

STATE OF INDIANA )  
 ) SS:  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
**Sterling Investors Life Insurance Company** )  
**10201 North Illinois Street, Suite 280** )  
**Carmel, Indiana 46290** )

Examination of: **Sterling Investors Life Insurance Company**

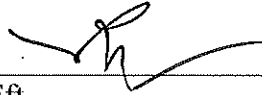
**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Amy L. Beard, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Sterling Investors Life Insurance Company any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on October 1, 2024, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Sterling Investors Life Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

10/31/2024  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Roy Eft  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7018 1130 0001 7982 7083**

STATE OF INDIANA )  
 ) SS: BEFORE THE INDIANA  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
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**Sterling Investors Life Insurance Company** )  
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**Carmel, Indiana 46290** )

Examination of: **Sterling Investors Life Insurance Company**

### **FINDINGS AND FINAL ORDER**

The Indiana Department of Insurance conducted an examination into the affairs of the Sterling Investors Life Insurance Company (hereinafter “Company”) for the time period January 1, 2018 through December 31, 2022.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on June 28, 2024.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on October 1, 2024 and was received by the Company on October 1, 2024.

The Company did not file any objections.

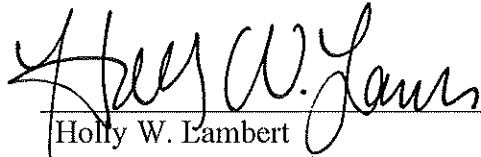
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Sterling Investors Life Insurance Company as of December 31, 2022.
2. That the Examiner’s Recommendations are reasonable and necessary in order for the Sterling Investors Life Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 31 day of  
October, 2024.

  
\_\_\_\_\_  
Holly W. Lambert  
Insurance Commissioner  
Indiana Department of Insurance

## ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

**STATE OF INDIANA**

**Department of Insurance**

**REPORT OF EXAMINATION**

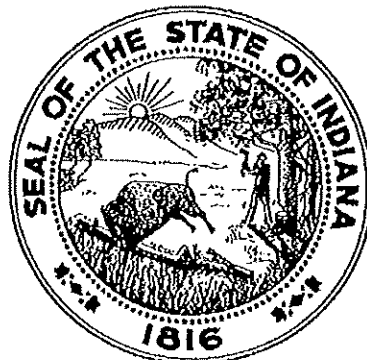
**OF**

**STERLING INVESTORS LIFE INSURANCE COMPANY**

NAIC Co. CODE 89184  
NAIC GROUP CODE 4888

As of

December 31, 2022



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# STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

**Indiana Department of Insurance**

Amy L. Beard, Commissioner  
311 W. Washington Street, Suite 103  
Indianapolis, Indiana 46204-2787  
Telephone: 317-232-2385  
Fax: 317-234-2103  
Website: [in.gov/idoi](http://in.gov/idoi)

June 28, 2024

Honorable Amy L. Beard, Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 4153, an examination has been made of the affairs and financial condition of:

**Sterling Investors Life Insurance Company**  
**10201 North Illinois Street, Suite 280**  
**Carmel, Indiana 46290**

hereinafter referred to as the "Company", or "SILIC", an Indiana domestic stock, life insurance company. The examination was conducted remotely with assistance from the Company's corporate office in Carmel, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2022, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES 317-232-2389	COMPANY COMPLIANCE 317-232-3495	CONSUMER SERVICES 317-232-2395/1-800-622-4461	FINANCIAL SERVICES 317-232-2890	MEDICAL MALPRACTICE 317-232-5253	COMPANY RECORDS 317-232-2383	STATE HEALTH INSURANCE PROGRAM 1-800-452-6800
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## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) and covered the period from January 1, 2013 through December 31, 2017. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2018 through December 31, 2022, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we 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.

Mark Alberts, FSA, MAAA, of Alberts Actuarial Consulting, LLC, appointed by the INDOI, provided all actuarial services throughout the examination and conducted a review of the Company's actuarial related risks as of December 31, 2022.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Indiana Code (IC) 27-1-3.1-10 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.

## HISTORY

SILIC was originally incorporated in 1978 under the laws of the state of Florida. Effective August 31, 2015, SILIC was acquired by SILAC Inc. (formerly SILAC, LLC) and redomesticated to the state of Indiana.

