

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

IN THE MATTER OF: )  
 )  
Heartland National Life Insurance Company )  
9100 Keystone Crossing, Suite 600 )  
Indianapolis, IN 46240 )

Examination of: **Heartland National Life Insurance Company**

**NOTICE OF ENTRY OF ORDER**

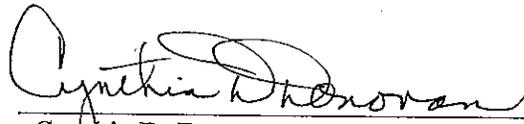
Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Heartland National Life Insurance Company any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, 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 Heartland National 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.

Date

9/29/2016



Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 91 7190 0005 2720 0063 3474**

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9100 Keystone Crossing, Suite 600 )  
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Examination of: **Heartland National Life Insurance Company**

**FINDINGS AND FINAL ORDER**

The Indiana Department of Insurance conducted an examination into the affairs of the Heartland National Life Insurance Company (hereinafter "Company") for the time period January 1, 2008 through December 31, 2014.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on May 29, 2016.

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 August 9, 2016 and was received by the Company on August 12, 2016

On September 6, 2016 pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2014.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance 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, as amended, 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, as amended. 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 and Sealed this 29<sup>th</sup> day of September, 2016.

  
Stephen W. Robertson  
Insurance Commissioner

## 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.

A handwritten signature in black ink, appearing to read "Michael W. [unclear]". The signature is written in a cursive style and is located at the bottom of the page.

**STATE OF INDIANA**

**Department of Insurance**

**REPORT OF EXAMINATION**

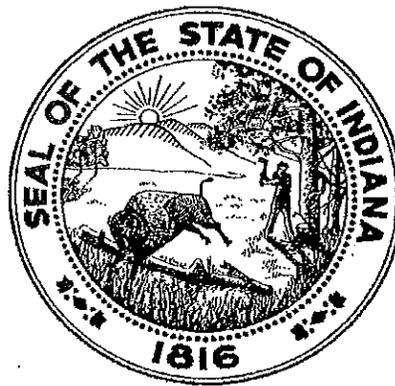
**OF**

**HEARTLAND NATIONAL LIFE INSURANCE COMPANY**

**NAIC COMPANY CODE 66214**

As of

December 31, 2014



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# STATE OF INDIANA

# IDOI

MICHAEL R. PENCE, Governor

**Indiana Department of Insurance**

311 W. Washington Street, Suite 300

Indianapolis, Indiana 46204-2787

Telephone: (317) 232-2385

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Stephen W. Robertson, Commissioner

May 27, 2016

Honorable Stephen W. Robertson  
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 3886, an examination has been made of the affairs and financial condition of:

**Heartland National Life Insurance Company**  
**9100 Keystone Crossing, Suite 600**  
**Indianapolis, Indiana 46240**

an Indiana domestic life and health insurance company hereinafter referred to as the "Company." The examination was conducted at the main administrative offices of the Company located at 1600 NE Coronado Drive, Blue Springs, Missouri 64014.

The Report of Examination, showing the status of the Company as of December 31, 2014, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES (317) 232-2413    COMPANY COMPLIANCE (317) 233-0697    CONSUMER SERVICES (317) 232-2395    EXAMINATIONS/FINANCIAL SERVICES (317) 232-2390    MEDICAL MALPRACTICE (317) 232-2402    COMPANY RECORDS (317) 232-5692    STATE HEALTH INSURANCE PROGRAM 1-800-332-4674  
1-800-622-4461

## SCOPE OF EXAMINATION

During the examination that was conducted for the period from January 1, 2008 to December 31, 2012, the Examination Team noted a significant number of corporate governance issues (not solvency) within the operations of the Company and by its owner. Based upon these issues and concerns, the Indiana Department of Insurance (INDOI) determined the examination would not be completed, and no examination report would be produced as of December 31, 2012. **(Please see the “Other Significant Findings” section of this report regarding this issue.)**

This risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) as a continuation of the examination referenced above covering the period from January 1, 2008 through December 31, 2014, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by Larson & Company PC for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

The actuarial firm of Merlinos & Associates, Inc. was appointed by the INDOI and conducted a review of the following accounts as of December 31, 2014: Aggregate Reserves for Life Contracts, Aggregate Reserves for Accident and Health Contracts, Liability for Deposit Type Contracts, and Contract Claims for Accident and Health.

