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Department of Insurance
State of Idaho

Attorneys for the Department of Insurance

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of:

UNITED HERITAGE LIFE INSURANCE
COMPANY

Certificate of Authority No. 151
NAIC No. 63983

Docket No. 18-3661-19

**ORDER ADOPTING REPORT
OF EXAMINATION AS OF
DECEMBER 31, 2017**

The State of Idaho, Department of Insurance ("Department"), having conducted an examination of the affairs, transactions, accounts, records, and assets of United Heritage Life Insurance Company ("UHLIC"), pursuant to Idaho Code § 41-219(1), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Examination of United Heritage Life Insurance Company as of December 31, 2017 ("Report"), as filed.

FINDINGS OF FACT

1. UHLIC is an Idaho-domiciled insurance company licensed to transact life insurance

and disability insurance, excluding managed care, in Idaho under Certificate of Authority No. 151.

2. The Department completed an examination of UHLIC pursuant to Idaho Code § 41-219(1) on or about May 17, 2019. The Department's findings are set forth in the Report.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on June 5, 2019, and a copy of such verified Report was transmitted to UHLIC on June 6, 2019. A copy of the verified Report is attached hereto as Exhibit A.

4. On or about June 6, 2019, the Department received a Waiver signed by Dennis L. Johnson, President and CEO of UHLIC. By execution of such Waiver, a copy of which is attached hereto as Exhibit B, UHLIC consented to the immediate entry of a final order by the Director of the Department ("Director") adopting the Report without any modifications; waived its right to make a written submission or rebuttal to the Report; and waived its right to request a hearing and to seek reconsideration or appeal from the Director's final order.

CONCLUSIONS OF LAW

5. Idaho Code § 41-227(5)(a) provides that "[w]ithin thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the director shall fully consider and review the report, together with any written submissions or rebuttals and relevant portions of the examiner's work papers" and shall enter an order adopting the report of examination as filed or with modifications or corrections.

6. Having fully considered the Report, the Director concludes that UHLIC meets the minimum capital and deposit requirements set forth in Idaho Code §§ 41-313(1) and 41-316A.

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report

of Examination of United Heritage Life Insurance Company as of December 31, 2017 is hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a).

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted Report is a public record and shall not be subject to the exemptions from disclosure provided in chapter 1, title 74, Idaho Code.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(6)(a), that, within thirty (30) days of the issuance of the adopted Report, UHLIC shall file with the Department's Deputy Chief Examiner affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report and related orders.

IT IS SO ORDERED.

DATED and EFFECTIVE this 11th day of June, 2019.

STATE OF IDAHO
DEPARTMENT OF INSURANCE



DEAN L. CAMERON
Director

NOTIFICATION OF RIGHTS

This Order constitutes a final order of the Director. Any party may file a motion for reconsideration of this final order within fourteen (14) days of the service date of this order. The Director will dispose of the petition for reconsideration within twenty-one (21) days of its receipt, or the petition will be considered denied by operation of law. *See*, Idaho Code § 67-5246(4).

Pursuant to Idaho Code §§ 67-5270 and 67-5272, any party aggrieved by this final order may appeal it by filing a petition for judicial review in the district court of the county in which: (1) the hearing was held; or (2) the final agency action was taken; or (3) the aggrieved party resides or operates its principal place of business in Idaho; or (4) the real property or personal property that was the subject of the agency decision is located. An appeal must be filed within twenty-eight (28) days of: (a) the service date of this final order; or (b) an order denying a petition for reconsideration; or (c) the failure within twenty-one (21) days to grant or deny a petition for reconsideration, whichever is later. *See*, Idaho Code § 67-5273. The filing of a petition for judicial review does not itself stay the effectiveness or enforcement of the order under appeal.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 13th day of June, 2019, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2017 to be served upon the following by the designated means:

United Heritage Life Insurance Company
707 E. United Heritage Court
Meridian, ID 83642
mmcdonald@unitedheritage.com

☐ first class mail
☒ certified mail
☐ hand delivery
☒ email

Nathan Faragher
Chief Examiner, Company Activities Bureau Chief
Idaho Department of Insurance
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DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

Of

UNITED HERITAGE LIFE INSURANCE COMPANY

(Life Insurance Company)

(NAIC Company Code: 63983)

As of

December 31, 2017



TABLE OF CONTENTS

SALUTATIONS.....	3
SCOPE OF EXAMINATION.....	4
<i>Period Covered</i>	4
<i>Examination Procedures Employed</i>	4
<i>Status of Prior Examination Findings</i>	5
SUMMARY OF SIGNIFICANT FINDINGS	5
SUBSEQUENT EVENTS	5
COMPANY HISTORY	5
<i>General</i>	5
<i>Dividends and Capital Contributions</i>	7
<i>Mergers and Acquisitions</i>	8
<i>Surplus Debentures</i>	8
CORPORATE RECORDS	9
MANAGEMENT AND CORPORATE GOVERNANCE.....	9
FIDELITY BONDS AND OTHER INSURANCE	13
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	13
TERRITORY AND PLAN OF OPERATION	14
GROWTH OF THE COMPANY	14
MORTALITY AND LOSS EXPERIENCE	15
REINSURANCE.....	15
<i>Assumed</i>	15
<i>Ceded</i>	15
ACCOUNTS AND RECORDS	16
STATUTORY DEPOSITS	17
FINANCIAL STATEMENTS	18
NOTES TO FINANCIAL STATEMENTS.....	21
SUMMARY OF RECOMMENDATIONS	22
ACKNOWLEDGEMENT	23
AFFIDAVIT OF EXAMINER	24

