

Report
of the
Examination of
American Family Life Insurance Company
Madison, Wisconsin
As of December 31, 2011

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. HISTORY AND PLAN OF OPERATION	4
III. MANAGEMENT AND CONTROL	6
IV. AFFILIATED COMPANIES	8
V. REINSURANCE	13
VI. FINANCIAL DATA	17
VII. SUMMARY OF EXAMINATION RESULTS	27
VIII. CONCLUSION.....	29
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	30
X. ACKNOWLEDGMENT	31
XI. SUBSEQUENT EVENT.....	32



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

October 29, 2012

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

AMERICAN FAMILY LIFE INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of American Family Life Insurance Company (AFLIC or the company) was conducted in 2007 as of December 31, 2006. The current examination covered the intervening period ending December 31, 2011, and included a review of such 2012 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement

presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of aggregate life and annuity reserves, aggregate accident and health reserves, dividends to policyholders, asset adequacy analysis, and deferred life insurance premiums. The actuary's results were reported to the

examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

Investment Review

The Capital Markets Bureau of the NAIC was engaged by the Office of the Commissioner of Insurance to perform a review of the invested assets portfolio of American Family Mutual Insurance Company and American Family Life Insurance Company as of December 31, 2011. The results of these reviews were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the reviews.

II. HISTORY AND PLAN OF OPERATION

American Family Life Insurance Company was incorporated in 1957 as a stock life and disability insurance company. AFLIC is a wholly owned subsidiary of American Family Mutual Insurance Company (AFMIC) through its downstream holding company, AmFam, Incorporated. Collectively, AFMIC and subsidiaries are known as the American Family Mutual Insurance Group. The company is currently licensed in 27 states.

In 2011, the company collected direct premium in the following states:

Wisconsin	\$ 75,209,056	19.3%
Missouri	48,580,756	12.5%
Minnesota	44,845,873	11.5%
Illinois	42,816,064	11.0%
All others	<u>178,521,754</u>	<u>45.8%</u>
Total	<u>\$389,973,503*</u>	<u>100.0%</u>

* Dividends or refunds applied to purchase paid-up additions and annuities, and premium or annuity considerations waived under disability or other contract provisions, are not included.

The company is currently licensed in the following states:

Arizona	California	Colorado
Georgia	Idaho	Illinois
Indiana	Iowa	Kansas
Michigan	Minnesota	Missouri
Montana	Nebraska	Nevada
New Mexico	North Carolina	North Dakota
Ohio	Oregon	South Carolina
South Dakota	Texas	Utah
Washington	Wisconsin	Wyoming

The products marketed by the company include traditional whole life and term, universal life, and group life insurance products as well as annuity products. As of September 2009, AFLIC no longer sells variable products. It continues to service the products already sold. All products are marketed through AFMIC's exclusive agency system.

The following chart is a summary of premium income as reported by the company in 2011. The growth of the company is discussed in the "Financial Data" section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Whole life	\$162,739,296	\$ 0	\$ 537,282	\$162,202,014
Term life	157,291,209	29,859	48,999,204	108,321,864
Universal life	45,408,319	0	668,771	44,739,548
Variable universal life	26,008,210	0	384,903	25,623,307
Group life	4,247,292	0	0	4,247,292
Long-term care - health	0	4,746,761	4,746,761	0
Immediate annuities	5,048,163	0	0	5,048,163
Deferred annuities	15,591,852	0	0	15,591,852
Variable annuities	<u>6,134,912</u>	<u>0</u>	<u>0</u>	<u>6,134,912</u>
Total All Lines	<u>\$422,469,253</u>	<u>\$4,776,620</u>	<u>\$55,336,921</u>	<u>\$371,908,952</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members who are elected annually, each of whom is an officer of AFMIC. Officers are elected at the annual board meetings and are to hold those positions until the earlier of their resignation or removal by the board of directors. As inside directors, they receive no additional compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Gerry Benusa Waunakee, WI	Executive Vice President American Family Mutual Insurance Company	2012
David Holman Verona, WI	Secretary and Chief Legal Officer American Family Mutual Insurance Company	2012
Daniel Kelly De Forest, WI	Treasurer and Chief Financial Officer American Family Mutual Insurance Company	2012
Alan Meyer Monona, WI	Vice President - Life American Family Mutual Insurance Company	2012
Jack Salzwedel Middleton, WI	Chairman and Chief Executive Officer American Family Mutual Insurance Company	2012
Daniel Schultz Monona, WI	President and Chief Operating Officer American Family Mutual Insurance Company	2012
William Westrate Sun Prairie, WI	Executive Vice President American Family Mutual Insurance Company	2012

Officers of the Company

The officers serving at the time of this examination are as follows: The officers appointed by the board of directors and serving at the time of this examination are as follows. Listed compensation is total gross earnings for services rendered to the American Family Mutual Insurance Group and includes amounts allocated to all affiliates.