In accordance with the 2014 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company, and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, the Examiners performed an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## HISTORY

The Company was incorporated on April 12, 1965 as Modern Dixie Life Insurance Company and commenced business on July 14, 1965 under the laws of the State of Mississippi. On August 12, 1969, the Company's name was changed to Dixie National Life Insurance Company (Dixie). On October 2, 1995, Standard Life Insurance Company of Indiana acquired 99.5% of the issued and outstanding shares of the Company. The Company's state of domicile was changed from Mississippi to Indiana effective June 30, 2004. Effective September 24, 2008, Heartland Holding Company, Inc. (HHC) purchased 99.5% of the total 1,500,000 outstanding shares of the Company. The acquisition of the Company by HHC was approved by the INDOI through a Form A Filing on September 10, 2008. HHC renamed the Company Heartland National Life Insurance Company.

## CAPITAL AND SURPLUS

Pursuant to the provisions of its Articles of Incorporation, the Company has 5,000,000 authorized common shares with a par value of \$1.00 per share. As of December 31, 2014, the Company's total capital and surplus was \$4,297,079 which included: common capital stock of \$1,500,000, consisting of 1,500,000 issued and outstanding shares; gross paid-in contributed surplus of \$9,547,722; unassigned funds (surplus) of (\$6,750,467); and less treasury stock of \$176. As of December 31, 2014, HHC owned 99.5% and various individual shareholders owned .5% of the outstanding shares.

## DIVIDENDS TO STOCKHOLDERS

There were no common stock dividends declared or paid during the period covered by this examination.

## TERRITORY AND PLAN OF OPERATION

The Company is licensed in twenty-one (21) states, with Florida, Indiana, Mississippi, Missouri, and Texas accounting for approximately 60% of its total business produced during 2014. The Company's primary business had been the sale and administration of life insurance and annuity business through independent agents. Effective January 1, 1999, the Company ceased selling new life and annuity business. In June 2009, the Company began selling Medicare Supplement, Hospital Indemnity, and Cancer policies.

The Company has agreements with three third party administrators (TPA) to provide services for its current policyholders and to service its legacy life and annuity business. Guggenheim Life and Annuity Company, who acquired the Company's former parent, Standard Life Insurance Company of Indiana, continues to service a small block of life, annuity, and supplementary contract business. Madison National Life Insurance Company also continues to service and reinsure, on a 100% coinsurance basis, a small block of life and annuity business. Equitable Life & Casualty Insurance Company (ELCIC) has been the Company's TPA for all new business written since 2009. ELCIC handles policy issuance functions, underwriting, policy administration, and claims processing.

## GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	<u>Premium Income</u>	<u>Net Income (Loss)</u>
2014	\$9,846,541	\$5,549,462	\$4,297,079	\$5,165,920	\$542,301
2013	8,954,831	5,628,733	3,326,098	4,047,710	(72,684)
2012	8,438,186	4,508,319	3,929,867	2,183,275	424,219
2011	6,960,684	3,339,059	3,621,625	1,380,203	(71,939)
2010	6,213,865	2,999,838	3,214,027	707,354	15,924
2009	6,929,358	3,303,596	3,625,762	74,480	(113,600)
2008	5,641,319	1,634,411	4,006,908	6,082	(5,230)

The steady growth in net premiums earned during the period covered by this examination was primarily attributed to the Company's increased sales and renewal premiums associated with its Medicare Supplement product.

## MANAGEMENT AND CONTROL

### Directors

The Restated Articles of Incorporation stipulate that the business and affairs of the Corporation shall be managed by its Board of Directors and that the number of directors of the corporation shall not be less than nine (9), nor more than twenty-one (21). The following is a listing of persons serving as directors as of December 31, 2014:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Harold L. Daniel Springfield, Missouri	President Leading Edge Insurance Agency, Inc.
Billy L. Ellsworth Blue Springs, Missouri	Vice President Heartland National Life Insurance Company
Patricia A. Kurth Grain Valley, Missouri	Treasurer and Secretary Heartland National Life Insurance Company
Christopher M. McDaniel Lee Summit, Missouri	President Heartland National Life Insurance Company
Justin T. Mitchell Cameron, Missouri	Insurance Agent Self Employed
Bryan R. Neary Omaha, Nebraska	President CSG Actuarial, LLC
Albert H. Sochor Oklahoma City, Oklahoma	Vice President Old Surety Life Insurance Company

Contrary to the provisions of its Restated Articles of Incorporation, the Company only had seven (7) elected directors. In addition, as of December 31, 2014, the Company's Board of Directors did not include at least one director who resided in the state of Indiana as required by Indiana Code (IC) 27-1-7-11. **(Please see the "Other Significant Findings" section of this report of examination regarding these issues.)**