May 17, 2019

The Honorable Dean L. Cameron
Director of Insurance
State of Idaho
700 West State Street
P.O. Box 83720
Boise, Idaho 83720-0043

Dear Director:

Pursuant to your instructions, in compliance with Idaho Code § 41-219(1) and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2017, of the financial condition and corporate affairs of:

United Heritage Life Insurance Company
707 E. United Heritage Court
Meridian, ID 83642

Hereinafter referred to as the “Company”, at its offices in Meridian, ID. The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

We have performed our full-scope, risk-focused multi-state examination of United Heritage Life Insurance Company. The last exam was completed as of December 31, 2013. This examination covers the period of January 1, 2014, through December 31, 2017.

Examination Procedures Employed

Our examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”) to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Idaho, and insurance rules promulgated by the Idaho Department of Insurance (“Department”). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, and management’s compliance with Statutory Accounting Principles (SSAPs and Annual Statement Instructions when applicable to domestic state regulations).

The Company retained the services of Ernst & Young, LLP, for all the years under examination except as of December 31, 2017, when the Company enlisted the services of JLK Rosenberger, to audit its financial records. The examination did not find material exceptions in the Company’s decision to change external auditors. JLK Rosenberger allowed the examiners access to requested workpapers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The initial phase of the examination focused on evaluating the Company’s corporate governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company’s individual operating profile.

The examination determined the risks associated with identified key functional areas of the Company’s operations and considered mitigating factors. Interviews were held with the senior management of the Company to gain an understanding of the entity’s operating profile and control environment.

The examination relied on the findings of the actuarial firm contracted by the Department to verify pricing and reserves.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

Status of Prior Examination Findings

Our examination included a review to determine the current status of the two exception conditions commented upon in our preceding Report of Examination, dated January 25, 2015, which covered the period from January 1, 2009, to December 31, 2013. We determined that the Company had satisfactorily addressed each of those exception conditions.

SUMMARY OF SIGNIFICANT FINDINGS

Our examination did not disclose any material adverse findings or any adjustments that impacted the Company's reported capital and surplus.

SUBSEQUENT EVENTS

There were no significant subsequent events affecting the Company materially.

COMPANY HISTORY

General

The Company was incorporated on July 7, 1934, as a fraternal benefit society pursuant to the provisions of Title 41, Chapter 32, Idaho Code. The purpose of the Society was to unite members of the Idaho State Grange into a fraternal society to provide for the payment of death, disability, and financial benefits for its members. The Company commenced business on September 10, 1935.

On December 20, 1946, the Articles of Incorporation were amended and the Society was converted to a legal reserve mutual life insurance company. At that time, the Society's name was changed to Grange Mutual Life Company. The Articles of Incorporation were again amended on May 13, 1991, to reflect a name change to United Heritage Mutual Life Insurance Company. The Bylaws were also amended and restated at that time.

In 1993, the Company formed United Heritage Financial Group, Inc. (formerly United Heritage Holdings, Inc.) and United Heritage Financial Services, Inc. Both companies were wholly owned subsidiaries of the Company from 1993 up to August 28, 2001. The Company

converted to a mutual holding company structure at that time and United Heritage Mutual Holding Company, Inc. became the ultimate controlling person. On November 7, 2000, the majority of United Heritage Property & Casualty Company's (formerly Idaho Mutual Insurance Company) stock was acquired by United Heritage Financial Group, Inc. The Company converted to a mutual insurance holding company structure pursuant to Section 41-2855, Idaho Code, effective August 28, 2001. In this connection, Amended and Restated Articles of Incorporation were filed with and approved by the Department of Insurance. Under the Amended and Restated Articles, the name of the Company was changed to United Heritage Life Insurance Company and 1,500,000 shares each with a par value of \$1 were authorized. The Company's Bylaws were also amended and restated at that time to incorporate changes due to the conversion.

United Heritage Mutual Holding Company, Inc. was incorporated on August 23, 2001, pursuant to Section 41-3821, Idaho Code. On August 28, 2001, United Heritage Financial Group, Inc. became a 100 percent wholly owned subsidiary of United Heritage Mutual Holding Company, Inc. through a stock distribution from the Company. Simultaneously, the Company became a wholly owned subsidiary of United Heritage Financial Group, Inc. through a stock exchange.

The First Articles of Amendment to Articles of Incorporation were filed with and approved by the Department of Insurance on December 10, 2001. The amended articles authorized 1,500,000 shares each with a par value of \$5.

United Heritage Financial Group, Inc. acquired Sublimity Insurance Company of Sublimity, Oregon in 2003.

The Company formed United Heritage Marketing Services, Inc., on March 3, 2005, to perform certain marketing and related services on its behalf.

