

Report  
of the  
Examination of  
Settlers Life Insurance Company  
Madison, Wisconsin  
As of December 31, 2015

## TABLE OF CONTENTS

	<b>Page</b>
I. INTRODUCTION.....	1
II. HISTORY AND PLAN OF OPERATION .....	3
III. MANAGEMENT AND CONTROL .....	5
IV. AFFILIATED COMPANIES .....	6
V. REINSURANCE .....	11
VI. FINANCIAL DATA.....	12
VII. SUMMARY OF EXAMINATION RESULTS .....	22
VIII. CONCLUSION.....	24
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	25
X. ACKNOWLEDGMENT .....	26



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

Wisconsin.gov

December 12, 2016

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](mailto:ociinformation@wisconsin.gov)  
Web Address: [oci.wi.gov](http://oci.wi.gov)

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:

SETTLERS LIFE INSURANCE COMPANY  
Madison, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Settlers Life Insurance Company (Settlers or the company) was conducted in 2011 as of December 31, 2010. The current examination covered the intervening period ending December 31, 2015, and included a review of such 2016 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 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 the audit of 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, asset adequacy analysis, and deferred life insurance premiums. 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

Settlers Life Insurance Company was originally organized in 1982 as Guarantee American Life Insurance Company (GALIC) pursuant to the laws of Nebraska and commenced business September 7, 1982. The company was organized as a wholly owned subsidiary of Guarantee Life Insurance Company (GLIC) which was also domiciled in Nebraska. The company entered into a coinsurance agreement with its parent in 1992 to assume 50% of certain supplementary contracts with life contingencies. For the period 1992 through 1996, the company transacted no other insurance operations and had no life insurance in force.

The name of the company was changed to NGL American Life Insurance Company (NGLA) on December 12, 1996, in anticipation of the acquisition of the company by National Guardian Life Insurance Company (NGL), a Wisconsin-domiciled insurer. The sale of the company to NGL occurred on January 1, 1997, and the company redomiciled to Wisconsin effective January 10, 1997. Between 1997 and 2005, two other stock life insurers acquired by NGL were merged into the company, with NGLA remaining as the surviving entity.

Effective July 1, 2006, Settlers Life Insurance Company, domiciled in Virginia, was merged into NGLA. NGLA simultaneously changed its name to Settlers Life Insurance Company, the name currently used by the company. The merger was approved by the commissioners of insurance for both Wisconsin and Virginia. The new Settlers continues the marketing operations of the prior Settlers Life Insurance Company with a focus toward final expense products.

Effective July 1, 2008, NGL purchased a 100% interest in Key Life Insurance Company (Key Life), an Indiana-domiciled stock life insurer. The acquisition was approved by the commissioners of insurance for both Wisconsin and Indiana. On October 1, 2008, NGL merged Key Life with and into Settlers. The merger was approved by the commissioners of insurance for both Wisconsin and Indiana. In conjunction with the merger, Settlers issued 100,000 additional shares of its \$10 par value common stock to its parent, NGL, in exchange for the retirement and cancellation of 4,000 shares of Key Life's \$250 par value common stock held by NGL.

In 2015, the company collected direct premium in the following states:

Virginia	\$20,178,774	41.7%
North Carolina	6,163,297	12.7
Tennessee	3,533,572	7.3
South Carolina	2,469,703	5.1
Georgia	2,255,104	4.7
All others	<u>13,794,819</u>	<u>28.5</u>
Total	<u>\$48,395,269</u>	<u>100.0%</u>

Following the July 1, 2006, merger, Settlers started marketing simplified-issue whole life insurance products providing coverage for final expenses.

