

Examination Warrant Number 18-00233-62065-R1

**Report of Examination of**

**Colonial Penn Life Insurance Company  
Philadelphia, Pennsylvania**

**As of December 31, 2018**

*For Informational Purposes Only*

# Colonial Penn Life Insurance Company

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Harrisburg, Pennsylvania  
May 15, 2020

Honorable Joseph DiMemmo, CPA  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania  
Insurance Department  
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 18-00233-62065-R1, dated August 16, 2018, an examination was made of

**Colonial Penn Life Insurance Company, NAIC Code: 62065**

a Pennsylvania domiciled multi-state, life insurance company, hereinafter referred to as the "Company." The examination was conducted at the home office of the Company's parent, located at 11825 N. Pennsylvania Street, Carmel, Indiana 46032.

A report of this examination is hereby respectfully submitted.

**SCOPE OF EXAMINATION**

The Pennsylvania Insurance Department ("Department") has performed an examination of the Company, which was last examined as of December 31, 2013. This examination covered the five-year period from January 1, 2014 through December 31, 2018.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook").

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. 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. Statements were prepared by management and are therefore the responsibility of management. 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, in accordance with 40 P.S. § 323.5(a), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective

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conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For each year during the period under examination, the certified public accounting firm of PricewaterhouseCoopers (“CPA”) has provided an unmodified audit opinion on the Company’s year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The following affiliated companies from the CNO Financial Group, Inc. (“CNO”) were examined at the same time during the above examination, under direction of lead state Indiana:

<b>Company</b>	<b>NAIC Code</b>	<b>Domiciliary State</b>
Washington National Insurance Company (WNIC)	70319	Indiana (Lead)
Conseco Life Insurance Company of Texas (CLTX)	11804	Texas
Bankers Life and Casualty Company (BLCC)	61263	Illinois
Resource Life Insurance Company (RLIC)	61506	Illinois
<b>Colonial Penn Life Insurance Company</b>	<b>62065</b>	<b>Pennsylvania</b>
Bankers Conseco Life Insurance Company (BCLIC)	68560	New York

### HISTORY

The Company was incorporated on December 3, 1957, licensed by the Department and commenced business on September 2, 1959. The Company’s Charter was amended in 1963 to change the name of the original company to Colonial Penn Life Insurance Company.

On September 30, 1997, Conseco, Inc. (“Conseco”) purchased the Company and its affiliate, Providential Life Insurance Company. During the intervening years since the purchase, the Company was transferred among intermediate holding companies in the Conseco corporate structure ultimately and eventually became a wholly owned subsidiary of its intermediate holding company, CLTX.

The Company is currently authorized to transact those classes of insurance described in 31 Pa. Code Chapter 85 Separate Account (Variable Annuities), 40 P.S. § 382(a)(1) Life and Annuities, and (a)(2) Accident and Health.

### MANAGEMENT AND CONTROL

#### CAPITALIZATION

As of the examination date, December 31, 2018, the Company’s total capital was \$92,429,653, consisting of 250,000 capital shares of issued and outstanding common stock with a par value of \$10.00 per share amounting to \$2,500,000; \$160,000,000 of surplus notes; \$255,177,065 in gross paid in and contributed surplus; and (\$325,247,413) in unassigned funds (surplus).

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The Company's minimum capital and minimum surplus requirements for the types of business for which it is licensed, pursuant to 40 P.S. § 386, is \$1,100,000 in capital and \$550,000 in surplus. The Company has met all governing requirements throughout the examination period.

### STOCKHOLDER

CLTX, a Texas domiciled insurance company and an indirect wholly owned subsidiary of CNO, owned 100% of the Company's issued and outstanding stock as of the examination date. No dividends have been paid during the examination period.

### INSURANCE HOLDING COMPANY SYSTEM

The Company, as of the examination date, meets the requirements for filing an insurance holding company system registration statement, in compliance with 40 P.S. § 991.1404. All required holding company registration statement documents have been properly filed with the appropriate state agencies. CNO is named as the ultimate controlling entity/person of its holding company system. CNO is a holding company for a group of insurance companies operating throughout the United States that develop, market and administer health insurance, annuity, individual life insurance and other insurance products. CNO focuses on serving middle-income pre-retiree and retired Americans.

On December 17, 2002, CNO and several of its direct and indirect subsidiaries filed a petition for reorganization under Chapter 11 of Title 11 of the United States Bankruptcy Code. They emerged from bankruptcy nine months later in 2003.

Members of the holding company system include the following entities briefly described below:

#### WNIC

WNIC is a wholly owned subsidiary of CNO, a publicly held company. WNIC began business in 1911 and was incorporated in 1923. WNIC is licensed to sell its products in 49 states, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands, though sales outside the U.S. are negligible.

WNIC primarily sells supplemental health (including specified disease, A&H indemnity insurance products), and both traditional and non-traditional life insurance policies. The policies are marketed to middle-income consumers at home and at the worksite through independent organizations and agencies and Performance Matters Associates, Inc. (PMA), a wholly owned subsidiary of WNIC's direct parent CDOC, Inc.

#### CLTX

CLTX, formerly known as Jefferson National Life Insurance Company of Texas (JNX), was incorporated on November 20, 1990. CLTX is a stock life insurer operating under the provisions of Chapter 841 of the Texas Insurance Code and is licensed only in Texas.