The Company's Bylaws were amended and restated May 16, 2005, whereby Directors shall hold office until their successors are elected and qualified. Furthermore, Directors' terms shall be staggered in conformance with the requirements of Title 41, Idaho Code.

United Heritage Financial Group, Inc. divested the business of United Heritage Financial Services, Inc. on or about March 31, 2007. The remaining corporate entity of United Heritage Financial Services, Inc. was merged into United Heritage Financial Group, Inc. on May 31, 2007.

On April 1, 2013, United Heritage Financial Group, Inc., acquired approximately 95 percent of Merced Property & Casualty Company (formerly Merced Mutual Insurance Company), of Atwater, California. Merced's former policyholders own the remaining 5 percent. On December 17, 2014, following a reverse split of Merced Property & Casualty Company's outstanding common stock, United Heritage Financial Group, Inc., became the sole shareholder. Merced Property & Casualty Company was placed into liquidation effective December 3, 2018.

Dividends and Capital Contributions

As previously stated, the Company converted to a mutual holding company structure and became a stock insurer on August 28, 2001. In this connection, the First Articles of Amendment to Articles of Incorporation provided for authorized capital of \$7,500,000, consisting of 1,500,000 shares of common stock each with a par value of \$5. The shares had uniform rights and were not subject to assessment.

As of the examination date, the Company had 1,000,000 shares of capital stock issued and outstanding with a par value of \$5 per share for a total capital of \$5,000,000. The Company's paid in and contributed surplus at December 31, 2017, was \$4,000,000.

The following exhibit reflects the activity in the capital structure of the Company since its conversion to a stock insurer on August 28, 2001, through December 31, 2017:

Year	Shares Issued/ (Re-deemed)	Common Capital Stock	Gross Paid In & Contributed Surplus	Total Capital and Paid in & Contributed
2001 (1)	\$ 1,000,008	\$ 1,000,008	\$ 4,000,072	\$ 5,000,080
2001 (2)	(1,000,008)	(1,000,008)	(4,000,072)	(5,000,080)
2001 (3)	1,000,008	5,000,040	4,000,040	9,000,080
2003 (4)	(8)	(40)	(40)	(80)
Totals	\$ 1,000,000	\$ 5,000,000	\$ 4,000,000	\$ 9,000,000

(1) Pursuant to the Plan of Reorganization and conversion to a mutual holding company structure, 1,000,000 shares of common stock with a par value of \$1 per share were issued to United Heritage Mutual Holding Company, Inc. on August 28, 2001, for \$5 per share. The shares were simultaneously cancelled and transferred to United Heritage Financial Group, Inc. through a stock exchange.

Eight shares were issued to each Director of the Company in compliance with Idaho Code § 41-2835 under Subscription and Repurchase Agreements executed between the Directors and the Company. Under terms of the agreements, the Directors subscribed to purchase one share of \$1 par value stock for \$10 each.

(2) The First Article of Amendment to Articles of Incorporation raised the par value of the Company's stock from \$1 to \$5 per share. In this connection, all previously issued shares were cancelled on December 13, 2001.

(3) The shares were re-issued on the same date to reflect the change in par value. The increase in common capital stock was funded by a transfer from unassigned funds.

(4) In 2003, Section 41-2835, Idaho Code, was repealed. The shares of stock previously issued to Company Directors were purchased and redeemed on November 21, 2003, for \$10 per share pursuant to Redemption Agreements executed between each Director and the Company.

There were no capital stock transactions during and subsequent to the current examination period.

The following ordinary dividends were issued in accordance with Idaho Code § 41-3812(2) to the parent company, United Heritage Financial Group, during the examination period:

Year	Amount
2014	\$ 1,750,000
2015	\$ 2,500,000
2016	\$ 2,000,000
2017	\$ 2,000,000
Total	<u>\$ 8,250,000</u>

Mergers and Acquisitions

There were no mergers or acquisitions during the examination period.

Surplus Debentures

The Company issued a surplus note to Wilmington Trust, as trustee on September 15, 2005, in the amount of \$7,500,000. This transaction was approved by the Board of Directors on August 25, 2005, and by the Department on August 30, 2005.

Interest on the surplus note is to be paid quarterly, in arrears, beginning December 15, 2005. The Company entered into an interest rate swap agreement for the first five years, which fixed the interest at an annual rate of 7.586 percent. In 2011, the Company agreed to let the interest float at the contractual rate of 3-month LIBOR plus 3.20 percent. Total interest expense incurred during 2017 was \$306,367. The principal amount of the note matures on September 15, 2035. The Company made principal payments in 2011 and 2012 for \$400,000 and \$200,000, respectively. The carrying value of the note remained \$6,900,000 during the examination period.

The surplus note is subordinate and junior in right of payment to the prior payment in full of all policy claims and senior indebtedness. In the event that the Company is subject to liquidation

proceedings, holders of indebtedness, policy claims, and prior claims would be afforded a greater priority under the Liquidation Act and the terms of the Notes and accordingly, would have the right to be paid in full before any payments of interest or principal are made to the holders of the surplus note.

CORPORATE RECORDS

The meetings of the Board of Directors and shareholders were conducted on a quarterly and an annual basis, respectively, for all the years under examination.

