

REPORT ON EXAMINATION
OF
EMPLOYERS REASSURANCE CORPORATION
7101 COLLEGE BOULEVARD, SUITE 1400
OVERLAND PARK, KANSAS 66210
AS OF
DECEMBER 31, 2017

FILED

JUN 28 2019

VICKI SCHMIDT
Commissioner of Insurance

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Overland Park, Kansas
May 1, 2019

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
420 SW 9th Street
Topeka, Kansas 66612-1678

Dear Commissioner:

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

EMPLOYERS REASSURANCE CORPORATION

with its statutory home office and main administrative office at:

**7101 COLLEGE BOULEVARD, SUITE 1400
OVERLAND PARK, KANSAS 66210**

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 multi-state financial examination of Employers Reassurance Corporation, a Kansas domiciled life and health insurance company. The last examination covered the four-year period from January 1, 2009, through December 31, 2012. This examination covers the five-year period from January 1, 2013, through December 31, 2017.

The Company is part of the North American Life and Health (“NALH”) business unit, which consists of Kansas domiciled insurers, Union Fidelity Life Insurance Company (“UFLIC”) and Heritage Casualty Insurance Company (“HCIC”), as well as their non-

insurance subsidiaries. The Examination Reports for the insurers, UFLIC and HCIC will be issued under separate covers.

The examination was conducted in accordance with the rules, regulations and directives of the Kansas Insurance Department, and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires 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. 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 following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, *Examination of condition of company*, 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 for the years ending December 31, 2013, through December 31, 2017. In each of the years under examination, the auditors concluded that the financial statements present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the Kansas Insurance Department.

The independent auditor's work papers were reviewed and analyzed by the examiners, whereby, significant reliance was placed on select work papers during the course of this examination.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the course of the examination.

COMPANY HISTORY

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. - *Organization, merger or consolidation of stock companies* and K.S.A 40-401, et seq. – *General provisions relating to life insurance companies*. General Electric Capital Corporation ("GECC"), an indirect subsidiary of General Electric Company ("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 its 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 GE Capital US Holdings, Inc. (“GECUSH”) a Delaware corporation and a direct, wholly owned subsidiary of GE Capital Global Holdings, LLC (“GECGH”), which is a subsidiary of GE.

Capital Stock

As of December 31, 2017, the authorized number of common stock shares was 400,000, with 102,000 shares having been issued and outstanding. The par value of the stock was \$25.00 per share, bringing the Company's total paid-up capital stock to \$2,550,000. No preferred stock was authorized. As of December 31, 2017, 100% of the Company's stock was owned by GECUSH.

Dividends and Capital Contributions

The Company did not pay any dividends during the examination period. On December 13, 2013, the Company received a cash dividend of \$1.26 million and a return of capital of \$1.24 million from ERC Long Term Care Solutions, Inc. (“ERC LTCS”). On December 16, 2014, the Company received a return of capital of \$1.8 million from ERC LTCS. The Company made a cash capital contribution of \$250 million to UFLIC on December 29, 2014. On December 10, 2015, the Company received a return of capital of \$1.6 million from ERC LTCS. On June 9, 2016, the Company made a cash capital contribution of \$150 million to UFLIC. On November 15, 2016, the Company received a capital contribution from its parent, GECUSH of \$418.76 million, in the form of investment securities. On November 15, 2016, the Company made a capital contribution of \$184.32 million to UFLIC, in the form of investment securities. On December 21, 2017, and

December 15, 2016, the Company received a return of capital from ERC LTCS of \$2.0 million and \$1.5 million, respectively.

As described in Subsequent Events section of this report, the Company reported a cash capital contribution of \$3.5 billion from GECUSH in the financial statements as of December 31, 2017, as a receivable from parent, subsidiaries, or affiliates. The cash was subsequently received on February 21, 2018. The Company also reported a cash capital contribution of \$1 billion to UFLIC in the financial statements as of December 31, 2017, as a payable to parent, subsidiaries, or affiliates. The cash was subsequently paid on February 21, 2018.

MANAGEMENT AND CONTROL

The minutes of the meeting of the stockholder and the board of directors (“Board”) adequately approved and supported the Company’s transactions and events. Minutes of the various committees were reviewed for decisions made or actions taken on behalf of the Company.

