensation*
Richard M. Steffen	President	$ 829,120
Daniel J. Kelly	Chief Financial Officer, Treasurer	2,461,771
David C. Holman	Chief Strategy Officer, Secretary	1,778,321
Mark V. Afable	Chief Legal Officer	1,508,405

* Listed compensation is total gross earnings for services rendered to the American Family Group and includes amounts allocated to all affiliates.

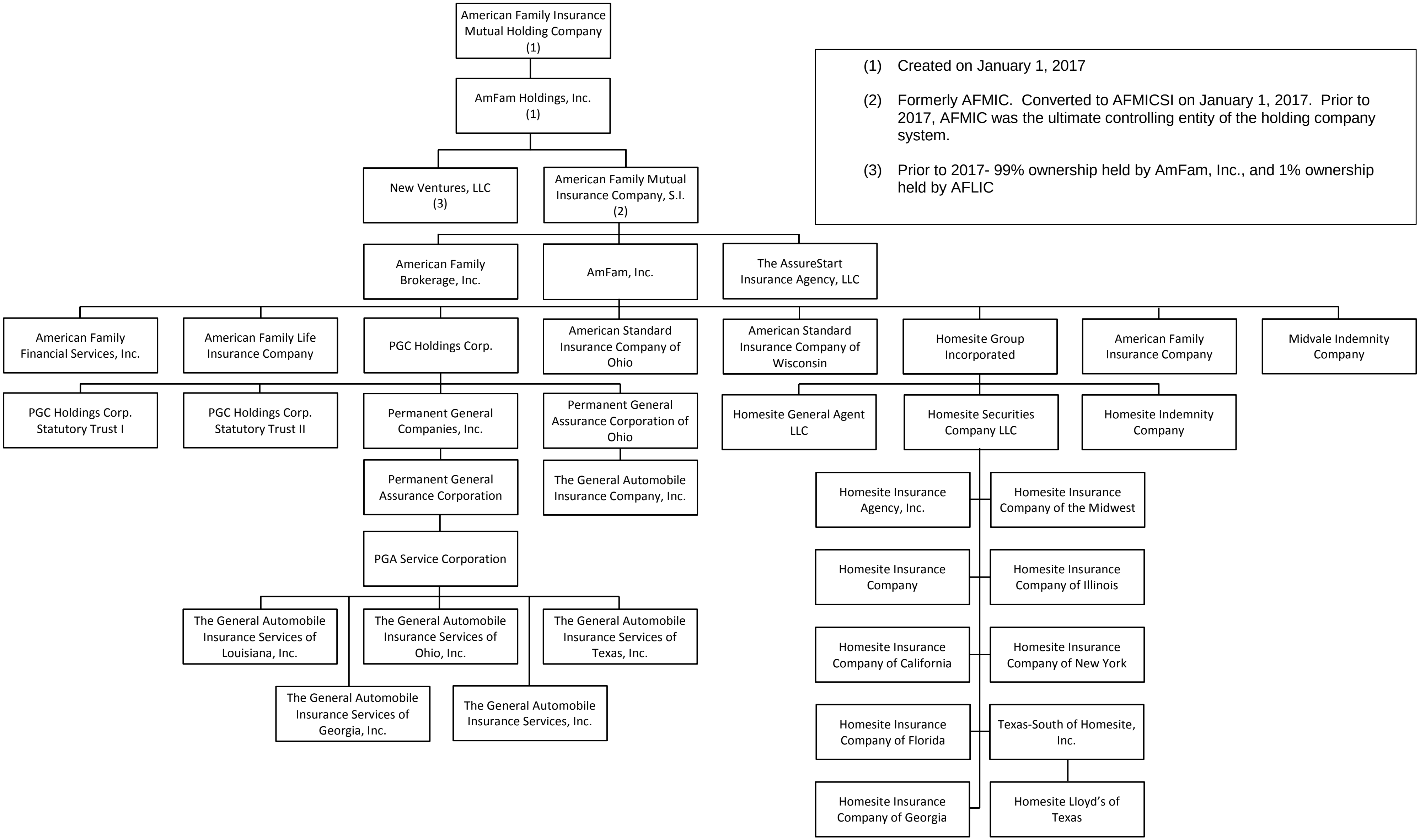
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no committees appointed by the board at the time of the examination. During the period under examination, AFMIC’s committees were responsible for company oversight. Subsequent to the creation of AFIMHC, all of AFMIC’s committees were disbanded and then reestablished under the bylaws of AFIMHC.

IV. AFFILIATED COMPANIES

American Family Life Insurance Company is a member of a holding company system. The organizational chart on the next page depicts the relationships among the affiliates in the group subsequent to the corporate reorganization that occurred January 1, 2017. A brief description of the significant affiliates follows the organizational chart.

