

**STATE OF NORTH DAKOTA  
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION**

**OF**

**LINCOLN REPUBLIC INSURANCE COMPANY  
BISMARCK, NORTH DAKOTA**

**AS OF  
DECEMBER 31, 2013**

STATE OF NORTH DAKOTA  
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

**Lincoln Republic Insurance Company**

**Fargo, North Dakota**

as of December 31, 2013, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.



IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the City of Bismarck, this 20<sup>th</sup> day of February, 2015.

  
\_\_\_\_\_  
Adam Hamm  
Commissioner

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Fargo, North Dakota  
December 5, 2014

Honorable Adam Hamm  
Commissioner  
North Dakota Insurance Department  
600 East Boulevard Avenue, Dept. 401  
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

**Lincoln Republic Insurance Company  
Fargo, North Dakota**

Lincoln Republic Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2008, by the North Dakota Insurance Department (Department).

**SCOPE OF EXAMINATION**

This examination was a risk-focused financial condition examination conducted in accordance with N.D.C.C. § 26.1-03-19.3 and observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the five-year period from January 1, 2009, to and including December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Our examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, we planned and performed the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used by the Company to mitigate those risks. Our examination also included assessment of the accounting principles used and significant estimates made by management as well as evaluation of the overall financial statement presentation, management's compliance with Statutory Accounting Principles, annual statement instructions, and when applicable, to domestic state regulations.

All accounts and activities of the company were considered in accordance with the risk-focused examination process.

Work papers provided by the Company's independent auditor, Eide Bailly, LLP, were reviewed and where deemed appropriate, certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

This examination was conducted by Examiners from the North Dakota Insurance Department, representing the Midwestern Zone.

## **STATUS OF PRIOR EXAM FINDINGS**

The examination included a review to determine the current status of the eight exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2004, to December 31, 2008. We determined that, due to the 2013 merger with American Enterprise Group (AEG), the exception conditions noted in the prior examination no longer applied to the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings or material changes in the financial statements.

## **SUBSEQUENT EVENTS**

On January 11, 2014, the Company migrated its life and annuity policy master file to AEG's system. After this move, the Company discontinued all operations within the State of North Dakota.

Effective May 29, 2014, the Company amended and restated its articles to change the principal office of the corporation to 601 Sixth Avenue, Des Moines, Iowa, and to change the registered agent to Corporation Service Company.

## **COMPANY HISTORY**

### **General**

The Company was incorporated on September 13, 1935, under the laws of the State of North Dakota as the "Lincoln Mutual Health and Accident Insurance Association," writing only accident and health insurance. New Articles of Incorporation and Bylaws were adopted on December 27, 1946, changing the Company's corporate structure to comply with amended Chapter 26-08 of the North Dakota Revised Code of 1943. The Company's name was also changed to "Lincoln Mutual Life and Casualty Insurance Company." In 1951, the Company merged with Mid-Continental Mutual Life of Minneapolis, Minnesota, and the National United Mutual Life Insurance Company of Fargo, North Dakota. The Company later merged with the Education Mutual Benefit Association of Aberdeen, South Dakota. In 1957, the Company merged with the Education Mutual Benefit Association of Aberdeen, South Dakota. In 1989 the Company associated with Noridian Mutual Insurance Company, of Fargo, North Dakota, to offer group life and group disability insurance. In 1995 the Company assumed all of the North Dakota group life and accident and health insurance from Medical Life Insurance Company of Cleveland, Ohio.

Effective August 1, 2013, the Company merged with American Enterprise Group, Inc. (AEG). Under the terms of the merger, AEG reorganized the Company as a North Dakota stock life insurer named "Lincoln Republic Insurance Company." All of the Lincoln Mutual policyholders became members of American Enterprise Mutual Holding Company.

## **Capital Stock**

As of December 31, 2013, 1,000,000 shares of \$1 par common stock were outstanding and 100 percent of outstanding shares were held by AEG.

## **Dividends**

During the period under examination there were no capital dividends paid to policyholders or stockholders.

# **CORPORATE RECORDS**

## **Articles of Incorporation and Bylaws**

The Company amended and restated its Articles of Incorporation and Bylaws in their entirety, effective August 1, 2013, to reflect its merger with AEG.

The amended and restated Articles and Bylaws were approved at the July 15, 2013, Board of Directors meeting.

## **Stockholder and Board of Directors Meetings**

The minutes of the Board of Directors, shareholders and stockholders meetings for the period under examination were read.

