

Report of the Examination of  
The EPIC Life Insurance Company  
Madison, Wisconsin  
As of December 31, 2020

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April 13, 2022

Honorable Nathan Houdek  
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:

THE EPIC LIFE INSURANCE COMPANY  
Madison, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of The EPIC Life Insurance Company (the company or EPIC) was conducted in 2016 - 2017 as of December 31, 2015. The current examination covered the intervening period ending December 31, 2020, and included a review of such subsequent transactions as deemed necessary to complete the 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 the 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 concerning the alternative or additional examination steps performed during 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 reserves, aggregate accident and health reserves, 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

The EPIC Life Insurance Company was organized in 1984 as a wholly-owned subsidiary of Wisconsin Physicians Service Insurance Corporation (WPS), a Wisconsin health service insurance corporation. An examination of WPS and another affiliate, WPS Health Plan, Inc., was performed concurrently with this examination.

In 2020, the company collected direct premium in the following states:

Wisconsin	\$11,943,635	80.2%
Indiana	770,858	5.2
Florida	629,573	4.2
Iowa	340,422	2.3
Ohio	214,121	1.4
All others	<u>1,000,057</u>	<u>6.7</u>
 Total	 <u>\$14,898,666</u>	 <u>100.0%</u>

As of December 31, 2020, the company is licensed in the following states:

Arizona	Maryland	Oregon
Arkansas	Michigan	Pennsylvania
Colorado	Minnesota	South Carolina
Florida	Missouri	South Dakota
Illinois	Nebraska	Tennessee
Indiana	Nevada	Texas
Iowa	North Dakota	Virginia
Kansas	Ohio	West Virginia
Kentucky	Oklahoma	Wisconsin

The major products marketed by the company include group life, group dental, group vision, and group long- and short-term disability insurance, as well as voluntary coverage for the same policies, and conversion policies to individuals. The company also offers Medicare supplement policies, which are assumed and administered by its parent. In addition, the company offers Administrative Service Contracts (ASC) to larger employer groups. Business is generated through independent agents and sales staff. The company also provides disability and life insurance services to other members within the WPS holding company group.

The following chart is a summary of premium income as reported by the company in 2020. The growth of the company is discussed in the “Financial Data” section of this report.

**Premium Income**

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Group life	\$ 7,037,451	\$2,116,932	\$ 448,132	\$ 8,706,251
Ordinary life	25,317			25,317
Group A&H	947,080			947,080
Medicare supplement	1,171,573		1,171,573	
Group disability	<u>5,663,381</u>	<u>                    </u>	<u>1,999,063</u>	<u>3,664,318</u>
Total All Lines	<u>\$14,844,802</u>	<u>\$2,116,932</u>	<u>\$3,618,768</u>	<u>\$13,342,966</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of five members. Four directors are elected annually to serve a one-year term and the Wisconsin Physicians Service Insurance Corporation Board Chair serves ex officio. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group.

Currently, the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Vicki Bernards Madison, Wisconsin	Chief Financial Officer Wisconsin Physicians Service Ins. Corp.	2022
John Hogan Cottage Grove, Wisconsin	Chief Administrative Officer Wisconsin Physicians Service Ins. Corp.	2022
Kristine Euclide* Madison, Wisconsin	Retired	Ex Officio
Michael Hamerlik Madison, Wisconsin	President and CEO Wisconsin Physicians Service Ins. Corp.	2022
James Baird Middleton, Wisconsin	Executive VP – WPS Health Insurance Wisconsin Physicians Service Ins. Corp.	2022

\* Board Chair

#### Officers of the Company

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

<b>Name</b>	<b>Office</b>
Michael Hamerlik	President and CEO
Vicki Bernards	Treasurer
Kimberly Olson	Secretary