A Form A for the acquisition of Equitable Life & Casualty Insurance Company and Equitable National Life Insurance Company (Equitable Family Insurance Group) by SILAC, Inc. was approved by the Utah Department of Insurance on April 18, 2017.

Equitable Family Insurance Group changed its name to Sterling Financial Insurance Group on April 2, 2020. Additionally, Equitable Life & Casualty Insurance Company was approved by the Utah Department of Insurance on May 19, 2020, to change its name to SILAC Insurance Company (SILAC). SILAC redomesticated to IN on September 22, 2023.

SILIC is a wholly owned subsidiary of SILAC. The ultimate parent company of SILIC is SILAC, Inc. SILAC, Inc. is 30% owned by BTTF Capital, LLC (BTTF) which is considered the managing member. The remaining 70% of BTTF is owned by institutional investors via private placement.



### CAPITAL AND SURPLUS

There were 5,000,000 authorized shares of common stock with a par value of \$1 per share and 2,500,000 shares issued and outstanding throughout the examination period. SILAC owns 100% of the Company's issued and outstanding stock as of the examination date.

### DIVIDENDS TO STOCKHOLDERS

There were no dividends paid during the exam period to the sole shareholder.

### TERRITORY AND PLAN OF OPERATION

SILIC is licensed to write and service a variety of life and health insurance products through a system of general agents in forty-two (42) states, the District of Columbia and three (3) U.S. territories.

Effective January 1, 2020, SILIC ceased marketing all products and ended their relationship with their only producer. The Company began running off existing business in 2020. Management has not stated any future strategic plans for the Company. The Company outsources all essential functions to third party vendors (actuarial, claims, marketing, and underwriting) and an affiliate, SILAC, provides accounting, legal, and compliance functions.

### GROWTH OF THE COMPANY

The following table summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus and Other Funds</u>	<u>Premiums Earned</u>	<u>Net Income</u>
2022	\$ 86,028,477	\$ 72,013,636	\$ 14,014,841	\$ 2,766,959	\$ 381,184
2021	96,809,678	83,278,927	13,530,751	3,082,351	3,002,967
2020	92,250,205	80,683,866	11,566,339	2,257,660	1,693,146
2019	93,700,560	83,445,611	10,254,949	21,317,748	27,707
2018	78,463,330	68,261,493	10,201,837	29,897,109	461,955

The Company entered run-off into 2020. As a result, net premiums decreased from \$21.3 million at year end 2019 to \$2.3 million at year end 2020. In 2021, the Company assumed a closed block of Medicare Supplement business from then affiliate, Sterling National Life Insurance Company, Inc. (SNL). This business continues to be ceded to Aetna.

The Company used several third-party vendors to handle claims, policy services, and investment management. The vendors include Actuarial Management Resources and Winthrop Capital Management.

## MANAGEMENT AND CONTROL

### Directors

The Bylaws provide that the Board of Directors (Board) shall consist of such a number of members, but not less than five (5) nor more than twenty-one (21), as shareholders may determine. All directors shall be of full age and a majority must be citizens of the United States or Canada and one (1) of whom must reside in Indiana. The directors shall be elected at each annual meeting of shareholders or at a special meeting called for the purpose of electing directors.

The following is a listing of persons serving as directors as of December 31, 2022, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
James S. Adams Westfield, Indiana	Vice Chairman and Chief Financial Officer Sterling Investors Life Insurance Company
Ngaire E. Cuneo Naples, Florida	Executive Vice President, Corporate Development Sterling Investors Life Insurance Company
Stephen C. Hilbert Carmel, Indiana	Chairman and Chief Executive Officer Sterling Investors Life Insurance Company
Scott D. Matthews Fishers, Indiana	Chief Legal Officer Sterling Investors Life Insurance Company
Russell K. Mayerfeld Kenilworth, Illinois	Retired/Senior Vice President, Head of Alternative Investment Portfolio Allstate Insurance Company
Michael J. Stone Bradenton, Florida	Retired/President RLI Corporation
William C. Stone Naples, Florida	Chairman and Chief Executive Officer SS & C Technologies

### Officers

The Bylaws state that the Board shall elect a President, a Secretary, and a Treasurer and, in its discretion, may elect a Chairman of the Board, one (1) or more Vice Presidents, one (1) or more Assistant Secretaries, one (1) or more Assistant Treasurers, and such other officers as the Board may deem necessary. The Chairman of the Board and the President shall be directors. Each of these officers is elected by the Board and shall hold office for one (1) year or until their respective successors are elected. See Other Significant Issues below.