Organization Chart
As of January 1, 2017



(1) Created on January 1, 2017

(2) Formerly AFMIC. Converted to AFMICSI on January 1, 2017. Prior to 2017, AFMIC was the ultimate controlling entity of the holding company system.

(3) Prior to 2017- 99% ownership held by AmFam, Inc., and 1% ownership held by AFLIC

American Family Mutual Insurance Company

American Family Mutual Insurance Company was organized in 1927. Prior to the creation of AFIMHC, AFMIC was the ultimate parent of the American Family Group. Effective January 1, 2017, in conjunction with the formation of a mutual holding company, AFMIC converted to stock insurer and changed its name to American Family Mutual Insurance Company, S.I.

The majority of AFMIC's direct writings consist of auto and homeowner's, but it also writes commercial lines. Direct business is produced through a captive agency force in 19 states. In 2016, AFMIC had various 100% quota share agreements in effect with certain property and casualty subsidiaries which resulted in AFMIC assuming nearly all business from ASICO, American Standard Insurance Company of Wisconsin (ASICW), AFIC, Midvale Indemnity Company (Midvale), and the Homesite Group (a description of the Homesite Group is on page 15). Effective January 1, 2017, AFMICSI entered into a separate 100% quota share agreement which resulted in AFMICSI assuming all of the business written by the Permanent General Group. (A description of the Permanent General Group is on page 15).

As of December 31, 2016, statutory-basis audited financial statements for AFMIC reported assets of $16.2 billion, liabilities of $9.3 billion, and policyholders' surplus of $6.9 billion. Operations for 2016 produced a net income of $212 million.

American Family Insurance Mutual Holding Company

American Family Insurance Mutual Holding Company was incorporated on January 1, 2017, under the provisions of ch. 644, Wis. Stat. AFIMHC is the ultimate controlling entity of AFMICSI. Membership of AFIMHC consists of policyholders of AFMICSI, AFIC, and ASICO.

AmFam Holdings, Inc.

AmFam Holdings, Inc., was incorporated on January 1, 2017, under the provisions of ch. 180, Wis. Stat. AmFam Holdings is an intermediate holding company wholly owned by AFIMHC. AmFam Holdings holds 100% of the membership interests of AFMICSI and New Ventures, LLC (New Ventures).

AmFam, Inc.

AmFam, Inc., was incorporated in 1981 to serve as a downstream holding company for the American Family Group. As of December 31, 2016, the audited GAAP consolidated financial statements for AmFam, Inc., reported assets of $10.2 billion, liabilities of $7.4 billion, and equity of $2.8 billion. Operations for 2016 produced a net income of $31.2 million.

American Family Brokerage, Inc.

American Family Brokerage, Inc. (AFBI), was incorporated in 1985 as an insurance agency and operates within all states. Its primary objective is to assist the company's agents in securing coverage for their clients when the coverage or limits are not available through the American Family Group. As of December 31, 2016, unaudited GAAP financial data for AFBI reported assets of $12.6 million, liabilities of $12.2 million, and equity of $375.8 thousand. Operations for 2016 produced a net loss of $3.5 million.

American Family Financial Services, Inc.

American Family Financial Services, Inc. (AFFS), was formed by American Family Group in 1969. Its original business purpose was to provide direct loans and leases, primarily to policyholders, through AFMIC's multi-line exclusive agency force. However, as of November 1, 2007, AFFS has discontinued writing new loans of any kind and is considering various options for the servicing and run-off of its existing loan portfolio. As of December 31, 2016, unaudited GAAP financial data for AFFS reported assets of $3.2 million, liabilities of $6.4 thousand, and equity of $3.2 million. Operations for 2016 produced a net income of $11.8 thousand.

New Ventures, LLC

New Ventures, LLC, was formed in 2010 and currently holds strategic equity investments in non-insurance entities. New Ventures invests in early stage technology companies that can be used to compliment insurance products. As of December 31, 2016, unaudited GAAP financial data for New Ventures reported assets of $50.1 million, liabilities of $0, and equity of $50.1 million. Operations for 2016 produced a net income of $861.3 thousand.

Effective January 1, 2017, in conjunction with the corporate restructuring, New Ventures was transferred from AmFam, Inc., and AFLIC, which owned 99% and 1%, respectively, to AmFam Holdings, which is now the direct parent. In February 2017, AFMICSI contributed $50 million to New Ventures.

The AssureStart Insurance Agency, LLC

The AssureStart Insurance Agency, LLC (AssureStart), was acquired by AFMIC in 2013. AssureStart is a general agent that, in conjunction with its affiliates, sells the small commercial lines and personal auto products of its affiliates. As of December 31, 2016, unaudited GAAP financial data for AssureStart reported assets of $1.5 million, liabilities of $14.0 thousand, and equity of $1.5 million. Operations for 2016 produced a net income of $11.1 thousand.