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### BLCC

BLCC became a part of CNO in 1992, through the purchase of Bankers Life Insurance Company of Illinois, a subsidiary of Bankers Life Holding Corporation (BLHC), a Delaware corporation and an indirect subsidiary of CNO, from Southwestern Life Insurance Company, a subsidiary of I.C.H. Corporation. Effective November 20, 2007, BLCC's direct parent Bankers Life Insurance Company of Illinois was merged into BLCC under a Plan and Agreement of Merger approved by the Illinois Department of Insurance. As a result of the merger, 100% of the outstanding common stock of BLCC is owned by CLTX. BLCC primarily sells long-term care insurance (including shorter duration long-term care products), life insurance and annuity products through its dedicated field force of career agents in all states except New York, and the District of Columbia.

### RLIC

RLIC became a part of CNO on March 27, 2017 through the purchase by CDOC, Inc. from TWG Holdings, Inc. RLIC is licensed to sell its products in 46 states and the District of Columbia.

### BCLIC

BCLIC is a direct subsidiary of CLTX, an indirect wholly owned subsidiary of CNO. BCLIC is licensed only in New York to sell annuity, life insurance, Medicare supplement and long-term care products.

The following is a representation of the abbreviated organizational structure of the Company and affiliates under examination at December 31, 2018:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
CNO Financial Group, Inc.		
CDOC, Inc.		
Conseco Life Insurance Company of Texas	11804	TX
Bankers Conseco Life Insurance Company	68560	NY
Bankers Life and Casualty Company	61263	IL
<b>Colonial Penn Life Insurance Company</b>	<b>62065</b>	<b>PA</b>
Resource Life Insurance Company	61506	IL
Washington National Insurance Company	70319	IN

## BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2018:

<b>Name and Address</b>	<b>Principal Occupation</b>
Timothy Scott Bischof Indianapolis, IN	SVP, Corporate Actuarial and Enterprise Risk Management - CNO Financial Group, Inc.

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Scott Louis Goldberg Glencoe, IL	President - BCLIC, BLC
Erik Magnus Holding Carmel, IN	EVP, Chief Financial Officer - CNO Financial Group, Inc.
John Robert Kline Indianapolis, IN	SVP, Chief Accounting Officer - CNO Financial Group, Inc.
Gerardo Monroy Chicago, IL	SVP, Chief Marketing Officer - CNO Financial Group, Inc.
Joel Howard Schwartz Philadelphia, PA	President - Colonial Penn Life Insurance Company
Gregory Dean Turner Zionsville, IN	SVP, Product Management (Life and Annuity) - CNO Services, LLC

The Company is managed by a Board of Directors. The Company's by-laws state the Board shall be not less than seven (7), one of whom shall be elected as Chairman of the Board. The number of director(s) to serve each year may be fixed annually by the stockholders or at any time between Annual Stockholders Meetings by vote of the Board. Each director shall hold office for a term of one year or until a successor shall have been duly elected and qualified. Vacancies shall be filled by vote of a majority of the remaining members of the Board. Each person so elected shall be a director for the unexpired term or until a successor is elected by the stockholders.

### COMMITTEES

As of the examination date, December 31, 2018, the following committee was appointed by the Board and serving in accordance with the Company's by-laws:

#### Investment Committee

Timothy Bischof  
Erik Holding  
Joel Schwartz

The Company has a number of directors that share duties on multiple committees and Boards with other companies within the holding company structure.

### OFFICERS

As of the examination date, December 31, 2018, the following officers were appointed and serving in accordance with the Company's by-laws:

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<b>Name</b>	<b>Title</b>
Joel H. Schwartz	President
Bruce K. Baude	Executive Vice President, Chief Operations and Technology Officer
Erik M. Holding	Executive Vice President, Chief Financial Officer
Eric R. Johnson	Executive Vice President, Investments
Matthew J. Zimpfer	Executive Vice President, General Counsel and Assistant Secretary
Mark E. Billingsley	Senior Vice President and Valuation Actuary
Karl W. Kindig	Senior Vice President and Secretary
John R. Kline	Senior Vice President and Chief Accounting Officer
Jeffrey M. Kircher	Vice President, Corporate Finance and Treasurer
Marvin R. I. Puymon	Appointed Actuary

## CORPORATE RECORDS

### MINUTES

A compliance review of corporate minutes revealed the following:

- The Annual Meetings of the Company's stockholder were held in compliance with its by-laws.
- The stockholder elects directors at such meetings in compliance with the by-laws.
- The stockholder ratified the prior year's actions of the officers and directors.
- Quorums were present at all directors' meetings.
- The Investment Committee meets quarterly.
- The Company's investment transactions are discussed and reviewed quarterly by the Board.
- All directors attend Board meetings regularly.
- The Company Board meeting's minutes approve the reinsurance contracts.

### ARTICLES OF INCORPORATION

There have been no changes to the Articles of Incorporation during the examination period.

### BY-LAWS

There have been no changes to the by-laws during the examination period.