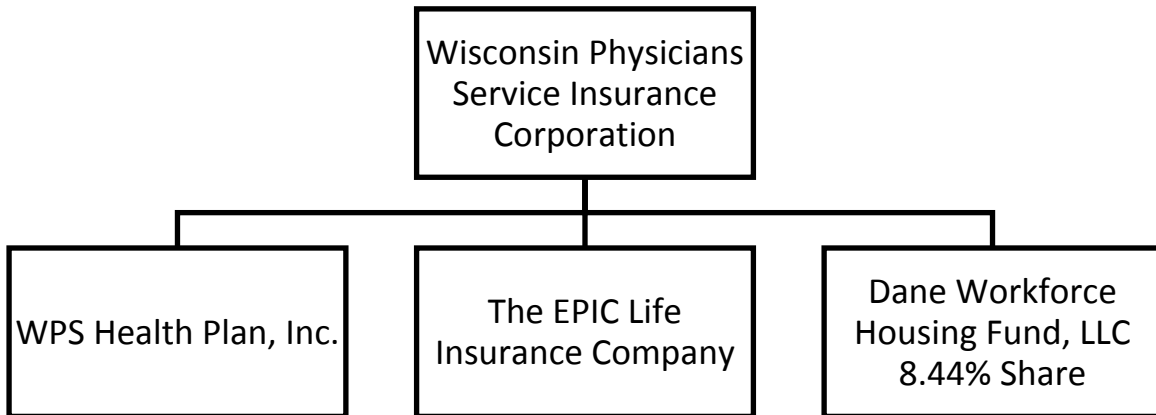
#### Committees of the Board

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.

#### IV. AFFILIATED COMPANIES

The EPIC Life Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of affiliates deemed significant follows the organizational chart.

##### Organizational Chart As of December 31, 2020



##### Wisconsin Physicians Service Insurance Corporation

WPS owns 100% of WPS Health Plan, Inc. WPS issues traditional indemnity and managed care health policies and provides claims administration services for self-insured employers and governmental agencies. WPS writes direct premium primarily in Wisconsin, Illinois, and Michigan. In addition, WPS assumes select business written by EPIC through quota-share reinsurance agreements, and assumes business from Delta Dental Plan of Wisconsin, Inc. WPS provides claims administrative services for the Health and Medical Program for military personnel, dependents and retirees known as TRICARE. In addition, WPS provides claims administration services for Medicare and Veterans Affairs (VA). As of December 31, 2020, WPS' audited financial statement reported assets of \$381,975,142, liabilities of \$170,718,384, and capital and surplus of \$211,256,758. Operations for 2020 produced net income of \$15,811,051 on revenues of \$344,373,903.



### **WPS Health Plan, Inc.**

WPS Health Plan, Inc.(the Plan or WPS HP) is described as a for-profit mixed model health maintenance organization (HMO) insurer. Beginning June 2005, the Plan writes group health insurance policies for employers in Northeastern Wisconsin and began providing health insurance policies to individuals on January 1, 2007. The majority of services provided to plan enrollees are provided under fee-for-service contracts with various health care providers in the service area. The Plan also has Medicare supplement policies in effect but is not writing new Medicare supplement policies. Payments made to providers under the supplemental policies are based on Medicare allowable charges. From 2014 through 2016, the Plan offered products through the health insurance exchanges established by the Patient Protection and Affordable Care Act (ACA). From 2017 through 2019, the Plan no longer offered products through the health insurance exchanges. Beginning in 2020, the Plan has limited product offerings on the health insurance exchanges. As of December 31, 2020, the audited financial statements of WPS Health Plan, Inc. reported assets of \$49,080,624, liabilities of \$14,556,586, and capital and surplus of \$34,524,038. Operations for 2020 produced net income of \$18,713,138.

### **Dane Workforce Housing Fund, LLC**

Dane Workforce Housing Fund, LLC is a Wisconsin limited liability company which is a social investment fund established and managed by Madison Development Corporation. The fund is intended to be a long-term strategy that will help create and sustain more workforce housing units in Dane County by filling financing gaps developers face with affordable workforce housing projects. In November and December 2020, WPS invested \$274,873 in the fund for 8.44% ownership with a total commitment of \$1 million. As of December 31, 2020, Dane Workforce Housing Fund, LLC reported total assets of \$1,813,224, total liabilities of \$105,752, and partners' equity of \$1,707,472. The WPS share of liabilities was \$3,671 with partners' equity of \$271,216. The WPS share of operations for 2020 produced a net loss of \$3,657. Since Dane Workforce Housing Fund, LLC did not have audited statements, the investment was treated as a nonadmitted asset by WPS as of December 31, 2020.

### **Agreements with Affiliates**

WPS has a Services and Supplies Agreement with EPIC and WPS Health Plan, Inc. under which WPS provides management, investment, administrative, and other services and supplies to each

company. Additionally, EPIC may provide services and supplies to WPS. EPIC and WPS Health Plan, Inc. reimburse WPS for the actual cost of the services and supplies provided, including a reasonable allocation of overhead expenses. Settlement is to be made within 20 days after receipt of a written billing statement but no less frequently than quarterly.

