

REPORT ON EXAMINATION
OF
NASSAU LIFE INSURANCE COMPANY OF KANSAS
10851 MASTIN BOULEVARD, SUITE 1000
OVERLAND PARK, KS 66210
AS OF
DECEMBER 31, 2019

FILED

JUN 25 2021

VICKI SCHMIDT
Commissioner of Insurance

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Overland Park, Kansas
June 23, 2021

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

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:

NASSAU LIFE INSURANCE COMPANY OF KANSAS

with its statutory home office at:

10851 MASTIN BOULEVARD, SUITE 1000 OVERLAND PARK, KS 66210

and main administrative office at:

ONE AMERICAN ROW

HARTFORD, CT 06102

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

SCOPE OF EXAMINATION

The examiners have performed a multi-state financial examination of the Company, a Kansas domiciled life insurance company. The last examination covered the three-year period from January 1, 2012, through December 31, 2014. This examination covers the five-year period from January 1, 2015, through December 31, 2019.

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. 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 Deloitte & Touche LLP for the year ending December 31, 2015. The financial statements of the Company were audited by KPMG LLP for the years ending December 31, 2016, through December 31,

2019. 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, 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 auditor's work papers were reviewed and analyzed by the examiners. Significant reliance was placed on select work papers during this examination.

Actuarial Review

The Department retained the services of Baker Tilly US, LLP ("Baker Tilly"), to perform a review of the Company's actuarial practices and reserves as of December 31, 2019. Baker Tilly's review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in their reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the examination.

COMPANY HISTORY

General

The Company was organized under the laws of Kansas on May 26, 1913, and commenced business August 10, 1914, under the name "The Kansas Life Insurance Company". On December 13, 1933, the name of the Company was changed to "The Pyramid Life Insurance Company". On July 26, 2000, the Ceres Group, Inc. ("Ceres") purchased all of the Company's outstanding stock from United Insurance Company of America. On March 31, 2003, Pennsylvania Life Insurance Company, a subsidiary of Universal American Corp. (formerly known as Universal American Financial Corporation),

purchased from Ceres all the shares of the Company's outstanding stock. On December 29, 2006, American Exchange Life Insurance Company, a wholly-owned subsidiary of Universal American Corp., purchased from Pennsylvania Life Insurance Company all the shares of the Company's outstanding stock.

On August 3, 2016, Universal American Corp. completed the sale of its Traditional Insurance business to Nassau Reinsurance Group Holdings, L.P. ("Nassau Re"). Nassau Re acquired 100% of the issued and outstanding capital stock through a stock purchase and sale agreement dated October 8, 2015. On March 11, 2019, The Pyramid Life Insurance Company changed its name to Nassau Life Insurance Company of Kansas, operating as a wholly owned subsidiary of Nassau Re.

The Company is authorized to transact the kinds of insurance provided for in K.S.A. 40-401 et seq.

Capital Stock

As of December 31, 2019, the Company had 582 shares of common stock with a par value of \$4,300 authorized, issued and outstanding. One hundred percent (100%) of the Company's stock was owned by The Nassau Companies.

Dividends and Capital Contributions

In April 2015, the Company paid an extraordinary dividend, approved by the Department, in the amount of seventy-five million dollars (\$75,000,000) to its former parent, Universal American Holdings, LLC.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed and were amended on February 20, 2019.

MANAGEMENT AND CONTROL

Stockholders

The Company is controlled by its stockholder and managed by a Board of Directors (“Board”).

Board of Directors

Pursuant to the Company’s bylaws, the Board shall consist of no less than five (5) and no more than twenty-five (25) members. At the annual meeting, the stockholders shall elect directors, each of whom will hold office for a term of one year or until his or her successor is elected and qualified.