## SERVICE AND OPERATING AGREEMENTS

The Company is party to various service and operating agreements, which includes intercompany and related-party agreements. The following significant agreements were in place during the examination period:

### **Investment Advisory Agreements:**

All of CNO's insurance companies are parties to various Investment Advisory Agreements with 40|86 Advisors, Inc. (40|86 Advisors), whereby 40|86 Advisors manages the companies' investments and provides investment accounting services. In 2018, the Company's expenses pursuant to this agreement totaled \$1,983,400. This agreement meets the fair and reasonable standards in 40 P.S. § 991.1405(a)(1)(i).

### **Loan Servicing and Origination Agreements (BLCC, CPL, RLIC & WNIC):**

The companies noted above are parties to Loan Servicing and Origination Agreements with 40|86 Mortgage Capital, Inc. (40|86 Mortgage), whereby 40|86 Mortgage provides origination and servicing for the companies' mortgage loans. In 2018, the Company's expenses pursuant to this agreement totaled \$23,117. This agreement meets the fair and reasonable standards in 40 P.S. § 991.1405(a)(1)(i).

### **Tax Allocation Agreement:**

Effective January 1, 2003, the Company joined the CNO and Subsidiaries Amended and Restated Consolidated Income Tax Agreement dated February 4, 1989, as amended and restated, and files a life nonlife consolidated federal income tax return with CNO and its subsidiaries. Pursuant to this agreement, CLTX receives and disburses tax-sharing payments from/to CNO's insurance subsidiaries participating in this agreement. Effective January 1, 2004, the agreement was amended to include various provisions at the request of the Texas Department of Insurance. In 2018, the Company paid \$5,422,908 and \$36,262 in federal and state income taxes, respectively, to CLTX pursuant to this agreement. This agreement meets the fair and reasonable standards in 40 P.S. § 991.1405(a)(1)(i).

### **Services Agreements – Administrative Services:**

All of CNO's insurance companies are parties to Services Agreements with CNO Services, LLC (CNO Services) whereby CNO Services provides certain administrative services. Effective as of May 16, 2018, an amendment was executed to clarify the Special Investigations Unit services already contracted for in the agreement and being provided under the agreement for conformance with the California Insurance Frauds Prevention Act. This amendment was approved by the Department on May 15, 2018. In 2018, the Company's expenses totaled \$123,433,959 pursuant to this agreement. This agreement meets the fair and reasonable standards in 40 P.S. § 991.1405(a)(1)(i).

### **Services Agreement:**

The Company is party to a Services Agreement effective as of January 1, 2010 with BLCC, as initially disclosed in Amendment No. 2 dated November 13, 2009 to the 2008 Annual

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Registration Statement. BLCC provides paymaster services for commissions paid to the BLCC agents contracted and appointed with the Company in order to sell certain products underwritten and issued by the Company as well as BLCC field employees who receive commissions on the sale of these products.

The Company records reimbursement of paymaster services as commissions. In addition, BLCC provides certain marketing and clerical services in support of these products. Effective as of January 1, 2013, Amendment No. 1 was executed to add new Medicare supplement policy forms for new business to be covered under this agreement, after receiving approval by the Department on April 29, 2013. Net expenses incurred for marketing and clerical services under this agreement totaled \$27,906,200 in 2018. This agreement meets the fair and reasonable standards in 40 P.S. § 991.1405(a)(1)(i).

## REINSURANCE

### CEDED

#### Lincoln National Life Insurance Company:

The Company entered into a 100% quota share agreement with an effective date of January 1, 1985. The term of the contract is until the last benefit has been paid under each of the contracts. The details of this contract are as follows:

<u>Reinsured's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of business Covered</u>
0%	None Specified	Structured Settlement Annuities

#### Continental General Life Insurance Company:

The Company entered into a 100% quota share agreement with an effective date of December 31, 1995. The term of the contract is until the last benefit has been paid under each of the contracts. The details of this contract are as follows:

<u>Reinsured's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of business Covered</u>
0%	None Specified	Individual Single Premium Deferred Annuity Contracts

#### Bankers Life and Casualty Company:

Effective July 1, 2010, the Company entered into a coinsurance agreement to cede 80% of its standardized Medicare Supplement business on an automatic basis to BLCC, as disclosed in Amendment No. 4 dated October 14, 2010 to the 2009 Annual Registration Statement. At December 31, 2018, the Company ceded reserves of \$39,841,015 and paid premiums of \$376,036,951 during 2018 pursuant to this agreement. The details of this contract are as follows:

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Reinsured's <u>Retention</u> 20%	Reinsurance <u>Limits</u> None specified	Type of business <u>Covered</u> Medicare supplement policies
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### **Lincoln National Life Insurance Company:**

The Company entered into an excess of loss agreement with an effective date of April 1, 1992. The term of the contract is until the termination or expiration of the insurance reinsured. The details of this contract are as follows:

Reinsured's <u>Retention</u> \$2,000/ month	Reinsurance <u>Limits</u> None specified	Type of business <u>Covered</u> Disability contracts
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### **ASSUMED**

### **Union Security Insurance Company:**

The Company entered into a quota share agreement with an effective date of July 1, 1999. The term of the contract is for the earlier of the date on which there are no further liabilities or the date terminated by mutual agreement. The Company's retention and the reinsurance limits are as follows:

Company's <u>Assumption</u> 100%	Reinsurance <u>Limits</u> None Specified	Type of business <u>Covered</u> Monthly debit ordinary life insurance policies, and AD&D
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## **TERRITORY AND PLAN OF OPERATIONS**

The Company markets primarily graded-benefit and simplified-issue life insurance directly to customers in the senior middle-income market through television advertising, direct mail, and internet and telemarketing. The target market is lower income persons over the age of 60. Policies include level premium, guaranteed issue, which carry limited benefits for the first two years. The Company recently presented a new product called "Living Insurance" where policyholders who develop a severe and specified disease or condition may withdraw up to 50% of the face value of the policy while living to fight the condition. In addition, the Company also sells Medicare supplement insurance products underwritten and issued by the Company through BLCC agents contracted and appointed with the Company and cedes 80% of this business to BLCC.