The following chart is a summary of premium income as reported by the company in 2015. 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
Ordinary life	\$ 763,177	\$	\$ 13,723	\$ 749,454
Term life	1,474,253		363,011	1,111,242
Universal life	874,638		132,674	741,964
Interest-sensitive life	157,511		9,817	147,694
Preneed	3,719		3,719	
Final expense	39,329,039			39,329,039
Individual annuities	38,177			38,177
Group annuities	540			540
Group life	5,401,699	1,015	11,151	5,391,563
Other accident and health	<u>310,375</u>	<u>_____</u>	<u>110,130</u>	<u>200,245</u>
Total All Lines	<u>\$48,353,128</u>	<u>\$1,015</u>	<u>\$644,225</u>	<u>\$47,709,918</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of four members. Each director is elected annually to serve a one-year term. 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. Three directors of Settlers are senior executives of NGL and are compensated by NGL for services performed as Settlers' directors and executive employees. Settlers does not pay any form of additional compensation to its directors.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
John D. Larson Madison, WI	Retired CEO, National Guardian Life Insurance Company, Chairman of the Board	2017
Michael W. Lowe Bristol, VA	President, Chief Operating Officer and General Counsel, Settlers Life Insurance Company	2017
Robert A. Mucci Madison, WI	Senior Vice President, Treasurer and Director of Corporate Services, National Guardian Life Insurance Company	2017
Mark L. Solverud Middleton, WI	President and Chief Executive Officer, National Guardian Life Insurance Company	2017

#### Officers of the Company

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

<b>Name</b>	<b>Office</b>	<b>2015 Compensation*</b>
Michael W. Lowe	President, COO and General Counsel	\$401,245
Mark L. Solverud	CEO	917,211
Robert A. Mucci	Sr. VP, Treasurer and Director Corp Svcs	494,424
Brian J. Hogan	Sr. VP Chief Financial Officer	443,522
Kimberly A. Shaul	VP, General Counsel and Secretary	292,477
Daniel T. Durow	AVP and Actuary	260,157

\* Compensation is on a group level.

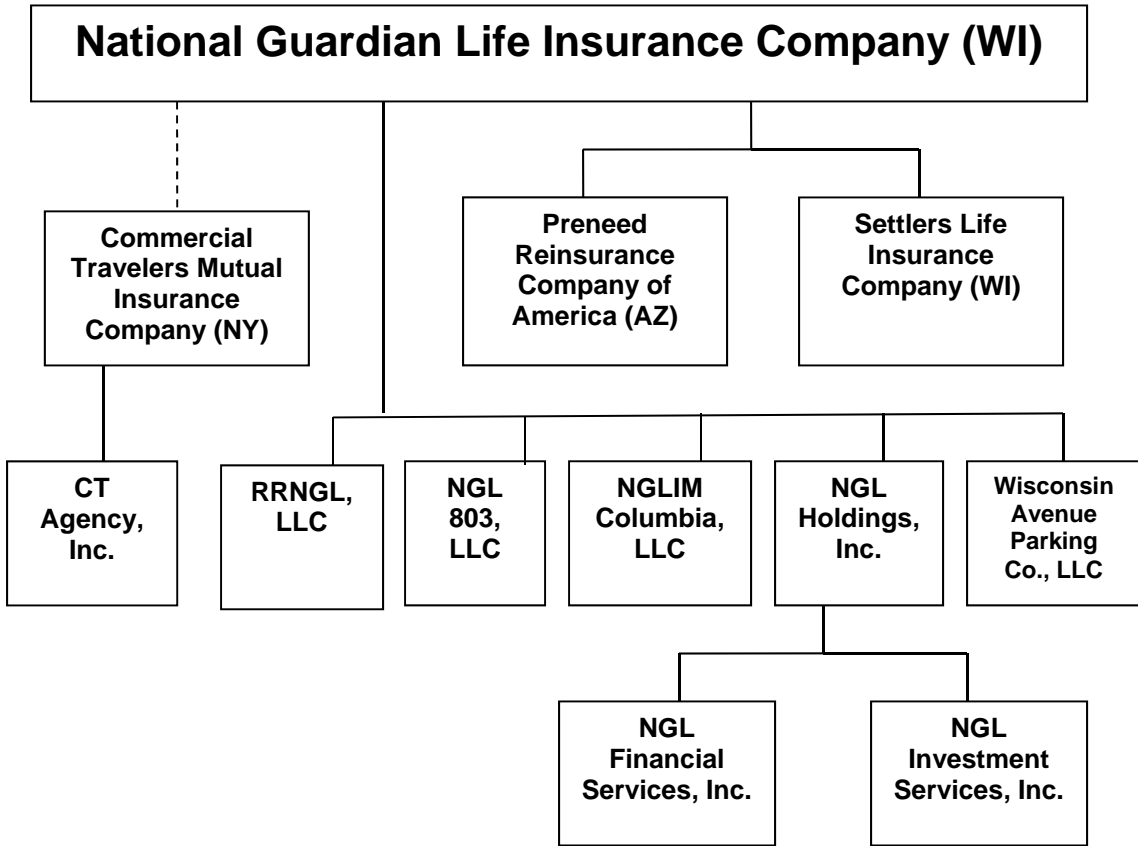
#### Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. At the time of the current examination the board of directors had not established any committees of the board.