The following is a listing of directors and their position(s) held as of December 31, 2019:

<u>Name</u>	<u>Position(s) Held</u>
Phillip J. Gass	President and Chairman of the Board, Nassau Life Insurance Company of Kansas Chairman and Chief Executive Officer, Nassau Re, LLC
Richard M. Cannone	Senior Vice President, Chief Financial Officer & Treasurer, Nassau Life Insurance Company of Kansas
Steve L. Carlton	General Counsel and Secretary, Nassau Life Insurance Company of Kansas
Kostas NMN Cheliotis	Director, Chief Operating Officer, Nassau Re, LLC
Thomas A. Williams	Director, Chief Financial Officer, Nassau Re, LLC

Committees

The Company’s bylaws indicate that the Board may elect an Executive Committee composed of two or more directors who shall serve during the pleasure of the Board. The Board has established two committees, an audit committee, and an investment

committee. The full membership of the Board of Directors serve on each of these committees.

Officers

Pursuant to the bylaws, the Board shall elect from its members a President and a Vice President, and shall elect, whether or not members of the Board, a Secretary and Treasurer and other officers as the Board may deem proper and appropriate. The Board may also elect from their number a Chairman of the Board. Each officer will serve for one-year term until a successor is duly elected and qualified.

The following is a listing of officers and their position(s) held as of December 31, 2019:

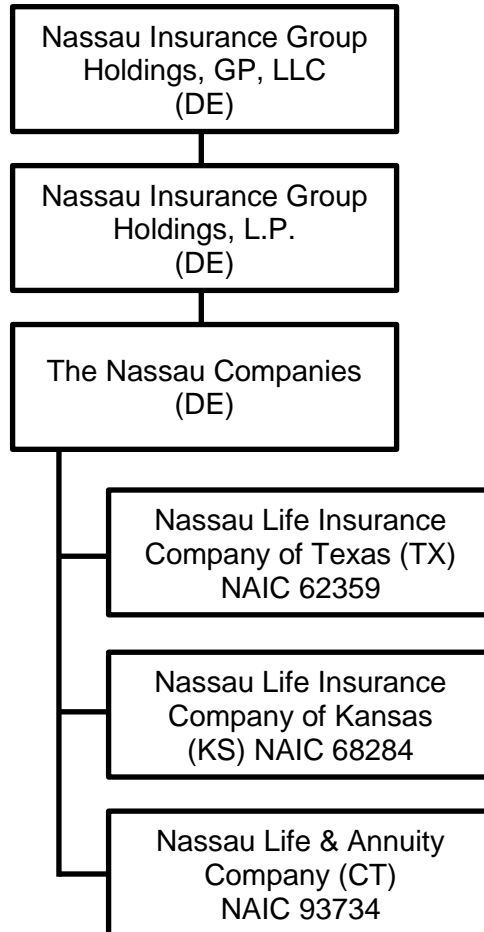
Name	<u>Position(s) Held</u>
Phillip J. Gass	President, Chairman of the Board
Richard M. Cannone	Senior Vice President, Chief Financial Officer & Treasurer
Steve L. Carlton	General Counsel and Secretary
Brian Koopmans	Vice President – Commissions
John T. Mackin, Jr.	Vice President – Compliance
Danlias F. Howe	Vice President – Legal and Assistant General Counsel
Robert J. Suggs	Vice President – Operations
Carmen Boyd	Assistant Vice President – Actuarial Compliance
Jose L. Espinal	Assistant Vice President – Reinsurance
Susan Guazzelli	Assistant Treasurer
Michael A. Donovan	Appointed Actuary

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 simplified organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2019.



Intercompany/Cost Sharing Agreements

Effective January 1, 2017, the Company entered into a Service Expense Reimbursement and Cost Sharing Agreement with its affiliate Nassau Life Insurance Company of Texas (formerly known as Constitution Life Ins. Co.) (“Nassau Texas”). Under this agreement, Nassau Texas provides various services to the Company, including but not limited to, actuarial, tax, investment compliance, contracting support, government relations, strategic planning, general management and office and systems support services, and other services as may be agreed upon from time to time. Allocated costs for services rendered shall be reimbursed by the Company to Nassau Texas on a fair and equitable basis. Fees for services rendered are to be paid quarterly. The Company paid \$4,938,666 pursuant to the terms of this agreement in 2019.

