

**REPORT ON EXAMINATION
OF
EMPLOYERS REASSURANCE CORPORATION
6100 SPRINT PARKWAY, SUITE 3400
OVERLAND PARK, KANSAS
AS OF
DECEMBER 31, 2021**

FILED

JUNE 28, 2023

VICKI SCHMIDT
Commissioner of Insurance

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Topeka, Kansas
June 1, 2023

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Rd
Topeka, Kansas 66604-4019

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

EMPLOYERS REASSURANCE CORPORATION

with its statutory home office at:

**6100 SPRINT PARKWAY, SUITE 3400
OVERLAND PARK, KANSAS**

and main administrative office at:

**6100 SPRINT PARKWAY, SUITE 3400
OVERLAND PARK, KANSAS**

hereinafter referred to as the "Company" or "ERAC". The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a single-state financial examination of the Company, a Kansas-domiciled life insurance company. The last examination covered the four-year period from January 1, 2013, through December 31, 2017. This examination covers the four-year period from January 1, 2018, through December 31, 2021.

The examination was conducted in accordance with the rules, regulations, and directives of the Kansas Insurance Department ("Department") and the observed

guidelines and procedures contained in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the examiners plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

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.

Those activities considered in the examination as key or critical to ERAC included Claims, Investments, Pricing, Reinsurance, Reserving, and Related Parties. The examination also included a review and evaluation of information technology general controls.

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 is documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report

but separately communicated to other regulators and/or the Company.

Independent Audit Reports

Financial statements of the Company were audited by KPMG LLP of Kansas City, Missouri for the years ending December 31, 2017, through December 31, 2020, and by Deloitte & Touche of Kansas City, Missouri for the year ended December 31, 2021. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company as of December 31, 2021, and the results of its operations and its cash flows for the years then ended in accordance with the statutory accounting practices prescribed or permitted by the Department.

The independent auditors' workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on select workpapers during this examination.

Actuarial Review

The Company retained Lewis & Ellis, Inc. of Plano, Texas to perform a review of the Company's actuarial practices and reserves as of December 31, 2021. The review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in its reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

General Electric Company ("GE") provides investment advisory services to ERAC through participation of GE representatives as voting members of the NALH Investment Committee. In addition, this includes the trading of derivatives for ERAC by General Electric Capital US Holdings, Inc. ("GECUSH"). The scope and responsibilities of the relationship were not documented in a services agreement that defines the scope of the

work and any related fees as required by K.S.A. 40-3306 and K.A.R. 40-1-28.

COMPANY HISTORY

General

ERAC was incorporated in Kansas on August 20, 1986, as a legal reserve stock life insurance company under the provisions of K.S.A. 40-301, et seq. and K.S.A. 40-401, et seq. General Electric Capital Corporation (“GECC”), an indirect subsidiary of GE, organized ERAC as a for-profit entity and held 100% of its common stock.

GE continued to remain the ultimate controlling person of ERAC through a series of transfers of ERAC’s common stock to GE affiliates and in February 2012, 100% of ERAC’s common stock was transferred back to GECC.

Effective December 2, 2015, GECC merged with and into GE and through a series of transactions, GE transferred ownership of ERAC to GECUSH, a Delaware corporation and direct, wholly-owned subsidiary of GE Capital Global Holdings, LLC, a direct, wholly-owned subsidiary of GE.

Effective August 21, 2018, through a series of transactions, ownership of ERAC’s shares was transferred to GE Capital NALH Holdings, LLC (“GECNALH”), a newly-formed Delaware Company. GECNALH is a direct wholly-owned subsidiary of GECUSH.

Capital Stock

As of December 31, 2021, the Company had 400,000 shares of common stock authorized, and 102,000 shares issued and outstanding, with a par value of \$25.00 per share. One hundred percent (100%) of the Company’s stock was owned by GECNALH.