## **Conflict of Interest**

The Company has procedures in place to ensure prompt disclosure of any possible conflict of interest on the part of its directors, officers, and employees. Conflict of interest statements for all management and key employees of the Company were reviewed and no material conflicts were noted.

# **MANAGEMENT AND CONTROL**

## **Board of Directors**

The Bylaws provide that the number of directors shall consist of a minimum of 5 directors and a maximum of 21 directors. The Board of Directors is elected at the annual meeting of the Company which is held on the first Tuesday in March, unless the Board of Directors fix an alternative place, time and date between 6 months after the end of the Corporation's fiscal year and 15 months after the shareholders' last annual meeting.

The Directors serving the Company at December 31, 2013, were as follows:

<u>Director</u>	<u>Business Affiliations</u>
Michael Eugene Abbott	President & CEO
Mark Steven Movic	SVP, CFO & Treasurer
Timothy John Hall	SVP, COO & Secretary
Sara Elaine Lehan	AVP Financial Reporting
Lawrence Joseph Zich	Former President & CEO

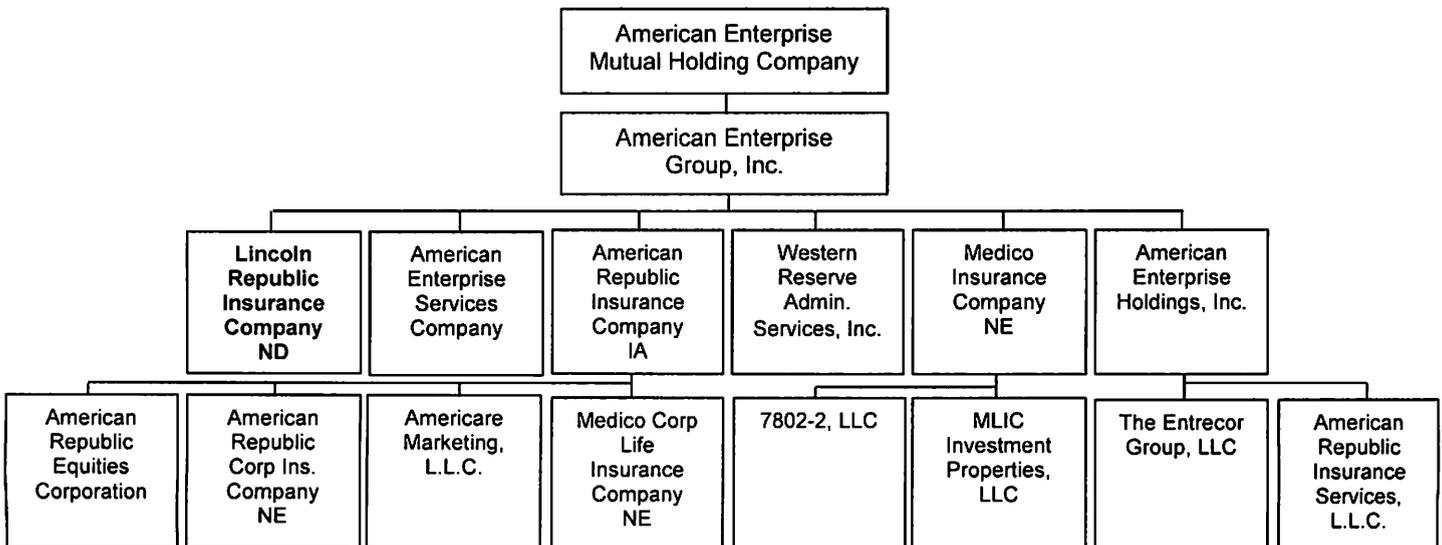
### Officers

According to the Bylaws, the officers shall consist of a Chairman of the Board, a President, one of whom shall be designated by the Board as the CEO, and a Secretary. The Corporation may have such other offices as may be appointed by the CEO. One person may hold the offices and perform the duties of two or more offices. The Chairman, CEO, President and Secretary shall be elected annually by the Board of Directors at the annual meeting. Each officer shall hold office until the following annual meeting and until his or her successor is chosen or until his or her death, resignation or removal.