The Company is licensed in all states with the exception of New York and including the District of Columbia, Puerto Rico, and the Virgin Islands.

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The following chart summarizes the Company's direct, assumed and ceded written premium for the year-ending 2018:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Premium	Percentage of Total
<b>December 31, 2018</b>				
Industrial life	\$ 129,852	\$ 0	\$ 129,852	0.0%
Ordinary life	176,361,198	213,312	176,147,886	46.5%
Group life	101,850,246	20,501	101,829,745	26.9%
Group accident and health	168,297	-	168,297	0.0%
Other accident and health	476,774,491	376,059,142	100,715,349	26.6%
<b>Totals</b>	<b>\$ 755,284,084</b>	<b>\$ 376,292,955</b>	<b>\$ 378,991,129</b>	<b>100.0%</b>

The Company primarily markets graded benefit and simplified issue life insurance directly to customers in the senior middle-income market through television advertising, direct mail, the internet and telemarketing.

### SIGNIFICANT OPERATING TRENDS

The following table indicates changes in key financial items of the Company during the period covered by this examination:

	2018	2017	2016	2015	2014
Admitted Assets	\$ 869,945,089	\$ 868,494,633	\$ 854,721,105	\$ 816,029,942	\$ 742,844,382
Liabilities	\$ 777,515,436	\$ 768,803,993	\$ 758,896,016	\$ 736,769,804	\$ 669,588,638
Capital and Surplus Funds	\$ 92,429,652	\$ 99,690,645	\$ 95,825,090	\$ 79,260,139	\$ 73,255,743
Net Premiums Written	\$ 378,991,130	\$ 366,429,162	\$ 352,452,499	\$ 330,327,389	\$ 303,719,727
Benefits to Members	\$ 242,313,951	\$ 233,522,040	\$ 223,492,296	\$ 212,934,104	\$ 196,968,935
Net Investment Income	\$ 34,863,076	\$ 35,231,285	\$ 34,633,153	\$ 28,763,496	\$ 25,816,842
Net Income	\$ (21,127,609)	\$ (11,719,311)	\$ (1,896,556)	\$ (18,821,217)	\$ (17,074,520)

Since the prior examination, the Company has experienced the following changes in its total number of certificates in-force, the overall amount of insurance in-force, and the average amount of insurance in-force per policy:

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	<u>Certificates In Force</u>	<u>Insurance In Force</u>	<u>Average Policy In Force</u>
<b><u>Ordinary Life</u></b>			
December 31, 2018	474,718	\$ 2,063,389,000	\$ 4,347
December 31, 2013	424,893	1,821,969,000	4,288
Net Increase/(decrease)	<u>49,825</u>	<u>\$ 241,420,000</u>	<u>\$ 59</u>
<b><u>Group Life</u></b>			
December 31, 2018	260,885	\$ 1,435,054,000	\$ 5,501
December 31, 2013	282,387	1,366,833,000	4,840
Net Increase/(decrease)	<u>(21,502)</u>	<u>\$ 68,221,000</u>	<u>\$ 661</u>
<b><u>Industrial Life</u></b>			
December 31, 2018	34,355	\$ 19,614,000	\$ 571
December 31, 2013	38,233	22,198,000	581
Net Increase/(decrease)	<u>(3,878)</u>	<u>\$ (2,584,000)</u>	<u>\$ (10)</u>
<b><u>Ordinary Accident and Health</u></b>			
December 31, 2018	224,009	\$ 102,414,499	\$ 457
December 31, 2013	161,917	69,219,019	427
Net Increase/(decrease)	<u>62,092</u>	<u>\$ 33,195,480</u>	<u>\$ 30</u>
<b><u>Group Accident and Health</u></b>			
December 31, 2018	971	\$ 153,048	\$ 158
December 31, 2013	63	444,687	7,059
Net Increase/(decrease)	<u>908</u>	<u>\$ (291,639)</u>	<u>\$ (6,901)</u>

## PENDING LITIGATION

The Company's General Counsel uses four (4) external law firms and they are as follows: Littler Mendelson PC, Alston and Bird LLP, SK Huffer and Associates, and Bradley Arant.

Various lawsuits against the Company have arisen in the course of the Company's business. Contingent liabilities arising from litigation are not considered material in relation to the financial position, results of operations or cash flow of the Company.

## FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2018, and the results of its operations for the five-year period under examination, are reflected in the following statements\*:

- Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
- Comparative Statement of Income;
- Comparative Statement of Capital and Surplus;
- Comparative Statement of Cash Flow

\*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

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## Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31,

	2018	2017	2016	2015	2014
Bonds	\$ 729,080,502	\$ 720,228,197	\$ 703,384,606	\$ 653,355,635	\$ 595,474,492
Preferred stocks	7,174,168	7,199,287	8,671,410	9,164,586	8,991,997
Common stocks	2,942,749	2,100,700	2,087,100	2,060,600	0
Mortgage loans on real estate	2,308,784	5,326,135	16,673,185	21,778,777	27,397,285
Real estate	7,246,342	7,931,976	8,029,760	6,490,022	6,072,605
Cash, cash equivalents and short-term investments	9,491,487	14,644,178	9,607,642	23,541,095	17,203,668
Contract loans	23,129,904	22,727,103	21,386,853	20,748,941	20,097,961
Other invested assets	9,589,640	9,578,353	8,402,993	8,264,385	2,985,882
Receivable for securities	22,709	0	0	0	0
Subtotal, cash and invested assets	790,988,285	789,735,929	778,243,549	745,424,041	678,223,890
Investment income due and accrued	10,117,938	10,094,009	9,742,131	9,367,502	9,407,692
Premiums and considerations	48,315,049	47,366,995	45,269,560	42,522,486	38,502,741
Amounts recoverable from reinsurers	63,274	203,722	76,037	240	97,025
Other amounts receivable under reinsurance contracts	8,845	7,259	6,108	5,628	8,020
Current federal and foreign income tax recoverable and interest thereon	1,488,371	0	1,082,626	940,842	533,606
Net deferred tax asset	12,056,041	13,003,127	12,498,926	10,338,280	9,555,098
Guaranty funds receivable or on deposit	2,543,695	2,735,096	3,999,927	3,752,886	2,456,091
Receivable from parent, subsidiaries and affiliates	3,024,889	5,006,101	3,725,983	3,650,115	3,033,124
Health care and other amounts receivable	17,390	22,395	30,758	21,922	27,095
Aggregate write-ins for other than invested assets	1,323,312	320,000	45,500	0	0
Total	\$ 869,945,089	\$ 868,494,633	\$ 854,721,105	\$ 816,029,942	\$ 742,844,352
Aggregate reserve for life contracts	\$ 600,229,398	\$ 583,813,700	\$ 570,030,867	\$ 556,706,063	\$ 547,423,238
Aggregate reserve for accident and health contracts	17,842,265	17,529,358	17,662,724	17,441,292	17,344,294
Liability for deposit-type contracts	50,120,416	50,074,029	50,052,183	50,070,715	0
Contract claims:					
Life	17,911,869	23,239,061	21,351,813	25,057,438	27,490,862
Accident and health	10,019,313	10,141,559	9,999,747	8,768,966	8,162,092
Premiums and annuity considerations received in advance	4,441,896	3,916,688	4,066,705	4,175,873	3,994,779
Contract liabilities not included elsewhere:					
Other amounts payable on reinsurance assumed and ceded	6,090,401	4,658,480	5,835,801	2,026,546	876,447
Interest maintenance reserve	16,228,141	19,448,940	20,944,075	22,336,569	22,969,883
Commissions to agents due or accrued	2,466,283	1,751,812	1,605,492	1,509,873	1,557,471
General expenses due or accrued	2,319,124	2,710,737	2,366,743	2,594,719	1,952,659
Taxes, licenses and fees due or accrued	3,446,925	4,213,463	7,521,718	6,553,848	5,249,731
Federal income taxes due or accrued	0	2,088,649	0	0	0
Amounts withheld or retained by company as agent or trustee	93,045	91,695	67,645	36,331	35,580
Remittances and items not allocated	5,188,697	7,363,157	7,020,685	5,106,138	3,917,411
Miscellaneous liabilities:					
Asset valuation reserve	6,279,355	6,566,247	6,294,337	5,645,439	5,273,785
Payable to parent, subsidiaries and affiliates	8,246,312	6,739,767	9,893,034	9,151,980	7,776,574
Funds held under coinsurance	4,220,381	4,163,622	4,104,674	4,045,417	4,372,063
Aggregate write-ins for liabilities	22,368,614	20,252,529	20,055,773	15,602,597	11,189,769
Total liabilities	777,515,436	768,803,993	758,896,016	736,769,804	669,588,638
Common capital stock	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Surplus notes	160,000,000	160,000,000	160,000,000	160,000,000	160,000,000
Gross paid in and contributed surplus	255,177,065	241,677,065	229,377,065	214,377,065	189,877,065
Unassigned funds (surplus)	(325,247,413)	(304,486,420)	(296,051,975)	(297,616,926)	(279,121,322)
Surplus	89,929,652	97,150,645	93,325,090	76,760,139	70,755,743
Total capital and surplus	92,429,652	99,650,645	95,825,090	79,260,139	73,255,743
Totals	\$ 869,945,089	\$ 868,494,638	\$ 854,721,106	\$ 816,029,943	\$ 742,844,381

# Colonial Penn Life Insurance Company

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## Comparative Statement of Income For the Year Ended December 31,