Dividends and Capital Contributions

The Company paid no dividends during the examination period. On February 21,

2018, ERAC received a cash capital contribution of \$3,500,000,000 from GECUSH, and on that same date, the Company made a cash capital contribution of \$1,000,000,000 to Union Fidelity Life Insurance Company (“UFLIC”). These transactions were recorded in the financial statements as of December 31, 2017. Additionally, on December 20, 2018, ERAC received a cash return of capital of \$1,500,000 from its subsidiary ERC Long-Term Care Solutions, Inc. (“ERC LTCS”). On February 19, 2019, ERAC received a cash capital contribution of \$1,900,000,000 from GECNALH, and on that same date, the Company made a cash capital contribution of \$400,000,000 to UFLIC. These transactions were recorded in the financial statements as of December 31, 2018. Additionally, on December 20, 2019, ERAC received a cash return of capital of \$2,500,000 from ERC LTCS. On February 18, 2020, ERAC received a cash capital contribution of \$2,000,000,000 from GECNALH, and on that same date, the Company made a cash capital contribution of \$100,000,000 to UFLIC. These transactions were recorded in the financial statements as of December 31, 2019. Additionally, on December 16, 2020, ERAC received a cash return of capital of \$2,000,000 from ERC LTCS. On February 22, 2021, ERAC received a cash capital contribution of \$2,000,000,000 from GECNALH, which was recorded in the financial statements as of December 31, 2020. Additionally, on December 16, 2021, ERAC received a cash return of capital of \$2,500,000 from ERC LTCS. On February 23, 2022, ERAC received a cash contribution of \$2,000,000,000 from GECNALH, which was recorded in the financial statements as of December 31, 2021.

CORPORATE RECORDS

On June 30, 2020, ERAC amended and restated its Bylaws to remove §1-6 of Article X and amend §7 to change a reference to Article X to instead refer to the

Company's Articles of Incorporation, to address items that were previously included in the sections removed from Article X of the Bylaws.

Also on June 30, 2020, the Company amended and restated the Articles of Incorporation to include additional details related to indemnification – previously included in §1-6 of Article X of the Company's Bylaws – in Article X of the Articles of Incorporation. Additionally, Article XI was added to the Articles of Incorporation, stating that directors shall not be personally liable to the Company or its stockholders for monetary damages for any breach of fiduciary duty as a director.

MANAGEMENT AND CONTROL

Ownership

The Company is controlled by its sole stockholder, GECNALH.

Board of Directors

The Company's bylaws consist of eleven (11) articles that provide the framework for the operation, management, and control of the Company. The Company is managed under the direction of its board of directors ("Board").

Pursuant to the Company's bylaws, the Board should consist of no less than five (5) and no greater than eleven (11) directors. At the annual meeting, the stockholders shall elect directors, each of whom will hold office for a term of one (1) year or until a successor is elected and qualified or until such director's earlier resignation or removal.

The directors elected and serving as of December 31, 2021, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Shawna A. Meyer	Chair, President & Chief Executive Officer, Employers Reassurance Corporation
Dale E. Filsinger	Chief Risk Officer, Employers Reassurance Corporation

Anthony A. Grandolfo	Chief Investment Officer, Employers Reassurance Corporation
Brandon J. Mayer	Chief Information Officer & Chief Operating Officer, Employers Reassurance Corporation
William J. Steilen	Chief Financial Officer, Employers Reassurance Corporation

Committees

The Company's bylaws indicate that the Board may designate one (1) or more committees of the Board as deemed necessary and proper. The established committees as of December 31, 2021, were as follows: (1) Capital Planning Committee, (2) Compliance, Operations and Digital Committee, (3) Investment Committee, and (4) Insurance Liability Committee. The Committee members serving as of December 31, 2021, were as follows:

Investment Committee

Mark D. Bienz
Harshal Chaudhari
Dale E. Filsinger
Brett Gansen
Anthony A. Grandolfo
Paul K. Goudie
Jane B. Kipper
Shawna A. Meyer
William J. Steilen

Compliance, Operations & Digital Committee

Jodi Bachelor
Michael J. Burbach
Mark Cohenour
Cheri M. DiPiero
Karen L. Fleming
Doug D. Malloy
Brandon J. Mayer
Cecelia P. Ortiz
Jeffrey M. Russell
Kathleen A. Russell

Insurance Liability Committee

Mark D. Bienz
Dale E. Filsinger
Shawna A. Meyer
William J. Steilen

Capital Planning Committee

Mark D. Bienz
Dale E. Filsinger
Brett Gansen
Shawna A. Meyer
William J. Steilen

Officers

Pursuant to the bylaws, the Company may have a Chairman of the Board, President, Secretary, Treasurer, and any other officers deemed necessary, all of whom shall be elected annually at the first regular meeting of the Board. The Chairman of the Board and the President shall be elected from the membership of the Board. One (1) person may hold multiple offices, except no one (1) person may hold the office of both President and Secretary. The Board may leave any office unfilled except that of the President, Treasurer and Secretary.