Investment transactions were approved by the Board of Directors or the Executive Committee, as required by Idaho Code § 41-704.

The external auditors presented the audited financial statements and required communications to the Company's Audit Committee as required under IDAPA 18.01.62.021.06.

The prior examination report as of December 31, 2013, was distributed to the Board on February 23, 2015, and reviewed at the Board of Directors meeting on March 25, 2015, in accordance with Idaho Code § 41-227(6)(a).

MANAGEMENT AND CORPORATE GOVERNANCE

The bylaws of the Company indicated the number of directors may be no less than five and no more than fifteen.

The following persons served as directors of the Company as of December 31, 2017:

<u>Name and Location</u>	<u>Principal Occupation</u>
Dennis L. Johnson Eagle, ID	President & CEO United Heritage Financial Group
Steve D. Hauschild Spokane, WA	Director of Business Banking Boeing Employees' Credit Union
Diane L. Polscer Wilsonville, OR	Managing Partner Gordon & Polscer

Richard C. Waitley Meridian, ID	President Waitley Associates
John W. Holleran Boise, ID	Retired, Attorney
Michael M. Mooney Boise, ID	Retired, Regional President- Banking
Michael M. Brem Turlock, CA	Retired, Business Executive
Jerome “Tonk” C. Fischer Salem, OR	Certified Public Accountant, President Fischer, Hayes, Joye & Allen, LLC

The Company’s bylaws authorize the Board of Directors to establish Executive, Audit, Compensation, Investment, and other committees it may determine to serve at the pleasure of the full Board of Directors. As of December 31, 2017, the Company’s Board of Directors had established the following committees:

Executive Committee

Dennis L. Johnson
Steve D. Hauschild
Diane L. Polscer

Audit Committee

Jerome C. Fischer
Michael M. Brem
Steven D. Hauschild
Michael M. Mooney

Marketing Committee

Dennis L. Johnson
Michael M. Brem
Steven D. Hauschild
Diane L. Polscer
Richard C. Waitley
Michael M. Mooney

Compensation Committee

Steven D. Hauschild
Diane L. Polscer
Richard C. Waitley
Jerome C. Fischer
John W. Holleran

In addition to the aforementioned committees, United Heritage Financial Group has established the following committees on behalf of the holding company: Investment Committee, Governance/Nominating Committee and Enterprise Risk & Return Management Committee.

The Company’s bylaws provide for principal officers to consist of Chairman of the Board, Vice Chairman of the Board, President, Secretary and Treasurer. Other officers may be appointed at the discretion of the Board of Directors.

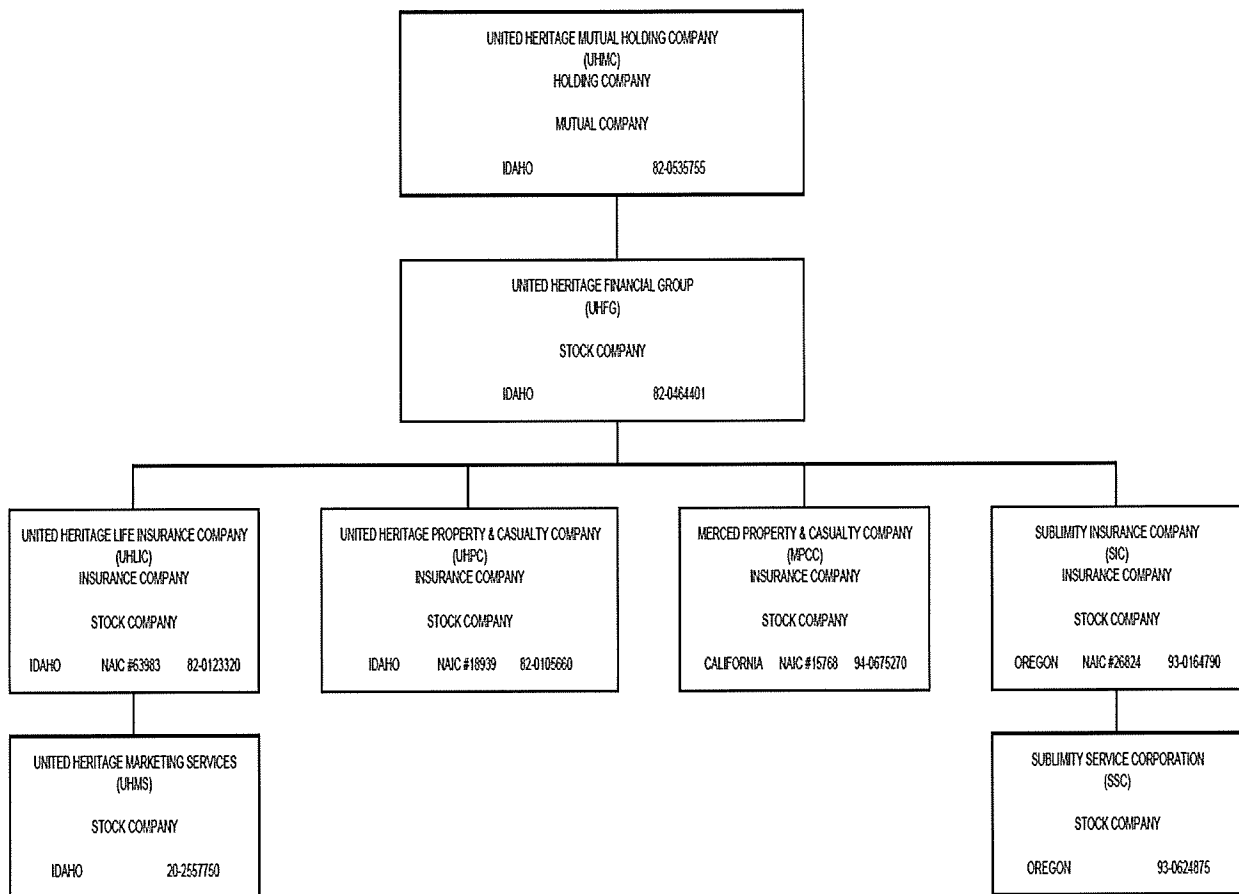
The following persons served as officers of the Company as of December 31, 2017:

Steve D. Hauschild	Chairman of the Board
Diane L. Polsker	Vice Chairman of the Board
Dennis L. Johnson	President, Chief Executive Officer
Jeffrey D. Neumeyer	Secretary, Senior Vice President, General Counsel
Jack J. Winderl	Treasurer, Executive VP, Chief Investment Officer, Chief Operating Officer
Deborah K. Sloan	Senior Vice President, Chief Actuary
Todd H. Gill	Executive Vice President, Chief Financial Officer
Stephen G. Haney	Senior Vice President, Chief Technology Officer
Robert J. McCarvel	Senior Vice President, Chief Marketing Officer
Stefanie A. Thiel	Vice President, Chief HR Officer
Richard S. Nelson	Vice President, Group Marketing
John J. Bellamy	Vice President, Marketing
Dean D. Sandros	Vice President, Investments

The following changes to officers occurred subsequent to the exam period: Marcus S. McDonald joined the Company as Senior Vice President and Chief Financial Officer; Zoe A. Greenfield joined as Vice President Customer Experience; Todd H. Gill was named Chief Operating Officer.

On November 7, 2000, the majority of the Company's stock was acquired by United Heritage Financial Group, Inc. At that time, the Company became a member of an insurance holding company system as defined in Idaho Code § 41-3801. The "Ultimate Controlling Person" within the holding company system was United Heritage Mutual Holding Company, Inc.

The following organizational chart depicts the holding company as of December 31, 2017:



The Company was party to the following related party agreements at December 31, 2017:

Cost Sharing Agreement

Effective October 4, 2013, the Company was party to a Cost Sharing Agreement with UHPC, UHMS, MPCC, SIC, SSC and UHFG. The following services and expenses were shared by the holding company: employee benefit plans, building rent, investment management, human resource management, information technology and services, regulatory and statutory compliance. The agreement is effective continuously until amended or terminated by the parties.

Tax Allocation Agreement

Effective December 31, 2013, the Company was party to a Tax Allocation Agreement with affiliates under which each entity computes and accrues its own tax liability. The consolidated quarterly taxes are filed and paid by UHFG, and payments or credits are settled by members of

the holding company within 30 days. The agreement is effective continuously until amended or terminated by the parties.

Intercompany Loans and Revolving Lines of Credit

On December 8, 2014, the Company agreed to extend a line of credit to its parent, UHFG, with a promissory note in the amount of \$4,000,000, at an adjustable rate based on the Wells Fargo Prime Rate. This agreement matured on March 31, 2018, but was renewed on March 1, 2018, with a new maturity date of February 28, 2023.

Lease Agreements

On October 11, 2013, the Company entered into a lease agreement with UHPC whereby the Company is the lessor as part of the cost sharing agreement. This agreement was renewed effective January 1, 2015.

FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for an insurer of the Company's size and premium volume is not less than \$1,250,000. As of December 31, 2017, the Company had sufficient fidelity bond coverage subject to a loss limit of \$5,000,000.

The Company also had additional insurance protection against Directors and Officers Liability, Employment Practices Liability, and Cyber Coverage Liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

401(k) and Profit Sharing

The Company was a participating employer in the UHFG 401(k) Plan, in which all employees employed for a minimum of one month were eligible to participate. Participating employees may elect to contribute up to the Internal Revenue Service limitations to available investment funds. The Company matches employee contributions up to a maximum of 4% of their salaries. In addition, the Company provides discretionary profit-sharing contributions. The Company incurred \$314,537 in expenses under the plan in 2017.

Deferred Compensation Plan

The Company established a supplemental executive retirement plan to provide incentives to certain executives and officers to remain employed with the Company until retirement. This plan included a component for excess 401(k) and profit sharing for officers who qualify. The value of the plan as of December 31, 2017 was \$460,871, which is included in other liabilities on the balance sheet.

