Report

of the

Examination of

Sentry Life Insurance Company

Stevens Point, Wisconsin

As of December 31, 2013

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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April 10, 2015

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:

SENTRY LIFE INSURANCE COMPANY
Stevens Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Sentry Life Insurance Company (Sentry Life or the company) was conducted in 2009 as of December 31, 2008. The current examination covered the intervening period ending December 31, 2013, and included a review of such 2014 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 of the company was conducted concurrently with the examination of affiliates domiciled in Texas and New York. Wisconsin acted in the capacity as the lead state for the coordinated examinations.

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 one recommendation 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.

II. HISTORY AND PLAN OF OPERATION

The company was incorporated on October 23, 1958, and commenced business on November 11, 1958.

In 2013, the company collected direct premium in the following states:

California	$ 59,630,110	12.7%
Wisconsin	53,692,722	11.5
Texas	52,720,528	11.3
Illinois	42,380,100	9.0
Michigan	26,009,641	5.6
Missouri	19,994,513	4.3
Tennessee	14,201,693	3.0
New Jersey	14,019,257	3.0
All others	185,671,890	39.6
Total	$468,320,454	100.0%

The company is licensed in the District of Columbia and all states except New York. The company has a wholly owned subsidiary, Sentry Life Insurance Company of New York (SLONY), a New York-domiciled life insurer. SLONY was incorporated on May 23, 1966, to write business in New York.

The company designs and markets life (term and whole), health and annuity products which complement business products written by the Sentry Insurance Group's property and casualty insurance companies. The fastest growing segment of Sentry Life is its group pension business. This product is focused on 401(k) and profit-sharing plans and is marketed to companies with fewer than 1,000 employees, with most accounts under 100 employees. Sentry Life is the company that manages the pension and 401(k) plan for the Sentry Group. Those assets accounted for 24% of the total general and separate account assets of the company for 2013. The company cedes 100% of the direct group accident and health premiums written, except for group long-term disability, blanket travel accident and certain dental policies, to its parent company, Sentry Insurance a Mutual Company (SIAMCO).

The operations of the company and SLONY are integrated with the existing organization of the Sentry Insurance Group, which includes marketing and administrating business through the Group's business products divisions.

The following chart is a summary of premium income as reported by the company in 2013. 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
Ordinary life	$ 29,332,913	$111,237	$ 6,418,644	$ 23,025,506
Group life	6,779,682	13,297	503,284	6,289,696
Ordinary individual annuities	6,000,095	0	0	6,000,095
Group annuities	466,750,420	0	0	466,750,420
Group accident and health	6,757,522	0	6,704,835	52,687
Other accident and health	33,553	500	23,699	10,353
Total All Lines	$515,654,185	$125,034	$13,650,462	$502,128,758

Annuities make up 91.7% of the company’s direct premium with life products at 7.0% and accident and health products at 1.3% of the company’s total net premium and annuity considerations in 2013.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members who are elected annually, each of whom is an officer of SIAMCO. Officers are elected at 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
Peter G. McPartland Stevens Point, Wisconsin	Chairman of the Board, Chief Executive Officer and President of SIAMCO	2015
Kenneth J. Erler Plover, Wisconsin	Senior Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary of SIAMCO	2015
Carol P. Sanders Kronenwetter, Wisconsin	Executive Vice President, Chief Financial Officer and Treasurer of SIAMCO	2015
James J. Weishan Stevens Point, Wisconsin	Executive Vice President and Chief Investment Officer of SIAMCO	2015
Michael J. Williams Stevens Point, Wisconsin	Vice President, Chief Actuary and Risk Officer of SIAMCO	2015

Officers of the Company

The officers are employed and compensated by SIAMCO. The officers of Sentry Life may also be officers of other companies in the Sentry Insurance Group. The officers serving at the time of this examination are as follows:

Name	Office	2013 Compensation
Mark R. Hackl	President and Chief Operating Officer	$778,549*
Michael J. Williams	Vice President	55,741*
Kenneth J. Erler	Secretary	63,887*
Carol P. Sanders	Treasurer	52,078*

Compensation included salary, bonus, and all other compensation.