The following is a listing of officers and their position(s) held as of December 31, 2021:

<u>Name</u>	<u>Office</u>
Shawna A. Meyer	President
Kathleen A. Russell	Secretary
Jane B. Kipper	Treasurer

INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Form “B” and “C” registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the items and events pertaining to the Company were properly reported as required by statute.

The Company’s ultimate controlling parent is GE. The abbreviated organizational chart below illustrates the identities and intercompany relationships among insurance and

non-insurance companies and the controlling entities thereof, as of December 31, 2021. Ownership is noted in parentheses and the Kansas domiciled insurers are bolded.

General Electric Company (Publicly Held)

GE Capital Global Holdings LLC (100%)

GE Capital US Holdings, Inc. (100%)

GE Capital NALH Holdings LLC (100%)

Employers Reassurance Corporation (100%)

ERC Long Term Care Solutions, Inc (100%)

OP REO Holdco Two LLC (100%)

Holdco Two Sub #1 LLC (100%)

Union Fidelity Life Insurance Company (100%)

Heritage Casualty Insurance Company (100%)

OP REO Holdco One LLC (100%)

Holdco One Sub #1 LLC (100%)

Intercompany/Cost Sharing Agreements

The following is a brief description of significant agreements executed with affiliate entities that were in effect as of December 31, 2021.

General Services Agreement

Effective January 1, 2010, ERAC entered into a General Services Agreement with its Canadian Branch (“the Branch”), whereby ERAC provides administrative services to the Branch in the ordinary course of the Branch conducting life and health reinsurance business in Canada. Pursuant to this agreement, ERAC received reimbursement of \$2,580,220; \$2,562,113; \$1,710,794; and \$1,770,478 from the Branch for expenses

incurred in 2021, 2020, 2019, and 2018, respectively.

Management Services Agreements

Effective December 15, 2004, ERAC entered into a Management Services Agreement with UFLIC and GE, whereby certain designated administrative and support services were provided by the Company to UFLIC. The agreement was amended effective April 12, 2006. Pursuant to this agreement, ERAC received reimbursement of \$23,439,977; \$22,172,421; \$20,926,063; and \$15,631,992 from UFLIC for expenses incurred in 2021, 2020, 2019, and 2018, respectively.

Effective January 1, 2009, ERAC entered into a Management Services Agreement with Heritage Casualty Insurance Company (“HCIC”), whereby certain designated administrative and support services were provided by the Company to HCIC. Pursuant to this agreement, ERAC received reimbursement of \$186,850; \$156,871; \$187,217; and \$326,713 from HCIC for expenses incurred in 2021, 2020, 2019, and 2018, respectively. Effective January 1, 2022, HCIC is no longer a party to this agreement.

Effective January 1, 2007, ERAC entered into a Management Services Agreement with its wholly-owned subsidiary, ERC LTCS, whereby certain designated administrative and support services were provided by the Company to ERC LTCS. Pursuant to this agreement, ERAC received reimbursement of \$529,396; \$372,200; \$791,615; and \$1,003,417 from ERC LTCS for expenses incurred in 2021, 2020, 2019, and 2018, respectively.

Intercompany Service Provider Services Agreement

Effective January 1, 2014, ERAC entered into an Intercompany Service Provider Services Agreement with GECUSH, whereby certain designated administrative and

support services were provided by GECUSH to the Company. Pursuant to this agreement, ERAC paid \$33,127,741; \$32,546,590; \$39,297,563; and \$25,900,845 to GECUSH for expenses incurred in 2021, 2020, 2019, and 2018, respectively.

Capital Maintenance Agreement

Effective April 1, 2006, ERAC entered into a Capital Maintenance Agreement with GE, whereby GE will maintain the Company's year-end capital level at 300% of its Authorized Control Level risk-based capital requirements as defined from time to time by the NAIC. The agreement was amended effective April 1, 2011. Pursuant to this agreement, ERAC received \$2,000,000,000 in 2021, 2020, and 2019, and \$1,900,000,000 in 2018.