### Officers

The officers of the Company, as defined in the Bylaws, shall consist of a President, one (1) or more Vice-Presidents, a Treasurer, a Secretary, and such assistant treasurers, assistant secretaries or other officers as may be elected or appointed by the Board of Directors. The officers elected by the Board of Directors and serving as of December 31, 2014, were as follows:

<u>Name</u>	<u>Title</u>
Christopher M. McDaniel	President
Patricia A. Kurth	Secretary and Treasurer
Billy L. Ellsworth	Vice President

### **Corporate Governance**

The Company established several committees, each governed by a charter that was approved by the Board of Directors. The committees formed by the Board of Directors as of December 31, 2014, are shown below:

#### **Executive Committee:**

Christopher M. McDaniel	Chairman
Patricia A. Kurth	
Bryan R. Neary	

#### **Investment Committee:**

Christopher M. McDaniel	Chairman
Patricia A. Kurth	
Bryan R. Neary	

#### **Audit Committee:**

Christopher M. McDaniel	Chairman
Bryan R. Neary	
Albert H. Sochor	

### **CONFLICT OF INTEREST**

The Company has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any director, officer, or employee, which is likely to conflict with their official duties. From a review of the officers and directors signed statements, there were no material conflicts of interest noted for the period under examination.

### **OATH OF OFFICE**

IC 27-1-7-10(i) requires 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 corporation and will not knowingly violate any of the laws applicable to such corporation. Each director serving during the period signed an Oath of Office statement when elected.

## CORPORATE RECORDS

### **Articles of Incorporation**

The Company amended and re-stated its Articles of Incorporation on June 18, 2012 to comply with the provisions of Missouri law in conjunction with a plan of redomestication to the state of Missouri. The amendments to the Restated Articles of Incorporation also increased the size of the board, as specified in the Management and Control section of this report of examination.

### **Bylaws**

The Company amended and re-stated its Bylaws on June 18, 2012 to comply with the provisions of Missouri law in conjunction with a plan of redomestication to the state of Missouri.

### **Minutes**

The Board of Directors and Shareholders Meeting minutes were reviewed for the period under examination through the fieldwork completion date, and significant actions taken during each meeting were noted. From a review of the Shareholders minutes, it was noted that the Annual Shareholders Meetings were not held within the first five (5) months of the year, contrary to the provisions of IC-27-1-7-7(b), which requires the Annual Shareholders Meeting to be held within five (5) months of the fiscal close of December 31. In addition, a Shareholders Meeting was not held in 2014. **(Please see the “Other Significant Findings” section of this report of examination regarding these issues.)**

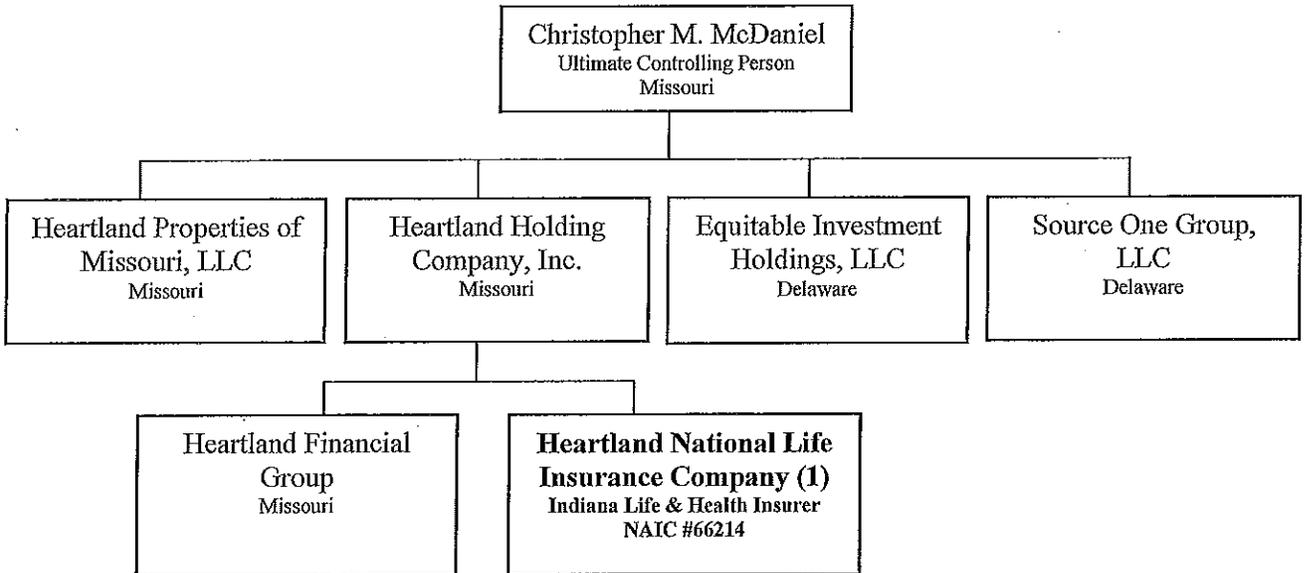
Contrary to the requirements of IC 27-1-7-12, the Company did not keep a record of the attendance of directors at the meetings of the board showing the names of the directors, the number of meetings of the board (regular and special), the number of meetings attended, and the number of meetings from which each director was absent. Furthermore, there was no evidence that the report was read and incorporated into the minutes of the Annual Meeting of the Shareholders. **(Please see the “Other Significant Findings” section of this report of examination regarding these issues.)**