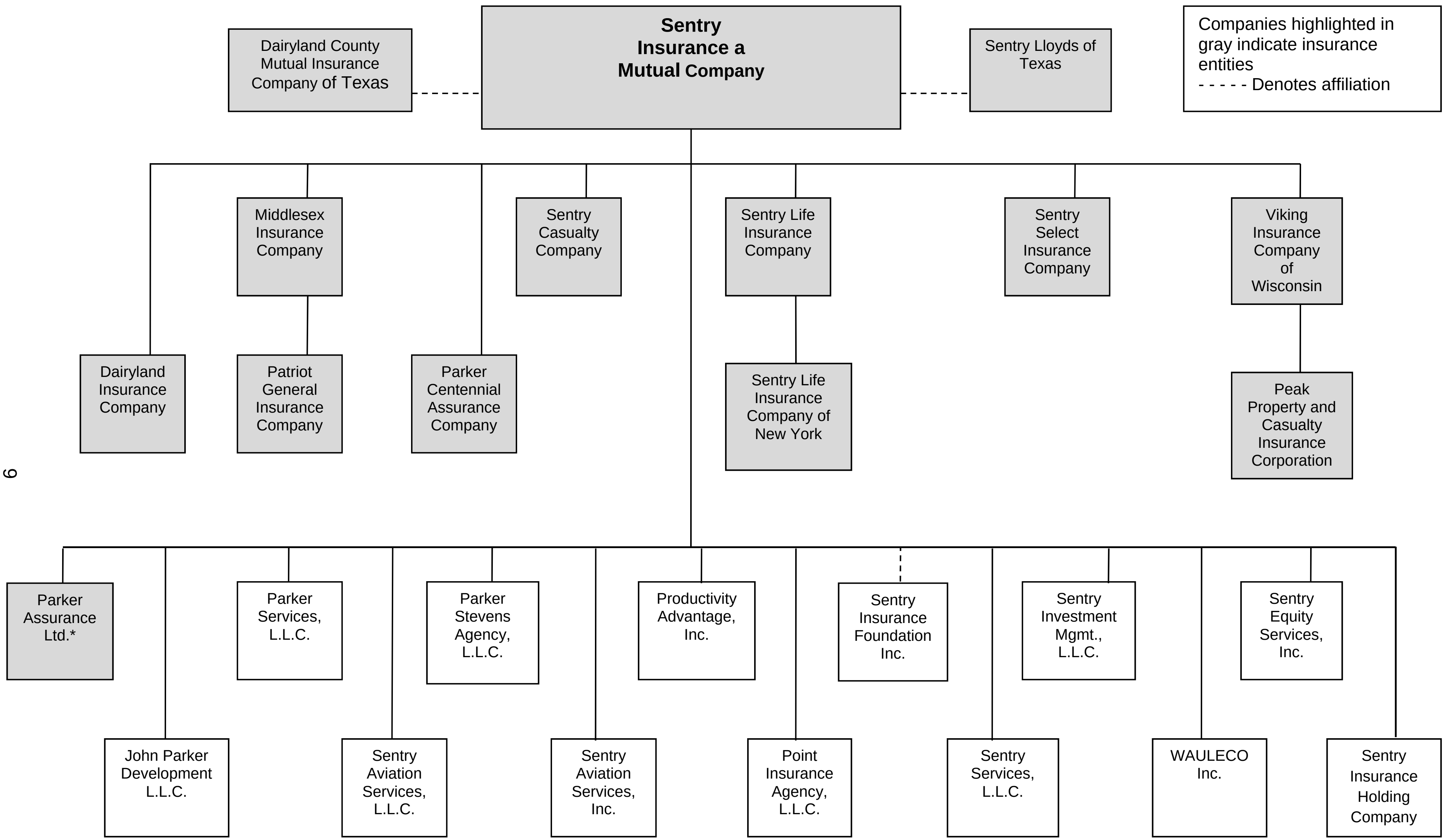
* Compensation reported here is the portion of the individual’s total compensation that is allocated to Sentry Life; most officers’ compensation is allocated among several insurance companies in the group.

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, SIAMCO, govern the company.