Guarantee Agreement

Effective June 7, 2006, ERAC entered into a Guarantee Agreement with GE, whereby GE guarantees the payment of claims incurred on behalf of owners of reinsurance contracts issued by ERAC on or after the effective date of the agreement. Pursuant to this agreement, no payments were received by ERAC during the examination period.

Tax Allocation Agreement

Effective June 15, 2010, ERAC entered into a Tax Allocation Agreement with GECUSH, whereby the Company is included in the consolidated Federal income tax return filed by the Ultimate Controlling Person, GE. Pursuant to this agreement, ERAC received payments of \$27,058,120 in 2021. Additionally, ERAC made payments under this agreement of \$61,144,969 in 2020 and received payments of \$73,018,824, and \$43,917,023 in 2019, and 2018, respectively.

Investment Advisory Services

GE provides investment advisory services to ERAC through participation of GE representatives as voting members of the NALH Investment Committee. In addition, this includes the trading of derivatives for ERAC by GECUSH. The scope and responsibilities of the relationship were not documented in a services agreement that defines the scope of the work and any related fees.

ERAC should enter into a defined services agreement with GE and GECUSH for the advisory services provided as voting members of the NALH Investment Committee in compliance with K.S.A. 40-3306 and K.A.R. 40-1-28.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Company was authorized to transact business in all states and the District of Columbia, excluding New York. ERAC was also qualified to transact business in Puerto Rico and Canada. ERAC does not write any direct business.

ERAC is a professional reinsurer, focusing on assuming and retroceding individual life insurance, individual annuity, supplementary contracts, group life, group annuities, credit life (group and individual), group accident and health, and long-term care. In 2006, the Company began to run off its business by not writing any new reinsurance treaties and not accepting any new business beyond 2008 for existing treaties.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2018, through December 31, 2021. The financial amounts were obtained from annual statements filed by the Company.

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<i>(in millions)</i>				
Admitted Assets	15,739	17,872	19,964	22,444
Liabilities	14,773	16,639	18,530	20,712
Capital and Surplus	967	1,233	1,434	1,732
Net Income (Loss)	(1,512)	(1,647)	(1,798)	(1,800)
Net Premium Written*	411	703	504	507

* Includes Considerations (premiums) for supplementary contracts with life contingencies from the Annual Statements, Page 4, Line 2, of \$4 million, \$3 million, \$2 million and \$3 million for 2018 – 2021, respectively.

REINSURANCE

General

ERAC conducts business through four (4) major reinsurance business groupings: U.S. capital management business, U.S. mortality reinsurance business (includes the American United Life Insurance Company (“AUL”) portfolios), Canadian business, and U.S. accident and health business.

The Company’s premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

<i>(\$000s omitted)</i>				
<u>Premium Type</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Direct Premiums Written	\$ -	\$ -	\$ -	-
Reinsurance Assumed	878,832	782,799	750,571	754,772
Reinsurance Ceded	(471,525)	(83,056)	(248,370)	(250,660)
Net Premiums Written	\$ 407,307	\$ 699,743	\$ 502,201	\$ 504,112

Assumed Reinsurance

The U.S. capital management business uses modified coinsurance, coinsurance, monthly renewable term (“MRT”) and yearly renewable term (“YRT”) reinsurance treaties

to cede risk to the Company. The major treaties are with Aviva Life & Annuity Company, Hartford Life Insurance Company, Provident Mutual Life Insurance Company, Protective Life Insurance Company, Americo Financial Life and Annuity Insurance Company and Allianz Life Insurance Company of North America ("Allianz").

The U.S. mortality business consists mostly of level premium term business assumed on a coinsurance basis and a variety of traditional business assumed on an MRT or YRT basis. As of year-end 2021, by in-force face amount, about 75% of the business was assumed on a coinsurance basis, with the remaining 25% being assumed on an MRT or YRT basis. Portions of this business are retroceded on a quota share or excess of loss basis. All four major groupings have been in run-off since the first quarter of 2004.