	2018	2017	2016	2015	2014
Premiums and annuity considerations for life and A&H contracts	\$ 378,991,130	\$ 366,429,162	\$ 352,452,499	\$ 330,327,389	\$ 303,719,727
Net investment income	34,863,076	35,231,285	34,633,153	28,763,496	25,816,842
Amortization of interest maintenance reserve (IMR)	1,318,428	1,572,226	1,719,346	1,667,582	1,519,461
Commissions and expense allowances on reinsurance ceded	88,843,704	91,652,083	93,755,134	94,676,326	97,577,187
Miscellaneous Income:					
Aggregate write-ins for miscellaneous income	51,896	51,186	121,045	62,924	3,670
Totals	504,068,234	494,935,942	482,681,177	455,497,717	428,636,887
Death benefits	150,352,099	145,935,217	141,036,503	136,653,538	126,279,474
Matured endowments	1,440,223	1,628,033	1,736,090	1,793,293	1,762,628
Annuity benefits	5,351,997	5,262,952	5,445,753	5,282,056	6,152,990
Disability benefits and benefits under accident and health contracts	73,514,713	70,384,580	65,773,956	60,544,004	53,983,694
Surrender benefits and withdrawals for life contracts	10,048,992	9,080,573	8,566,647	7,742,181	8,464,284
Interest and adjustments on contract or deposit-type funds	1,605,927	1,230,685	933,347	919,032	325,865
Increase in aggregate reserves for life and A&H policies and contracts	16,728,606	13,629,466	13,566,236	9,379,823	(13,284,290)
Totals	259,042,557	247,151,506	237,058,532	222,313,927	183,684,645
Commissions on premiums, annuity considerations & deposit-type funds (direct)	54,073,507	53,183,569	51,887,858	49,999,355	46,039,940
Commissions and expenses allowances on reinsurance assumed	1,265,204	1,212,645	1,309,872	1,507,673	1,438,368
General insurance expenses	182,224,898	175,562,181	188,342,002	172,315,853	169,275,232
Insurance taxes, licenses and fees	22,317,019	22,871,196	21,001,797	19,454,374	17,492,168
Increase in loading on deferred and uncollected premiums	4,398,362	883,158	3,693,830	5,094,020	4,096,909
Aggregate write-ins for deductions	20,010	1,800	0	0	19,030,123
Totals	523,341,557	500,866,055	503,293,891	470,685,202	441,057,385
Net gain from operations before dividends to policyholders and federal income taxes	(19,273,323)	(5,930,113)	(20,612,714)	(15,187,485)	(12,420,498)
Net gain from operations after dividends to policyholders and before federal income taxes	(19,273,323)	(5,930,113)	(20,612,714)	(15,187,485)	(12,420,498)
Federal and foreign income taxes incurred (excluding tax on capital gains)	2,443,559	5,263,089	(19,468,227)	3,192,803	4,100,925
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	(21,716,882)	(11,193,202)	(1,144,487)	(18,380,288)	(16,521,423)
Net realized capital gains or (losses) less capital gains tax (excluding gains/losses transferred to the IMR)	589,273	(526,109)	(752,069)	(440,929)	(553,097)
Net income	\$ (21,127,609)	\$ (11,719,311)	\$ (1,896,556)	\$ (18,821,217)	\$ (17,074,520)

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Colonial Penn Life Insurance Company

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**Comparative Statement of Capital and Surplus  
For the Year Ended December 31, 2018**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Capital and surplus, December 31, previous year	\$ 99,690,643	\$ 95,825,087	\$ 79,260,136	\$ 73,255,741	\$ 61,967,919
Net income	(21,127,609)	(11,719,311)	(1,896,556)	(18,821,217)	(17,074,520)
Change in net unrealized capital gains or (losses)	(47,052)	(148,837)	353,363	(66,852)	9,446
Change in net deferred income tax	6,422,754	(23,466,006)	(11,645,566)	9,083,577	9,421,830
Change in nonadmitted assets	(6,295,978)	27,171,620	15,402,608	(7,529,847)	(8,116,539)
Change in asset valuation reserve	286,892	(271,910)	(648,898)	(371,654)	148,355
Surplus adjustments:					
Paid in	13,500,000	12,300,000	15,000,000	24,500,000	27,000,000
Aggregate write-ins for gains and losses in surplus	0	0	0	(789,612)	(100,750)
Net change in capital and surplus for the year	<u>(7,260,993)</u>	<u>3,865,556</u>	<u>16,564,951</u>	<u>6,004,395</u>	<u>11,287,822</u>
Capital and surplus, December 31, current year	<u>\$ 92,429,650</u>	<u>\$ 99,690,643</u>	<u>\$ 95,825,087</u>	<u>\$ 79,260,136</u>	<u>\$ 73,255,741</u>