**IV. AFFILIATED COMPANIES**

Settlers 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, 2015**



----- Denotes affiliation

**National Guardian Life Insurance Company**

National Guardian Life Insurance Company is a Wisconsin-domiciled mutual insurance company originally incorporated in 1909 under the name the Guardian Life Insurance Company. The present name was adopted in 1920. NGL owns and operates various insurance and non-insurance business through the NGL Insurance Group. NGL is currently licensed in 49 states and the District of Columbia. Historically, NGL’s marketing strategy centered on the



sale of traditional life insurance and accumulation products through career agents and independent brokers. Starting in the early 2000s, NGL withdrew from traditional life products and entered into new product lines using new forms of distribution. Distribution shifted from the traditional career agent force to wholesale distribution through independent marketing organizations and brokers. The majority of new sales are preneed products, specialized life insurance and annuity products designed to finance and fund funeral plans.

As of December 31, 2015, the audited statutory financial statement of National Guardian Life Insurance Company reported total admitted assets of \$3,422,186,461, total liabilities of \$3,151,103,930, and capital and surplus of \$271,082,531. Operations for 2015 produced a net loss of \$4,537,644.

#### **Preneed Reinsurance Company of America (Preneed Re)**

On July 26, 2001, NGL formed Preneed Reinsurance Company of America as a one-state, captive preneed reinsurance company. On October 12, 2001, Preneed Re received its certificate of authority in Arizona as a domestic life and disability reinsurer. Preneed Re was created to share its ownership and consequently its profitability with select marketing organizations selling NGL's and Settler's preneed products.

Preneed Re has issued two classes of common stock—A and B. Class A is either directly owned or controlled via a voting trust by NGL. Class B stock is issued annually to marketing groups based on the volume and quality of the business they write. Class A stockholders elect six of the eight members of the board of directors. Class B stockholders elect the other two directors. Otherwise, class B stock is non-voting except in extraordinary circumstances.

Class B shareholders' ownership of Preneed Re is limited to 75%. That limit has been reached, so additional shares of Class A stock will be issued in proportion to the Class B stock issued annually to maintain Class A ownership at 25%.

As of December 31, 2015, the audited statutory financial statement of Preneed Re reported total admitted assets of \$38,621,012, total liabilities of \$2,216,382, and capital and surplus of \$36,404,630. Operations for 2015 produced a net income of \$5,521,595.

### **Commercial Travelers Mutual Insurance Company (CTMIC)**

In April 2012, NGL executed an affiliation agreement with Commercial Travelers Mutual Insurance Company, a mutual health insurer domiciled in New York, in order to provide the company and its partners access to the state of New York. NGL intends to demutualize CTMIC and make it a stock subsidiary. Completion of the demutualization is expected to be completed during 2016 or 2017.

As of December 31, 2015, the audited statutory financial statement of CTMIC reported total admitted assets of \$16,616,039, total liabilities of \$10,392,205, and capital and surplus of \$6,223,835. Operations for 2015 produced a net loss of \$393,168.

### **NGL Holdings, Inc. (NGL-H)**

NGL Holdings, Inc., was incorporated May 18, 1989, as a non-operating subsidiary of NGL. NGL-H is wholly owned by NGL. Effective December 31, 1999, NGL contributed the 97.8% interest it owned of Kentucky Home Capital Corporation (KHCC) to NGL-H. KHCC was a holding company for special-purpose subsidiary corporations that were acquired by NGL with the merger of Kentucky Home Mutual Life into NGL in 1998. KHCC merged into NGL-H on April 1, 2000. The remaining minority ownership of KHCC was eliminated as part of that merger.

As of December 31, 2015, NGL-H reported total assets of \$3,332,474, total liabilities of \$1,708,668, and stockholder's equity of \$1,623,806. Operations for 2015 produced a net income of \$126,424. NGL-H is shown as a nonadmitted asset on NGL's annual statement.