Name	Office	2011 Compensation
Jack Salzwedel	Chairman and Chief Executive Officer	\$3,190,155
Daniel Schultz	President and Chief Operations Officer	1,813,784
Daniel Kelly	Treasurer and Chief Financial Officer	797,243
David Holman	Secretary and Chief Legal Officer	638,401
Mark Afable	Executive Vice President	1,146,995
Gerry Benusa	Executive Vice President	929,492
Bradley Gleason	Executive Vice President	2,537,332
Jerome Rekowski	Executive Vice President	1,178,396
Mary Lynn Schmoeger	Executive Vice President	1,071,641
Peter Gunder	Senior Vice President - Investments	1,170,300
Kari Grasee	Vice President - Controller	709,872
Alan Meyer	Vice President - Life	1,099,559
Dean Fiorelli	Assistant Treasurer	257,539
Ann Wenzel	Assistant Secretary	237,095

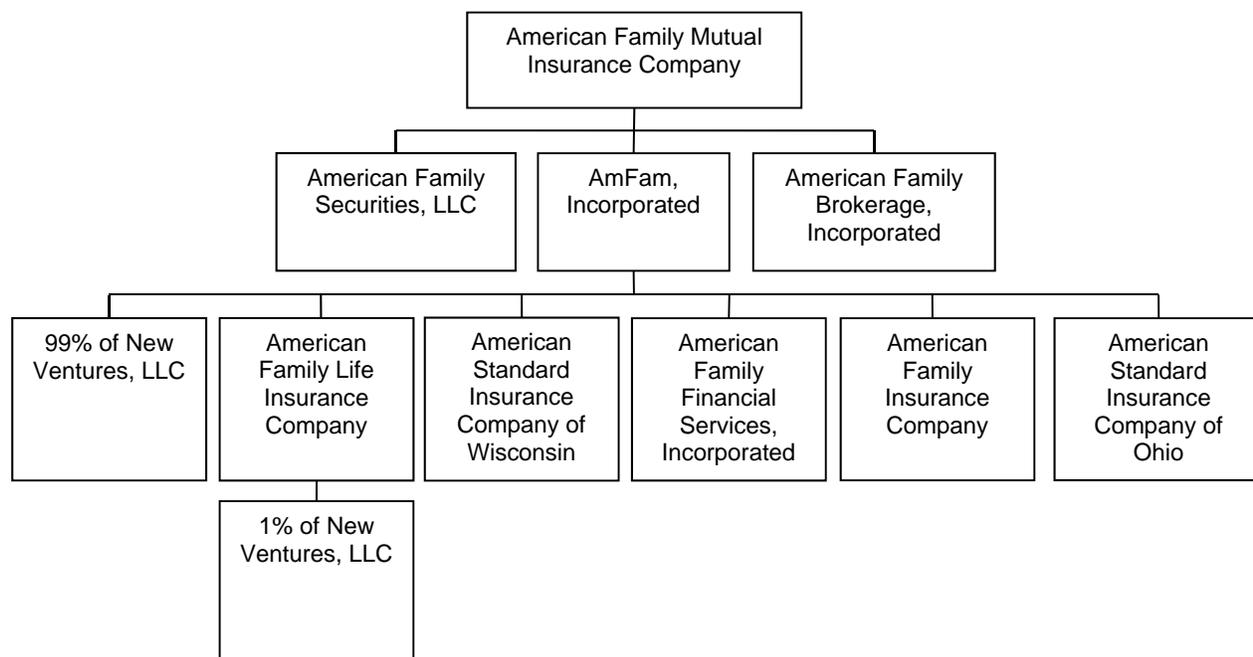
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no committees appointed by the board at the time of the examination. The committees of the ultimate controlling party, AFMIC, govern the company.

IV. AFFILIATED COMPANIES

AFLIC is a member of a holding company system referred to as the American Family Mutual Insurance Group. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the affiliates follows the organizational chart.

Organizational Chart As of December 31, 2011



American Family Mutual Insurance Company

American Family Mutual Insurance Company is the ultimate parent of the American Family Mutual Insurance Group (American Family Group). AFMIC was organized in 1927 and writes primarily auto and homeowner's coverage in 18 states. AFMIC assumes 100% of the business written by its downstream property and casualty subsidiaries, including American Standard Insurance Company of Wisconsin, American Family Life Insurance Company, American Standard Insurance Company of Ohio, and American Family Insurance Company.