American Standard Insurance Company of Wisconsin

American Standard Insurance Company of Wisconsin was incorporated in 1961 and is licensed in 23 states. ASICW's direct writings consist of private passenger automobile and motorcycle insurance on risks which did not meet AFMIC's underwriting standards. ASICW is no longer issuing new auto policies, as new auto policies are now predominantly underwritten by AFIC.

ASICW also participates in a non-affiliated assumed reinsurance program. The assumed reinsurance program targets broker-produced CAT business for carriers that write business familiar to the American Family Group and who operate outside of the group's typical territory, which reduces geographic concentration of the group. The program focuses on property excess of loss reinsurance and participates in quota share agreements. Total assumed premium in 2016 was $126 million.

ASICW cedes 100% of its direct and assumed writings to AFMIC through a Quota Share Reinsurance Agreement. As of December 31, 2016, statutory-basis audited financial statements for ASICW reported assets of $402 million, liabilities of $58.6 million, and surplus of $343 million. Operations for 2016 produced a net income of $5.7 million, consisting solely of investment income.

American Standard Insurance Company of Ohio

American Standard Insurance Company of Ohio was incorporated in 1995. The company writes renewal business in Ohio as well as new and renewal business in Georgia. The primary products written by ASICO include homeowners and personal auto. ASICO cedes 100% of its direct writings to AFMIC under a Quota Share Reinsurance Agreement. ASICO markets its business through AFMIC's agency force. ASICO redomiciled from Ohio to Wisconsin effective September 30, 2016. As of December 31, 2016, statutory-basis audited financial statements for ASICO reported assets of $11.4 million, liabilities of $3.1 million, and surplus of $8.3 million. Operations for 2016 produced a net income of $262 thousand, consisting solely of investment income.

American Family Insurance Company

American Family Insurance Company was incorporated in Ohio in 1995. AFIC is currently licensed in 19 states and writes primarily homeowners and personal auto coverage. AFIC cedes 100% of its direct writings to AFMIC under a Quota Share Reinsurance Agreement. AFIC markets its business through AFMIC's agency force. AFIC redomiciled from Ohio to Wisconsin effective September 30, 2016. As of December 31, 2016, statutory-basis audited financial statements for AFIC reported assets of $38.7 million, liabilities of $15.1 million, and surplus of $23.6 million. Operations for 2016 produced a net income of $585 thousand, consisting solely of investment income.

Midvale Indemnity Company

Midvale Indemnity Company was incorporated in 1970. It was acquired by AFMIC in 2012 under the name of Lumberman’s Casualty Insurance Company (LCIC) for $15.3 million. LCIC changed its name to Midvale Indemnity Company in 2013. Midvale is currently licensed in all 50 states and the District of Columbia and writes commercial products including general liability and property insurance sold directly to small businesses online through AssureStart, an affiliated general agent. Midvale primarily cedes its direct writings to AFMIC under a 100% Quota Share Reinsurance Agreement. Midvale redomiciled from Illinois to Wisconsin effective November 16, 2017. As of December 31, 2016, statutory-basis audited financial statements for

Midvale reported assets of $12.1 million, liabilities of ($1.0) million, and surplus of $13.1 million. Operations for 2016 produced a net income of $370 thousand, consisting solely of investment income.

PGC Holdings Corp.

PGC Holdings Corp. (PGC Holdings) is a Delaware corporation that was acquired by AFMIC through AmFam, Inc., on December 31, 2012, for $241 million in cash. PGC Holdings is the direct parent of Permanent General Assurance Corporation of Ohio (PGACO), which in turn owns The General Automobile Insurance Company, Inc. (GAIC). PGC Holdings is also the direct parent of Permanent General Companies, Inc., an intermediate holding company which owns Permanent General Assurance Corporation (PGAC). PGAC, PGACO, and GAIC are collectively known as the “Permanent General Group.”

The Permanent General Group specializes in private passenger non-standard automobile insurance, primarily to consumers interested in acquiring an insurance policy to comply with state-level minimum insurance requirements. The Permanent General Group writes in 46 states and the District of Columbia and relies heavily on television advertising to promote the purchase of products through their internet distribution channel and call centers. Effective August 31, 2017, the Permanent General Group redomiciled from Ohio to Wisconsin. As of December 31, 2016, combined statutory-basis audited financial statements for the Permanent General Group reported assets of $710 million, liabilities of $485 million, and equity of $225 million. Operations for 2016 produced a net loss of $30.5 million.

Effective January 1, 2017, the Permanent Group entered into a loss portfolio transfer and 100% quota share with AFMIC. PGACO and GAIC cede 100% to PGAC, which in turn retrocedes 100% of its direct and assumed business to AFMIC.

Homesite Group Incorporated

Homesite Group Incorporated (HGI) is a Delaware corporation that was acquired by AFMIC through AmFam, Inc., on December 31, 2013, for $666 million in cash, including direct costs of the acquisition. The acquisition was partially financed by a $500 million advance from the Federal Home Loan Bank of Chicago (FHLBC), of which AFMIC is a member. The advance was executed on November 20, 2013. AFMIC pays monthly interest to the FHLBC at a fixed annual interest rate of 5.12%. The principal is due in a balloon payment at the end of the advance's 30-year term.