The following is a list of key officers and their respective titles as of December 31, 2022:

<u>Name</u>	<u>Office</u>
Stephen C. Hilbert	Chief Executive Officer
G. Daniel Acker	President and Chief Marketing Officer
James S. Adams	Vice Chairman Finance, Treasurer
Ngairé E. Cuneo	Executive Vice President
Scott D. Matthews	Senior Vice President, General Counsel and Secretary
Jennifer E. Dixon	Senior Vice President of Finance

### CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2022.

### OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2022.

### CORPORATE RECORDS

#### Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

#### Bylaws

There were no amendments made to the Bylaws during the examination period.

#### Minutes

The Board meeting minutes were reviewed for the period under examination through the fieldwork date.

IC 27-1-7-7(b) states an annual meeting of shareholders, members, or policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. The Company's Bylaws specify the annual meeting of shareholders is to be held the second Thursday of May. See the Other Significant Issues section below for comments about the shareholder meeting minutes.

The SILAC committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit Committee, Enterprise Risk Management Committee, and Finance and Investment Committee.

## AFFILIATED COMPANIES

### Organizational Structure

The following abbreviated organizational chart shows the Company's parent and subsidiaries or affiliates as of December 31, 2022:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
SILAC, Inc.		DE
Sterling Financial Insurance Group		UT
SILAC Insurance Company	62952	IN
Sterling Investors Life Insurance Company	89184	IN

### Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

#### *Executive Management Services Agreement*

Effective April 18, 2017, SLEMS LLC (SLEMS), an affiliated Indiana limited liability company, (the "Executive Management Services Provider"), Equitable Family Insurance Group, Inc., Equitable Life & Casualty Insurance Company, Equitable National Life Insurance Company, Triad Insurance Administrators, Inc. (collectively "Service Recipients") (Equitable Companies) and SILIC entered into an Executive Management Agreement under which SLEMS will provide executive management services, which include strategic planning, evaluate potential mergers and acquisitions, executive management and oversight, accounting and actuarial management, and legal and compliance services. SLEMS consultants serve as the executive officers of the Service Recipients.

Effective July 1, 2019, a new Executive Management Agreement was entered into between SLEMS II, LLC an Indiana company, the Equitable Companies, and SILIC including Addendum number 1 which references SLEMS, LLC and the subsequent termination of the prior Agreement with that, now dissolved, entity. The Agreement was terminated effective September 30, 2020.

#### *Administrative Service Agreement*

SILAC entered into an Administrative Service Agreement with SILIC under which SILAC may provide policy issuance; agency; premium collection and accounting; claims handling; commission accounting; policy owner; legal and compliance; actuarial; and insurance accounting services to SILIC. SILAC will invoice SILIC for services provided based on hours SILAC employees dedicated to providing services to SILIC. In 2022, SILIC paid no Administrative Service Agreement fees to SILAC.

In 2022, SILAC reimbursed SILIC \$10.9 million for various corporate expenses paid out of the Carmel, Indiana office.

#### *Assumption Agreement*

Effective January 1, 2021, SNL and SILIC entered into an Assumption Agreement, Reinsurance Agreement and Administrative Services Agreement whereby SNL transferred and assigned to SILIC and SILIC accepted, assumed, and agreed to indemnify SNL one hundred percent (100%) of any and all remaining liabilities of SNL. On May 18, 2021, the INDOI issued a non-disapproval letter.

Effective May 3, 2021, SILIC entered into a reinsurance agreement with SNL to reinsure 100% of the policy liabilities of SNL. In a separate stock purchase agreement, SILAC sold the shares of SNL to Independent Insurance Group, LLC.

SNL appointed SILIC as the administrator for the SNL policies in force as of December 31, 2020 due to the pending sale of SNL to Independent Insurance Group, LLC. This Agreement was effective January 1, 2021.