On November 29, 2016, the Company entered into a Shared Services Agreement with Nassau Reinsurance LLC (“Nassau Re”) and The Phoenix Companies, Inc., now known as The Nassau Companies of New York (“NSNY”), effective January 1, 2017. Under this agreement, Nassau Re and NSNY will render accounting, actuarial, data processing, enterprise risk management, facilities management and mail, general management, human resources, information center, legal, marketing/communications, operations, payroll services, project management, purchasing, risk management services, strategic planning, business development, executive leadership and management, tax accounting, travel/convention, treasury, and other special services. Adjustments for costs are made quarterly based upon Nassau Re and NSNY cost analyses. The compensation to be paid is based on the costs (direct and indirect). Payment for services rendered are due within fifteen (15) days of receipt of the invoice as

invoiced on or before the 15th day of the month following the provision of services for the estimated costs of services rendered for the preceding month. The Company paid \$1,314,045 pursuant to the terms of this agreement in 2019.

Effective August 3, 2016, the Company entered into an Investment Management Agreement with its affiliates Nassau Re (Cayman) Ltd. and Nassau Asset Management LLC. The Company paid \$290,062 pursuant to the terms of this agreement in 2019.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company is authorized to transact business in forty (40) states.

As of December 31, 2019, the Company's largest lines of business were Medicare supplement and long-term care at 71.3% and 26.9% of direct premiums written, respectively. The remaining 1.8% represented ordinary life and other accident and health business.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2015, through December 31, 2019. The financial amounts were obtained from annual statements filed by the Company.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<i>(in thousands)</i>					
Admitted Assets	71,688	76,841	72,400	74,219	75,529
Liabilities	55,528	62,070	56,852	57,268	57,347
Capital and Surplus	16,160	14,770	15,547	16,952	18,182
Net Underwriting Gain/(Loss)	3,200	(2,358)	3,372	2,222	2,462
Net Income	3,651	(839)	2,790	2,035	2,079
Net Premiums Written	24,786	17,971	14,297	12,499	11,231

REINSURANCE

The Company assumes no business from other insurance carriers and does not cede any Medicare supplement policies.

The Company has long-term care coinsurance agreements in place with Swiss Re Life & Health America (“Swiss Re”) (formerly known as Lincoln National Reassurance Co.) and General Re Life Corp (“GenRe”). The Swiss Re agreement covers policies issued June 1991 to November 1995, with a 40% and 60% Quota Share on policies that have 4-year, and lifetime benefit plans, respectively. The GenRe agreement covers policies issued from December 1995, to December 1998, with a 20%, 40%, and 60% Quota Share on policies that have 1 or 2-year, 4-year, and lifetime benefit plans, respectively. In addition, a stop loss coverage is in place with GenRe to reinsure all claims on policies written effective January 1999, to July 2004, once they have reached the 2-year retention. As of July 2004, the Company stopped underwriting new business. As of December 31, 2019, there is approximately \$4.9M of gross annualized premium inforce.

The runoff major medical block was reinsured effective January 1, 2005, on a stop loss basis at 90% of the excess of \$250k to Fairmont Specialty Insurance Company (formerly known as Ranger Ins. Co.). As of January 1, 2008, the reinsurance coverage was renewed with United States Fire Insurance Company on the same terms as expiring, with a ceded premium rate of 21% of the Gross Written Premium. This agreement was terminated effective December 31, 2015.

The Company began selling Senior Dental in 2004. All business is 50% coinsured to Hannover Life Re. For the year ended December 31, 2019, the Company ceded approximately \$34K of inforce premium.

The Company has a reinsurance agreement in place with Swiss Re Life & Health America (North America Reassurance) effective July 1970, to reinsure older Disability Income policy forms (DI-72, DI-73 & LAH-3). These products are no longer marketed. As of December 31, 2019, there's only one policy remaining/inforce and it's on claim.