As of December 31, 2011, statutory-basis audited financial statements for AFMIC reported assets of \$11.64 billion, liabilities of \$6.98 billion, and policyholders' surplus of \$4.66 billion. Operations for 2011 produced net income of \$218 million on net premiums written of \$5.17 billion.

AmFam, Incorporated

AmFam, Incorporated, was incorporated in 1981 to serve as a downstream holding company for the American Family Group.

As of December 31, 2011, unaudited financial data for AmFam, Incorporated, reported assets of \$1.02 billion, liabilities of \$0 and equity of \$1.02 billion. Operations for 2011 produced net income of \$78.2 million on zero revenues.

American Family Brokerage, Incorporated

American Family Brokerage, Incorporated (AFBI) was incorporated in 1985 as an insurance agency and operates within the same states as its parent, AFMIC, and is also licensed in Delaware, South Carolina, and Arkansas. Its primary objective is to assist the company's agents in securing coverage for their clients when the coverage or limits are not available through the American Family Group.

As of December 31, 2011, unaudited GAAP financial data for AFBI reported assets of \$3.76 million, liabilities of \$2.50 million and equity of \$1.26 million. Operations for 2011 produced net income of \$311 thousand on revenues of \$8.52 million.

American Family Securities, LLC

American Family Securities, LLC (AFS) was incorporated on July 14, 2000, with a capital contribution of \$250,000 from AFMIC, as a limited liability company whose sole member is AFMIC. AFS, a non-clearing, registered broker dealer, is the principal underwriter for American Family Life Insurance Company's variable life and annuity products. On March 23, 2001, AFS was admitted into the National Association of Securities Dealers (NASD) to sell AFLIC's variable products.

As of September 2009, AFLIC no longer sells variable products. It continues to service the products already sold.

As of December 31, 2011, GAAP-basis audited financial statements for AFS reported assets of \$18 thousand, liabilities of \$0 and equity of \$18 thousand. Operations for 2011 produced no net income on revenues of \$5.64 million.

American Family Financial Services, Incorporated

American Family Financial Services, Incorporated (AFFS) was formed by American Family Group in 1969. Its original business purpose was to provide direct loans and leases, primarily to policyholders, through AFMIC's multi-line exclusive agency force. However, as of November 1, 2007, AFFS has discontinued writing new loans of any kind and is considering various options for the servicing and run-off of its existing loan portfolio.

As of December 31, 2011, unaudited GAAP financial data for AFFS reported assets of \$24.62 million, liabilities of \$22.09 million and equity of \$2.53 million. Operations for 2011 produced a net loss of \$2.01 million on revenues of \$1.15 million.

New Ventures, LLC

New Ventures, LLC, was formed in 2010 and currently holds one strategic equity investment in a non-insurance entity. New Ventures, LLC, has no other assets or liabilities and does not engage in any other business operations other than that related to its single strategic equity investment. AmFam, Incorporated, is the managing member and AFLIC is a member.

As of December 31, 2011, unaudited GAAP financial data for New Ventures, LLC, reported assets of \$3.56 million, liabilities of \$0 and equity of \$3.56 million. Operations for 2011 produced a net loss of \$940 thousand on zero revenues.

American Standard Insurance Company of Wisconsin

American Standard Insurance Company of Wisconsin (ASIC) was incorporated in 1961. The company is currently licensed in 23 states and primarily provides insurance for motorcycles and nonstandard private passenger automobile risks. ASIC cedes 100% of its direct writings to AFMIC through a signed Quota Share Reinsurance Agreement. ASIC markets its business through AFMIC's agency force.

As of December 31, 2011, statutory-basis audited financial statements for ASIC reported assets of \$360 million, liabilities of \$61 million, and surplus of \$299 million. Operations for 2011 produced net income of \$10.8 million, consisting solely of investment income.

American Family Insurance Company

American Family Insurance Company (AFIC) was incorporated in Ohio in 1995. The company is licensed and writes business in both Ohio and Georgia. AFIC was founded for the purposes of operating efficiencies and state tax savings. AFIC cedes 100% of its direct writings to AFMIC under a signed Quota Share Reinsurance Agreement. AFIC offers lines of business identical to AFMIC and markets its business through AFMIC's agency force.

As of December 31, 2011, statutory-basis audited financial statements for AFIC reported assets of \$28.3 million, liabilities of \$13.7 million and surplus of \$14.6 million. Operations for 2011 produced net income of \$889 thousand, consisting solely of investment income.