*Tax Consolidation Agreement*

The Company entered into the Second Amended and Restated Tax Consolidation Agreement effective July 1, 2021, between the Company and the parent, SILAC. The Affiliated Group (defined as the Company and SILAC) will file consolidated U.S. federal income tax returns with each entity paying the amount due which it would have paid if it had filed a "stand alone" tax return.

**FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by National Union Fire Insurance Company of Pittsburgh. The bond has a single loss coverage limit of \$2 million, and aggregated limit of liability of \$4 million with a \$50,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force as of December 31, 2022, including but not limited to cyber insurance, directors' and officers' liability, and professional liability.

**PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS**

The Company has no defined benefit plans, defined contribution plans or multiemployer plans. The Company does not participate in a consolidated/holding company plan. The Company has no unaccrued obligation for postemployment benefits.

### SPECIAL AND STATUTORY DEPOSITS

The Company reported the following deposits, as of December 31, 2022:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Indiana	\$ 1,647,177	\$ 1,466,779
All Other Special Deposits:		
Arkansas	121,128	110,271
Florida	1,509,612	1,380,197
Georgia	355,959	337,186
Kentucky	28,368	28,368
Massachusetts	138,359	121,541
Missouri	754,091	670,022
New Mexico	287,348	265,432
North Carolina	477,891	447,987
Ohio	136,202	118,895
South Carolina	255,930	224,429
Virginia	253,750	229,334
Guam	50,207	50,207
North Mariana Islands	26,976	26,976
Total Deposits	<u>\$ 6,042,998</u>	<u>\$ 5,477,624</u>

### REINSURANCE

#### Assumed Reinsurance

The Company assumes a minimal amount of renewal life business from Sagacor Life Insurance Company (formerly American Founders Life Insurance Company) under an agreement effective October 4, 1991. This business is subsequently 90% ceded to Hannover Life Reassurance Company of America (Hannover Life Re).

Effective November 1, 2017, the Company entered into a quota share reinsurance agreement with Puritan Life Insurance Company of America (PLICIA). Per the agreement, the percentage of quota share varies by production year and the amount of premiums for policies sold pursuant to the contract. The types of policies reinsured under this agreement are single premium whole life and 10-pay combination policies. Effective January 8, 2020, this agreement was terminated.

In 2021, there was an Assignment and Novation of Coinsurance Agreement made effective January 1, 2021, between SNL, Sterling Investors Life Insurance Company and Aetna. SNL assigned 100% of its Medicare Supplement policies and the reinsurance contract with Aetna to the Company.

### Ceded Reinsurance

The Company cedes life and annuity business to various unaffiliated insurers, under agreements entered into during 2000 and prior. The majority of the amount in force for contracts issued before 2000 is reinsured with Lincoln National Life, Munich American and Security Life of Denver Insurance Company.

The following summarizes the more recent material reinsurance agreements with unaffiliated insurers.

For the "Old Sterling" block of business (primarily life, universal life, and annuity business) and the Sagacor business mentioned in the Assumed Reinsurance section, the Company cedes to Hannover Life Re through a 90% quota share agreement.

For the "Grand Pac" block of business (assumption reinsurance for policies written in Hawaii and the Pacific Rim-primarily life, universal life, and annuity business), the Company cedes 100% to Hannover Life Re.

For the Medicare Supplement (Med Supp) block of business (Company's written Med Supp), there are two (2) significant quota share treaties. For the older Med Supp plans (1990 standardized plan and prior), these policies are ceded 75% to Hannover Life Re (for specific states) or 75% to Mutual of Omaha (for different specific states). Effective with the 2010 Med Supp standardized plans, this block of business is ceded 90% to Mutual of Omaha via a quota share contract as well.

Effective January 1, 2013, Sterling began writing "Sterling direct" life and annuity business that is the same policy form, premium rate structure, and reserve method as the Investors Heritage Life (IHL) assumed business in PLICA. This "Sterling direct" business is administered by IHL and is ceded 75% to IHL. In July 2014, this block was sold to PLICA. PLICA was then sold in October 2014 to an unrelated party.

Additionally, beginning in 2021, following the Assignment and Novation of Coinsurance Agreement with SNL (noted in the Assumed Reinsurance section above), SNL novated its reinsurance agreement with Aetna to the Company thereby ceding 95% of the related Med Supp business from SNL to Aetna.