On April 24, 2009, the Company completed the closing of a life insurance and annuity reinsurance transaction with the Commonwealth Annuity and Life Insurance Company ("Commonwealth") and the First Allmerica Financial Life Insurance Company. Under this transaction, NLICK reinsured substantially all of its in-force life insurance and annuity business under a 100% coinsurance treaty. The total face amount in force at year-end 2019 was approximately \$146.1 million, with reserves of \$26.1 million. Effective October 1, 2010 substantially all of the annuity portion of the Commonwealth transaction was commuted to Athene Life Re Ltd, a Bermuda reinsurer.

Effective March 31, 2019, the Company recaptured its block of senior life insurance previously reinsured with Wilton Re. This recapture also included other life blocks ceded to Wilton Re from affiliates. This transaction resulted in an increase to individual active life reserves of \$3,908,291, which Wilton Re paid to the Company in exchange for a recapture fee of \$213,858. The total recapture amount as reported was \$3,617,512.

Effective August 3, 2016, the Company entered into a reinsurance agreement with Nassau Re (Cayman), LTD ("Cayman"), an affiliate, on a modified coinsurance basis. The agreement provides for the Company to cede or retrocede, as applicable, and Cayman will indemnity reinsure, the insurance liabilities related to its traditional accident and health insurance business other than those liabilities reinsured by third parties. This transaction is net of the collected reinsurance provided and paid to the Ceding Company under any

Third-Party Reinsurance Agreement (Inuring Agreement). However, it excludes the business in those lines where reinsurer consent was required, as consent was not requested. The agreement contains adequate provisions to transfer risk.

Concurrently, the Company established a segregated account (“Modco Account”) to hold the assets backing Cayman’s share of the Statutory Reserves and Liabilities. The supporting assets were deposited by the Company into the Modco Account. As of December 31, 2019, the Modco Reserves and Liabilities were approximately \$7,803,000.

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, 2019. Any accompanying comments on the 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.

NASSAU LIFE INSURANCE COMPANY OF KANSAS
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2019

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 63,108,178	\$ -	\$ 63,108,178
Preferred stocks	2,360,000		2,360,000
Cash and short-term investments	7,495,754		7,495,754
Contract Loans	126,573		126,573
Other invested assets	1,609		1,609
Receivable for securities	15,685		15,685
Investment income due & accrued	810,475	59,028	751,447
Uncollected premiums and agents' balances in the course of collection	284,968		284,968
Deferred premiums, agent' balances and installments booked but deferred and not yet due	328,776		328,776
Other amounts receivable under reinsurance contracts	523,745		523,745
Net deferred tax asset	935,044	569,925	365,119
Guaranty funds receivable or on deposit	167,378		167,378
Aggregate write-ins for other than invested assets	1,532	1,532	-
	<u>\$ 76,159,717</u>	<u>\$ 630,485</u>	<u>\$ 75,529,232</u>

**NASSAU LIFE INSURANCE COMPANY OF KANSAS
LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2019**

Aggregate reserve for accident and health contracts	42,624,062
Contract claims:	
Life	269,425
Accident and health	2,435,586
Premiums and annuity considerations for life and accident and health contracts received in advance	240,211
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	475
Interest Maintenance Reserve	1,200,165
General expenses due or accrued	179,553
Current federal and foreign income taxes	67,952
Amounts withheld or retained by reporting entity as agent or trustee	21,319
Amounts held for agents' account, including \$109 agents' credit balance	109
Remittances and items not allocated	631,526
Asset valuation reserve	561,321
Payable to parent, subsidiaries and affiliates	3,524,004
Aggregate write-ins for liabilities	342,864
Total liabilities	<u>57,347,506</u>
Common capital stock	2,502,600
Gross paid in and contributed surplus	73,436,000
Unassigned funds	<u>(57,756,875)</u>
Surplus as regards policyholders	<u>18,181,725</u>
Totals	<u><u>\$75,529,231</u></u>

NASSAU LIFE INSURANCE COMPANY OF KANSAS
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