In 2002, ERAC acquired the life reinsurance operations of AUL through a reinsurance agreement under which AUL retrocedes to ERAC the reinsurance ceded to it under reinsurance agreements with various ceding companies. This is a major subblock of business for ERAC, as it composes about 60% of the U.S. mortality block, by in-force face amount as of year-end 2021. From this business, approximately 86% is assumed on a coinsurance basis, 13% on the YRT basis and 1% on a MRT basis. The Company retrocedes approximately 8% of the in-force of this block to various retrocessionaires. About 84% of these retrocessions are on a quota share basis with the remainder consisting of excess of loss reinsurance. ERAC then retroceded approximately 90% of the retained portion of this block on an experience-refunded YRT basis to Manulife Reinsurance LTD in Hamilton, Bermuda, which was replaced in 2012 by RGA

Reinsurance Co. (Barbados) Ltd. This retrocession agreement was terminated on January 1, 2019.

The Canadian business consists of two (2) separate blocks that are assumed by using the YRT or coinsurance basis. The first block consists primarily of individual mortality business written predominately on a YRT basis, and also includes a smaller volume of policies that provide coverage for critical illness on a coinsurance basis. The second block of business consists of disability income.

The U.S. accident and health business, which consists of mostly long-term care and some disability business, is also assumed using the coinsurance and YRT basis. The disability business consists of group and individual disability assumed from Westport Insurance Corporation. The majority of the long-term care business is assumed through several companies, including Allianz, John Alden Life Insurance Company, The State Life Insurance Company, Lincoln Benefit Life Insurance Company and Massachusetts Mutual Life Insurance Company (as part of a relationship with LifeCare Assurance Company (“LifeCare”), AUL and Westport Insurance Corporation (as a participant in various shares of the American Long-Term Care Reinsurance pool). ERAC also has a limited number of smaller long-term care treaties. Of the business assumed as part of ERAC's relationship with LifeCare, Allianz administers a portion of the long-term care business it cedes to the Company; otherwise, all of the long-term care consists of products that are developed and administered by LifeCare. ERAC then retrocedes a portion of the business administered by LifeCare and Allianz back to them and RGA Reinsurance Co. on a coinsurance and YRT basis.

In 2004, the Company terminated, for new business, all life and annuity treaties written in the United States, Canada, and Latin America. ERAC has also terminated, for new business, all accident and health treaties written in Canada and Latin America. As of December 31, 2008, the Company discontinued writing new accident and health treaties; however, it continued to assume new accident and health long-term care reinsurance business under open contracts in the United States. The terminated business was, and continues to be, managed by the Company's operations in Canada, Indiana, and Kansas.

Ceded Reinsurance

ERAC also has retrocession treaties with several retrocessionaires, as noted above in the Assumed Reinsurance section. Most of these treaties retroceded business either on a YRT or a quota-share coinsurance business. The purpose of these treaties is typically to either cede exposure in excess of ERAC's retention limit or to limit ERAC's exposure to certain key risks.

All reinsurance agreements in effect during the examination contained insolvency and cancellation clauses as required by K.S.A. 40-221a. All reinsurance agreements reviewed provided for the transfer of risk. However, the Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event an assuming reinsurer fails to perform its obligations under the reinsurance contract.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the

Company for the period ending December 31, 2021. There were no adjustments to the Company's filed statutory financial statements as a result of this examination.

EMPLOYERS REASSURANCE CORPORATION
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2021

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 16,123,001,095	\$ -	\$ 16,123,001,095
Stocks:			
Preferred stocks	30,548,400	-	30,548,400
Common stocks	863,594,902	855,797	862,739,105
Mortgage loans on real estate:			
First liens	901,207,487	-	901,207,487
Cash and short-term investments	139,883,953	-	139,883,953
Contract Loans	16,048,006	-	16,048,006
Derivatives (Schedule DB)	20,025,343	-	20,025,343
Other invested assets	1,958,357,811	97,277	1,958,260,534
Receivable for securities	62,244,408	-	62,244,408
Investment income due & accrued	161,771,501	-	161,771,501
Uncollected premiums and agents' balances in the course of collection	108,871,055	-	108,871,055
Reinsurance:			
Amounts recoverable from reinsure	29,820,975	21,605,123	8,215,852
Funds held by or deposited with reinsurance companies	34,268,445	-	34,268,445
Other amounts receivable under reinsurance contracts	15,871,650	-	15,871,650
Furniture and equipment	20,748	20,748	-
Net adjustment in assets and liabilities due to foreign exchange rates	702,657	-	702,657
Receivables from parent, subsidiaries and affiliates	2,000,000,000	-	2,000,000,000
Totals	\$ 22,466,238,436	\$ 22,578,945	\$ 22,443,659,491