Postretirement Benefit Plan

The Company provided health care benefits for a limited group of retired employees under an unfunded postretirement benefit plan, which provides for the payment of the retired employees' medical insurance premiums. The estimated postretirement benefit obligation for this plan was \$11,973 at December 31, 2017. The net periodic postretirement benefit expense was \$403 in 2017.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company was licensed in the District of Columbia and all states except for New York, to transact the business of life, disability, annuities, and accident and health. The Company offers individual life insurance products targeted to the traditional, preneed, and final expense markets, group life and disability insurance, and a variety of fixed annuity products. The Company distributes its ordinary/traditional products primarily through independent personal producing general agents recruited by regional directors.

The Company targets to the preneed and final expense markets differentiating these markets by products and distribution methods. Preneed products are distributed primarily through funeral homes that are serviced by general agents that specialize in this market, preferably funeral directors. Sales are made either directly in the funeral home or outside the funeral home by agents who have been authorized by the funeral home to act on their behalf. Final expense products are distributed through the general agency system. The Company's group insurance is marketed through the home office and distributed by its personal producing general agents and focuses primarily on school districts, municipalities and hospitals.

GROWTH OF THE COMPANY

The following represents the Company's premium activity and its relationship to surplus over the period of our examination:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Gross Written Premium	\$ 81,459,761	75,746,270	88,176,131	67,825,777
Policyholder Surplus	\$ 63,322,618	61,960,374	59,322,337	58,016,998
Gross Written Premium to Policyholder Surplus Ratio	129%	122%	149%	117%

MORTALITY AND LOSS EXPERIENCE

The following represents the Company's loss experience and its relationship to net premium income over the period of our examination:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net Premium Earned	\$75,441,786	70,456,745	83,125,575	62,952,617
Total Benefits Incurred	\$75,173,710	71,173,024	83,233,882	63,979,616
Total Loss and LAE Incurred to Net Premium Earned (Loss Ratio)	100%	101%	100%	102%

REINSURANCE

Assumed

The Company did not assume any reinsurance business during or subsequent to the period under examination.

Ceded

There were no changes to the Company's ceded reinsurance since the prior examination. At December 31, 2017, the Company reinsured approximately 40 percent of its in-force life insurance with seven authorized reinsurers.

Under the automatic renewal treaties, the Company was reinsured for its ordinary life risks, above its maximum retention limits of \$100,000 up to the reinsurer's specified maximum limit, the highest of which is \$900,000 per risk. Under facultative or facultative option treaties, additional amounts of risks may be ceded subject to the reinsurer's acceptance, as provided for in the agreements.

Under a coinsurance agreement effective January 1, 2000, the Company was reinsured for its "Legacy Term" risks (10-year, 15-year, and 20-year products) on a first dollar, 80 percent quota share basis, to a maximum retention of \$150,000. All other life risks (universal life and whole life) have a \$100,000 retention limit. The reinsurer's maximum limit is \$1,000,000 per life.

Under an automatic treaty, the Company's group life and supplemental life business was reinsured for amounts up to \$70,000 for group life and \$50,000 for supplemental life on a 50 percent quota share per policy basis. For amounts in excess of the above retentions, they were ceded 100 percent to the reinsurer. The reinsurer's maximum limit was a \$1,000,000 combined limit for group and supplemental.

The Company's group long-term disability business was reinsured on an automatic basis whereby the Company ceded 90 percent of its business on a quota share basis. The group term disability business was reinsured on an automatic basis whereby the Company ceded 50 percent of its business on a quota share basis.

All reinsurance agreements contained acceptable provisions for inspection of records, arbitration, termination, and insolvency clauses. All reinsurers were authorized pursuant to Idaho Code § 41-511. Agreements provided for transfer of risk and no apparent surplus relief treaties existed at December 31, 2017.

ACCOUNTS AND RECORDS

The annual independent audits of the Company for the years 2014 through 2016 were performed by Ernst & Young, LLP. JLK Rosenberger performed the annual independent audit for 2017. Audit reports and workpapers were made available for the examination.

STATUTORY DEPOSITS

Pursuant to Idaho Code § 41-316A, the Company was required to maintain a deposit in an amount equal to \$1,000,000. The Company's minimum capital requirement was \$2,000,000 at December 31, 2017. The examination confirmed the Company maintained a statutory deposit with the State of Idaho consisting of bonds with a par value of \$2,320,000, which was adequate to cover the required deposit.

The special deposits maintained by or through regulatory agencies on the policyholders' behalf as of December 31, 2017, were as follows:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Georgia	Certificate of Deposit	35,078	35,078
Idaho	Municipal Bonds	2,322,075	2,489,179
Massachusetts	US Treasury Bond	127,743	135,647
New Mexico	US Treasury Bond	225,735	225,265
North Carolina	Money Market Fund	430,856	430,856
Virginia	Municipal Bonds	250,708	258,280
Total		<u>\$3,392,196</u>	<u>\$3,574,305</u>