The purpose of the HGI acquisition was to broaden AFMIC's distribution channels and to expand its geographic footprint. HGI is an intermediate holding company which directly owns Homesite Indemnity Company and Homesite Securities Company, LLC – another intermediate holding company. Homesite Securities Company LLC is the direct owner of Homesite Insurance Company of the Midwest (HICMW), Homesite Insurance Company, Homesite Insurance Company of Illinois, Homesite Insurance Company of New York (HICONY), Homesite Insurance Company of California, Homesite Insurance Company of Florida, Homesite Insurance Company of Georgia, and Texas-South of Homesite, Inc., which serves as the Attorney-in-Fact for Homesite Lloyd's of Texas. These nine insurance companies are collectively known as the "Homesite Group." The Homesite Group specializes in direct-to-consumer homeowners, renters, and condominium insurance. Its products are marketed nationally through its website, call centers, and partnerships with large financial institutions.

The Homesite Group participates in a 100% quota share with AFMIC. Each of the individual Homesite companies cedes 100% to HICMW, excluding HICONY, which cedes 80% and then HICMW retrocedes 100% of the direct and assumed business to AFMIC. In 2016, HICMW ceded premium of $1.05 billion to AFMIC.

Agreements with Affiliates

The company has cost sharing and tax allocation agreements with affiliates as detailed below. Additionally, the company has an affiliated reinsurance agreement which AFMIC, which is described in Section V of the report titled "Reinsurance."

<u>Intercompany Services and Cost Allocation Agreement</u>

Effective January 1, 2013, AFMIC entered into an Amended and Restated Intercompany Services and Cost Allocation Agreement with AFLIC, AFIC, ASICO, ASICW, AFFS, AFBI, Midvale, New Ventures, and AmFam, Inc. The agreement was amended in 2017 and 2018 to reflect AFMIC's name change to AFMICSI and to add AFIMHC, AmFam Holdings, AssureStart, American Family Dreams Foundation, Inc., PGC Holdings, HGI, SHGI Corp., Moonrise, Inc., and Networked Insights, Inc. According to the terms of the most recent agreement, each party may provide goods, third party services, and management services to other parties of the agreement. Each service recipient shall be charged with its allocable share of the service provider's actual costs incurred. Charges incurred are to be settled quarterly on a net basis, with the settlement date being no later than the 30th day following the end of each calendar quarter.

Tax Allocation Agreement

Effective April 29, 2002, AFMIC entered into a tax allocation agreement with AFLIC, AFIC, ASICO, ASICW, AFFS, AFBI, and AmFam, Inc. The agreement was later amended multiple times to reflect the additions of PGC Holdings, Midvale, HGI, AFIMHC, AmFam Holdings, SHGI Corp., Moonrise, Inc., and Networked Insights, Inc., to the agreement.

The agreement provides the basis for computation and the method of settlement of federal income tax payments and refunds within the American Family Group. Under this agreement, AFMIC prepares and files a consolidated federal income tax return that includes all affiliates of the holding company group. Final settlement is due within 30 days of the filing of the consolidated federal tax return.

V. REINSURANCE

Ceded reinsurance premium for 2016 was approximately 20% of gross premium. This percentage of premium ceded has increased from approximately 11% of gross premium in 2011. The growth was largely due to the company ceding its variable universal life and variable annuity risks, as well as a growth in term products relative to other products. Reinsurance assumed in 2016 represents approximately 1% of gross premium, and consists mainly of accident and health business assumed under a treaty with AFMIC.

All coverages are placed with reinsurers directly by AFLIC. A review of the reinsurers participating under these agreements showed that, with the exception of Chubb Tempest Life Reinsurance Ltd., all reinsurers are authorized in the state of Wisconsin. The company holds a $10 million letter of credit as collateral from Chubb Tempest Life Reinsurance Ltd. All contracts reviewed contain proper insolvency provisions. The company's reinsurance portfolio and strategy is described below.

Life Insurance Business

Whole Life and Fixed Universal Life

AFLIC cedes 100% of the excess above $750,000 on whole life and fixed universal life policies. Amounts over the company's retention are ceded equally to Munich American Reassurance Company and SCOR Global Life USA Reinsurance Company.

Variable Universal Life

Prior to April 1, 2013, the company ceded 100% of the excess above $750,000 on variable universal life policies. Amounts over the company's retention were ceded to Swiss Re Life & Health America and Generali USA Life Reassurance Company. Effective April 1, 2013, the company entered into a purchase agreement with Kansas City Life whereby the company cedes on an indemnity reinsurance basis to Kansas City Life, and Kansas City Life accepts and agrees to indemnify AFLIC (a) on a coinsurance basis, 100% of all general account liabilities with respect to the variable contracts, and (b) on a modified coinsurance basis, 100% of the separate account liabilities arising under or relating to the variable contracts. The Separate Account assets relating to the variable business remain on the company’s books and are ceded through a modified coinsurance agreement.