American Standard Insurance Company of Ohio

American Standard Insurance Company of Ohio (ASICO) was incorporated in 1995. The company is licensed and writes business in both Ohio and Georgia. ASICO was founded for the purposes of operating efficiencies and state tax savings. ASICO cedes 100% of its direct writings to AFMIC under a signed Quota Share Reinsurance Agreement. ASICO offers lines of business identical to ASIC and markets its business through AFMIC's agency force.

As of December 31, 2011, statutory-basis audited financial statements for ASICO reported assets of \$7.9 million, liabilities of \$1.0 million and surplus of \$6.9 million. Operations for 2011 produced a net income of \$229 thousand, consisting solely of investment income.

Agreements with Affiliates

1. Intercompany Provision and Cost Allocation Agreement—Effective May 28, 2008, AFMIC entered into an agreement with AFLIC, ASIC, ASICO, AFIC, AFFS, AFBI, AFS and AmFam, Incorporated, for the provision of goods, management and other services provided by AFMIC directly or indirectly to subsidiaries. Settlement for services shall occur on a monthly basis.
2. Tax Allocation Agreement—Effective April 29, 2002, AFMIC entered into a tax allocation agreement with AFLIC, ASIC, ASICO, AFIC, AFFS, AFBI, AFS and AmFam, Incorporated. The agreement provides the basis for computation and the method of settlement of federal income tax payments and refunds within the American Family Mutual Group. Under this

agreement, AFMIC prepares and files a consolidated federal income tax return that includes all affiliates of the holding company group. Final settlement is due within 30 days of the filing of the consolidated federal tax return. This agreement was amended as of December 23, 2003.

V. REINSURANCE

Ceded reinsurance premium for 2011 was approximately 13% of gross premium. This percentage of premium ceded has increased from approximately 10% of gross premium in 2006. The growth was driven mainly by growth in term products, relative to other products. Reinsurance assumed in 2011 represents approximately 1% of gross premium and consists mainly of accident and health business assumed under a treaty with AFMIC. An immaterial portion relates to assumed business from a non-affiliate pertaining to a cancelled contract, which is in run-off, and was reviewed during the prior examination.

All coverages are placed with reinsurers directly by AFLIC. A review of the reinsurers participating under these agreements showed that all reinsurers are companies licensed or authorized to do business in Wisconsin. It was also found that the company adequately monitors financial positions of all reinsurers it directly places business with. All contracts reviewed contain proper insolvency provisions. The company's reinsurance portfolio and strategy is described below.

Life Insurance Business

AFLIC's reinsurance program for whole life, universal life, and variable universal life policies consists primarily of ceding large risks (\$750,000 or more on standard risks) to several different reinsurance companies. Currently Munich American Reassurance Company and Generali USA Life Reassurance Company equally share the excess of loss reinsurance on issued whole life and universal life policies. Contracts on in-force business are either coinsurance or yearly renewable term. Since January 1997, AFLIC has ceded 100% of the excess above \$750,000 on whole life, universal life and variable universal life policies. AFLIC normally does not write many risks over the retention of \$750,000.

AFLIC's reinsurance for term life policies utilizes coinsurance. Under the treaties for fully underwritten policies currently being sold, the company retains 100% of each policy issued under \$250,000, 50% of each policy issued between \$250,000 and \$499,999, and 10% of each policy issued for \$500,000 and above.

There are various coinsurance treaties on term business that is in force, which are described as follows:

Policies issued after November 1, 2009—Generali USA Life Reassurance Company, Munich

American Reassurance Company, Transamerica Life Insurance Company and ACE Tempest Life Reinsurance, Ltd., provide reinsurance coverages for varying percentages of the total reinsurance. The simplified issue term product is reinsured with RGA Reinsurance Company, with AFLIC retaining 50%.

Policies issued from October 1, 2006 - October 31, 2009—The treaty with RGA Reinsurance

Company that provided reinsurance coverage for the company's 10-, 20-, and 30-year level term contracts issued effective October 1, 2006, was amended and AFLIC recaptured and retains the risks that RGA had been reinsuring effective November 1, 2009. The coinsurance with Swiss Re Life & Health American, Inc., provides reinsurance coverage for the company's 10-, 20-, and 30-year level term contracts issued effective October 1, 2006, and was amended to cease covering new business effective April 22, 2009. Generali USA Life Reassurance Company provided reinsurance coverage for the company's 10-, 20-, and 30-year level term contracts issued effective October 1, 2006, and was amended to double the amount of reinsurance on new issues, effectively taking on the portion previously reinsured by Swiss Re effective April 22, 2009. The agreement with Generali USA Life Reassurance Company provided coverage for issues through October 31, 2009.