Premiums and annuity considerations for life and accident and health contracts	\$11,231,140
Net investment income	2,588,394
Amortization of Interest Maintenance Reserve	469,252
Commissions and expense allowances on reinsurance ceded	988,270
Reserve adjustments on reinsurance ceded	(51,167)
Aggregate write-ins for miscellaneous income	4,128,891
Totals	<u>19,354,780</u>
Death benefits	744,060
Disability benefits and benefits under accident and health contracts	10,790,686
Surrender benefits and withdrawals for life contracts	42,978
Interest and adjustments on contract or deposit-type contract funds	9,643
Increase in aggregate reserves for life and accident and health contracts	1,598,845
Totals	<u>13,186,212</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	59,809
General insurance expenses and fraternal expenses	3,207,497
Insurance taxes, licenses and fees, excluding federal income taxes	413,440
Increase in loading on deferred and uncollected premiums	25,683
Totals	<u>16,892,641</u>
Net gain from operations before dividends to policyholders refunds to members and federal income taxes	2,462,139
Net gain from operations after dividends to policyholders, refunds to members and before federal income taxes	2,462,139
Federal and foreign income taxes incurred	420,304
Net gain from operations after dividends to policyholders, refunds to members and federal income taxes and before realized capital gains or (losses)	2,041,835
Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax	<u>37,515</u>
Net Income	<u>\$ 2,079,350</u>

**NASSAU LIFE INSURANCE COMPANY OF KANSAS
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Surplus as regards policyholders, December 31, 2016			\$ 88,364,037
Net income	2015	\$ 3,651,823	
	2016	(839,778)	
	2017	2,790,441	
	2018	2,035,549	
	2019	2,079,350	9,717,385
Change in net unrealized capital gains or (losses)	2015		
	2016		
	2017		
	2018		
	2019	791	791
Change in net deferred income tax	2015	\$ (2,310,019)	
	2016	(29,651)	
	2017	(648,584)	
	2018	28,169	
	2019	(30,091)	(2,990,176)
Change in nonadmitted assets	2015	\$ 1,164,114	
	2016	62,840	
	2017	347,447	
	2018	44,846	
	2019	(114,537)	1,504,710
Change in asset valuation reserve	2015	\$ 885,319	
	2016	11,562	
	2017	29,333	
	2018	(110,418)	
	2019	(110,770)	705,026
Dividends to stockholders	2015	\$ (75,000,000)	
	2016		
	2017		
	2018		
	2019		(75,000,000)
Aggregate write-ins for gains and losses in surplus	2015	\$ (594,524)	
	2016	(594,524)	
	2017	(1,741,954)	
	2018	(594,524)	
	2019	(594,524)	(4,120,050)
Surplus as regards policyholders, December 31, 2019			\$ 18,181,723

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, 2019, was \$18,181,725, which was the same amount reported by the Company in its 2019 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

No comments on the financial statements were identified that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

On June 30, 2020, the Company was contributed by its parent, The Nassau Companies, to an affiliate, Nassau Life and Annuity Company, in the form of a common stock transfer. As a result, the Company is now a wholly owned subsidiary of Nassau Life and Annuity Company.

SUMMARY OF RECOMMENDATIONS

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

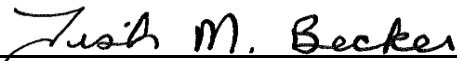
CONCLUSION

The officers of the Company provided the necessary assistance and cooperation during this examination. In addition to the undersigned, Kyra Brown, MBA, Senior Examiner, Brandon Waters and Aidan Donaher, both Participating Examiners, Phillip Schmoyer, CFE, CISA, AES, CSM, Lead IT Examiner, Dennis Schaefer, CISA, IT Manager, Benjamin Gludemans, CISA, IT Examiner, Michael Skowronek, IT Examiner, Michael Dubin, FCAS, FSA, MAAA, FCA, Actuary, and Felix Peysakhovich, ASA, MAAA, Actuary, all of whom are with Baker Tilly, participated in this examination.

Respectfully submitted,



James B. Morris, CPA, CFE, MBA, CGMA,
CICA
Examiner-in-Charge
Baker Tilly, US, LLP, representing the Kansas
Insurance Department



Tish Becker Department Designee
Director of Financial Surveillance Kansas
Insurance Department