<u>Name</u>	<u>Office</u>
Michael Eugene Abbott	President & CEO
Timothy John Hall	SVP, COO & Secretary
Mark Steven Movic	SVP, CFO & Treasurer

## AFFILIATED COMPANIES

The Company is a wholly-owned subsidiary of American Enterprise Group, Inc., an Iowa corporation. The Company's ultimate parent, American Enterprise Mutual Holding Company, is an Iowa mutual holding company. A graphical representation of the holding company structure as of December 31, 2013, is presented in the following organizational chart:



## **INTERCOMPANY AGREEMENTS**

The Company has an Employee Services Agreement with AEG. Under this agreement AEG provides all the services and amenities needed by the Company to conduct its operations. In 2013, the Company paid \$5,412 for rent expense and \$206,082 for payroll to AEG under this agreement.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is insured by a financial institution bond providing coverage to American Enterprise Mutual Holding Company and its subsidiaries. The bond specifies a single loss limit of liability in the amount of \$5,000,000 for loss resulting from dishonest or fraudulent acts committed by an employee. The coverage exceeds the minimum amount recommended for the Company and its affiliates in the NAIC's Financial Examiners Handbook.

Other insurance coverages protecting the Company appear adequate.

## **PENSION AND INSURANCE PLANS**

There are no defined benefit pension plans or post retirement-retirement benefits offered by the Company. The Company's parent offers a 401(k) Savings Plan for all employees.

## **TERRITORY AND PLAN OF OPERATION**

At December 31, 2013, the Company was licensed in the following 15 states:

Arizona	Minnesota	Oregon
Colorado	Montana	South Dakota
Idaho	Nebraska	Utah
Iowa	North Dakota	Wisconsin
Kansas	Oklahoma	Wyoming

The Company is currently in run-off and, therefore, it does not have an active plan of operation. At December 31, 2013, 61.8 percent of the Company's business is written in North Dakota.

## **GROWTH OF THE COMPANY**

The table below shows the Company's change in admitted assets, total liabilities, policyholder surplus, premium income, and net income (loss) over the examination period:

Year	Admitted Assets	Total Liabilities	Capital & Surplus	Premium Income	Net Income (Loss)
2009	\$32,712,417	\$21,438,930	\$11,273,487	\$6,633,343	\$268,176
2010	33,939,008	21,453,646	12,485,361	6,751,970	891,239
2011	34,401,731	21,425,727	12,976,004	7,154,196	425,137
2012	33,081,671	20,151,488	12,930,183	4,266,150	236,728
2013	30,583,992	17,660,102	12,923,890	1,012,441	(373,455)

As is evident by the table above, premium income dropped dramatically from 2011 to 2012 as former affiliates, Noridian Mutual Insurance Company and Noridian Insurance Services, Incorporated, moved the Company's group business to another insurer prior to ceasing affiliation with the Company. In 2013, after its merger with AEG, the Company stopped writing new business and began running off its existing policies.

## REINSURANCE

A summary of the Company's significant reinsurance agreements in effect at December 31, 2013, is provided below.

### Life and Annuity Reinsurance Ceded

- Reinsurer: **Swiss Re Life and Health America**

Scope: Voluntary group yearly renewable term life and accidental death and dismemberment coverage with \$125,614 in premiums ceded in 2013.

Retention: \$30,000

Coverage: 50 percent of the first \$60,000 for life.  
100 percent for accidental death and dismemberment claims.

Effective Date: July 1, 2008

Termination: 90-day notice
- Reinsurer: **American Disability Reinsurance Underwriters Syndicate (ADRUS)** Reliance Standard Life Insurance Company as sole participating reinsurer.

Scope: Group long and short term disability coinsurance coverage with \$65,254 in premiums ceded in 2013.

Retention: Long Term Disability \$0  
Short Term Disability \$44,532

Coverage: 100 percent of long term disability.  
50 percent of short term disability with a maximum policy benefit at risk amount of \$44,532.

- Effective Date: August 1, 1989
- Termination: 30-day notice
3. Reinsurer: **Optimum Re Insurance Company**
- Scope: Individual life and disability coinsurance coverage with \$37,006 in premiums ceded in 2013.
- Retention: \$40,000
- Coverage: Amounts exceeding \$40,000 with a maximum coverage amount per life is \$5 million. Disability coverage for issue ages 15 through 55 in amounts equal to that attaching to the face amount of life coverage.
- Effective Date: December 31, 2000
- Termination: 30 day notice
4. Reinsurer: **SCOR Global Life USA Reinsurance Company** (formerly Generali USA Life Reinsurance Company)
- Scope: Group yearly renewable term basic and supplemental life and basic and supplemental accidental death and dismemberment coverage with \$22,690 in premiums ceded in 2013.
- Retention: \$40,000 for group life  
\$10,000 for accidental death and dismemberment
- Coverage: 100 percent of group life exceeding \$40,000 up to the contract maximum of \$1,460,000.  
100 percent of amounts exceeding \$10,000 for accidental death and dismemberment claims up to the contract maximum of \$1,360,000.
- Effective Date: May 1, 2011
- Termination: 60-day notice
5. Reinsurer: **Pioneer Mutual Life Insurance Company**
- Scope: Individual yearly renewable term life, automatic retrocession with \$16,837 in ceded premiums in 2013.
- Retention: \$30,000 per life for most risks; maximum combined retention of cedant and retrocessionaire of \$200,000 for standard risks.
- Coverage: Amounts at risk (i.e., projected death benefits less the projected cash value less the Company's retention) for individual life insurance and supplementary benefits assumed by the Company for business first processed on or after April 1, 1992, on specified plans.