Board of Directors

The Company’s bylaws consist of eleven (11) articles that provide the framework for the operation, management and control of the life and health insurance company. The Company is controlled by its shareholder and managed by its Board. The Board consist of no less than (5), but no more than (11) directors. Directors are elected annually by the shareholder to serve a one (1) year term or until a successor has been duly elected and qualified, unless such director has been sooner removed, has been disqualified or resigned.

The Company's Board as of December 31, 2017 were as follows:

<u>Director's Name</u>	<u>Position</u>
Ronald D. Peters	Chairman, President & Chief Executive Officer
Brian D. Connor	Chief Information Officer
Irwin L. Don	Chief Operating Officer
Dale E. Filsinger	Chief Risk Officer
Clark A. Ramsey	Chief Actuary
William J. Steilen	Chief Financial Officer
Ryan A. Zanin	GE Capital Chief Risk Officer, President & Chief Executive Officer, Restructuring & Strategic Ventures Group

In addition to the Board of Directors, committees also provided oversight of the operations of the Company. In 2017, the Board decommissioned the Risk Management Committee and its subcommittees and replaced them with four new board committees. The Board functions as the Risk Management Committee and has delegated the oversight of the respective business activities to the four new board committees (Investment, Compliance, Operation & Digital ("COD"), Insurance Liability, Capital Planning).

The Capital Planning Committee will provide oversight over the capital levels of the NALH while the COD Committee is charged with identifying and monitoring their processes, which mitigate compliance, digital, and operational risks. The Investment Committee provides supervising and oversight of the NALH investment and related activities. The Insurance Liability Committee provides oversight of the NALH insurance liabilities and related activities.

Officers

The bylaws stipulate the officers of the Company shall be a chairman of the board, president, secretary, treasurer and any other officers as 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 person may hold multiple offices, except no one 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.

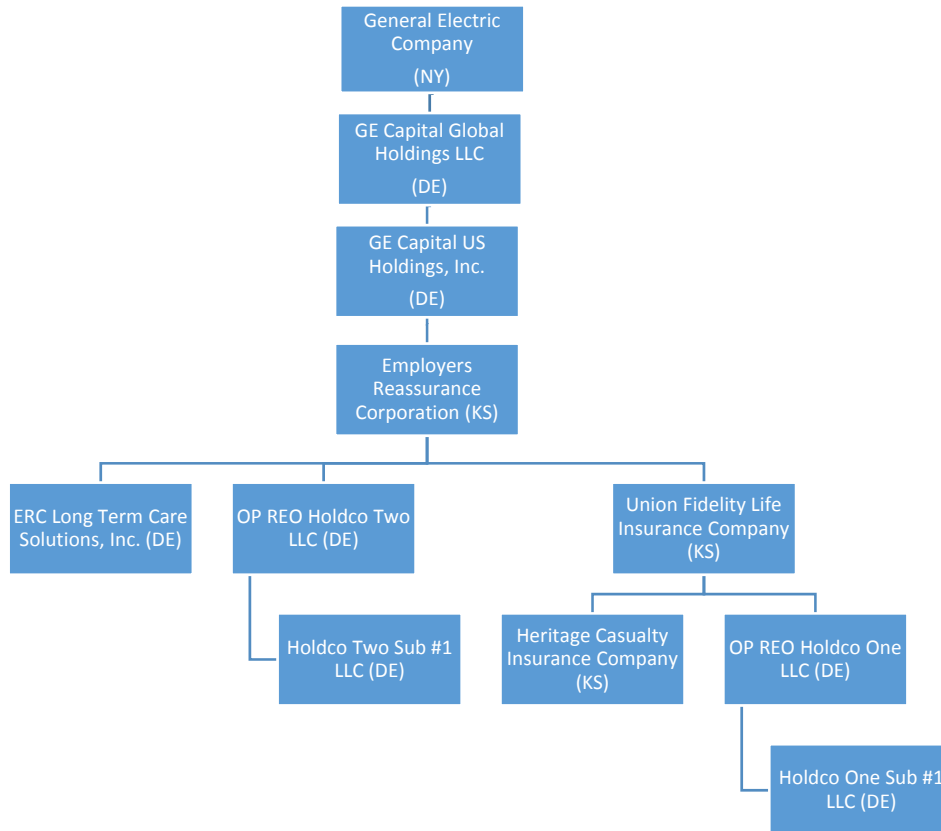
The officers listed below were serving in their designated capacity as of December 31, 2017:

<u>Officer's Name</u>	<u>Position</u>
Ronald D. Peters	Chairman, President & Chief Executive Officer
Mark D. Bienz	Appointed Actuary
Charlene R. Buenger	Controller & Assistant Treasurer
Robert M. Clifford	U.S. Life Reinsurance Operations Officer
Brian D. Connor	Chief Information Officer
Kevin A. Darter	Long Term Care Operations Officer
Irwin L. Don	Chief Operating Officer
Dale E. Filsinger	Chief Risk Officer
Jane B. Kipper	Treasurer
Nancy M. Liu	Assistant Secretary
Gordon P. Narduzzi	Chief Agent, Canadian Branch
Clark A. Ramsey	Chief Actuary
Kathleen A. Russell	General Counsel & Secretary
William J. Steilen	Chief Financial Officer

Insurance Holding Company System

K.S.A. 40-3301, et seq. - *Insurance Holding Companies*, 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 Kansas Insurance Department for each of the years under examination. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

The organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2017.



Intercompany/Cost Sharing Agreements

Intercompany Services Agreement

Effective January 1, 2014, the Company is party to an Intercompany Service Provider Agreement with GECUSH where certain designated administrative and support services were provided by GECUSH to the Company.

Administrative Services Agreement

Effective January 1, 2007, the Company is party to a Services Agreement with its wholly owned subsidiary, ERC LTCS, where certain designated administrative and support services were provided by the Company to ERC LTCS.

Capital Maintenance Agreement

Effective April 1, 2006, the Company is party to 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.

Management Services Agreement

Effective December 15, 2004, the Company is party to a Management Services Agreement with UFLIC, whereby certain designated administrative and support services were provided by the Company to UFLIC.

Effective January 1, 2009, the Company is party to a Services Agreement with HCIC, whereby certain designated administrative and support services were provided by the Company to HCIC.

Tax Allocation Agreement

ERAC, UFLIC and HCIC, together with their U.S. affiliates (as defined in the U.S. Tax Code), are included in the consolidated federal income tax return filed by the ultimate controlling entity, GE. The Company is subject to the income tax sharing arrangement among GE and its various subsidiaries. The method of income tax allocation is generally based upon separate return liabilities, including recognition of the benefits of losses and credits that will or could be utilized in the group's consolidated income tax return.

Intercompany balances are settled periodically with a final true-up after filing of the federal income tax return.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company was authorized to transact business in all states and the District of Columbia, except 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, they began to runoff their business by not writing any new reinsurance treaties and for existing treaties discontinued accepting any new business beyond 2008.

SELECT FINANCIAL INFORMATION

The exhibit below shows select financial information of the Company's (in millions) for the period of December 31, 2013, through December 31, 2017. The financial amounts were obtained from annual statements filed by the Company.

<i>(in millions)</i>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Admitted Assets	11,003	10,776	10,709	11,335	14,816
Liabilities	9,778	9,946	9,933	10,357	13,999
Capital and Surplus	1,225	830	776	978	816
Net Cash from Operations	159	71	(18)	39	109
Net Income	454	(45)	64	(210)	(2,333)
Net Premiums Earned	446	414	370	321	240

REINSURANCE

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 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. Approximately 55% of the business was assumed on a coinsurance basis, with the remaining 45% being MRT or YRT. Portions of this business are retroceded on a quota share or excess of loss basis. All U.S. mortality reinsurance business has 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 sub-block of business for ERAC, as it comprises about 56% of the U.S. mortality block, by in-force face amount. From this business, approximately 86% is assumed on a coinsurance basis, 8% on the YRT basis and 6% on a MRT basis. The Company retrocedes approximately 12% of the in-force of this block to various retrocessionaires. About two-

thirds of these retrocessions are on a quota share basis with the remainder consisting of excess of loss reinsurance. ERAC then retrocedes 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.

The Canadian business consists of two 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 in some cases, the YRT includes riders that accelerate the death benefit for critical illness. 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 Life Insurance Company of North America, 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), American United Life Insurance Company 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 Assurance Company, 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 Assurance Company

("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.