## AFFILIATED COMPANIES

### **Organizational Structure**

The Company is a member of an insurance holding company system as defined within IC 27-1-23 and Regulation of Insurance Holding Company Systems. An Insurance Holding Company System Registration Statement was filed annually with the INDOI for each year of the examination period. The following organizational chart depicts the Company’s relationship within the holding company system. All companies are 100% owned, unless otherwise indicated by the ownership footnotes.

## Organizational Chart



### Ownership footnotes:

(1) HHC 99.5%, Third Party Investors .5%

### Affiliated Agreements

The following significant affiliated agreements were disclosed as part of the Form B Holding Company Registration Statement and were filed with, and not disapproved by, the INDOI in accordance with IC 27-1-23-4(b)(4).

#### National Marketing Services Agreement

On April 20, 2009, the Company and Heartland Financial Group (HFG) entered into a National Marketing Services Agreement, whereby the Company's insurance products are marketed and sold by HFG in return for an agreed commission schedule. During 2014, the Company incurred \$646,178 in sales commissions to HFG under this agreement. This was paid in the first quarter of 2015.

#### Administrative Agreement

HHC and American Insurance Administrators, LLC (AIA), a non-affiliated company, entered into an Administrative Agreement dated October 1, 2011, whereby AIA provides certain administrative services to the Company related to the sale of its policies, such as the printing marketing materials. Within the AIA Administrative Agreement, HHC establishes a fee for AIA's services related to premium production for the sales of the Company's policies. During 2014, the Company paid HHC \$31,956, which in turn is paid to AIA as a pass-through for AIA's services to the Company under the AIA Administrative Agreement.

### Supervising General Agent's Agreement

As amended on October 1, 2011, National Service Group of AmeriLife, LLC (AmeriLife), a non-affiliated company, and HHC are party to a Supervising General Agent's Agreement. Under the agreement, some of the Company's products are marketed and sold by AmeriLife in return for an agreed product development fee. Under the terms of the agreement, HHC establishes a fee for AmeriLife's services related to the premium production for the sales of certain Company insurance policies. During 2014, the Company paid HHC \$94,901, which in turn it paid to AmeriLife as a pass-through for AmeriLife's services to the Company.

### Management Services Agreement

HFG provides management and administrative services to the Company through a Management Services Agreement, effective as of January 1, 2014. Services include product development, finance, treasury management, accounting, financial reporting, reinsurance sourcing, facilities management, legal and compliance, other tax reporting and compliance, marketing, sales management, technology, human resources, disaster recovery, and purchasing. During 2014, the Company paid HFG \$148,540 for services received under the terms of the Management Services Agreement.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from fraudulent or dishonest acts through a fidelity bond issued by National Union Fire Insurance Company of Pittsburgh, Pa. The bond provides coverage with a single and aggregate loss limit of \$250,000 and a deductible of \$25,000. The fidelity bond exceeds the prescribed minimum coverage specified by the NAIC. Other various interests of the Company are protected by appropriate policies of insurance.

### **STATUTORY AND SPECIAL DEPOSITS**

The Company reported statutory and special deposits comprised of U.S. Treasury Notes held by various Departments of Insurance as of December 31, 2014:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Deposits for the Benefit of All Policyholders:		
Indiana	\$ 1,511,406	\$ 1,636,185
All Other Special Deposits:		
Florida	110,932	111,289
Georgia	49,208	53,305
Kansas	246,042	266,525
New Mexico	101,688	107,289
South Carolina	<u>151,270</u>	<u>151,758</u>
Total Deposits	<u>\$ 2,170,546</u>	<u>\$ 2,326,351</u>

## REINSURANCE

### **Reinsurance Assumed**

The Company did not assume any business during the period covered by this examination.