EMPLOYERS REASSURANCE CORPORATION
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2021

Aggregate reserves for life contracts	\$ 1,559,462,137
Aggregate reserve for accident and health contracts	17,854,730,356
Liability for deposit-type contracts	32,460,362
Contract claims:	
Life	217,016,050
Accident and health	292,889,218
Contract liabilities not included elsewhere:	
Surrender values on canceled contracts	5,721,955
Interest Maintenance Reserve	140,668,919
Commissions and expense allowances payable on reinsurance assumed	16,879,278
General expenses due or accrued	6,871,310
Taxes, licenses and fees due or accrued, excluding federal income taxes	647,090
Current federal and foreign income taxes	49,611,232
Unearned investment income	251,091
Remittances and items not allocated	31,495,564
Asset valuation reserve	451,280,628
Funds held under coinsurance	556,154
Payable for securities	51,359,863
Aggregate write-ins for liabilities	19,224
Total liabilities	<u>20,711,920,431</u>
Common capital stock	2,550,000
Gross paid in and contributed surplus	16,849,784,761
Unassigned funds	<u>(15,120,595,701)</u>
Totals	<u>1,731,739,060</u>
Total liabilities, surplus and other funds	<u>\$ 22,443,659,491</u>

EMPLOYERS REASSURANCE CORPORATION
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

Premiums and annuity considerations for life and accident and health contracts	\$ 504,111,520
Considerations for supplementary contracts with life contingencies	2,947,318
Net investment income	782,261,976
Amortization of Interest Maintenance Reserve	32,137
Commissions and expense allowances on reinsurance ceded	15,895,045
Aggregate write-ins for miscellaneous income	71,313
Totals	<u>1,305,319,309</u>
Death benefits	589,823,052
Annuity benefits	21,788,632
Disability benefits and benefits under accident and health contracts	384,372,068
Surrender benefits and withdrawals for life contracts	32,646,034
Interest and adjustments on contract or deposit-type contract funds	1,388,014
Payments on supplementary contracts with life contingencies	1,058,715
Increase in aggregate reserves for life and accident and health contracts	1,932,140,319
Totals	<u>2,963,216,834</u>
Commissions on expense allowances and reinsurance assumed	91,518,521
General insurance expenses and fraternal expenses	34,511,834
Insurance taxes, licenses and fees, excluding federal income taxes	6,321,589
Increase in loading on deferred and uncollected premiums	(22,782)
Aggregate write-ins for deductions	2,801,379
Totals	<u>3,098,347,375</u>
Net gain from operations before dividends to policyholders refunds to members and federal income taxes	(1,793,028,066)
Net gain from operations after dividends to policyholders, refunds to members and before federal income taxes	(1,793,028,066)
Federal and foreign income taxes incurred	(7,269,630)
Net gain from operations after dividends to policyholders, refunds to members and federal income taxes and before realized capital gains or (losses)	(1,785,758,436)
Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax	(13,968,591)
Net Income	<u><u>\$ (1,799,727,027)</u></u>

EMPLOYERS REASSURANCE CORPORATION
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION

Surplus as regards policyholders, December 31, 2017			<u>\$ 816,496,319</u>
Net income	2018	\$ (1,511,786,971)	
	2019	(1,647,416,159)	
	2020	(1,797,687,731)	
	2021	<u>(1,799,727,027)</u>	(6,756,617,888)
Change in net unrealized capital gains or (losses)	2018	\$ (271,320,423)	
	2019	(35,784,279)	
	2020	93,716,003	
	2021	<u>390,276,900</u>	176,888,201
Change in net unrealized foreign exchange capital gain	2018	\$ 41,414,316	
	2019	(5,284,408)	
	2020	(15,637,275)	
	2021	<u>(10,738,538)</u>	9,754,095
Change in nonadmitted assets	2018	\$ 4,062,412	
	2019	(7,257,409)	
	2020	(11,682,210)	
	2021	<u>(2,949,257)</u>	(17,826,464)
Change in liability for reinsurance in unauthorized companies and certified companies	2018	-	
	2019	(217,797)	
	2020	217,797	
	2021	<u>-</u>	-
Change in asset valuation reserve	2018	\$ (12,220,316)	
	2019	(37,500,427)	
	2020	(68,489,759)	
	2021	<u>(278,744,701)</u>	(396,955,203)
Surplus adjustment: paid in	2018	\$ 1,900,000,000	
	2019	2,000,000,000	
	2020	2,000,000,000	
	2021	<u>2,000,000,000</u>	<u>7,900,000,000</u>
Surplus as regards policyholders, December 31, 2021			<u><u>\$ 1,731,739,060</u></u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company as of December 31, 2021 was \$1,731,739,059, which was the same amount reported by the Company in its 2021 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

Sale of HCIC

Effective January 1, 2022, UFLIC, which is 100% owned by ERAC, sold all outstanding shares of HCIC to Vantage Risk Holdings Corporation, a Delaware Corporation. Upon closing, HCIC became a member of the Vantage Group of Companies and its name was changed to Vantage Risk Assurance Company effective January 6, 2022.

Long-Term Care Recapture

Effective October 1, 2022, ERAC recaptured substantially all long-term care insurance exposures under several retrocession agreements with LifeCare. LifeCare transferred to the Company a pool of investment securities with an estimated fair value of approximately \$2.4 billion and the related interest maintenance reserve (“IMR”) asset balance of \$306 million in settlement of approximately \$2.9 billion of ceded reserves.

ERAC reflected the transaction in the Summary of Operations by eliminating approximately \$2.9 billion of ceded accident and health policy and claim reserves as an increase in aggregate reserves for life and accident and health policies, recording the

receipt of approximately \$2.4 billion of investment securities as a reduction of paid losses in Disability benefits and benefits under accident and health contracts, and reflecting the related IMR asset balance received of approximately \$306 million as an Aggregate write-in for deductions. Other related expenses of approximately \$47 million, including approximately \$19 million for probable future administration service standards fees that will be paid to LifeCare in accordance with the terms of the agreement, were reflected as Commissions and expense allowances on reinsurance ceded. The Company incurred a pre-tax net loss of approximately \$281 million (\$204 million after tax) from this transaction in the 2022 statutory financial statements.

As a result of the IMR asset received in the transaction, the Company's total net IMR asset balance of \$178 million as of December 31, 2022, was non-admitted, as presented in Aggregate write-ins for other than invested assets on the statutory Balance Sheet. In the first quarter of 2023, ERAC paid approximately \$36 million to LifeCare reflecting final settlement of the transaction from amounts previously estimated and which was accrued and presented as an amount Due to reinsurers on the statutory Balance Sheet as of December 31, 2022.

Exchange of KKR REIGN I LTD Security:

In October 2022, the Company participated in an exchange of its \$150,000,000 KKR REIGN I LTD security. As a result of this exchange the Company now owns 2 separate securities: a debt note and preferred shares. The goal of this exchange was to separate the variable portion of the coupon in the original security into a preferred equity security to isolate dependence of capital appreciation of certain equity-like components of the collateral pool for coupon payments to an equity security, thus making the debt

purely fixed rate. This results in a structure where the debt instrument has a set coupon rate that will not vary, unlike the previous structure (which had a set minimum coupon but also performance and variable components). The previous structure caused concern given certain coupon payments depended on capital appreciation of certain collateral assets. The Company now holds two separately transferrable securities of KKR REIGN I LTD: 1) a debt note with a fixed, cash paying, 4.92% coupon, rated A- by Kroll, with no variable coupon features in the same par amount of its prior holding. Consistent with before, the principal is fully backed by a US treasury security. And 2) newly created preference shares that are entitled to future dividends based on what had been formerly considered the performance/variable coupons of the original KKR REIGN I LTD note. As such, the Company does not expect any material Risk-Based Capital impact as the \$150,000,000 note should remain NAIC 1. The preference shares are a small nominal value and will be reported on schedule BA of the Annual Statement.