The new life and annuity products written in 2016 and 2017 are reinsured with Optimum Re Insurance Company through an automatic and facultative Yearly Renewable Term agreement. The Company is splitting 50/50 the \$50,000 retention with American Heritage Life Insurance Company.

### ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balance prepared from the Company's general ledger for the year ended December 31, 2022 was agreed to the Annual Statement. The Annual Statement for the year ended December 31, 2022 was agreed to the independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

The following financial statements are based on the statutory financial statement filed by the Company with the Indiana Department of Insurance and present the financial condition of the Company for the period ending December 31, 2022. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

## FINANCIAL STATEMENTS

### STERLING INVESTORS LIFE INSURANCE COMPANY

#### Assets

As of December 31, 2022

	<u>Per Company</u>
Bonds	\$ 76,888,637
Mortgage loans on real estate:	
First liens	384,357
Cash, cash equivalents and short-term investments	1,450,391
Contract loans	11,349
Derivatives	181,841
Other invested assets	<u>1,399,232</u>
Subtotals, cash and invested assets	80,315,807
Investment income due and accrued	933,144
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	3,750
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,077
Accrued retrospective premiums	
Reinsurance:	
Amounts recoverable from reinsurers	3,382,999
Other amounts receivable under reinsurance contracts	293,858
Net deferred tax asset	587,475
Guaranty funds receivable or on deposit	64,819
Electronic data processing equipment and software	23,504
Receivables from parent, subsidiaries and affiliates	167,045
Aggregate write-ins for other than invested assets	<u>245,999</u>
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>86,028,477</u>
Totals	<u>\$ 86,028,477</u>



STERLING INVESTORS LIFE INSURANCE COMPANY  
Liabilities, Surplus and Other Funds  
As of December 31, 2022

	Per Company
Aggregate reserve for life contracts (Note 1)	\$ 56,021,673
Aggregate reserve for accident and health contracts	2,044,827
Liability for deposit-type contracts	2,267,360
Contract claims:	
Life	634,349
Accident and health	371,201
Provision for policyholders' dividends, refunds to members and coupons payable in following calendar year-estimated amounts:	
Policyholders' dividends and refunds to members apportioned for payment	2,000
Premiums and annuity considerations for life and accident and health contracts received in advance less discount; including accident and health premiums	9,893
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance, including assumed and ceded	3,771,904
Interest maintenance reserve	207,204
Commissions to agents due or accrued-life and annuity contracts, accident and health and deposit-type contract funds	42,687
General expenses due or accrued	3,326,037
Taxes, licenses and fees due or accrued, excluding federal income taxes	544,527
Current federal and foreign income taxes on realized capital gains (losses)	53,502
Amounts held for agents' account, including agents' credit balances	1,088,506
Remittances and items not allocated	155,163
Miscellaneous liabilities:	
Asset valuation reserve	1,148,988
Aggregate write-ins for liabilities	323,815
Total liabilities excluding Separate Accounts business	72,013,636
Total liabilities	72,013,636
Common capital stock	2,500,000
Gross paid in and contributed surplus	8,800,395
Unassigned funds (surplus)	2,714,446
Surplus	11,514,841
Total Surplus and Other Funds	14,014,841
Totals	\$ 86,028,477

STERLING INVESTORS LIFE INSURANCE COMPANY  
Summary of Operations  
For the Year Ended December 31, 2022