In 2008, ERAC ceded certain U.S. mortality and Canadian business to RGA Reinsurance Co. (Barbados) Ltd. under a YRT reinsurance treaty. The treaty was established to provide a transfer of mortality risk through the treaty's Experience Refund Provision. The Experience Refund Provision will pay ERAC the amount of reinsurance premiums in excess of the ceded claim payment for positive experience, as well as the amount of ceded claim payments in excess of reinsurance premiums for negative experience. The payment of negative experience will be recovered from future positive experience and will be due immediately from ERAC upon termination of the treaty, which can only be terminated by ERAC. The treaty provisions did not contain any condition that would not allow the treaty to be reported under reinsurance accounting as prescribed by SSAP No. 61 - *Life, Deposit-Type and Accident and Health Reinsurance*.

All reinsurance agreements reviewed during the course of the examination contained insolvency and cancellation clauses as required by K.S.A. 40-221a – *Reinsurance of risks of and by Kansas companies*. All reinsurance agreements reviewed provided for the transfer of risk.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Kansas Insurance Department and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

EMPLOYERS REASSURANCE CORPORATION
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2017

	<u>Assets</u>	<u>Assets Nonadmitted</u>	<u>Net Admitted Assets</u>
Bonds	\$9,417,038,588	\$0	\$9,417,038,588
Preferred stocks	30,062,500	-	30,062,500
Common stocks	541,310,051	4,752,481	536,557,570
First liens	629,024,667	-	629,024,667
Cash and short-term investments	146,353,675	-	146,353,675
Contract loans	21,564,534	-	21,564,534
Derivatives	9,843,772	-	9,843,772
Other invested assets	176,486,458	-	176,486,458
Receivables for securities	3,253,090	-	3,253,090
Investment income due and accrued	115,643,346	-	115,643,346
Uncollected premiums and agents' balances in the course of collection	(40,527,328)	-	(40,527,328)
Amounts recoverable from reinsurers	995,565	-	995,565
Funds held by or deposited with reinsured companies	26,861,096	-	26,861,096
Other amounts receivable under reinsurance contracts	172,116,117	-	172,116,117
Current federal and foreign income tax Recoverable	70,418,474	-	70,418,474
EDP equipment and software	48,545	-	48,545
Receivables from parent, subsidiaries and affiliates	3,500,000,000	-	3,500,000,000
Aggregate write-ins for other than invested assets	103,262	-	103,262
Total	\$14,820,596,412	\$4,752,481	\$14,815,843,931

EMPLOYERS REASSURANCE CORPORATION
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2017

Aggregate reserve for life contracts	\$2,193,486,667
Aggregate reserve for accident and health contracts	10,076,919,280
Liability for deposit-type contracts	45,936,733
Life contract claims	118,933,029
Accident and health contract claims	157,949,553
Surrender values on canceled contracts	4,116,768
Interest maintenance reserve	130,296,661
Commissions and expense allowances payable on reinsurance assumed	31,543,099
General expenses due or accrued	18,598,782
Taxes, licenses and fees	872,583
Unearned investment income	346,972
Remittances and items not allocated	155,573,483
Net adjustment due to foreign exchange rates	8,451,627
Asset valuation reserve	54,325,426
Payable to parent, subsidiaries and affiliates	1,000,000,000
Funds held under coinsurance	422,651
Payable for securities	1,180,134
Aggregate write-ins for liabilities	394,163
Total liabilities	13,999,347,611
Common capital stock	2,550,000
Gross paid in and contributed surplus	8,949,784,761
Unassigned funds (surplus)	(8,135,838,442)
Surplus	813,946,319
Surplus as regards policyholders	816,496,319
Totals	\$14,815,843,930

EMPLOYERS REASSURANCE CORPORATION
STATEMENT OF OPERATIONS
AS OF DECEMBER 31, 2017

Premiums and annuity considerations for life and accident and health contracts	\$ 236,708,742
Considerations for supplementary contracts with life contingencies	3,371,546
Net investment income	523,633,405
Amortization of Interest Maintenance Reserve	7,741,667
Commissions and expense allowances on reinsurance ceded	18,040,326
Aggregate write-ins for miscellaneous income	474,139
Totals	789,969,824
Death benefits	267,338,125
Annuity benefits	23,141,417
Disability benefits and benefits under accident and health contracts	285,357,374
Surrender benefits and withdrawals for life contracts	36,265,829
Interest and adjustments on contract or deposit-type contract funds	2,064,442
Payments on supplementary contracts with life contingencies	1,535,259
Increase in aggregate reserves for life and accident and health contracts	2,502,195,681
Totals	3,117,898,126
Commissions and expense allowances on reinsurance assumed	47,372,297
General insurance expenses	24,005,325
Insurance taxes, licenses and fees, excluding federal income taxes	5,692,499
Increase in loading on deferred and uncollected premiums	(40,209)
Aggregate write-ins for deductions	12,260,021
Totals	3,207,188,059
Net gain from operations before dividends to policyholders and federal income taxes	(2,417,218,235)
Dividends to policyholders	-
Net gain from operations after dividends to policyholders and before federal income taxes	(2,417,218,235)
Federal and foreign income taxes incurred	(87,223,368)
Net gain from operations after dividends to policyholders and federal income tax and before realized capital gains or (losses)	(2,329,994,867)
Net realized capital gains (losses)	(2,676,206)
Net income	\$ (2,332,671,073)