### **NGL Financial Services, Inc. (NGL-FS)**

NGL Financial Service, Inc., is 100% owned by NGL Holdings, Inc. In the past, NGL-FS operated as a corporate general agency to market life and health insurance products of other insurance companies that neither NGL nor its insurance subsidiaries wrote. Currently, NGL-FS receives renewal commissions on the business that remains in force.

As of December 31, 2015, NGL-FS reported total admitted assets of \$18,131, total liabilities of \$5,041, and stockholder's equity of \$13,090. Operations for 2015 produced a net income of \$942.

### **NGL Investment Services, Inc. (NGL-IS)**

NGL Investment Services, Inc., is 100% owned by NGL Holdings, Inc. NGL-IS holds and operates select real estate properties and other investments. In 2008, NGL-IS began to offer advanced funding to selected funeral homes for a fee.

As of December 31, 2015, NGL-IS reported total admitted assets of \$3,021,433, total liabilities of \$1,725,622, and stockholder's equity of \$1,295,811. Operations for 2015 produced a net income of \$131,083.

### **Limited Liability Companies**

In 2010, NGL formed two new limited liability companies: NGLIM Columbia, LLC, and NGL 803, LLC. These companies were created to acquire, maintain and dispose of properties obtained through foreclosure. NGL is a 50% owner of these companies. The other 50% interest is held by Illinois Mutual Life Insurance Company.

### **RRNGL, LLC**

RRNGL, LLC, is a limited liability company with two members, R&R Real Estate Investors II, LLC, and NGL, formed for the purpose of owning and operating an office park in West Des Moines, Iowa, two office buildings in Urbandale, Iowa, and a retail park in West Des Moines, Iowa.

As of December 31, 2015, RRNGL, LLC, reported total admitted assets of \$105,331,517, total liabilities of \$78,319,993, and members' equity of \$27,011,524. Operations for 2015 produced a net loss of \$780,032.

### **Wisconsin Avenue Parking Company, LLC**

Wisconsin Avenue Parking Company, LLC, was formed on March 30, 2011, as a limited liability company for the purpose of acquiring, developing, and operating a parking structure located in downtown Madison, Wisconsin. Edgewater Hotel Company, LLC, and NGL each own 50% of the company. NGL leases parking spaces from Wisconsin Avenue Parking Company, LLC, for use by its employees.

As of December 31, 2015, Wisconsin Avenue Parking Company, LLC, reported total admitted assets of \$8,188,107, total liabilities of \$188,603, and members' equity of \$7,999,504. Operations for 2015 produced a net income of \$72,690.

### **Agreements with Affiliates**

NGL provides Settlers various managerial, administrative, and business services for the company's day-to-day operations. NGL has established management services agreements with its subsidiaries, including a separate agreement with Settlers. Services provided by NGL to Settlers pursuant to the NGL management service agreement include the following:

- Executive management services
- Financial services including accounting, actuarial, tax, and audit
- Policy administration services
- Legal and compliance services
- Marketing, agent support, and human resources services
- Investment management service, corporate insurance, and office space

NGL service fees charged to Settlers for the costs of provided services are intended to approximate the allocation of actual costs and are based on time and cost allocation estimates. The estimates of time and cost allocation are amended by NGL periodically as needed. Direct costs incurred by NGL that are not covered by the services categories specified in the management services agreement are charged on an hourly basis. This agreement can be amended if both parties agree to the contract changes and either party may terminate the agreement after providing a 90-day written notice to the other party.

NGL and Settlers file consolidated federal tax returns and are parties to a tax allocation agreement. Pursuant to that agreement, the tax liability or benefit to each insurer is the amount that each insurer would have paid or received if filed on a separate-return basis with the federal and, if applicable, state tax authorities. Consolidated tax liability is allocated in accordance with provision of Treasury regulations using the percentage method, with an election to use a percentage of 100%.

## V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. The contracts contained proper insolvency provisions.

Settlers' only assumed reinsurance consists of a closed block of preneed life and annuity insurance 100% coinsured from Investors Heritage Life Insurance Company. This treaty was acquired through the merger of Key Life Insurance Company into Settlers discussed below.