UNDERWRITING INCOME	<u>Per Company</u>
Premiums and annuity considerations for life and accident and health contracts	\$ 2,766,959
Net investment income	3,273,773
Amortization of Interest Maintenance Reserve	5,532
Commissions and expense allowances on reinsurance ceded	4,839,100
Miscellaneous Income:	
Aggregate write-ins for miscellaneous income	3,941
Total	<u>10,889,305</u>
Death benefits	1,606,142
Matured endowments (excluding guaranteed annual pure endowments)	23,266
Annuity benefits	3,175,961
Disability benefits and benefits under accident and health contracts	1,198,554
Surrender benefits and withdrawals for life contracts	7,761,084
Interest and adjustments on contract or deposit-type contract funds	50,512
Payments on supplementary contracts with life contingencies	869,498
Increase in aggregate reserves for life and accident and health contracts	<u>(10,231,340)</u>
Totals	4,453,677
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	3,087,025
Commissions and expense allowances on reinsurance assumed	367
General insurance expenses and fraternal expenses	1,343,877
Insurance taxes, licenses and fees, excluding federal income taxes	543,781
Aggregate write-ins for deductions	1,773
Totals <sup>1</sup>	<u>9,430,499</u>
Net gain from operations before dividends to policyholders, refunds to members and federal income taxes	1,458,806
Dividends to policyholders and refunds to members	<u>815</u>
Net gain from operations after dividends to policyholders, refunds to members and before federal income taxes	1,457,991
Federal and foreign income taxes incurred (excluding tax on capital gains)	<u>820,574</u>
Net gain from operations after dividends to policyholders, refunds to members and federal income taxes and before realized capital gains or (losses)	637,417
Net realized capital gains (losses) (excluding gains (losses) transferred to IMR) less capital gains tax of (\$202,253) (excluding taxes of (\$76,586) transferred to IMR)	<u>(256,233)</u>
Net income	<u>\$ 381,184</u>

<sup>1</sup> The balances include immaterial rounding differences.

STERLING INVESTORS LIFE INSURANCE COMPANY  
Capital and Surplus Account Reconciliation

	2022	2021	2020	2019	2018
Surplus as regards policyholders, December 31 prior year	\$ 13,530,751	\$ 11,566,339	\$ 10,254,949	\$ 10,201,837	\$ 9,753,318
Net income	381,184	3,002,967	1,693,146	27,707	461,955
Change in net unrealized capital gains or (losses) less capital gains tax	-	-	-	336,036	(336,036)
Change in net unrealized foreign exchange capital gain (loss)	(13,582)	(1,587)	2,323	(84,871)	(12,788)
Change in net deferred income tax	370,132	(574,354)	(519,104)	(28,922)	5,529
Change in nonadmitted assets	(162,431)	(275,355)	396,115	6,847	462,754
Change in asset valuation reserve	(91,212)	(187,259)	(261,090)	(203,685)	(132,895)
Change in surplus as regards policyholders for the year <sup>2</sup>	484,090	1,964,412	1,311,390	53,112	448,520
Surplus as regards policyholders, December 31 current year <sup>2</sup>	<u>\$ 14,014,841</u>	<u>\$ 13,530,751</u>	<u>\$ 11,566,339</u>	<u>\$ 10,254,949</u>	<u>\$ 10,201,837</u>

<sup>2</sup> The balances include immaterial rounding differences.

## COMMENTS ON THE FINANCIAL STATEMENTS

Note 1-Aggregate reserve for life contracts

\$59,521,673

The captioned amount is \$3,500,000 more than the \$56,021,673 reported by the Company in its 2022 annual statement.

In the opinion of the exam team, results of the cash flow testing (CFT) model, used to perform the asset adequacy analysis in accordance with VM-30 of the NAIC Valuation Manual, were overstated due to several issues: i) projected annuity surrender and withdrawal rates in a level interest rate scenario were understated by approximately half compared with 2022 actual experience, and the Company's dynamic lapse formula did not generate any significant increase in surrenders and withdrawals in increasing interest rate scenarios; ii) the Company's CFT results are sensitive to increasing interest rates, and the interest rate scenarios used to determine asset adequacy did not adequately stress increasing interest rates; iii) unit expenses were projected to drop by 65% over 10 years, with no appropriately documented support for the improvement; iv) an Excel projection of accident & health results incorporated in the CFT model was found to use inappropriate assumptions and oversimplified projection methods, potentially overstating profits from this business; and v) negative IMR arising from projected realized losses was modeled, although negative IMR was non-admitted under 2022 statutory accounting guidance.

With the assistance of the Company's appointed actuary, the examiners reperformed the 2022 CFT, substituting assumptions that, in the examining actuary's professional judgment, are appropriate to address these issues. On this assumption basis, an additional reserve of \$3,500,000 was needed to meet the requirements of VM-30.