WPS has an Administrative Services Agreement with EPIC under which WPS provides administrative services, including claims processing services, to EPIC with respect to Medicare Supplement products. EPIC shall pay WPS for the actual cost of the services and supplies provided, including a reasonable allocation of overhead expenses. Settlement is to be made within 20 days after receipt of a written billing statement but no less frequently than quarterly.

WPS has an intercompany tax allocation agreement with each of its wholly-owned subsidiaries for the purpose of filing consolidated federal income tax and combined Wisconsin franchise and income tax returns. Pursuant to that agreement each subsidiary will either pay to or receive refunds based on calculations performed by WPS at the end of every month. The determination of any deferred tax benefit or liability for either EPIC or WPS HP, is also determined at this time. Payments are to be made within 30 days of the financial statement close date, defined in the agreement, or no later than each estimated quarterly due date.

WPS, EPIC, and WPS HP entered into a one-year Line of Credit Agreement in 2015. The agreement allows one party to make a loan to another party for up to \$5 million, at an interest rate of LIBOR plus 150 basis points. All loans are to be repaid within 20 calendar days of the date of the loan. The agreement was amended in 2016 for continuation of the agreement unless terminated by any party with at least 30 days' written notice of non-renewal.

## V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

### **Affiliated Ceding Contracts**

EPIC has a quota share agreement with WPS effective January 1, 1991, which was last amended on August 1, 2012, in which EPIC cedes 100% of its accident and health coverage administered by WPS and defined as CORE business. The agreement is continuously in force unless terminated by either party upon 60 days' prior written notice to the other party.

### **Nonaffiliated Ceding Contracts**

The company cedes group life and accidental death and dismemberment (AD&D) business under an automatic excess of loss contract with RGA Reinsurance Company. The group life coverage is \$850,000 and AD&D coverage is \$1,000,000 excess of the combined company retention of \$150,000 per person.

The company has an accidental death carve out quota share agreement with RGA Reinsurance Company, in which it cedes 100% of the accidental death contractual liability, limited up to \$150,000 per person, arising out of and for all policies combined, in excess of the company's aggregate retention of \$317,000. Policies covered are classified by the company as accidental death exposure in the company's portfolio of ordinary life insurance, including accidental death benefit riders, common carrier benefits, group life, accidental death and dismemberment, and voluntary life insurance. The reinsurer's limit of liability for any one loss occurrence shall be \$100 million.

The company has a fully insured medical excess of loss agreement with Axis Insurance Company (Axis) that covers all health business, including employee group coverage but excluding Medicare supplement. The company retains \$1 million ultimate net loss for each covered person and Axis covers 100% of an unlimited amount of ultimate net loss in excess of \$1 million per covered person.

The company currently has a group long-term disability quota share agreement with Hartford Life and Accident Insurance Company. Under the quota share agreement, EPIC retains 20% and Hartford Life and Accident Insurance Company assumes 80% of the net premiums and claims.

**Nonaffiliated Assuming Contracts**

EPIC participates in a pool which provides catastrophic loss coverage involving group life insurance for Wisconsin public employees, under a contract with Minnesota Mutual Insurance Company. EPIC's 2020 participation percentage in the pool was 2.4%.

## **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, 2020, 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.

**The EPIC Life Insurance Company**  
**Assets**  
**As of December 31, 2020**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$21,733,403	\$	\$21,733,403
Stocks:			
Common stocks	5,220,004		5,220,004
Cash, cash equivalents, and short-term investments	1,624,485		1,624,485
Investment income due and accrued	121,866		121,866
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	2,428,795		2,428,795
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	1,273		1,273
Reinsurance:			
Amounts recoverable from reinsurers	176,440		176,440
Funds held by or deposited with reinsured companies	36,700		36,700
Amounts receivable relating to uninsured plans	17,683	2,190	15,493
Net deferred tax asset	312,228		312,228
Health care and other amounts receivable	3,702		3,702
Write-ins for other than invested assets:			
Prepaid Expenses	<u>20,515</u>	<u>20,515</u>	<u>          </u>
<b>Total Assets</b>	<b><u>\$31,697,094</u></b>	<b><u>\$22,705</u></b>	<b><u>\$31,674,389</u></b>