### **Reinsurance Ceded**

#### Life Insurance

All of the Company's life business is associated with a closed block of business issued by its predecessor, Dixie. On June 9, 2006, Dixie entered into a Coinsurance Agreement and an Administration Agreement with Madison National Life Insurance Company (Madison) by which Madison agreed, respectively, to fully reinsure on a 100% coinsurance basis and to administer all coinsured individual life insurance policies and annuity contracts issued or assumed by Dixie. The business ceded to Madison comprised 100% of the Company's ceded life reserves as of December 31, 2014.

#### Accident and Health

Effective January 1, 2009, the Company entered into an Automatic Reinsurance Coinsurance Agreement with ELCIC, whereby ELCIC agreed to reinsure the Company's Standardized Medicare Supplement business on a 95% coinsurance basis. The agreement is subject to an overall reinsured limit of \$20,000,000 in annualized premium.

Effective December 1, 2010, the Company entered into a coinsurance treaty with Mutual of Omaha (MOO), whereby MOO agreed to reinsure the Company's Modernized Medicare Supplement business on a 95% coinsurance basis.

## RESERVES

Benjamin M. Cohen, FSA, MAAA, of Wakely Actuarial Services, Inc., was the Company's Appointed Actuary. Mr. Cohen was appointed by the Board of Directors to render an actuarial opinion on the statutory-basis reserves of the Company for all years covered by this examination.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining reserves and related actuarial items, as shown in the Annual Statement of the Company, as prepared for filing with state regulatory officials, as of December 31, 2014. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used, and such tests of the calculations as considered necessary.

The 2014 opinion stated that the amounts carried in the balance sheet on account for policy reserves and related actuarial items: 1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles, 2) are based on actuarial assumptions which produce reserves at least as great as those called for in any policy or contract provision as to reserve basis and method, and are in accordance with all other contract provisions, 3) meet the requirements of Indiana insurance law and regulations and are at least as great as the minimum aggregate amounts required by the State of Indiana, 4) 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 5) include provisions for all actuarial reserves and related statement items that ought to be established.

### ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The detail trial balance prepared from the Company's general ledger for the year ending December 31, 2014, was agreed to the Annual Statement without exception. The Company's independent auditors issued unqualified opinions on the Company's audited Statutory Financial Statements for each year during the examination period. The audited Statutory Financial Statements were agreed to the Annual Statement for the year ending December 31, 2014, with no exceptions noted. All of the independent audit work papers were made available to the Examiners during the examination.

The Company's accounts and records are maintained using electronic data processing with the exception of certain items entered manually into the general ledger. The Company maintains adequate supporting work papers, which were reviewed during the examination. The Information Systems controls were reviewed in this examination, and no material exceptions were noted to the control practices and procedures.

From a review of the internal controls, it was determined that the Company's current Information Systems possess most of the physical and internal controls as prescribed by the NAIC.

Overall, the Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

**FINANCIAL EXHIBITS**

Comparative Exhibit – Statutory Statement of Assets  
Comparative Exhibit – Statutory Statement of Liabilities, Surplus, and Other Funds  
Comparative Exhibit - Statutory Summary of Operations  
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

**HEARTLAND NATIONAL LIFE INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Assets**

As of December 31, 2014

	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
<b>Assets:</b>				
Bonds	\$ 3,943,270	\$ -	\$ 3,943,270	\$ 3,877,428
Cash, cash equivalents and short-term investments	<u>3,756,767</u>	-	<u>3,756,767</u>	<u>2,759,573</u>
Subtotals, cash and invested assets	<u>\$ 7,700,037</u>	\$ -	<u>\$ 7,700,037</u>	<u>\$ 6,637,001</u>
Investment income due and accrued	\$ 41,339	\$ -	\$ 41,339	\$ 41,423
Uncollected premiums and agents' balances in the course of collection	3,612	-	3,612	2,604
Amounts recoverable from reinsurers	1,431,849	-	1,431,849	1,690,406
Other amounts receivable under reinsurance contracts	392,056	-	392,056	452,139
Current federal and foreign income tax recoverable and interest thereon	47,728	-	47,728	-
Net deferred tax asset	207,489	-	207,489	87,428
Guaranty funds receivable or on deposit	19,731	-	19,731	43,830
Aggregate write-ins for other than invested assets	<u>2,700</u>	-	<u>2,700</u>	-
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>\$ 9,846,541</u>	\$ -	<u>\$ 9,846,541</u>	<u>\$ 8,954,831</u>
<b>Total</b>	<u><u>\$ 9,846,541</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,846,541</u></u>	<u><u>\$ 8,954,831</u></u>