For Informational Purposes Only



**Comparative Statement of Cash Flow  
For the Year Ended December 31, 2018**

	2018	2017	2016	2015	2014
<b>Cash from Operations</b>					
Premiums collected net of reinsurance	\$ 374,182,936	\$ 363,276,079	\$ 345,904,427	\$ 322,394,717	\$ 297,336,906
Net investment income	34,557,039	33,835,568	33,452,401	28,546,818	25,927,049
Miscellaneous Income	88,894,015	91,702,117	93,875,699	94,741,641	101,758,483
Total	<u>497,633,990</u>	<u>488,813,764</u>	<u>473,232,527</u>	<u>445,683,176</u>	<u>425,022,438</u>
Benefit and Loss related Payments	246,192,021	232,797,987	222,173,681	213,573,770	197,550,553
Commissions, expenses paid and aggregate write-ins for deductions	258,742,767	252,775,442	260,563,299	242,318,636	250,701,301
Federal and foreign income taxes paid (recovered)	5,422,908	2,504,053	(18,955,100)	3,841,025	5,499,166
Total deductions	<u>510,357,696</u>	<u>488,077,482</u>	<u>463,781,880</u>	<u>459,733,431</u>	<u>453,751,020</u>
Net Cash from Operations	<u>(12,723,706)</u>	<u>736,282</u>	<u>9,450,647</u>	<u>(14,050,255)</u>	<u>(28,728,582)</u>
<b>Cash from Investments</b>					
Proceeds from investments sold, matured or repaid:					
Bonds	135,605,625	87,283,082	77,709,276	71,444,524	46,311,571
Stocks	1,024,357	1,404,443	0	0	7,811
Mortgage loans	2,940,808	11,347,050	5,105,593	5,645,648	2,004,391
Other invested assets	339,328	1,559,494	300,334	564,359	163,094
Net gain or (loss) on cash, cash equivalents and short term investments	(744)	0	0	0	0
Total investment proceeds	<u>139,909,374</u>	<u>101,594,069</u>	<u>83,115,203</u>	<u>77,654,531</u>	<u>48,486,867</u>
Cost of investments acquired (long-term only):					
Bonds	145,199,156	102,165,374	125,784,924	132,811,874	32,227,519
Stocks	1,945,041	13,600	26,500	2,060,600	6,487,455
Real estate	0	628,145	2,074,132	883,259	675,132
Other invested assets	1,137,989	3,199,815	42,813	664,282	1,719,272
Miscellaneous applications	22,709	0	0	38,739	0
Total investments acquired	<u>148,304,895</u>	<u>106,006,934</u>	<u>127,928,369</u>	<u>136,458,754</u>	<u>41,109,378</u>
Net increase (decrease) in policy loans and premium notes	411,357	1,351,046	634,879	673,823	796,549
Net cash from investments	<u>(8,806,878)</u>	<u>(5,763,911)</u>	<u>(45,448,045)</u>	<u>(59,478,046)</u>	<u>6,580,940</u>
<b>Cash from Financing and Miscellaneous Sources</b>					
Cash provided (applied):					
Capital and paid in surplus, less treasury stock	13,500,000	12,300,000	15,000,000	24,500,000	27,000,000
Net deposits on deposit-type contracts and other insurance liabilities	46,387	21,846	(18,533)	50,070,715	0
Other cash provided or (applied)	2,831,507	(2,257,682)	7,082,478	5,295,013	4,119,113
Net cash from financing and miscellaneous sources	<u>16,377,894</u>	<u>10,064,164</u>	<u>22,063,945</u>	<u>79,865,728</u>	<u>31,119,113</u>
<b>Reconciliation of cash and short-term investments:</b>					
Net change in cash and short-term investments	(5,152,690)	5,036,535	(13,933,453)	6,337,427	8,971,471
Cash and short-term investments:					
Beginning of the year	14,644,177	9,607,642	23,541,095	17,203,668	8,232,197
End of the year	<u>\$ 9,491,487</u>	<u>\$ 14,644,177</u>	<u>\$ 9,607,642</u>	<u>\$ 23,541,095</u>	<u>\$ 17,203,668</u>

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**SUMMARY OF EXAMINATION CHANGES**

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

**NOTES TO FINANCIAL STATEMENTS**

**ASSETS**

**INVESTMENTS**

As of December 31, 2018, the Company's invested assets were distributed as follows:

	<b>Amount</b>	<b>Percentage</b>
Bonds	\$ 729,080,502	92.2 %
Preferred stocks	7,174,168	0.9 %
Common stocks	2,942,749	0.4 %
Mortgage loans on real estate	2,308,784	0.3 %
Real estate occupied by Company	7,248,342	0.9 %
Cash	8,785,137	1.1 %
Cash equivalents	706,351	0.1 %
Contract loans	23,129,904	2.9 %
Other invested assets	9,589,640	1.2 %
Receivable for securities	22,709	0.0 %
<b>Totals</b>	<b>\$ 790,988,286</b>	<b>100.0 %</b>

As of December 31, 2018, the Company's bond and short-term investment portfolio had the following quality and maturity profiles:

<b>NAIC Designation</b>	<b>Amount</b>	<b>Percentage</b>
1 - highest quality	\$ 338,293,266	46.4 %
2 - high quality	365,124,179	50.1 %
3 - medium quality	21,889,567	3.0 %
4 - low quality	3,773,490	0.5 %
<b>Totals</b>	<b>\$ 729,080,502</b>	<b>100.0 %</b>

<b>Years to Maturity</b>	<b>Amount</b>	<b>Percentage</b>
1 year or less	\$ 54,044,834	7.4 %
2 to 5 years	99,516,474	13.6 %
6 to 10 years	107,574,982	14.8 %
11 to 20 years	174,251,986	23.9 %
over 20 years	293,692,226	40.3 %
<b>Totals</b>	<b>\$ 729,080,502</b>	<b>100.0 %</b>

## Colonial Penn Life Insurance Company

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The Company has a written investment policy as required by 40 P.S. § 504.1(c). The investment policy is reviewed and approved on an annual basis by the Board. The Company also has a custodial agreement which has been reviewed and is compliant with 31 Pa. Code § 148a.3.