Policies issued from October 1, 2005 - September 30, 2006—Generali USA Life Reassurance

Company, Munich American Reassurance Company and Scottish Re Life Corporation provide reinsurance for the company's 10-, 20-, and 30-year level term contracts issued from October 1, 2005, through September 30, 2006.

Policies issued from October 1, 2001 - September 30, 2005—Security Life of Denver provided

reinsurance coverage for the company's 10- and 20-year level term contracts issued in July 1, 2003, through September 30, 2005, and for the company's 10- and 20-year level term contracts issued in October 1, 2001, through June 30, 2003.

Long-Term Care Business

AFLIC assumes long-term care business from AFMIC under a 100% quota share agreement. This business is then ceded to Ability Insurance Company under a separate modified coinsurance agreement. See the "Subsequent Event" section of the report regarding Ability Insurance Company and the business described in the contracts below.

Assuming Contract

1. Type: Quota Share Reinsurance Agreement
Ceding company: American Family Mutual Insurance Company
Effective date: July 1, 2010
Scope: Long-term care business
Coverage: 100% of gross liabilities and obligations arising under or relating to long-term care policies
Initial reinsurance premium: 100% of the assets supporting the active life reserves, disabled life reserves, IBNR and unearned premium reserves maintained by AFMIC for issued long-term care policies as of the effective date
Commissions: 1.75% of premiums received

Ceding Contract

2. Type: Modified Coinsurance Agreement
Reinsurer: Ability Insurance Company
Effective date: July 1, 2010
Scope: Long-term care business
Coverage: 100% of gross liabilities and obligations arising under or relating to long-term care policies
Initial reinsurance premium: 100% of the assets supporting the active life reserves, disabled life reserves, IBNR and unearned premium reserves maintained by AFMIC for issued long-term care policies as of the effective date, without regard to the AFMIC/AFLIC Quota Share Reinsurance Agreement, in the form of the named Initial Invested Assets
Initial reserve adjustment: On the effective date, the reinsurer will deposit the Initial Invested Assets with AFLIC as an initial reserve adjustment. All assets supporting the reserves arising from the management of such assets, all interest and other cash flow and other assets resulting

therefrom will thereafter be held in one or more segregated accounts on AFLIC's balance sheet.

Commissions: 1.75% of premiums received

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2011, annual statement. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

American Family Life Insurance Company
Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$3,501,698,865	\$ 0	\$3,501,698,865
Stocks:			
Common stocks	1,062,700	0	1,062,700
Mortgage loans on real estate:		0	
First liens	364,485,970	0	364,485,970
Cash, cash equivalents, and short-term investments	123,605,718	0	123,605,718
Contract loans	238,727,074	1,963,584	236,763,490
Other invested assets	1,052,652	0	1,052,652
Receivables for securities	327,876	0	327,876
Investment income due and accrued	37,763,630	0	37,763,630
Reinsurance:			
Amounts recoverable from reinsurers	2,313,744	0	2,313,744
Other amounts receivable under reinsurance contracts	1,156,385	0	1,156,385
Net deferred tax asset	165,126,108	104,549,073	60,577,035
Guaranty funds receivable or on deposit	3,549,851	0	3,549,851
Receivable from parent, subsidiaries and affiliates	10,178,276	30,392	10,147,884
Write-ins for other than invested assets:			
Advanced commissions	4,009,959	4,009,959	0
Returned checks	29,104	29,104	0
Temporary travel advances	39	39	0
Miscellaneous receivables	5	0	5
Total assets excluding separate accounts, segregated accounts and protected cell assets	4,455,087,956	110,582,151	4,344,505,805
From separate accounts, segregated accounts and protected cell assets	<u>254,227,692</u>	<u>0</u>	<u>254,227,692</u>
Total Assets	<u>\$4,709,315,648</u>	<u>\$110,582,151</u>	<u>\$4,598,733,497</u>