Simply Protected Term

AFLIC entered into a coinsurance reinsurance agreement with RGA Reinsurance Company effective February 1, 2010. Under the terms of the agreement, AFLIC retains 50% of each Simply Protected Term policy issued. Face value of Simply Protected Term policies range from $50,000 - $150,000.

Fully Underwritten Term

AFLIC’s reinsurance for fully underwritten term life policies utilizes coinsurance. Under the treaties for fully underwritten policies currently being sold, the company retains 100% of each policy issued under $250,000, 50% of each policy issued between $250,000 and $499,999, and 10% of each policy issued for $500,000 and above.

There are various coinsurance treaties on term business that is in force, which are described as follows:

Policies issued After December 31, 2015—Munich American Reassurance Company, Swiss Re Life & Health America Inc., Hannover Life Reassurance Company of America, and RGA Reinsurance Company provide reinsurance coverages for varying percentages of the total reinsurance.

Policies issued from February 16, 2013 – December 31, 2015—SCOR Global Life USA Reinsurance Company, SCOR Global Life Americas Reinsurance Company, Munich American Reassurance Company, and Swiss Re Life & Health America Inc. provide reinsurance coverages for varying percentages of the total reinsurance.

Policies issued from November 1, 2009 – February 15, 2013—SCOR Global Life USA Reinsurance Company, Munich American Reassurance Company, SCOR Global Life Americas Reinsurance Company, and Chubb Tempest Life Re, Ltd., provide reinsurance coverages for varying percentages of the total reinsurance.

Policies issued from October 1, 2006 – October 31, 2009—The treaty with RGA Reinsurance Company that provided reinsurance coverage for the company's 10-, 20-, and 30-year level term contracts issued effective October 1, 2006, was amended and AFLIC recaptured and retains the risks that RGA had been reinsuring effective November 1, 2009. The coinsurance with Swiss Re Life & Health American, Inc., provides reinsurance coverage for the company's 10-, 20-, and 30-year level term contracts issued effective October 1, 2006, and was amended to cease covering new business effective April 22, 2009. SCOR Global Life USA Reinsurance Company provided reinsurance coverage for the company's 10-, 20-, and 30-year level term contracts issued effective October 1, 2006, and was amended to double the amount of reinsurance on new issues, effectively taking on the portion previously reinsured by Swiss Re effective April 22, 2009. The agreement with Score Global Life USA Reinsurance Company provided coverage for issues through October 31, 2009.

Policies issued from October 1, 2005 – September 30, 2006—SCOR Global Life USA, Munich American Reassurance Company, and Scottish Re Life Corporation provide reinsurance for the company's 10-, 20-, and 30-year level term contracts issued from October 1, 2005, through September 30, 2006. Scottish Re Life novated their portion of these term policies to Hannover Re, effective January 1, 2014.

Policies issued from October 1, 2000 – September 30, 2005—Security Life of Denver provides reinsurance coverage for the company's 10- and 20-year level term contracts issued in July 1, 2003, through September 30, 2005, and for the company's 10- and 20-year level term contracts issued in October 1, 2000, through June 30, 2003.

Long-Term Care Business

AFLIC assumes long-term care business from AFMIC under a 100% quota share agreement. Prior to 2016, the company retroceded the long-term care business to Ability. An outline and description of the two agreements is included below.

Assuming Contract

1.	Type:	Quota Share Reinsurance Agreement
	Ceding Company:	American Family Mutual Insurance Company
	Effective date:	July 1, 2010
	Scope:	Long-term care business

Coverage:	100% of gross liabilities and obligations arising under or relating to long-term care policies
Initial Reinsurance Premium:	100% of the assets supporting the active life reserves, disabled life reserves, IBNR, and unearned premium reserves maintained by AFMIC for issued long-term care policies as of the effective date
Commissions:	1.75% of premiums received

Ceding Contract

Effective July 1, 2010, the company entered into a modified coinsurance agreement with Ability. Under the terms of the agreement, the company retroceded 100% of its long-term care business to Ability. In 2016, the company recaptured the business from Ability and recorded premiums and an increase in reserves of $105 million as a result. The recapture was treated as a non-cash transaction as it relates to the statutory statement of cash flows for the year ending December 31, 2016. As of January 1, 2016, the underwriting results of the long-term business are retained by the company.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2016, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