**EMPLOYERS REASSURANCE CORPORATION
CAPITAL AND SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2017**

Surplus as regards policyholders, December 31, 2016	\$ 978,385,189
Net income	(2,332,671,073)
Change in net unrealized capital gains or less capital gains tax of \$0	(1,228,933,169)
Change in net unrealized foreign exchange capital gain (loss)	11,321,895
Change in net deferred income tax	(738,014,341)
Change in nonadmitted assets	628,199,753
Change in asset valuation reserve	(1,791,936)
Paid in surplus	<u>3,500,000,000</u>
Net change in capital and surplus for the year	<u>(161,888,870)</u>
Capital and surplus, December 31, current year	<u><u>\$ 816,496,318</u></u>

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

Surplus as regards policyholders, December 31, 2012		<u>\$ 763,325,077</u>
Net income	2013	453,784,780
	2014	(44,549,937)
	2015	63,866,212
	2016	(209,861,209)
	2017	<u>(2,332,671,073)</u>
		(2,069,431,227)
Change in net unrealized capital gains or (losses)	2013	11,537,710
	2014	(308,690,325)
	2015	(89,195,406)
	2016	4,450,107
	2017	<u>(1,228,933,169)</u>
		(1,610,831,083)
Change in net unrealized foreign exchange capital gain or (losses)	2013	(37,566,266)
	2014	(12,450,324)
	2015	(16,415,592)
	2016	(14,686,154)
	2017	<u>11,321,895</u>
		(69,796,441)
Change in net deferred income tax	2013	(100,316,736)
	2014	64,415,106
	2015	(3,619,589)
	2016	16,322,669
	2017	<u>(738,014,341)</u>
		(761,212,891)
Change in nonadmitted assets	2013	136,254,059
	2014	(91,769,289)
	2015	(9,595,607)
	2016	(6,342,473)
	2017	<u>628,199,753</u>
		656,746,443
Change in asset valuation reserve	2013	(2,162,693)
	2014	(1,347,945)
	2015	348,817
	2016	(6,039,225)
	2017	<u>(1,791,936)</u>
		(10,992,982)
Paid in surplus	2013	(71,777)
	2014	-
	2015	-
	2016	418,761,199
	2017	<u>3,500,000,000</u>
		<u>3,918,689,422</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 816,496,319</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, 2017, was \$816,496,319, which was the same amount reported by the Company in its 2017 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

No changes were made to the financial statements as a result of this Examination.

Additional Actuarial Reserves

During 2017, in response to elevated claim experience in the Company's long-term care insurance contracts, the Company initiated a comprehensive review of assumptions across all insurance products, which included reconstructing its future claim cost projections for long-term care contracts.

The revised and reconstructed long-term care cost projections, combined with the prevailing economic market conditions, tax reform and other influences resulted in a significant increase in the Additional Actuarial Reserves ("AAR") at yearend 2017. The final estimates of the Company's 2017 asset adequacy testing indicated that ERAC would need to establish approximately \$15 billion of AAR in 2017. In 2017, ERAC requested and received a permitted accounting practice from the Kansas Insurance Department regarding the recognition of the approximately \$15 billion of AAR. See "Permitted Accounting Practice" section for additional detail on the accounting treatment.

Permitted Accounting Practice.

During December 2017, the Company requested and received a permitted accounting practice to deviate from the requirements of Statement of Statutory Accounting Principles (SSAP) No. 51 - *Life Contracts* and SSAP 54 – *Individual and Group Accident and Health Contracts*, (the “Pronouncements”). These Pronouncements require that any increase (strengthening) in actuarial reserves resulting from a change in valuation basis to be recorded in the year the adjustment is disclosed.