American Family Life Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2011

Aggregate reserve for life contracts	\$3,115,476,764
Aggregate reserve for accident and health contracts	74,997,304
Liability for deposit-type contracts	363,740,152
Contract claims:	
Life	17,849,299
Provision for policyholders' dividends and coupons payable in following calendar year:	
Apportioned for payment to December 31, 2012	34,521,197
Not yet apportioned	1,748,859
Premiums and annuity considerations received in advance	367,638
Contract liabilities not included elsewhere:	
Interest maintenance reserve	2,872,522
Commissions to agents due or accrued	1,179,402
General expenses due or accrued	38,031,807
Transfers to separate accounts due or accrued (net)	(34,529,589)
Taxes, licenses, and fees due or accrued, excluding federal income taxes	4,182,967
Unearned investment income	6,604,172
Amounts withheld or retained by company as agent or trustee	438,295
Remittances and items not allocated	1,305,640
Miscellaneous liabilities:	
Asset valuation reserve	21,164,404
Write-ins for liabilities:	
Payable for reinsurance	1,335,075
Reserve for clearing accounts	785,550
Reserve for retired lives	615,491
Liability for checks charged off	<u>351,053</u>
Total liabilities excluding separate accounts business	<u>3,653,038,002</u>
From separate accounts statement	<u>254,227,692</u>
Total liabilities	3,907,265,694
Common capital stock	\$ 2,500,000
Gross paid in and contributed surplus	1,045,000
Write-ins for special surplus funds:	
SSAP 10R nonadmitted DTA adj	27,692,452
Unassigned funds (surplus)	<u>660,230,351</u>
Total capital and surplus	<u>691,467,803</u>
Total Liabilities, Capital and Surplus	<u>\$4,598,733,497</u>

American Family Life Insurance Company
Summary of Operations
For the Year 2011

Premiums and annuity considerations for life and accident and health contracts		\$371,908,952
Considerations for supplementary contracts with life contingencies		822,371
Net investment income		213,679,929
Amortization of interest maintenance reserve		1,305,114
Commissions and expense allowances on reinsurance ceded		20,069,267
Reserve adjustments on reinsurance ceded		5,648,074
Miscellaneous income:		
Income from fees associated with investment management, administration, and contract guarantees from separate accounts		2,777,393
Write-ins for miscellaneous income		<u>411,427</u>
Total income items		616,622,527
Death benefits	\$105,973,061	
Matured endowments	135,762	
Annuity benefits	9,157,605	
Disability benefits and benefits under accident and health contracts	3,296,349	
Surrender benefits and withdrawals for life contracts	127,446,081	
Group conversions	950,002	
Interest and adjustments on contract or deposit-type contract funds	15,909,312	
Payments on supplementary contracts with life contingencies	1,420,735	
Increase in aggregate reserves for life and accident and health contracts	<u>116,832,134</u>	
Subtotal	381,121,041	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	20,137,810	
Commissions and expense allowances on reinsurance assumed	79,896	
General insurance expenses	91,483,632	
Insurance taxes, licenses, and fees excluding federal income taxes	10,934,667	
Net transfers to or (from) separate accounts net of reinsurance	(5,658,707)	
Aggregate write-in for deductions:	<u>21,157</u>	
Total deductions		<u>498,119,496</u>
Net gain (loss) from operations before dividends to policyholders and federal income taxes		118,503,031
Dividends to policyholders		<u>35,599,805</u>
Net gain (loss) from operations after dividends to policyholders and before federal income taxes		82,903,226
Federal and foreign income taxes incurred (excluding tax on capital gains)		<u>24,886,104</u>
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses		58,017,122
Net realized capital gains or (losses)		<u>11,473,438</u>
Net Income		<u>\$ 69,490,560</u>

American Family Life Insurance Company
Cash Flow
For the Year 2011

Premiums collected net of reinsurance		\$372,755,227
Net investment income		216,806,170
Miscellaneous income		<u>23,258,087</u>
Total		612,819,484
Benefit- and loss-related payments	\$252,546,459	
Net transfers to separate accounts, segregated accounts and protected cell accounts	(11,146,265)	
Commissions, expenses paid, and aggregate write-ins for deductions	122,525,179	
Dividends paid to policyholders	38,638,928	
Federal and foreign income taxes paid (recovered)	<u>20,502,833</u>	
Total deductions		<u>423,067,134</u>
Net cash from operations		189,752,350
Proceeds from investments sold, matured, or repaid:		
Bonds	\$624,052,363	
Stocks	104,034,641	
Mortgage loans	34,420,628	
Net gains on cash, cash equivalents, and short-term investments	<u>650</u>	
Total investment proceeds		762,508,282
Cost of investments acquired (long-term only):		
Bonds	792,167,002	
Stocks	14,203,080	
Mortgage loans	66,372,090	
Other invested assets	5,000	
Miscellaneous applications	<u>177,391</u>	
Total investments acquired		872,924,563
Net increase (or decrease) in contract loans and premium notes	<u>2,480,342</u>	
Net cash from investments		(112,896,623)
Cash from financing and miscellaneous sources:		
Capital and paid in surplus, less treasury stock		5,000
Net deposits on deposit-type contracts and other insurance liabilities		4,866,492
Other cash provided (applied)		<u>3,897,029</u>
Net cash from financing and miscellaneous sources		<u>8,768,521</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		85,624,248
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>37,981,469</u>
End of Year		<u>\$123,605,717</u>