Settlers has written preneed life and annuity insurance in the past but currently only writes final expense. For all of these products, the face amounts written are modest and no external reinsurance is ceded. Preneed business which was written by selected third-party marketing groups had been ceded 50% to Preneed Reinsurance Company of America, an affiliate, on a modified coinsurance basis. Effective October 1, 2010, Settlers cedes substantially all of its in-force preneed business to NGL under a 100% coinsurance agreement. Currently, NGL cedes 50% of the specified preneed policies to Preneed Re, and Settlers no longer has a reinsurance relationship with Preneed Re.

The remainder of the company's ceded reinsurance treaties are in runoff. These contracts were primarily acquired by the company through NGL's acquisition and merger transactions and have retentions of \$50,000 up to \$200,000. A closed block of cancer business is ceded on a 100% coinsurance basis. These treaties were acquired when Allnation Life Insurance Company was merged into the company on March 31, 2000, Milwaukee Life Insurance Company was merged into the company on October 1, 2001, the prior Settlers Life Insurance Company was merged into the company on July 1, 2006, and Key Life Insurance Company was merged into the company on October 1, 2008.

## **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, 2015, 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.

**Settlers Life Insurance Company**  
**Assets**  
**As of December 31, 2015**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$340,415,476	\$	\$340,415,476
Stocks:			
Preferred stocks	2,987,953		2,987,953
Common stocks	8,397,294		8,397,294
Real estate:			
Occupied by the company	2,556,463		2,556,463
Held for production of income	1,189,001		1,189,001
Cash, cash equivalents, and short-term investments	8,568,125		8,568,125
Contract loans	6,911,567		6,911,567
Other invested assets	3,167,513		3,167,513
Receivables for securities	10,260		10,260
Investment income due and accrued	5,464,820		5,464,820
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	167,710		167,710
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	806,898		806,898
Reinsurance:			
Amounts recoverable from reinsurers	89,640		89,640
Other amounts receivable under reinsurance contracts	953,852		953,852
Net deferred tax asset	10,088,058	3,921,957	6,166,101
Guaranty funds receivable or on deposit	84,345		84,345
Electronic data processing equipment and software	64,179	8,928	55,251
Furniture and equipment, including health care delivery assets	220,040	220,040	
Health care and other amounts receivable	2,112,105	2,112,105	
Write-ins for other than invested assets:			
Miscellaneous receivables	869		869
Prepaid expenses	305,618	305,618	
	<u>305,618</u>	<u>305,618</u>	<u>869</u>
<b>Total Assets</b>	<b><u>\$394,561,786</u></b>	<b><u>\$6,568,648</u></b>	<b><u>\$387,993,138</u></b>

**Settlers Life Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2015**

Aggregate reserve for life contracts	\$332,863,810
Aggregate reserve for accident and health contracts	788,406
Liability for deposit-type contracts	594,256
Contract claims:	
Life	4,053,256
Accident and health	64,000
Policyholders' dividends and coupons due and unpaid	33
Provision for policyholders' dividends and coupons payable in following calendar year:	
Apportioned for payment	284,000
Premiums and annuity considerations received in advance	284,446
Contract liabilities not included elsewhere:	
Interest maintenance reserve	1,260,182
General expenses due or accrued	644,621
Taxes, licenses, and fees due or accrued, excluding federal income taxes	113,847
Current federal and foreign income taxes	402,858
Unearned investment income	79,808
Amounts withheld or retained by company as agent or trustee	616
Amounts held for agents' account, including agents' credit balances	150,228
Remittances and items not allocated	243,341
Miscellaneous liabilities:	
Asset valuation reserve	3,849,340
Payable to parent, subsidiaries and affiliates	1,497,347
Write-ins for liabilities:	
Unclaimed checks	1,326,836
Interest on outstanding claims	<u>25,329</u>
 Total liabilities	 348,526,560
 Common capital stock	 27,013,030
Unassigned funds (surplus)	<u>12,453,548</u>
 Total capital and surplus	 <u>39,466,578</u>
 Total Liabilities, Capital and Surplus	 <u>\$387,993,138</u>