American Family Life Insurance Company
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$4,004,472,896	$ 0	$4,004,472,896
Stocks:			
Common stocks	153,120,924	0	153,120,924
Mortgage loans on real estate:			
First liens	575,213,021	0	575,213,021
Cash, cash equivalents, and short-term investments	157,428,833	0	157,428,833
Contract loans	205,237,450	1,898,979	203,338,471
Other invested assets	500,572	0	500,572
Receivables for securities	411,237	0	411,237
Investment income due and accrued	41,440,122	0	41,440,122
Reinsurance:			
Amounts recoverable from reinsurers	4,254,366	54,992	4,199,374
Other amounts receivable under reinsurance contracts	1,023,251	0	1,023,251
Current federal and foreign income tax recoverable and interest thereon	1,964,606	0	1,964,606
Net deferred tax asset	147,389,057	92,012,797	55,376,260
Guaranty funds receivable or on deposit	2,252,438	0	2,252,438
Receivable from parent, subsidiaries and affiliates	991,062	23,159	967,903
Write-ins for other than invested assets:			
Advanced Commissions	5,500,015	5,500,015	0
Returned Checks	20	20	0
Miscellaneous receivable	29	0	29
Total assets excluding separate accounts, segregated accounts and protected cell assets	5,301,199,899	99,489,962	5,201,709,937
From separate accounts, segregated accounts, and protected cell assets	295,742,633	0	295,742,633
Total Assets	$5,596,942,532	$99,489,962	$5,497,452,570

American Family Life Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2016

Aggregate reserve for life contracts		$3,565,548,529
Aggregate reserve for accident and health contracts		115,784,405
Liability for deposit-type contracts		365,703,560
Contract claims:		
Life		14,219,602
Accident and health		710,227
Provision for policyholders' dividends and coupons payable in following calendar year:		
Apportioned for payment to December 2017		18,560,843
Not yet apportioned		1,873,446
Premiums and annuity considerations received in advance		1,022,299
Contract liabilities not included elsewhere:		
Interest maintenance reserve		15,396,799
Commissions to agents due or accrued		2,733,278
General expenses due or accrued		1,621,709
Taxes, licenses, and fees due or accrued, excluding federal income taxes		2,497,816
Unearned investment income		6,108,064
Amounts withheld or retained by company as agent or trustee		1,452,079
Remittances and items not allocated		1,400,924
Miscellaneous liabilities:		
Asset valuation reserve		53,587,578
Payable to parent, subsidiaries, and affiliates		25,712,686
Payable for securities		15,967
Write-ins for liabilities:		
Payable for reinsurance		3,855,512
Liability for checks charged off		687,579
Reserve for clearing account		1,605,478
Reserve for retired live		251,123
Total liabilities excluding separate accounts business		4,200,349,503
From separate accounts statement		295,742,633
Total Liabilities		4,496,092,136
Common capital stock	$ 2,500,000	
Gross paid in and contributed surplus	1,572,927	
Unassigned funds (surplus)	997,287,507	
Total Capital and Surplus		1,001,360,434
Total Liabilities, Capital, and Surplus		$5,497,452,570

American Family Life Insurance Company
Summary of Operations
As of December 31, 2016

Premiums and annuity considerations for life and accident and health contracts		$457,714,686
Considerations for supplementary contracts with life contingencies		641,844
Net investment income		199,868,024
Amortization of interest maintenance reserve		3,086,229
Commissions and expense allowances on reinsurance ceded		24,219,288
Reserve adjustments on reinsurance ceded		(105,763,116)
Miscellaneous income:		
Variance Separate Accounts and Purchased Premium Tax Credits		171,069
Brokerage Income		50
Total income items		579,938,074
Death benefits	$118,571,390	
Matured endowments	61,731	
Annuity benefits	7,979,951	
Disability benefits and benefits under accident and health contracts	7,606,914	
Surrender benefits and withdrawals for life contracts	100,441,178	
Group conversions	783,940	
Interest and adjustments on contract or deposit-type contract funds	12,486,898	
Payments on supplementary contracts with life contingencies	1,783,451	
Increase in aggregate reserves for life and accident and health contracts	101,820,977	
Subtotal	351,536,430	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	21,967,599	
Commissions and expense allowances on reinsurance assumed	78,609	
General insurance expenses	93,573,369	
Insurance taxes, licenses, and fees excluding federal income taxes	9,933,163	
Total deductions		477,089,170
Net gain (loss) from operations before dividends to policyholders and federal income taxes		102,848,904
Dividends to policyholders		20,056,393
Net gain (loss) from operations after dividends to policyholders and before federal income taxes		82,792,511
Federal and foreign income taxes incurred (excluding tax on capital gains)		28,488,354
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses		54,304,157
Net realized capital gains or (losses)		(2,152,695)
Net Income		$ 52,151,462