FINANCIAL STATEMENTS

Balance Sheet as of December 31, 2017

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds (Schedule D)	\$ 515,065,549	\$ -	\$ 515,065,549
Preferred stocks	15,910,598	-	15,910,598
Common stocks	3,170,845	11,054	3,159,791
First liens	7,136,645	-	7,136,645
Properties occupied by the company	11,001,985	-	11,001,985
Cash (\$448,436), cash equivalents (\$1,035,248)	1,483,685	-	1,483,685
Contract loans (including \$0 premium notes)	5,340,377	-	5,340,377
Other invested assets (Schedule BA)	2,835,297	-	2,835,297
Receivables for securities	832	-	832
Total Cash and Invested Assets	\$ 561,945,814	\$ 11,054	\$ 561,934,760
Investment income due and accrued	8,424,592	-	8,424,592
Uncollected premiums and agents' balances in the course of collection	2,432,958	2,906,473	(473,515)
Amounts recoverable from reinsurers	176,042	-	176,042
Current federal and foreign income tax recoverable and interest thereon	76,135	-	76,135
Net deferred tax asset	1,611,406	-	1,611,406
Guaranty funds receivable or on deposit	70,504	-	70,504
Electronic data processing equipment and software	214,054	-	214,054
Furniture and equipment, including health care delivery assets (\$0)	702,265	-	702,265
Receivables from parent, subsidiaries and affiliates	1,494,889	-	1,494,889
Health care (\$0) and other amounts receivable	114,522	114,522	-
Aggregate write-ins for other than invested assets	24,343	24,343	-
Total Assets	<u>\$577,287,525</u>	<u>\$3,056,393</u>	<u>\$574,231,132</u>

Balance Sheet as of December 31, 2017, continued

LIABILITIES, SURPLUS, AND OTHER FUNDS

Aggregate reserve for life contracts	\$ 469,359,633
Aggregate reserve for accident and health contracts	664,547
Liability for deposit-type contracts (Exhibit 7, Line 14, Col. 1) (including \$0 Modco reserve)	13,236,680
Life (Exhibit 8, Part 1, Line 4.4, Col. 1 less sum of Cpls. 9, 10 and 11)	2,781,355
Accident and health (Exhibit 8, Part 1, Line 4.4, sum of Cls. 9, 10 and 11)	281,229
Policyholders' dividends \$47,131 and coupons \$0 due and unpaid	47,131
Dividends apportioned for payment (including \$0 Modco)	337,425
Part 1, Col. 1, sum of Lines 4 and 14)	55,278
Other amounts payable on reinsurance including \$0 assumed and \$175 ceded	175
Interest maintenance reserve (IMR, Line 6)	14,486,093
Commissions to agents due or accrued-life and annuity contracts \$506,962 accident and health \$120,330	627,292
General expenses due or accrued (Exhibit 2, Line 12, Col. 6)	1,268,682
Taxes, licenses and fees due or accrued, excluding federal income taxes (Exhibit 3, Line 9, Col. 5)	375,852
Unearned investment income	106,835
Amounts withheld or retained by company as agent or trustee	53,377
Amounts held for agents' account, including \$527,690 agents' credit balances	761,907
Remittances and items not allocated	625,486
Borrowed money \$0 and interest thereon \$11,970	11,970
Asset valuation reserve (AVR, Line 16, Col. 7)	5,310,235
Payable to parent, subsidiaries and affiliates	461,897
Payable for securities	43,465
Aggregate write-ins for liabilities	11,973
Total Liabilities	<u>\$ 510,908,514</u>
Common capital stock	5,000,000
Surplus notes	6,900,000
Gross paid in and contributed surplus	4,000,000
Unassigned funds (surplus)	<u>47,422,618</u>
Total Capital Stock and Surplus	<u>\$ 63,322,618</u>
Total Liabilities, Capital Stock and Surplus	<u><u>\$ 574,231,132</u></u>

SUMMARY OF OPERATIONS

For the Year Ending December 31, 2017

Premiums and annuity considerations for life and accident and health contracts	\$ 75,441,786	
Net investment income	32,254,751	
Amortization of Interest Maintenance Reserve	1,997,347	
Miscellaneous income	437,619	
Gross Income		\$ 110,131,503
Death benefits	37,354,732	
Matured endowments (excluding guaranteed annual pure endowments)	42,552	
Annuity benefits	8,308,508	
Disability benefits and benefits under accident and health contracts	771,249	
Surrender benefits and withdrawals for life contracts	16,327,463	
Interest and adjustments on contract or deposit-type contract funds	450,191	
Payments on supplementary contracts with life contingencies	62,948	
Increase in aggregate reserves for life and accident and health contracts	11,856,067	
Totals	75,173,710	
Commissions on premiums, annuity considerations and deposit-type contract funds (direct business only)	13,330,875	
General insurance expenses	12,950,676	
Insurance taxes, licenses and fees, excluding federal income taxes	1,792,481	
Increase in loading on deferred and uncollected premiums	815	
Aggregate write-ins for deductions	(403)	
Total Deductions		103,248,155
Net gain from operations before dividends to policyholders and federal income taxes		\$ 6,883,349
Dividends to policyholders		302,025
Net gain from operations after dividends to policyholders and before federal income taxes		\$ 6,581,324
Federal and foreign income taxes incurred (excluding tax on capital gains)		1,457,064
Net gain from operations after dividends to policyholders and federal income tax and before realized capital gains		\$ 5,124,260
Net realized capital gains less capital gains tax of \$230,026 (excluding taxes of \$1,411,283 transferred to the IMR)		440,130
Net Income		\$ 5,564,390