Effective Date: April 1, 1992  
Termination: 90-day notice

**Life Reinsurance Assumed**

1. Cedant: Pioneer Mutual Life Insurance Company
- Scope: Group life and supplemental disability, accidental death and dismemberment waiver of premium coinsurance with \$10,900 in assumed premiums in 2013.
- Retention: Maximum retention is 10 percent of issue amounts up to \$300,000 per group for groups with more than 500 employees.
- Coverage: 90 percent of indicated risks
- Effective Date: April 1, 1992
- Termination: 90-day notice

The Company's reinsurance coverage adequately protects it from losses exceeding 10 percent of its paid-up capital and surplus per N.D.C.C. § 26.1-03-01. All treaties subject to reserve credit limitations contain an insolvency clause as required by N.D.C.C. § 26.1-02-21.

**ACCOUNTS AND RECORDS**

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2013, was traced to the appropriate schedules of the Company's 2013 Annual Statement.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the examiners and were used to the extent deemed appropriate for this examination.

Subsequent to the examination as of date, the Company notified the Commissioner that its external auditor will change from Eide Bailly, LLP, to Ernst and Young, LLP (E&Y). AEG has previously contracted E&Y for its external audits and the change will help to increase audit efficiency for the group.

Also subsequent to the examination as of date, the Company migrated its life and annuity policy master file to AEG's system. After this move, the Company discontinued all operations within the State of North Dakota. AEG conducted an internal audit to verify the accuracy and completeness of the data transfer and resolved all identified issues. All operations now take place on AEG systems.

## **STATUTORY DEPOSITS**

The statement value of securities held in a custodial account and vested in the North Dakota Insurance Commissioner for the benefit of all policyholders totaled \$4,895,340 at December 31, 2013. Per the requirements of N.D.C.C. § 26.1-05-23, the Company was required to have \$17,397,288, the net value of all outstanding policy obligations, on deposit with the Commissioner at December 31, 2013. Subsequent to the examination as of date, the Company increased its securities on deposit with the Commissioner to comply with the code requirements cited above.

## **FINANCIAL STATEMENTS**

The financial statements of the Company are presented on the following pages in the sequence listed below:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2013

Statement of Income, Year Ended December 31, 2013

Reconciliation of Capital and Surplus, January 1, 2009 through December 31, 2013

**Lincoln Republic Insurance Company**  
**Statement of Assets**  
**December 31, 2013**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$28,353,452		\$28,353,452
Cash	270,379		270,379
Short-term investments	251,465		251,465
Contract loans	522,769		522,769
Investment income due and accrued	340,953		340,953
Deferred premiums, agents' balances and installments booked but deferred and not yet due	87,955		87,955
Reinsurance:			
Amounts recoverable from reinsurers	94,103		94,103
Amounts receivable under reinsurance	7,878		7,878
Current federal and foreign income tax recoverable	361,924	\$ 1,633	360,291
Net deferred tax asset	154,160	42,903	111,257
Guaranty funds receivable or on deposit	66,328		66,328
Aggregate write-ins, other than invested assets	214,370	71,431	142,940
<b>Totals</b>	<b>\$30,699,958</b>	<b>\$115,967</b>	<b>\$30,583,992</b>