American Family Life Insurance Company
Cash Flow
For the Year 2016

Premiums collected net of reinsurance			$353,666,346
Net investment income			208,920,335
Miscellaneous income			24,390,407
Total			586,977,088
Benefit- and loss-related payments		$ 248,467,179	
Commissions, expenses paid, and aggregate write-ins for deductions		126,240,190	
Dividends paid to policyholders		19,439,312	
Federal and foreign income taxes paid (recovered)		22,550,780	
Total deductions			416,697,461
Net cash from operations			170,279,627
Proceeds from investments sold, matured, or repaid:			
Bonds	$858,427,359		
Stocks	49,045,695		
Mortgage loans	136,189,651		
Other invested assets	29,499		
Total investment proceeds		1,043,692,204	
Cost of investments acquired (long-term only):			
Bonds	930,248,972		
Stocks	36,614,071		
Mortgage loans	184,270,276		
Other invested assets	204,049		
Miscellaneous applications	715,672		
Total investments acquired		1,152,053,040	
Net increase (or decrease) in contract loans and premium notes		(7,749,074)	
Net cash from investments			(100,611,762)
Cash from financing and miscellaneous sources:			
Capital and paid in surplus less treasury stock		188,495	
Net deposits on deposit-type contracts and other insurance liabilities		(9,203,005)	
Other cash provided (applied)		41,224	
Net cash from financing and miscellaneous sources			(8,973,286)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			60,694,579
Cash, cash equivalents, and short-term investments:			
Beginning of year			96,734,254
End of year			$157,428,833

American Family Life Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2016

Assets			$5,497,452,570
Less security surplus of insurance subsidiaries			0
Less liabilities			4,496,092,136
Adjusted surplus			1,001,360,434
Annual premium:			
Individual life and health	$313,647,831		
Factor	15%		
Total		$47,047,174	
Group life and health	3,706,151		
Factor	10%		
Total		370,615	
Greater of 7.5% of considerations or 2% of reserves for annuities and deposit administration funds		8,108,556	
Compulsory surplus (subject to a $2,000,000 minimum)			55,526,345
Compulsory Surplus Excess (Deficit)			$ 945,834,089
Adjusted surplus (from above)			$1,001,360,434
Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum of 110%)			72,739,511
Security Surplus Excess (Deficit)			$ 928,620,923

American Family Life Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2016

The following schedule details items affecting the company's total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	2016	2015	2014	2013	2012
Capital and surplus, beginning of year	$ 945,110,397	$888,609,780	$822,794,491	$736,389,316	$691,467,803
Net income	52,151,462	51,733,034	80,703,690	66,203,069	69,253,780
Change in net unrealized capital gains/losses	10,466,312	(225,664)	104,113	6,370,144	1,737,103
Change in net deferred income tax	(31,879)	578,817	(352,722)	(2,788,940)	(5,206,630)
Change in nonadmitted assets and related items	2,141,662	1,812,109	(1,220,895)	8,503,527	27,548,239
Change in asset valuation reserve	(8,272,687)	6,764,542	(7,921,014)	(2,275,489)	(20,718,527)
Surplus adjustments:					
Paid in	188,495	164,734	81,497	93,200	0
Change in surplus as a result of reinsurance	(393,328)	(4,326,955)	(5,579,379)	10,299,664	(27,692,452)
Capital and Surplus, End of Year	$1,001,360,434	$945,110,397	$888,609,781	$822,794,491	$736,389,316

American Family Life Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2016

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2016	2015	2014	2013	2012
#1	Net change in capital & surplus	6%	6%	8%	12%	6%
#2	Gross change in capital & surplus	6	6	8	12	6
#3	Net income to total income	9	9	14	11	11
#4	Adequacy of investment income	121*	127	130	171	177
#5	Non-admitted to admitted assets	2	2	2	2	2
#6	Total real estate & mortgage loans to cash & invested assets	11	11	10	9	9
#7	Total affiliated investments to capital & surplus	0	0	0	0	0
#8	Surplus relief	2	3	3	6	3
#9	Change in premium	36	-1	-4	-11*	8
#10	Change in product mix	5.4*	0.5	0.2	0.2	0.2
#11	Change in asset mix	0.2	0.1	0.3	0.2	0.2
#12	Change in reserving	2	-1	9	-13	3

Ratio No. 4 compares the net investment income to the increase in reserves from tabular interest; the usual range for the ratio is between 125% and 900%. The ratio has consistently decreased each year during the period under examination, and in 2016 the ratio fell slightly below the benchmark. Overall investment returns have been depressed, in part, because of the low interest rate environment.

Ratio No. 9 measures the percentage change in premium from the prior to the current year. The usual range is between -10% and 50%. The company reported a decrease in premium of 11% in 2013. The decrease is in part due to the company exiting its variable universal life and variable annuity book of business, which was ceded to Kansas City Life in 2013.

Ratio No. 10 represents the average change in the percentage of total premium from each product line during the year. The usual range includes results less than 5%. In 2016 the company's change in product mix ratio was 5.4%. The company's recapture of its long-term care business from Ability caused a significant one time increase in net premium written in Other Accident and Health business.