**HEARTLAND NATIONAL LIFE INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus, and Other Funds**

As of December 31, 2014

	<b>Per Annual Statement</b>	<b>Exam Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
<b>Liabilities:</b>				
Aggregate reserve for life contracts	\$ 435,368	\$ -	\$ 435,368	\$ 496,854
Aggregate reserve for accident and health contracts	660,989	-	660,989	604,253
Liability for deposit-type contracts	42,263	-	42,263	66,151
Contract claims: Accident and Health	764,882	-	764,882	609,572
Policyholder dividends	53,800	-	53,800	25,800
Other amounts payable on reinsurance	1,885,177	-	1,885,177	2,356,181
Interest Maintenance Reserve	2,049	-	2,049	7,456
General expenses due or accrued	454,155	-	454,155	767,329
Taxes, licenses, and fees due or accrued, excluding federal income taxes	224,039	-	224,039	249,397
Current federal and foreign income taxes	-	-	-	22,310
Amounts withheld or retained by company as agent or trustee	85	-	85	89
Amounts held for agents' account, including agents' credit balances	992,284	-	992,284	236,208
Remittances and items not allocated	22,691	-	22,691	15,304
Asset valuation reserve	3,771	-	3,771	3,570
Payable to parent, subsidiaries, and affiliates	-	-	-	158,833
Escheat funds	7,909	-	7,909	9,426
Total liabilities excluding Separate Accounts business	\$ 5,549,462	\$ -	\$ 5,549,462	\$ 5,628,733
<b>Total liabilities</b>	<b>\$ 5,549,462</b>	<b>\$ -</b>	<b>\$ 5,549,462</b>	<b>\$ 5,628,733</b>
Common capital stock	\$ 1,500,000	\$ -	\$ 1,500,000	\$ 1,500,000
Gross paid in and contributed surplus	9,547,722	-	9,547,722	9,547,722
Unassigned funds (surplus)	(6,750,467)	-	(6,750,467)	(7,721,448)
Less treasury stock, at cost	176	-	176	176
Surplus	\$ 2,797,079	\$ -	\$ 2,797,079	\$ 1,826,098
<b>Total capital and surplus</b>	<b>\$ 4,297,079</b>	<b>\$ -</b>	<b>\$ 4,297,079</b>	<b>\$ 3,326,098</b>
<b>Totals</b>	<b>\$ 9,846,541</b>	<b>\$ -</b>	<b>\$ 9,846,541</b>	<b>\$ 8,954,831</b>

**HEARTLAND NATIONAL LIFE INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Summary of Operations**

For the year ended December 31, 2014

	<b>Per Annual Statement</b>	<b>Exam Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
Premiums for life and accident and health contracts	\$ 5,165,920	\$ -	\$ 5,165,920	\$ 4,047,710
Net investment income	184,320	-	184,320	170,459
Amortization of Interest Maintenance Reserve	5,407	-	5,407	5,180
Commission and expense allowances on reinsurance ceded	6,172,484	-	6,172,484	7,563,107
Aggregate write-ins for miscellaneous income	25,880	-	25,880	65,260
<b>Total</b>	<b>\$ 11,554,012</b>	<b>\$ -</b>	<b>\$ 11,554,012</b>	<b>\$ 11,851,716</b>
Death benefits	\$ -	\$ -	\$ -	\$ 15,490
Disability benefits and benefits under accident and health contracts	1,612,427	-	1,612,427	1,578,774
Surrender benefits and withdrawals for life contracts	16,941	-	16,941	15,077
Interest and adjustments on contract or deposit-type contract funds	(1,111)	-	(1,111)	2,615
Payments on supplementary contracts with life contingencies	60,891	-	60,891	62,849
Increase in aggregate reserves for life and accident and health contracts	(4,750)	-	(4,750)	130,894
<b>Totals</b>	<b>\$ 1,684,398</b>	<b>\$ -</b>	<b>\$ 1,684,398</b>	<b>\$ 1,805,699</b>
Commissions on premiums, annuity considerations, and deposit-type contract funds	5,635,719	-	5,635,719	6,220,324
General insurance expenses	2,784,374	-	2,784,374	3,134,086
Insurance taxes, licenses and fees, excluding federal income taxes	768,421	-	768,421	727,915
Aggregate write-ins for deductions	850	-	850	4,218
<b>Totals</b>	<b>\$ 10,873,762</b>	<b>\$ -</b>	<b>\$ 10,873,762</b>	<b>\$ 11,892,242</b>
Net gain from operations before dividends to policyholders and federal income taxes	\$ 680,250	\$ -	\$ 680,250	\$ (40,526)
Dividends to policyholders	28,000	-	28,000	-
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 652,250	\$ -	\$ 652,250	\$ (40,526)