It is recommended that the following changes be immediately made to the CFT methods and assumptions:

1. Surrender and withdrawal rate assumptions, including dynamic lapse formulas, should be adjusted so that surrender and withdrawal rates are projected to be no lower than recent actual rates in a similar interest rate environment and meaningfully higher than recent actual rates in increasing interest rate scenarios.
2. The Actuarial Opinion Memorandum should explicitly document the Appointed Actuary's review of the interest rate scenarios, along with support for his conclusion that the increasing interest rate scenarios reflect moderately adverse conditions. Such support should consider long-term patterns of interest rates.
3. The Actuarial Opinion Memorandum should document detailed support for the expense assumptions, including inflation assumptions and any assumed reductions to future expense assumptions. This documentation should evidence explicit consideration of the key components of the Company's expenses – including third party administration fees, fees of public accountants and consulting actuaries, investment management expenses, fixed and variable internal company expenses and overhead, taxes, licenses and fees, and any consideration of expense allowances on reinsurance ceded – and how those components are expected to change over time.
4. The CFT projections, and the determination of any additional asset adequacy reserve, should exclude projected accident & health results until such time as the Indiana Department of Insurance concludes that deficiencies in the accident & health projections have been resolved.
5. The initial IMR balance, including any negative IMR balance, should be included in the CFT model. Any future IMR balances should reflect statutory limits on the admissibility of negative IMR, including the schedule expiration of INT 23-01.

<b>Analysis of Changes to Surplus</b>			
Surplus on December 31, 2022, per Annual Financial Statement			\$ 11,514,841
	<b><u>Increase</u></b>	<b><u>Decrease</u></b>	
Note 1 - Aggregate reserve for life contracts		\$ (3,500,000)	
Net Increase/(decrease)			\$ (3,500,000)
Surplus at December 31, 2022, after adjustment			\$ 8,014,841

The INDOI notified the examination team that a Form D filing was made on September 20, 2024, between SILIC and SILAC regarding a potential new reinsurance transaction with a proposed effective date of September 1, 2024. The Company represents that one of the purposes of this transaction is to help mitigate the future financial impact of the methodology and assumption issues discussed in Note 1 of this Report of Examination.

### **OTHER SIGNIFICANT ISSUES**

#### **Shareholders Meetings**

Indiana Code 27-1-7-7(b) requires an annual meeting of shareholders, members, or policyholders shall be held within five (5) months after the close of each fiscal year of the corporation and at such time within that period as the bylaws may provide.

It was determined that the Company did not hold the shareholder meetings within the prescribed timeline for years ending 2018 through 2022.

Recommendation: The Company should hold shareholder meetings in accordance with IC 27-1-7-7(b).

#### **Change of Auditors**

Based on information obtained from the Indiana Department of Insurance and Company provided documents, examiners have determined that the Company did not notify the Department of the change in auditors in accordance with IC 27-1-3.5-8 (c) & (d) and 760 IAC 1-78-5 (c).

Recommendation: It is recommended the Company comply with IC 27-1-3.5-8 (c) & (d) and 760 IAC 1-78-5.

### **SUBSEQUENT EVENTS**

There were no events subsequent to the examination date and prior to the completion of field work which were considered material events requiring disclosure in this Report of Examination.


**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that they, in coordination with staff assistance from Noble Consulting Services, Inc., and actuarial assistance from Alberts Actuarial Consulting, LLC performed an examination of Sterling Investors Life Insurance Company, as of December 31, 2022.

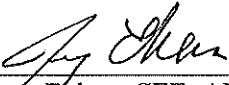
The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of the condition of the Sterling Investors Life Insurance Company as of December 31, 2022, as determined by the undersigned.

  
\_\_\_\_\_  
Brad Neff, CFE  
Noble Consulting Services, Inc.

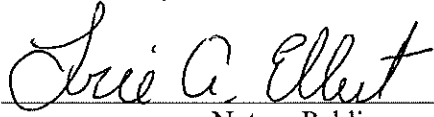
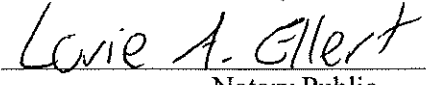
Under the Supervision of:

  
\_\_\_\_\_  
Jerry Ehlers, CFE, AES  
Examinations Manager  
Indiana Department of Insurance

State of: Indiana  
County of: Marion

On this 13<sup>th</sup> day of June, 2024, before me personally appeared, Brad Neff and Jerry Ehlers, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires: July 11, 2025   
\_\_\_\_\_  
Notary Public  
  
\_\_\_\_\_  
Notary Public