Growth of American Family Life Insurance Company

Year	Admitted Assets	Liabilities	Capital and Surplus
2016	$5,497,452,570	$4,496,092,136	$1,001,360,434
2015	5,331,745,950	4,386,635,553	945,110,397
2014	5,230,458,673	4,341,848,892	888,609,781
2013	5,074,041,866	4,251,247,375	822,794,491
2012	4,839,910,094	4,103,520,778	736,389,316
2011	4,598,733,497	3,907,265,694	691,467,803

Net Life Premiums, Annuity Considerations, and Deposits

Year	Life Insurance Premiums	Annuity Considerations	Deposit-type Contract Funds
2016	$336,797,795	$11,005,254	$ 0
2015	325,634,007	12,340,489	0
2014	321,523,798	19,628,055	0
2013	324,353,001	23,525,470	6,536,847
2012	343,223,813	29,070,135	27,780,242
2011	345,157,930	26,774,927	0

Life Insurance In Force (in thousands)

Year	In Force End of Year	Reinsurance Ceded	Net In Force
2016	$96,835,756	$37,506,159	$59,329,597
2015	94,767,082	35,883,797	58,883,285
2014	92,133,842	34,429,112	57,704,730
2013	90,619,060	32,374,833	58,244,227
2012	89,412,579	28,920,188	60,492,391
2011	88,135,388	27,804,879	60,330,509

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2016	$110,541,880	$120,358,877	$91,375	$360,801	109.3%
2015	0	0	0	0	0
2014	0	0	0	0	0
2013	0	0	0	0	0
2012	0	0	0	0	0
2011	0	0	0	0	0

* Includes increase in contract reserves
** Includes taxes, licenses, and fees

The company's net life premium declined 2.4% during the examination period. The decrease was most pronounced in 2013 when it ceded its book of variable universal life business. Despite the decrease in overall premium, net life insurance in force has been fairly consistent, ranging between $57.7 billion and $60.5 billion.

Annuity consideration decreased 59% during the period under examination. The decrease can be attributed to the company ceding its variable annuity of business in 2013, as well as the decision to stop writing new deferred and immediate annuities in 2014.

The Accident and Health table shows premiums and expenses for long-term care business. The $110 million of net premium earned in 2016 represents $106 million of recaptured premium from Ability and $4.5 million of assumed premium from AFMIC. Prior to 2016, the company retroceded all of its long-term care business to Ability under a modified coinsurance agreement.

Assets increased 20% to $5.4 million and surplus increased 45% $1.0 billion.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2016, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Affiliated Balances—It is recommended that the company properly report income taxes receivable as Current Federal and Foreign Income Taxes in accordance with the NAIC Annual Statement Instructions-Life.

   Action—Compliance.

2. Affiliated Balances—It is recommended that the company properly report intercompany expenses payable as Payable to Parent, Subsidiaries and Affiliates in accordance with the NAIC Annual Statement Instructions-Life.

   Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Investments

Custodial agreements of Wisconsin-domiciled companies must comply with guidelines contained in the NAIC's Financial Condition Examiners Handbook. The review of the custodial agreement with The Northern Trust Company (Northern Trust) revealed that the agreement omitted one of the suggested clauses as contained in the NAIC's Financial Condition Examiners Handbook to ensure proper controls and safeguards. The following clause was missing from the Northern Trust agreement:

1. If the custodian agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner.

It is recommended that the company revise its custodial agreement to include the guideline provisions contained in the NAIC's Financial Condition Examiners Handbook.

VIII. CONCLUSION

American Family Life Insurance Company was incorporated in 1957 as a stock life and disability insurance company. It is part of the American Family Group which underwent a corporate reorganization and formed a mutual holding company, effective January 1, 2017.

The major products marketed by the company include traditional whole life, simplified term life, fully underwritten term life, and fixed universal life. The company stopped underwriting new variable products in September 2009; it later ceded the variable book of business to Kansas City Life in 2013. The company stopped writing deferred and immediate annuity products in 2014. In 2016, the company recaptured its long-term care book of business from Ability.

The current examination determined that the company is in compliance with both recommendations from the prior examination. The current examination resulted in one recommendation.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 33 - Investments—It is recommended that the company revise its custodial agreement to include the guideline provisions contained in the NAIC's Financial Condition Examiners Handbook.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Jacob Burkett	Insurance Financial Examiner
John Coyle	Insurance Financial Examiner
Nick Hartwig	Insurance Financial Examiner
Diana Havitz	Insurance Financial Examiner
Greg Mielke	Insurance Financial Examiner
James Vanden Branden	Insurance Financial Examiner
Xiaozhou (Zoey) Ye	Insurance Financial Examiner
David Jensen, CFE	IT Specialist
Eleanor Lu	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist
Karl Albert, CFE	Workpaper Specialist

Respectfully submitted,

Levi Olson
Examiner-in-Charge