**The EPIC Life Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2020**

Aggregate reserve for life contracts		\$ 3,471,965
Aggregate reserve for accident and health contracts		2,369,977
Contract claims:		
Life		682,965
Accident and health		230,061
Premiums and annuity considerations received in advance		544,899
Contract liabilities not included elsewhere:		
Provision for experience rating refunds		3,106,871
Other amounts payable on reinsurance		1,878,369
Interest maintenance reserve		232,768
Commissions to agents due or accrued		166,857
Commissions and expense allowances payable on reinsurance assumed		182,064
General expenses due or accrued		521,113
Taxes, licenses, and fees due or accrued, excluding federal income taxes		131,981
Current federal and foreign income taxes		68,781
Amounts withheld or retained by reporting entity as agent or trustee		17,140
Remittances and items not allocated		341,049
Miscellaneous liabilities:		
Asset valuation reserve		928,121
Payable to parent, subsidiaries and affiliates		113,414
Write-ins for liabilities:		
Reserve for Escheatable Items		<u>15,029</u>
 Total Liabilities		 15,003,424
 Common capital stock	 \$ 2,000,000	
Gross paid in and contributed surplus	11,000,000	
Unassigned funds (surplus)	<u>3,670,965</u>	
 Total Capital and Surplus		 <u>16,670,965</u>
 Total Liabilities, Capital and Surplus		 <u>\$31,674,389</u>

**The EPIC Life Insurance Company**  
**Summary of Operations**  
**For the Year 2020**

Premiums and annuity considerations for life and accident and health contracts		\$13,342,966
Net investment income		543,213
Amortization of interest maintenance reserve		20,309
Commissions and expense allowances on reinsurance ceded		329,754
Write-ins for miscellaneous income:		
Miscellaneous Income		<u>7,206</u>
Total income items		14,243,448
Death benefits	\$ 6,570,983	
Disability benefits and benefits under accident and health contracts	2,632,018	
Increase in aggregate reserves for life and accident and health contracts	<u>1,267,778</u>	
Subtotal	10,470,779	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	1,060,580	
Commissions and expense allowances on reinsurance assumed	223,616	
General insurance expenses and fraternal expenses	4,193,404	
Insurance taxes, licenses, and fees excluding federal income taxes	336,641	
Increase in loading on deferred and uncollected premiums	<u>336</u>	
Total deductions		<u>16,285,356</u>
Net gain (loss) from operations before dividends to policyholders, refunds to members, and federal income taxes		(2,041,908)
Federal and foreign income taxes incurred (excluding tax on capital gains)		<u>(170,018)</u>
Net gain (loss) from operations after dividends to policyholders, refunds to members, and federal income taxes and before realized capital gains or losses		(1,871,890)
Net realized capital gains or (losses)		<u>599,540</u>
Net Loss		<u><u>\$(1,272,350)</u></u>



**The EPIC Life Insurance Company**  
**Cash Flow**  
**For the Year 2020**

Premiums collected net of reinsurance		\$13,309,188
Net investment income		643,909
Miscellaneous income		<u>329,754</u>
Total		14,282,851
Benefit- and loss-related payments	\$ 9,052,328	
Commissions, expenses paid, and aggregate write-ins for deductions	5,848,208	
Federal and foreign income taxes paid (recovered)	<u>(59,698)</u>	
Total deductions		<u>14,840,838</u>
Net cash from operations		(557,987)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$9,646,044	
Stocks	<u>2,217,265</u>	
Total investment proceeds		11,863,309
Cost of investments acquired (long-term only):		
Bonds	9,256,617	
Stocks	<u>842,985</u>	
Total investments acquired		10,099,602
Net increase (or decrease) in contract loans and premium notes	<u>(2,000)</u>	
Net cash from investments		1,765,708
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>(152,301)</u>	
Net cash from financing and miscellaneous sources		<u>(152,301)</u>
<b>Reconciliation:</b>		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		1,055,420
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>569,064</u>
End of year		<u>\$ 1,624,484</u>

**The EPIC Life Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2020**

Assets		\$31,674,389
Less liabilities		<u>15,003,424</u>
Adjusted surplus		16,670,965
Annual premium:		
Individual life and health	\$ 28,831	
Factor	<u>15%</u>	
Total		\$ 4,324
Group life and health	13,262,807	
Factor	<u>10%</u>	
Total		1,326,280
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$14,670,965</u>
Adjusted surplus (from above)		\$16,670,965
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%)		<u>2,800,000</u>
Security Surplus Excess (Deficit)		<u>\$13,870,965</u>

**The EPIC Life Insurance Company  
Analysis of Surplus  
For the Five-Year Period Ending December 31, 2020**

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:

	2020	2019	2018	2017	2016
Capital and surplus, beginning of year	\$17,524,579	\$17,529,898	\$15,929,663	\$14,577,712	\$30,600,470
Net income	(1,272,350)	440,558	1,115,776	1,852,280	1,491,796
Change in net unrealized capital gains/losses	95,069	(540,053)	(1,088,400)	408,853	(148,280)
Change in net deferred income tax	253,183	(20,555)	(141,834)	(266,279)	(207,259)
Change in nonadmitted assets and related items	422	338,980	240,525	182,075	28,456
Change in asset valuation reserve	70,061	(224,250)	1,474,168	(824,978)	312,529
Dividends to stockholders	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>(17,500,000)</u>
Capital and Surplus, End of Year	<u>\$16,670,963</u>	<u>\$17,524,579</u>	<u>\$17,529,898</u>	<u>\$15,929,663</u>	<u>\$14,577,712</u>

**The EPIC Life Insurance Company  
Insurance Regulatory Information System  
For the Five-Year Period Ending December 31, 2020**

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	2020	2019	2018	2017	2016
#1 Net change in capital & surplus	-5%	--0%	10%	9%	-52%*
#2 Gross change in capital & surplus	-5	-0	10	9	-52*
#3 Net income to total income	-9*	3	4	6	5
#4 Adequacy of investment income	393	460	483	474	603
#5 Non-admitted to admitted assets	0	0	1	2	2
#6 Total real estate & mortgage loans to cash & invested assets	0	0	0	0	0
#7 Total affiliated investments to capital & surplus	0	0	0	0	0
#8 Surplus relief	1	1	1	1	1
#9 Change in premium	-1	-50*	-1	6	2
#10 Change in product mix	0.6	15.6*	0.2	0.5	0.2
#11 Change in asset mix	0.5	0.8	0.9	0.3	0.3
#12 Change in reserving ratio	72*	25*	0	0	65*

Ratios #1 and #2 measure the change in capital and surplus. The exceptional results in 2016 were primarily due to the company paying a cash dividend of \$17.5 million to its parent.

Ratio #3 compares net income to total income. The exceptional result in 2020 was due to a net loss of \$1.3 million driven by a net loss from operations of \$2.0 million. An increase in aggregate reserves of \$1.3 million contributed to the net loss from operations.

Ratio #9 measures the change in premium from the prior year. The exceptional result in 2019 was primarily due to a significant decrease in A&H premium resulting from the company losing its largest dental contract, which accounted for 65% of its A&H premium before ceding, at the beginning of 2019.

Ratio #10 measures the change in product mix from the prior year. The result of this ratio represents the average change in the percentage of total premium from each product line during the year. The exceptional result in 2019 was primarily due to the company losing its largest dental contract. As a result, the Group A&H product line was replaced by Group Life as the largest product line by percent of total premium. In addition, the company reported short-term and long-term disability as Other A&H in 2019.

Ratio #12 measures the change in the individual life reserving ratio from the prior year. In 2020, the exceptional result was due to the reserves for whole life increasing \$24,600. In 2019, the exceptional result was due to the reserves for whole life increasing \$5,300. In 2016, the exceptional result was due to the reserves for individual life decreasing \$12,600 in 2015 compared to no change in 2016.

#### **Growth of The EPIC Life Insurance Company**

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Capital and Surplus</b>
2020	\$31,674,389	\$15,003,424	\$16,670,965
2019	30,771,368	13,246,789	17,524,579
2018	32,312,093	14,782,195	17,529,898
2017	33,417,552	17,487,889	15,929,663
2016	46,203,215	31,625,503	14,577,712
2015	61,757,027	31,156,557	30,600,470

### Net Life Premiums, Annuity Considerations, and Deposits

Year	Life Insurance Premiums	Annuity Considerations	Deposit-type Contract Funds
2020	\$8,447,731	\$0	\$0
2019	7,912,133	0	0
2018	8,210,908	0	0
2017	8,199,003	0	0
2016	8,351,007	0	0
2015	8,334,240	0	0

### Life Insurance In Force (in thousands)

Year	In Force End of Year	Reinsurance Ceded	Net In Force
2020	\$2,014,960	\$139,848	\$1,875,112
2019	1,980,146	122,140	1,858,006
2018	2,008,766	129,081	1,879,685
2017	2,021,125	122,797	1,898,328
2016	2,314,867	106,536	2,208,331
2015	2,268,855	100,204	2,168,651

### Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2020	\$ 4,609,578	\$ 3,257,093	\$437,094	\$2,161,863	127.5%
2019	4,908,830	2,818,437	439,940	2,510,651	118.0
2018	19,566,702	14,080,348	418,403	4,360,409	96.7
2017	18,723,988	13,320,388	363,240	4,441,458	97.1
2016	17,036,242	12,511,757	411,331	4,644,102	103.4
2015	16,952,985	12,562,290	428,781	4,926,965	106.0

\* Includes increase in contract reserves

\*\* Includes taxes, licenses, and fees

Over the examination period, the company's surplus decreased \$14.9 million from \$30.6 million at year-end 2015 to \$16.7 million at year-end 2020 primarily due to a cash dividend of \$17.5 million to the company's parent in 2016. Admitted assets and total liabilities have decreased 49% and 52%, respectively, since year-end 2015. In 2017, there was a significant decrease in investments and a matching reduction in the provision for experience rating refunds. The company was holding a premium stabilization fund for one group, which terminated during 2017, and resulted in a payout of those funds of

approximately \$15.0 million. In addition, admitted assets decreased in 2016 due to the \$17.5 million cash dividend to the parent.

The company reported a net income in four of the five years under examination, except in 2020 when it reported a \$1.3 million net loss, attributable to an increase in aggregate reserves of \$1.3 million for group life and A&H business. The decrease in net premiums earned resulted primarily from the company losing its largest dental contract, which accounted for 65% of its A&H premium before ceding, at the beginning of 2019.

#### **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, 2020, is accepted.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. Comment and recommendation contained in the last examination report and actions taken by the company are as follows:

1. Affiliated Agreements—It is recommended that the company report any affiliated transaction in writing to the commissioner at least 30 days before entering into a transaction, which includes amendments or modifications of transactions previously filed, in compliance with s. Ins 40.04 (2), Wis. Adm. Code.

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.

## **Custodial Agreement Compliance**

The company has investments held by Associated Trust Company N.A. under a formal custodial agreement. However, this custodial agreement does not contain several provisions recommended by the NAIC *Financial Condition Examiners Handbook*. The agreement lacks the following provisions:

- The custodian is obligated to indemnify the insurance company for any insurance company's loss of securities in the custodian's custody, except that, unless domiciliary state law, regulation or administrative action otherwise require a stricter standard, the custodian shall not be so obligated to the extent that such loss was caused by other than the negligence or dishonesty of the custodian.
- In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.
- If this agreement has been terminated or if 100 percent of the assets of the account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the depositor's domiciliary commissioner.
- During regular business hours, and upon reasonable notice, an officer or employee of the depositor, an independent accountant selected by the depositor, or a representative of the depositor's domiciliary commissioner shall be entitled to examine, on the premises of the custodian, the custodian's records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the depositor.



- The custodian shall provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian.

It is recommended that the company amend its custodial agreement to conform with standards set forth by the NAIC *Financial Condition Examiners Handbook*.

### **Information Technology**

During the course of examination, a review was made of the company's general controls over its information systems. The review resulted in certain findings, which were presented in a letter to management dated April 13, 2022. It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated April 13, 2022.

## **VIII. CONCLUSION**

The EPIC Life Insurance Company is part of a holding company system in which the ultimate parent is Wisconsin Physicians Service Insurance Corporation. The three insurance companies in the group were examined concurrently.

Over the examination period, the company's surplus decreased \$14.9 million from \$30.6 million at year-end 2015. The company paid a \$17.5 million cash dividend to its parent in 2016. Admitted assets and total liabilities have decreased 49% and 52%, respectively, since year-end 2015. The company reported a net income in four of the five years under examination, except in 2020 when it reported a \$1.3 million net loss. The decrease in net premiums earned resulted primarily from the company losing its largest dental contract at the beginning of 2019.

The examination resulted in two recommendations, no adjustments to surplus and found that the company was in compliance with the recommendation in the previous examination report.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Custodial Agreement Compliance—It is recommended that the company amend its custodial agreement to conform with standards set forth by the NAIC *Financial Condition Examiners Handbook*.
2. Page 23 - Information Technology—It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated April 13, 2022.


**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:

<b>Name</b>	<b>Title</b>
Shelly Bueno, AFE	Insurance Financial Examiner
Daniel Hanes	Insurance Financial Examiner
Angelita Romaker	Insurance Financial Examiner
Eleanor Lu, CISA	IT Specialist
Terry Lorenz, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Gregory Mielke  
Examiner-in-Charge