### LIABILITIES

#### POLICYHOLDER AND CLAIM RESERVES

The Company's actuarial reserves as reported in its December 31, 2018 Annual Statement are as follows.

Aggregate Reserves for Life Policies and Contracts	\$ 600,229,398
Aggregate Reserves for Accident & Health Contracts	\$ 17,842,265
Deposit-Type Contracts	\$ 50,120,416
Contract Claims - Life	\$ 17,911,869
Contract Claims - Accident and Health	\$ 10,018,313
Premiums Received in Advance	\$ 4,441,896

The Company's appointed actuary for 2017 and 2018 was Marvin Puymon, FSA, MAAA. The Company's appointed actuary concluded that the December 31, 2018 reserves make an adequate provision for the anticipated cash flows required by the contractual obligations and related expenses of the Company. The Company's appointed actuary also opined that the December 31, 2018 reserves and related actuarial values:

- (a) Are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles,
- (b) Are based on actuarial assumptions which produce reserves at least as great as those called for in any policy and contract provision as to reserve basis and method, and are in accordance with all other contract provisions,
- (c) Meet the requirements of the Insurance Laws and Regulations of the Commonwealth of Pennsylvania, and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed,
- (d) Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the Annual Statement of the preceding year end, and
- (e) Include provision for all actuarial reserves and related statement items which ought to be established.

The Company's appointed actuary also prepared the Actuarial Opinion and the Actuarial Report ("Report"). The Company documented in its minutes that the Report was presented and accepted by the Board on an annual basis during the examination period. For the prior years ended 2016, 2015 and 2014 the Company's appointed actuary was Rebecca Ward-Ross, FSA, MAAA.

In order for the exam team to gain an understanding of the Company's reserving process, Alberts Actuarial Consulting, LLC ("the Actuary") was retained by the lead state Indiana and provided actuarial services for all companies under examination to examine certain actuarial

## Colonial Penn Life Insurance Company

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items in the Company's December 31, 2018 Annual Statement. The Actuary assisted in the risk identification, control testing and necessary substantive testing as needed related to the key actuarial activities. Based upon procedures performed and results obtained, no material deficiencies were identified in the reported actuarial reserves and related actuarial values.

The Department concurred with the conclusion of the Company's appointed actuary that the December 31, 2018 reserves make an adequate provision for all actuarial reserves and related actuarial values.

### SUBSEQUENT EVENTS

The Department is monitoring the impact of the COVID-19 global pandemic. The Department recognizes that COVID-19 could have a significant financial and operational impact on all of its domestic insurers, including the Company. As such, the Department will continue to monitor and share information with the Company as appropriate related to COVID-19 developments.

On March 19, 2019, CNO announced the appointment of Paul McDonough as Chief Financial Officer. This appointment is effective April 1, 2019. Mr. McDonough is an officer of the Company.

On June 20, 2019, CNO announced the appointment of Tim Bischoff as Chief Risk Officer. Prior to this role, Mr. Bischoff served as Senior Vice President and Corporate Actuary with CNO. Mr. Bischoff is an officer of the Company.

On August 29, 2019, CNO Financial Group announced that Karen DeToro, FSA, MAAA, will be appointed Chief Actuary of the Group. Ms. DeToro is an officer of the Company.

On January 14, 2020, CNO announced a new operating model that realigns the Company from three operating business segments into two divisions, Consumer and Worksite. As a result of the consolidation from three operating segments to two divisions, Joel Schwartz, President of the Company, left the Company as of April 10, 2020. CNO began reporting under a different structure as of the first quarter 2020.

### RECOMMENDATIONS

#### PRIOR EXAMINATION

The prior examination report did not contain any report recommendations.

#### CURRENT EXAMINATION

As a result of the current examination, there are no recommendations.

# Colonial Penn Life Insurance Company

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## CONCLUSION

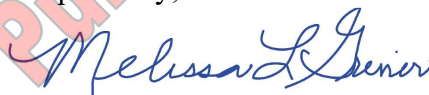
As a result of this examination, the financial condition of Colonial Penn Life Insurance Company, as of December 31, 2018, was determined to be as follows:

	<b>Amount</b>	<b>Percentage</b>
Admitted assets	\$ 869,945,089	100.0 %
Liabilities	\$ 777,515,436	89.4 %
Capital and Surplus	92,429,652	10.6 %
Total liabilities, capital and surplus	\$ 869,945,088	100.0 %

Since the previous examination, made as of December 31, 2013, the Company's assets increased by \$129,658,409, its liabilities increased by \$99,196,676, and its surplus increased by \$30,461,732.

This examination was conducted by David McCauley, Steve Hazelbaker, CPA, FLMI, Victoria Scott, CPA, and Lisa Warrum, CFE, CPA, with the latter in charge.

Respectfully,



Melissa L. Greiner  
Director  
Bureau of Financial Examinations

*William M. Fedak*

William Fedak, CFE  
Examination Manager



Lisa Warrum, CFE  
Examiner-in-Charge

The CFE designation has been conferred by an organization not affiliated with the federal or any state government. However the CFE designation is the only designation recognized by the NAIC for the purposes of directing statutory Association examinations of insurance companies.