Federal and foreign income taxes incurred	<u>109,949</u>	-	<u>109,949</u>	<u>32,470</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	<u>\$ 542,301</u>	-	<u>\$ 542,301</u>	<u>\$ (72,996)</u>
Net realized capital gains (losses)	-	-	-	312
<b>Net Income</b>	<u><b>\$ 542,301</b></u>	<u>-</u>	<u><b>\$ 542,301</b></u>	<u><b>\$ (72,684)</b></u>

**HEARTLAND NATIONAL LIFE INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Capital and Surplus Account**

	2014	2013	2012	2011	2010	2009	2008
<b>Capital and Surplus Account:</b>							
Capital and surplus, December 31, prior year	\$ 3,326,098	\$ 3,929,867	\$ 3,621,625	\$ 3,214,027	\$ 3,625,762	\$ 4,006,908	\$ 3,007,492
Net income	\$ 542,301	(72,684)	424,219	(71,939)	15,924	(113,600)	(5,230)
Change in net deferred income tax	(74,959)	262,501	(6,332)	(40,358)	84,822	13,060	2,781
Change in nonadmitted assets	503,840	(793,532)	(109,519)	518,297	(512,352)	(280,361)	(2,781)
Change in asset valuation reserve	(201)	(55)	(76)	1,730	(135)	(245)	4,646
Change in treasury stock	-	-	(50)	(132)	6	-	-
Surplus Adjustment : Paid in	-	-	-	-	-	-	1,000,000
Net change in capital and surplus for the year	\$ 970,981	\$ (603,770)	\$ 308,242	\$ 407,598	\$ (411,735)	\$ (381,146)	\$ 999,416
Capital and surplus, December 31, current year	\$ 4,297,079	\$ 3,326,098	\$ 3,929,867	\$ 3,621,625	\$ 3,214,027	\$ 3,625,762	\$ 4,006,908

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2014, based on the results of this examination.

### OTHER SIGNIFICANT FINDINGS

During the examination that was conducted for the period from January 1, 2008 to December 31, 2012, the Examination Team noted a significant number of corporate governance issues (not solvency) within the operations of the Company and by its owner. Based upon these issues and concerns, the INDOI began working directly with Company management to initiate corrective corporate governance mitigation strategies. At that time, it was determined the examination would not be finalized, and no examination report would be produced as of the December 31, 2012 examination date.

Based upon the progress made by the Company during 2015 in implementing revisions to its corporate governance, the INDOI continued the examination through December 31, 2014. The examination was to determine if appropriate mitigation strategies were initiated and maintained by the Company and its new management team. Those mitigation strategies included, but were not limited to, establishing a new independent Board of Directors with appropriate experience to establish corporate governance leadership going forward, hiring a new CEO, making all necessary filings with the appropriate regulatory authorities, complying with the provisions of its Third Party Administrator Agreement, properly allocating related party expenses, and accurately disclosing transactions in the Annual Statement.

The examiners determined the appropriate mitigation strategies, as they pertain to corporate governance, were in fact implemented and are being maintained by the Company and its new management team. However, the following issues were noted as a result of this examination.

#### Directors

Contrary to the provisions of its Restated Articles of Incorporation, the Company only had seven (7) elected directors which is less than the required minimum of nine (9) directors. In addition, as of December 31, 2014, the Company's Board of Directors did not include at least one (1) director who resided in the state of Indiana as required by IC 27-1-7-11.