**Lincoln Republic Insurance Company  
Liabilities, Surplus, and Other Funds  
As of December 31, 2013**

Aggregate reserve for life contracts	\$14,758,863
Aggregate reserve for accident and health contracts	663,438
Liability for deposit-type contracts	1,518,993
Contract claims:	
Life	308,750
Accident and health	74,320
Provision for policyholders' dividends payable in following calendar year:	
Dividends apportioned for payment	70,000
Premiums and annuity considerations received in advance	2,924
Commissions to agents due or accrued	1,893
General expenses due or accrued	81,390
Taxes, licenses and fees due or accrued, excluding federal income taxes	(80,290)
Unearned investment income	12,848
Amounts withheld or retained by company as agent or trustee	(927)
Remittances and items not allocated	17,085
Asset valuation reserve	155,309
Aggregate write-ins for liabilities	<u>75,506</u>
Total Liabilities	<u>\$17,660,102</u>
Common capital stock	\$ 1,000,000
Unassigned funds	<u>11,923,890</u>
Total Common Stock and Unassigned Surplus	<u>\$12,923,890</u>
Total Liabilities and Surplus	<u>\$30,583,992</u>

**Lincoln Republic Insurance Company  
Summary of Operations  
December 31, 2013**

Premiums and annuity considerations	\$ 1,012,441
Net investment income	1,119,777
Amortization of interest maintenance reserve	42,379
Commissions and expense allowances on reinsurance ceded	36,215
Miscellaneous income	<u>6,581</u>
 Total income	 \$ 2,217,393
 Deduct:	
Death benefits	\$ 999,294
Matured endowments	148,876
Annuity benefits	1,164
Disability benefits and benefits under accident and health contracts	178,635
Surrender benefits and withdrawals for life contracts	406,661
Interest and adjustments on contract or deposit-type contract funds	43,383
Payments on supplementary contracts with life contingencies	1,191
Increase in aggregate reserves for life and accident and health contracts	<u>(452,964)</u>
 Total benefits	 \$ 1,326,240
 Commissions on premiums and annuity considerations (direct)	 \$33,237
Commissions and expense allowances on reinsurance assumed	13,552
General insurance expenses	1,947,485
Insurance taxes, licenses, and fees	117,552
Increase in loading on deferred and uncollected premium	<u>(4,799)</u>
 Total benefits and expenses	 \$ 3,433,267
 Net gain from operations before dividends to policyholders and federal income taxes	 \$(1,215,874)
Dividends to policyholders	<u>66,952</u>
 Net gain from operations after dividends to policyholders and before federal income taxes	 \$(1,282,826)
Federal income taxes incurred	<u>(478,940)</u>
 Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	 \$ (803,886)
Net realized capital gains or (losses)	<u>430,431</u>
 Net income	 <u>\$ (373,455)</u>

**Lincoln Republic Insurance Company**  
**Reconciliation of Capital and Surplus Accounts**  
**January 1, 2009, Through December 31, 2013**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and Surplus, December 31, Previous Year	<u>\$12,930,183</u>	<u>\$12,976,004</u>	<u>\$12,485,361</u>	<u>\$11,273,486</u>	<u>\$10,756,946</u>
Net income	(373,455)	236,728	425,137	891,239	268,176
Change in net unrealized capital gains (losses)	(246,520)	78,122	56,902	251,845	752,465
Change in net deferred income tax	13,993	(90,991)	2,805	10,764	(29,152)
Change in nonadmitted assets	(78,307)	29,169	(25,277)	57,909	201,704
Change in asset valuation reserve	677,996	(109,368)	31,076	119	(676,653)
Capital changes: transferred from surplus (stock dividend)	1,000,000				
Surplus adjustment: Transferred to capital (stock dividend)	(1,000,000)				
Correction of accounting error		(189,481)			
Net change in Capital and Surplus for the year	<u>\$ (6,293)</u>	<u>\$ (45,821)</u>	<u>\$ 490,643</u>	<u>\$ 1,211,875</u>	<u>\$ 516,540</u>
Capital and Surplus, December 31, current year	<u>\$12,923,890</u>	<u>\$12,930,183</u>	<u>\$12,976,004</u>	<u>\$12,485,361</u>	<u>\$11,273,486</u>

## COMMENTS ON FINANCIAL STATEMENTS

Financial statement balances at December 31, 2013, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

### CONCLUSION

The financial condition of the Company, as of December 31, 2013, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$30,583,992</u>
Total Liabilities	\$17,660,102	
Capital and Surplus	<u>12,923,890</u>	
Liabilities, Surplus, and Other Funds		<u>\$30,583,992</u>

Since the last examination conducted as of December 31, 2008, the Company's admitted assets have decreased \$1,394,262, total liabilities have decreased \$3,561,206, and capital and surplus has increased by \$2,166,944.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

Respectfully submitted,



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Colton Schulz, AFE  
Examiner  
North Dakota Insurance Department