**American Family Life Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2011**

Assets		\$4,598,733,497
Less security surplus of insurance subsidiaries		0
Less liabilities		<u>3,907,265,694</u>
Adjusted surplus		691,467,803
Annual premium:		
Individual life and health	\$340,910,637	
Factor	<u>15%</u>	
Total		\$45,470,598
Group life and health	3,381,679	
Factor	<u>10%</u>	
Total		338,167
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		<u>7,809,436</u>
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>53,618,201</u>
Compulsory Surplus Excess or (Deficit)		<u>\$ 637,849,602</u>
Adjusted surplus (from above)		\$ 691,467,803
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum of 110%)		<u>70,239,843</u>
Security Surplus Excess or (Deficit)		<u>\$ 621,227,960</u>

**American Family Life Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2011**

The following schedule details items affecting the company's total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	2011	2010	2009	2008	2007
Surplus, beginning of year	\$637,007,620	\$556,479,517	\$446,821,803	\$501,515,087	\$432,227,367
Net income	69,490,560	95,743,994	76,921,346	(81,847,941)	65,398,747
Change in net unrealized capital gains/losses	(3,193,781)	789,760	(1,706,958)	(12,236,953)	1,549,867
Change in net deferred income tax	(10,824,899)	(23,323,682)	(9,395,517)	48,087,091	(1,754,444)
Change in nonadmitted assets and related items	(7,361,803)	10,639,099	23,519,005	(36,058,303)	3,595,944
Change in asset valuation reserve	953,910	(3,326,771)	(14,657,470)	27,362,822	497,606
Cumulative effect of changes in accounting principles	0	0	12,641,756	0	0
Surplus adjustments:					
Paid in	5,000	40,000	0	0	0
Write-ins for gains and (losses) in surplus:					
SSAP 10R nonadmitted DTA adjustment	<u>5,391,197</u>	<u>(34,297)</u>	<u>22,335,552</u>	<u>0</u>	<u>0</u>
Surplus, End of Year	<u>\$691,467,803</u>	<u>\$637,007,620</u>	<u>\$556,479,517</u>	<u>\$446,821,803</u>	<u>\$501,515,087</u>

**American Family Life Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2011**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

Ratio	2011	2010	2009	2008	2007
#1 Net change in capital and surplus	9%	14%	25%	-11%*	16%
#2 Gross change in capital and surplus	9	14	25	-11*	16
#3 Net income to total income	11	14	12	-16*	10
#4 Adequacy of investment income	181	187	187	190	187
#5 Nonadmitted to admitted assets	2	2	3	4	3
#6 Total real estate and mortgage loans to cash and invested assets	9	8	9	10	9
#7 Total affiliated investments to capital and surplus	1	2	2	1	0
#8 Surplus relief	3	3	4	5	4
#9 Change in premium	0	-3	-2	-3	2
#10 Change in product mix	0.2	0.6	0.4	0.4	0.4
#11 Change in asset mix	0.3	0.6	0.2	0.4	0.1
#12 Change in reserving	0	-1	5	-5	-2

The exceptional results for ratios No. 1, Net Change in Capital and Surplus, No. 2, Gross Change in Capital and Surplus, and No. 3, Net Income to Total Income, were caused by a \$54 million decrease to surplus, which was due to poor financial results in 2008. The company incurred realized capital losses of \$129 million due to the economic crisis in 2008, which led to a net loss of \$82 million.

Growth of American Family Life Insurance Company

Year	Admitted Assets	Liabilities	Capital and Surplus
2011	\$4,598,733,497	\$3,907,265,694	\$691,467,803
2010	4,432,070,669	3,795,063,049	637,007,620
2009	4,153,237,845	3,596,758,328	556,479,517
2008	3,860,796,712	3,413,974,909	446,821,803
2007	3,893,876,194	3,392,361,107	501,515,087
2006	3,685,060,233	3,252,832,866	432,227,367

Net Life Premiums, Annuity Considerations, and Deposits

Year	Life Insurance Premiums	Annuity Considerations	Deposit-type Contract Funds
2011	\$345,157,930	\$26,774,927	\$ 0
2010	350,464,499	23,094,946	0
2009	350,697,339	34,280,572	161,967
2008	350,767,031	41,284,091	2,244,725
2007	354,991,624	48,907,400	4,553,615
2006	343,925,876	55,103,052	0

Life Insurance In Force (in thousands)