However, in their permitted practice request, the Company asked that they be permitted to delay full recognition of the increase that would otherwise be required under the respective Pronouncements. Alternatively, the Company requested that they be permitted to recognize 14.3% of the indicated reserve increase in ERAC’s 2017 statutory financial statements and recognize the remaining amount – as reassessed in such years – ratably in 2018 to 2023. The Kansas Insurance Department performed a detailed review of the Company’s request and related supporting documents, utilizing various actuarial and financial experts. Following the Kansas Insurance Department’s review of this matter, and having no objections from other state regulators, the Kansas Insurance Department approved ERAC’s request on January 11, 2018.

The cash contribution from GECUSH, totaling \$3.5 billion, was received on February 21, 2018. See “Subsequent Events” section for additional detail on the contributions.

MANAGEMENT LETTER

There were several findings resulting from the examination that did not warrant inclusion in this report. However, these concerns were noted in a management letter that was issued to the Company's Board of Directors for review, resolution and response back to the Kansas Insurance Department.

SUBSEQUENT EVENTS

The Company included a cash capital contribution of \$3.5 billion from GECUSH in the financial statements as of December 31, 2017, as Receivables from parent, subsidiaries and affiliates. The amount was subsequently received February 21, 2018. In addition, the Company included a cash capital contribution of \$1 billion to UFLIC in the financial statements as of December 31, 2017, and was reported as a Payable to parent, subsidiaries or affiliates. The cash was subsequently paid February 21, 2018.

Subsequent to the year ending December 31, 2017, the Company filed a Form A Exemption Approval, adding an insurance holding company between GECUSH and ERAC. The new company formed is GE Capital NALH Holdings, LLC and was approved by the Kansas Insurance Department on August 6, 2018.

The President, Mr. Ronald D. Peters, resigned as of September 1, 2018. Mr. William J. Steilen was appointed acting president. Effective November 1, 2018, Mr. Timothy F. Kneeland became president of the Company.

The Company included a cash capital contribution of \$1.9 billion from GE Capital NALH Holdings, LLC, in the financial statements as of December 31, 2018, as Receivables from parent, subsidiaries and affiliates. The cash was subsequently received February 19, 2019. The Company also requested and received approval, under the same

provision, to include a cash capital contribution of \$400 million to UFLIC in the financial statements as of December 31, 2018, as a payable to Parent, subsidiaries or affiliates. The cash was subsequently paid February 19, 2019.

Effective January 1, 2019, the Company terminated a retrocession agreement with RGA Reinsurance Co. (Barbados) Ltd. (“RGA Barbados”). As of December 31, 2018, RGA Barbados ceded premiums of approximately \$230 million and insurance inforce of \$76 billion.

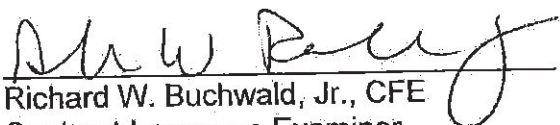
SUMMARY OF RECOMMENDATIONS

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

CONCLUSION

The assistance and cooperation by the officers of the Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Lester Schott, Chang Song, Paige Mayo, Adham McGuire, and Phil Schmoyer from Baker Tilly Virchow Krause, LLP, and Mike Mayberry from Lewis & Ellis, participated in this examination.

Respectfully submitted,


Richard W. Buchwald, Jr., CFE
Contract Insurance Examiner
Baker Tilly Virchow Krause, LLP
Examiner-in-Charge

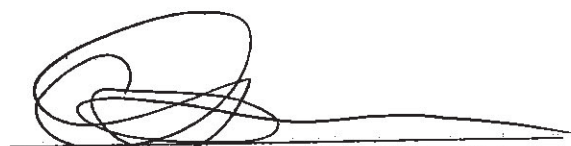

Christopher W. Buchanan, CPA, CFE
Senior Financial Examiner
Kansas Insurance Department

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

State of Kansas,

County of Shawnee,

Richard W Buchwald Jr being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of Employers Reassurance Company.
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 Company was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

The affiant says nothing further.

Richard W Buchwald Jr
Examiner's Signature

Subscribed and sworn before me by Richard W. Buchwald, Jr on this
28th day of May, 2019.

(SEAL)

Notary Public

Patrick K Collins

My commission expires 12-10-2021
(date)

Patrick K. Collins
Notary Public, Harford County, MD
My commission expires Dec. 10, 2021