Amendments to Reinsurance Agreements with MassMutual and Corresponding Trust Agreements:

Effective January 10, 2023, ERAC executed amendments to the Long Term Care Reinsurance Agreement and the Automatic Long Term Care Reinsurance Agreement with Massachusetts Mutual Life Insurance Company (MassMutual) to, among other things, (i) agree upon procedures for seeking regulatory approval for and implementation of premium rate increases, (ii) agree upon procedures for evaluating and potentially implementing wellness and other value-added programs, (iii) document MassMutual's intent to, and ERAC's support for, a change in MassMutual's third-party administrator, and (iv) secure the obligations of ERAC under the reinsurance agreements by requiring

ERAC to maintain certain assets in trust for the benefit of MassMutual under revised terms. In addition, the Company entered into an amendment of the trust agreements by and among ERAC, MassMutual, and The Bank of New York Mellon, effective January 10, 2023.

COVID-19 Pandemic

The COVID-19 pandemic has continued to develop throughout 2020, 2021 and into 2022, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company.

SUMMARY OF RECOMMENDATIONS

Investment Advisory Services

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GE provides investment advisory services to ERAC through participation of GE representatives as voting members of the NALH Investment Committee. In addition, this includes the trading of derivatives for ERAC by GECUSH. The scope and responsibilities of the relationship were not documented in a services agreement that defines the scope of the work and any related fees.

ERAC should enter into a defined services agreement with GE and GECUSH for the advisory services provided as voting members of the NALH Investment Committee in compliance with K.S.A. 40-3306 and K.A.R. 40-1-28.

CONCLUSION

The assistance and cooperation by the officers of the Company during this examination is hereby acknowledged and appreciated. In addition to the undersigned, Joe DeVries, CFE, Kristina Sampson, CPA, and Victoria Scott, CFE, with Noble Consulting Services, Inc., assisted on the financial portion of the examination. Additionally, Carol Riley, AES, CISA, CGEIT, CRISC, and Sharon Riley, CISA, CGEIT, AIRC, FLMI, performed the information technology portion of the examination. In addition, Mike Mayberry, FSA, MAAA, of Lewis & Ellis, Inc., and Greg Hahn, CFA, of Winthrop Capital Management, performed an actuarial and investment review, respectively, of the Company.

Respectfully submitted,

A handwritten signature in cursive script, reading "Barry Armstrong, CFE". The signature is written in black ink and is positioned above a horizontal line.

Barry Armstrong, CFE
Examiner-in-Charge
Noble Consulting Services, Inc., representing
the Kansas Insurance Department

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas prevailed.

A handwritten signature in black ink, reading "Levi Nwasoria", written over a horizontal line.

Levi Nwasoria, CPA, CFE
Chief Examiner
Kansas Insurance Department

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

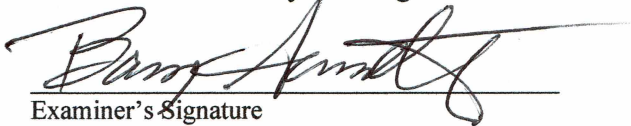
State of South Carolina,

County of Horry,

Barry Armstrong, being duly sworn, states as follows:

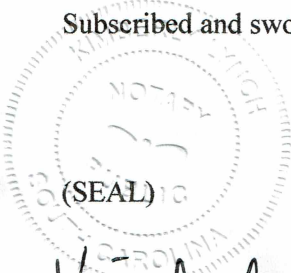
1. I have authority to represent the Kansas Insurance Department in the examination of Employers Reassurance Corporation.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Employers Reassurance Corporation was performed in a manner consistent with the standards and procedures required by K.S.A 40-222.

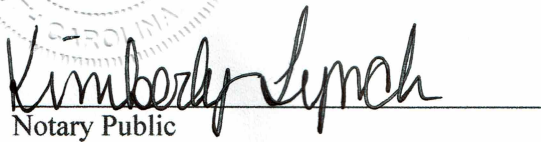
The affiant says nothing further.


Examiner's Signature

Subscribed and sworn before me by Barry Armstrong on this 28th day of June, 20 23.

Kimberly Lynch
NOTARY PUBLIC
State of South Carolina
My Commission Expires 12/3/2031




Notary Public

My commission expires 12/3/2031 [date].