Year	Gross Risk In Force	Ceded	Net
2011	\$88,135,388	\$27,804,879	\$60,330,509
2010	87,608,154	25,500,762	62,107,392
2009	86,421,358	25,357,200	61,064,158
2008	85,031,666	30,907,751	54,123,915
2007	82,188,636	28,225,773	53,962,863
2006	76,857,050	24,071,529	52,785,521

The company has reported favorable results over the five-year examination period presented above. Assets have increased 25% to \$4.60 billion, while capital and surplus has increased 60% to \$691 million. The company has shown a net income in four of the five years under examination, with a reported net income of \$69.5 million in 2011. Life insurance business has remained relatively stable during the examination period, while annuity business has decreased 51%.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2011, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Affiliated Agreements—It is recommended that the company create and execute a service agreement with its ultimate parent company that describes the delegation of its board's management authority over day-to-day operations in accordance with s. 611.67 (2), Wis. Stat.

Action—Compliance.

2. Aggregate Reserves for Life Contracts—It is recommended that the company correct its computer system problem so the proper disability claim incurred dates are used when calculating its disability-disabled lives reserves.

Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Affiliated Balances

During the review of the Receivable from Parent, Subsidiaries and Affiliates balance, the examiners noted that the company is including federal income taxes receivable from AFMIC as part of the intercompany tax allocation agreement. The balance was not considered material for purposes of this examination. Pursuant to the NAIC Annual Statement Instructions-Life, amounts related to intercompany tax-sharing agreements should be excluded from the Receivable from Parent, Subsidiaries and Affiliates balance and reported as Current Federal and Foreign Income Taxes. It is recommended that the company properly report income taxes receivable as Current Federal and Foreign Income Taxes in accordance with the NAIC Annual Statement Instructions-Life.

Additionally, during the review of the General Expenses Due & Accrued balance, the examiners noted that the company is including payables for intercompany expenses as part of this balance. These intercompany expenses are for employee benefits that are calculated as part of the intercompany provision and cost allocation agreement. Pursuant to the NAIC Annual Statement Instructions-Life, these amounts should be reported as Payable to Parent, Subsidiaries and Affiliates . It is recommended that the company properly report intercompany expenses payable as Payable to Parent, Subsidiaries and Affiliates in accordance with the NAIC Annual Statement Instructions-Life.

VIII. CONCLUSION

American Family Life Insurance Company was incorporated in 1957 as a stock life and disability insurance company. AFLIC is a wholly owned subsidiary of American Family Mutual Insurance Company through its downstream holding company, AmFam, Incorporated. The company is currently licensed in 27 states.

The products marketed by the company include traditional whole life and term, universal life, and group life insurance products as well as annuity products. As of September 2009, AFLIC no longer sells variable products. It continues to service the products already sold. All products are marketed through AFMIC's exclusive agency system.

The current examination resulted in two recommendations and did not make any reclassification of account balances or adjustments to surplus as reported by the company in its year-end 2011 statutory financial statements. The examination determined that, as of December 31, 2011, the company had admitted assets of \$4,598,733,497, liabilities of \$3,907,265,694, and policyholders' surplus of \$691,467,803.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 28 - Affiliated Balances—It is recommended that the company properly report income taxes receivable as Current Federal and Foreign Income Taxes in accordance with the NAIC Annual Statement Instructions-Life.
2. Page 28 - Affiliated Balances—It is recommended that the company properly report intercompany expenses payable as Payable to Parent, Subsidiaries and Affiliates in accordance with the NAIC Annual Statement Instructions-Life.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
David Jensen, CFE	Insurance Financial Examiner
Holly Poore	Insurance Financial Examiner
Angie Romaker	Insurance Financial Examiner
Amanda Schroeder	Insurance Financial Examiner
Derek Sliter	Insurance Financial Examiner
Victoria Chi, CISA, CISM, CRISC	IT Examiner
Tom Houston, CFE	IT Examiner
Jerry DeArmond, CFE	Loss Reserve Specialist
Fred Thornton, CFE	Quality Control Specialist

Respectfully submitted,

Stephen Elmer, CFE
Examiner-in-Charge

XI. SUBSEQUENT EVENT

On December 12, 2012, Ability Insurance Company (AIC) was placed under an Order of Supervision by the Nebraska Department of Insurance. During the period of supervision, AIC may not write any new business, enter into any new reinsurance contracts, or amend any existing reinsurance contracts without prior written approval from the Nebraska Department of Insurance. As of the report date, AFLIC has not elected to recapture the business ceded to AIC under the reinsurance contract described in the "Reinsurance" section of this report.