**Settlers Life Insurance Company**  
**Summary of Operations**  
**For the Year 2015**

Premiums and annuity considerations for life and accident and health contracts		\$47,709,918
Net investment income		20,363,485
Amortization of interest maintenance reserve		370,254
Commissions and expense allowances on reinsurance ceded		65,319
Miscellaneous income:		
Write-ins for miscellaneous income:		
Amortization of deferred gain on indemnity reinsurance of in-force block		445,608
Miscellaneous income		<u>786</u>
Total income items		<u>68,955,370</u>
Death benefits	\$32,027,691	
Matured endowments	1,000	
Disability benefits and benefits under accident and health contracts	169,474	
Surrender benefits and withdrawals for life contracts	3,155,445	
Interest and adjustments on contract- or deposit-type contract funds	148,389	
Payments on supplementary contracts with life contingencies	39,816	
Increase in aggregate reserves for life and accident and health contracts	<u>7,451,158</u>	
Subtotal	<u>42,992,973</u>	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	10,847,761	
Commissions and expense allowances on reinsurance assumed	5,009	
General insurance expenses	9,135,988	
Insurance taxes, licenses, and fees excluding federal income taxes	1,540,857	
Increase in loading on deferred and uncollected premiums	1,336	
Write-in for deductions:		
Miscellaneous expense	14,545	
Regulatory fees and penalties	<u>856</u>	
Total deductions		<u>64,539,325</u>
Net gain (loss) from operations before dividends to policyholders and federal income taxes		4,416,045
Dividends to policyholders		<u>276,822</u>
Net gain (loss) from operations after dividends to policyholders and before federal income taxes		4,139,223
Federal and foreign income taxes incurred (excluding tax on capital gains)		<u>1,403,796</u>
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses		2,735,427
Net realized capital gains or (losses)		<u>23,357</u>
Net Income		<u>\$ 2,758,784</u>

**Settlers Life Insurance Company**  
**Cash Flow**  
**For the Year 2015**

Premiums collected net of reinsurance		\$47,758,581
Net investment income		21,299,519
Miscellaneous income		<u>66,105</u>
Total		69,124,205
Benefit- and loss-related payments	\$35,628,320	
Commissions, expenses paid, and aggregate write-ins for deductions	21,325,077	
Dividends paid to policyholders	286,922	
Federal and foreign income taxes paid (recovered)	<u>2,056,312</u>	
Total deductions		<u>59,296,631</u>
Net cash from operations		9,827,574
Proceeds from investments sold, matured, or repaid:		
Bonds	\$31,117,400	
Stocks	<u>1,096,887</u>	
Total investment proceeds		32,214,287
Cost of investments acquired (long-term only):		
Bonds	33,925,526	
Stocks	1,207,137	
Real estate	<u>107,519</u>	
Total investments acquired		35,240,182
Net increase (or decrease) in contract loans and premium notes	<u>354,777</u>	
Net cash from investments		(3,380,672)
Cash from financing and miscellaneous sources:		
Net deposits on deposit-type contracts and other insurance liabilities	(4,708)	
Dividends to stockholders	15,000,000	
Other cash provided (applied)	<u>773</u>	
Net cash from financing and miscellaneous sources		<u>(15,003,935)</u>
<b>Reconciliation:</b>		
Net change in cash, cash equivalents, and short-term investments		(8,557,033)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>17,125,158</u>
End of Year		<u>\$ 8,568,125</u>

**Settlers Life Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2015**

Assets		\$379,682,673
Less liabilities		<u>348,526,560</u>
Adjusted surplus		31,156,113
Annual premium:		
Individual life and health	\$42,040,137	
Factor	<u>15%</u>	
Total		\$6,306,020
Group life and health	5,392,804	
Factor	<u>10%</u>	
Total		539,280
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		<u>79,425</u>
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>6,924,725</u>
Compulsory Surplus Excess or (Deficit)		<u>\$ 24,231,388</u>
Adjusted surplus (from above)		\$ 31,156,113
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>9,625,367</u>
Security Surplus Excess or (Deficit)		<u>\$ 21,530,746</u>

**Settlers Life Insurance Company**  
**Analysis of Surplus**  
**For the Five-Year Period Ending December 31, 2015**

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:

	2015	2014	2013	2012	2011
Capital and surplus, beginning of year	\$52,575,674	\$51,531,587	\$49,555,962	\$55,604,873	\$59,986,936
Net income	2,758,784	7,072,269	6,908,279	4,711,911	6,504,278
Change in net unrealized capital gains/losses	(87,434)	199,581	693,791	251,423	(251,678)
Change in net unrealized foreign exchange capital gains/losses					
Change in net deferred income tax	506,371	(346,994)	461,243	739,433	526,138
Change in nonadmitted assets and related items	(791,504)	(211,996)	(133,734)	(532,807)	(440,068)
Change in asset valuation reserve	(49,705)	(894)	(678,872)	(461,990)	(366,029)
Capital changes:					
Paid in				(4,822,770)	
Surplus adjustments:					
Paid in				(4,735,292)	
Dividends to stockholders	(15,000,000)	(5,000,000)	(4,500,000)		(10,000,000)
Write-ins for gains and (losses) in surplus:					
Change in additional deferred tax asset					216,775
Excess of stock redemption over par and paid in/contributed surplus				(441,938)	
Change in deferred gain on indemnity reinsurance of in-force block	(445,608)	(667,879)	(775,082)	(756,881)	(571,479)
Capital and Surplus, End of Year	<u>\$39,466,578</u>	<u>\$52,575,674</u>	<u>\$51,531,587</u>	<u>\$49,555,962</u>	<u>\$55,604,873</u>

**Settlers Life Insurance Company  
Insurance Regulatory Information System  
For the Five-Year Period Ending December 31, 2015**

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	2015	2014	2013	2012	2011
#1 Net change in capital and surplus	-25.0%*	2.0%	4.0%	6.0%	-7.0%
#2 Gross change in capital and surplus	-25.0*	2.0	4.0	-11.0*	-7.0
#3 Net income to total income	4.0	10.0	10.0	7.0	10.0
#4 Adequacy of investment income	131.0	136.0	140.0	141.0	143.0
#5 Nonadmitted to admitted assets	2.0	1.0	1.0	1.0	1.0
#6 Total real estate and mortgage loans to cash and invested assets	1.0	1.0	1.0	1.0	1.0
#7 Total affiliated investments to capital and surplus	0.0	0.0	0.0	0.0	0.0
#8 Surplus relief	0.0	0.0	0.0	0.0	0.0
#9 Change in premium	6.0	2.0	2.0	2.0	999.0*
#10 Change in product mix	0.4	0.3	0.4	0.3	NR
#11 Change in asset mix	0.3	0.4	0.2	0.3	0.2
#12 Change in reserving	0.0	1.0	-2.0	2.0	26.0*

Ratio No. 1 and No. 2 compares the net and gross change in capital and surplus from the prior year. In 2015, capital and surplus decreased 25% from prior year-end; the exception result was due to a \$15 million extraordinary dividend paid to its parent company, NGL. In 2012, the company repurchased 482,277 of its shares from its parent with a cash payment of \$10 million. The repurchased shares resulted in exceptional Ratio No. 2 gross change in capital and surplus.

Ratio No. 9 compares premium from one year to the next. The exceptional result for Ratio No. 9 in 2011 is related to a 100% coinsurance transaction with the company's parent, NGL, whereby approximately \$53 million of preneed premiums were ceded to NGL in 2010.

Ratio No. 12 compares changes in reserve from prior year. In 2011, the exceptional ratio was due to reserves ceded to its parent that represented a closed, largely paid-up block.

Ratio No.10 is not calculated if premiums for the current or prior year are zero or negative. The company reported total negative premium for 2010 due to the effect of the coinsurance transaction described above.

### Growth of Settlers Life Insurance Company

Year	Admitted Assets	Liabilities	Capital and Surplus
2015	\$387,993,138	\$348,526,560	\$39,466,578
2014	394,243,255	341,667,581	52,575,674
2013	385,557,108	334,025,521	51,531,587
2012	378,289,825	328,733,863	49,555,962
2011	378,336,654	322,731,781	55,604,873
2010	373,044,138	313,057,202	59,986,936

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

Year	Life Insurance Premiums	Annuity Considerations	Deposit-type Contract Funds
2015	\$ 47,519,387	\$ 38,717	\$2,444
2014	44,597,949	50,848	2,543
2013	43,734,524	33,766	2,872
2012	42,664,028	99,163	3,406
2011	41,835,219	33,213	3,439
2010	(11,189,049)	(198,336)	3,321