Subsequent to the period covered by this examination, a new Board of Directors was elected to serve the Company. The INDOI determined that the number of directors complies with IC 27-1-7-10. As a result, no recommendation regarding the number of directors is considered necessary for purposes of this examination. In addition, subsequent to the period covered by this examination, an Indiana resident was elected to the Company's Board of Directors. **(Please see the "Subsequent Events" section of this report of examination.)**

#### Annual Shareholders Meetings

The Company's Annual Shareholders Meetings were not held within the first five (5) months of the year contrary to the provisions of IC-27-1-7-7(b), which require the Annual Shareholders Meeting to be held within five (5) months of the fiscal close of December 31. The Company's Bylaws state that the Annual Shareholders Meeting shall be held on the second Wednesday in June each year, at 1:30 p.m. It was also noted that an Annual Shareholders Meeting was not held in 2014.

Subsequent to the period covered by this examination, the Company took corrective action to comply with the provisions of IC-27-1-7-7(b). (Please see the "Subsequent Events" section of this report of examination.)

#### Record of Director Attendance

During the period covered by this examination, contrary to the requirements of IC 27-1-7-12, the Company did not keep a record of the attendance of directors at the meetings of the board showing the names of the directors, the number of meetings of the board (regular and special), the number of meetings attended, and the number of meetings from which each director was absent. Furthermore, there was no evidence that this report was read and incorporated in the minutes of the Annual Shareholders Meeting.

Subsequent to the period covered by this examination, the Company took corrective action to comply with the provisions of IC 27-1-7-12. (Please see the "Subsequent Events" section of this report of examination.)

### SUBSEQUENT EVENTS

#### **Board of Directors**

In 2015, the Company appointed a new Board of Directors which is primarily comprised of members that are independent from the Company. The following is a listing of persons serving as directors as of the date of this report of examination:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Steven N. Dozier Prattville, Alabama	President The River Marketing Group, LLC
Bernard A. Garner (Chairman) Independence, Missouri	Attorney Allen Garner Law, LLC
Gregory D. Jacobs Zionsville, Indiana	Consulting Actuary Milliman, Inc.
Dennis A. Taylor Noblesville, Indiana	President and Chief Executive Officer Heartland National Life Insurance Company
Vernon R. Woelke Colleyville, Texas	Investment Management Consultant Woelke Family Limited Partnership

## **Officers**

On June 2, 2015, the Board of Directors elected the following officers:

<u>Name</u>	<u>Title</u>
Dennis A. Taylor	President and Chief Executive Officer
Christopher M. McDaniel	Chief Marketing Officer and Reinsurance
Patricia A. Kurth	Secretary and Treasurer
Dennis E. Carter	Assistant Treasurer

## **Appointed Actuary**

On June 2, 2015, the Board of Directors designated Bryan R. Neary of CSG Actuarial as the Company's Appointed Actuary.

## **Shareholders Meetings and Record of Director Attendance**

The Company held an Annual Shareholders Meeting on May 26, 2016. As a result, the Company is now in compliance with the provisions of IC-27-1-7-7(b). Also, in accordance with the requirements of IC 27-1-7-12, the Company now maintains a report of the attendance of directors at the meetings of the board showing the names of the directors, the number of meetings of the board (regular and special), the number of meetings attended, and the number of meetings from which each director was absent. This report was read and incorporated in the minutes of the Annual Shareholders Meeting held on May 26, 2016.

## **MANAGEMENT REPRESENTATION**

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the Examiners.



**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc. and Merlino & Associates, Inc., performed an examination of the **Heartland National Life Insurance Company** as of **December 31, 2014**.

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

The examination was performed in accordance with those procedures required by the 2014 NAIC *Financial Condition Examiner's 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 standard 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 condition of the **Heartland National Life Insurance Company** as of **December 31, 2014**, as determined by the undersigned.

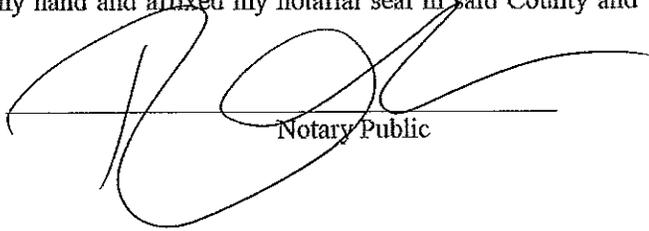
  
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**D. Patrick Huth, CFE**  
**The Thomas Consulting Group, Inc.**

State of: Ohio  
County of: Cuyahoga

On this 9<sup>th</sup> day of September, 2016, before me personally appeared, D. Patrick Huth, 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 \_\_\_\_\_

  
\_\_\_\_\_  
Notary Public



**ROBERT B. HOLMAN, Attorney at Law**  
**Notary Public, State of Ohio**  
**My commission has no expiration date.**  
**Section 147.03 O.R.C.**