Reconciliation of Surplus

December 31, 2014 through December 31, 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Capital and surplus, December 31, prior year	\$ 55,397,520	\$ 58,016,998	\$ 59,322,337	\$ 61,960,374
Net income	6,262,733	4,613,365	4,202,742	5,564,390
Change in net unrealized capital gains (losses)	(870,380)	(624,731)	1,177,581	(258,800)
Change in net deferred income tax	143,812	552,762	87,780	(1,164,717)
Change in nonadmitted assets	(451,754)	(410,005)	(166,973)	428,270
Change in reserve on account of change in valuation basis	-	-	-	-
Change in asset valuation reserve	(490,884)	(326,052)	(663,094)	(1,206,898)
Dividends to stockholders	(1,750,000)	(2,500,000)	(2,000,000)	(2,000,000)
Aggregate write-ins for gains and losses in surplus	(224,048)	-	-	-
Net change in capital and surplus for the year*	\$ 2,619,478	\$ 1,305,339	\$ 2,638,036	\$ 1,362,245
Capital and surplus, December 31, current year	<u>\$ 58,016,998</u>	<u>\$ 59,322,337</u>	<u>\$ 61,960,374</u>	<u>\$ 63,322,618</u>

*Totals may be off + or - \$1 due to rounding

Analysis of Changes in Financial Statements Resulting From Examination

There were no adjustments to surplus as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

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

Kemi Akinyemi, FSA, MAAA, of Risk & Regulatory Consulting, LLC, was retained by the Department to perform the actuarial portion of the examination. Risk & Regulatory Consulting, LLC examined the actuarial assumptions and actuarial methods used in determining policy reserves and related actuarial items listed above and as reported in the 2017 Statement of Actuarial Opinion. Based upon their review, Risk & Regulatory Consulting, LLC concluded the year-end 2017 reserves reported by the Company were adequate.

SUMMARY OF RECOMMENDATIONS

Related Party Transactions

Subsequent to the examination period, it was noted that the Company borrowed \$500,000 from affiliate United Heritage Property and Casualty Company without a formal written intercompany loan agreement or promissory note in place. Insurers are required to establish and follow a formal loan approval process pursuant to Idaho Code §§ 41-704 and 41-705.

The examiners recommend that the Companies establish and follow a process to obtain a formal written intercompany loan agreement or promissory note before all transfers of loan funds occur. This process should include proper authorization and loan documentation to meet the standards under Idaho Code §§ 41-704 and 41-705.

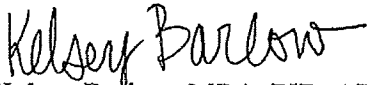
ACKNOWLEDGEMENT

Kemi Akinyemi, FSA, EA, MAAA, and Veronika Cooper, FSA, MAAA, of Risk & Regulatory Consulting, LLC, performed the actuarial phases of the examination. Jenny Jeffers and Joanna Latham of Jennan Enterprises, LLC, performed the Information Systems review. In addition to the undersigned, Jessie Adamson, Financial Examiner, Idaho Department of Insurance, assisted in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

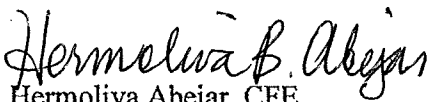
Respectfully submitted,



Clarissa Crisp, CFE
Examiner-in-Charge
Risk & Regulatory Consulting, LLC
Representing the Idaho Department of Insurance



Kelsey Barlow, MBA, PIR, AFE
Participating Examiner
Idaho Department of Insurance



Hermoliva Abejar, CFE
Supervising Examiner
Idaho Department of Insurance

AFFIDAVIT OF EXAMINER

State: Utah
County: Salt Lake

Clarissa Crisp, CFE, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of United Heritage Life Insurance Company for the period January 1, 2014, through December 31, 2017, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.

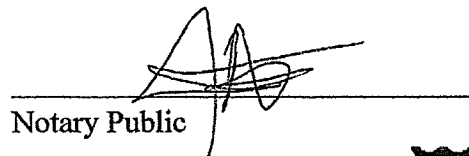
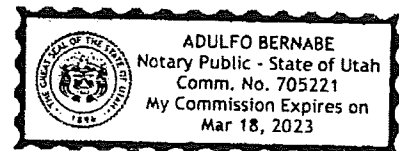


Examiner-in-Charge

Risk & Regulatory Consulting, LLC

On behalf of Idaho Department of Insurance

Subscribe and sworn to before me the 5 day of June, 2019, at Herriman, Utah
(City) (State)


Notary Public

My Commission Expires: March, 18, 2023

BRAD LITTLE
Governor

State of Idaho
DEPARTMENT OF INSURANCE

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

DEAN L. CAMERON
Director

WAIVER

In the matter of the Report of Examination as of December 31, 2017, of the:

**United Heritage Life Insurance Company
707 E. United Heritage Court
Meridian, ID 83642**

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 17th day of May 2019, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 6th day of June, 2019

United Heritage Life Insurance Company

Dennis L. Johnson
Name (print)

Dennis L. Johnson
Name (signature)

President and CEO
Title