### Life Insurance In Force (in thousands)

Year	In Force End of Year	Reinsurance Ceded	Net In Force
2015	\$1,794,727	\$124,177	\$1,670,550
2014	1,757,718	138,727	1,618,991
2013	1,781,264	159,663	1,621,601
2012	1,801,316	174,375	1,626,941
2011	1,834,875	174,752	1,660,123
2010	1,866,361	197,932	1,668,429

### Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2015	\$202,398	\$153,874	\$ (1,198)	\$39,585	95.0%
2014	238,870	81,803	432	39,679	51.0
2013	218,139	205,558	(1,879)	42,282	112.8
2012	282,680	30,814	20,622	46,361	34.6
2011	279,565	(2,279)	(3,178)	53,299	17.1
2010	342,547	(45,121)	3,245	39,889	(0.6)

\* Includes increase in contract reserves

\*\* Includes taxes, licenses, and fees

During the period under examination Settlers' admitted assets have increased by 4% and liabilities have increased by 11%. Surplus over the past five years has decreased 34% to \$39 million. Settlers paid stockholder dividends to NGL totaling \$34.5 million which has limited its surplus growth. In 2012, the company repurchased 482,277 of its shares from its parent with a cash payment of \$10 million.

Settlers has reported net income in all years under examination, with the largest values of \$7.1 million and \$6.9 million reported in 2014 and 2013, respectively.

#### **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, 2015, 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. Investment Limitation—It is recommended that the company exclude the value of the assets that exceed the investment limitation prescribed by s. Ins 6.20 (8) (k), Wis. Adm. Code, and s. 620.22 (9), Wis. Stat., from the calculation of its compulsory and security surplus requirements in accordance with s. 620.21, Wis. Stat.

Action—Compliance

2. Outstanding Checks—It is recommended that the company continue working on reducing the number of outstanding checks to achieve internal goals of transferring outstanding checks to escheat no later than the end of the second year after issuance.

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.

### **Conflict of Interest**

The examination's review of conflict of interest statements completed by the company's officers and members of the board of directors determined that Settlers only retains the statements for one year. As a result of the company not retaining its conflict of interest statements, the examination was unable to determine whether any officers or members of the board of directors had any conflicts in prior periods and should therefore have removed themselves from any transaction or abstained from voting on any matters brought in front of the board. Section Ins 6.80 (4), Wis. Adm. Code, defines the various records that an insurer should maintain, including corporate records. It is recommended that the company maintain conflict of interest statements, as well as any other records, pursuant to s. Ins 6.80 (4), Wis. Adm. Code.

### **Executive Compensation**

The company filed its Report on Executive Compensation (Form OCI 22-060) as required by ss. 601.42 and 611.63 (4), Wis. Stat. The report should include annual compensation of each director, the chief executive officer, four most highly paid officers or employees, and all officers and employees of the insurer whose compensation exceeded specified amounts.

The examination determined that the compensation reported excluded employer-paid health insurance premiums. The company should monitor employer-paid benefits to ensure that all reportable benefits are reported on the Report on Executive Compensation. It is recommended that the company properly complete the Report on Executive Compensation in accordance with ss. 601.42 and 611.63 (4), Wis. Stat.

## **VIII. CONCLUSION**

Settlers Life Insurance Company is a stock insurance company domiciled in Wisconsin which specializes in the marketing of simplified-issue whole life insurance products providing coverage for final expenses through independent agents. During the period under examination Settlers' admitted assets have increased by 4% and liabilities have increased by 11%. Surplus over the past five years has decreased 34% to \$39 million. Settlers has reported net income in all years under examination.

The prior examination report contained two recommendations. The current examination determined that the company is in compliance with the prior recommendations. The current examination resulted in two recommendations. The examination did not make any reclassifications of account balances or adjustments to surplus as reported by the company in its year-end 2015 statutory financial statements.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Conflict of Interest—It is recommended that the company maintain conflict of interest statements, as well as any other records, pursuant to s. Ins 6.80 (4), Wis. Adm. Code.
2. Page 23 - Executive Compensation—It is recommended that the company properly complete the Report on Executive Compensation in accordance with ss. 601.42 and 611.63 (4), Wis. Stat.

**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	Insurance Financial Examiner
Adrian Jaramillo	Insurance Financial Examiner
Nicholas Hartwig	Insurance Financial Examiner
Thomas Houston, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Judith Michael  
Examiner-in-Charge