IV. AFFILIATED COMPANIES

Sentry Life Insurance Company is a member of a holding company system (the Sentry Insurance Group) controlled by Sentry Insurance a Mutual Company, a Wisconsin-domiciled mutual insurer. As of December 31, 2013, the Sentry Insurance Group consisted of 13 insurers and 13 noninsurance entities; Dairyland County Mutual Insurance Company of Texas and Sentry Lloyds of Texas are affiliated through common management. A discussion of all the Sentry Insurance Group affiliated companies is included in the examination report for SIAMCO. This report includes only those affiliates with which Sentry Life has reinsurance or other important affiliated relationships. An organizational chart as of December 31, 2013, is shown on the next page.



* Parker Assurance Ltd. is a Bermuda-domiciled insurer that was inactive for many years and was dissolved in 2014.

Sentry Insurance a Mutual Company

SIAMCO owns all of the issued and outstanding common stock of Sentry Life. SIAMCO is licensed in all 50 states, the District of Columbia, Puerto Rico, and Canada. On a direct basis, the parent company writes a wide range of property and casualty insurance products, predominantly worker's compensation and automobile coverages. SIAMCO is the lead company in a pooling arrangement with certain of its property and casualty affiliates, with a 55% participation share of the pool. Effective on February 19, 1998, SIAMCO guaranteed the annuity payment obligations of Sentry Life for structured settlements originating from affiliates in the Sentry Insurance Group. As of December 31, 2013, SIAMCO reported assets of $6,631,964,314, liabilities of $2,556,630,322, and policyholders' surplus of $4,075,333,992. Operations for 2013 produced a net income of $308,405,578. SIAMCO was examined concurrently with Sentry Life as of December 31, 2013, and the results of that examination are expressed in a separate report.

Sentry Equity Services, Inc.

Sentry Equity Services, Inc. (SESI) organized as a Delaware corporation on May 9, 1969, is a registered broker-dealer under the Securities Exchange Act of 1934. The corporation's securities operations are limited to the sale and redemption of redeemable securities issued by registered investment companies. SESI acts as the distributor of Sentry Life's and SLONY's variable annuity and variable universal life products through SIAMCO's direct writer registered representatives. Sentry Life no longer sells individual variable annuity or universal life products; however, SESI administers the products that are currently in force. As of December 31, 2013, SESI's audited financial statements reported assets of $85,415, liabilities of $8,663, and stockholder's equity of $76,752. Operations for 2013 produced net income of $10,671.

Sentry Investment Management, L.L.C.

Sentry Investment Management, L.L.C. (SIML) a Delaware corporation organized on June 13, 1969, manages the investment portfolios of SIAMCO and its affiliates, subject to the direction of their respective boards of directors. In 2007 the corporation changed its status to a limited liability corporation. As of December 31, 2013, SIML's unaudited financial statements reported assets of $340,491, liabilities of $198,928, and stockholder's equity of $141,563.

Operations for 2013 produced net income of $5,274. SIML is a wholly owned subsidiary of SIAMCO.

Sentry Life Insurance Company of New York

Sentry Life Insurance Company of New York (SLONY) is a New York-domiciled life insurer incorporated on May 23, 1966, and is a wholly owned subsidiary of Sentry Life. SLONY is licensed in New York, Minnesota, and North Dakota. Approximately 95.8% of the company's direct business is written in New York, which is the territorial focus of its sales efforts. It writes predominantly annuity business, though individual and group life insurance and group accident and health products are written as well to a much lesser extent. SLONY retains nearly all of its direct writings. As of December 31, 2013, SLONY reported assets of $72,274,181, liabilities of $61,988,903, policyholders' surplus of $10,285,278, and net income of $550,023. SLONY was examined concurrently with Sentry Life as of December 31, 2013, and the results of that examination are expressed in a separate report issued by the New York Department of Financial Services.

Agreements with Affiliates

Sentry Life has no employees of its own and all of its operations are conducted by employees of its parent organization, SIAMCO, in accordance with the business practices and internal controls of that organization. In addition to ongoing common management and control by this upstream affiliate, the company’s operations are affected by various written agreements with Sentry Insurance Group affiliates. Reinsurance agreements are described in section V of the report titled “Reinsurance.” A brief summary of the other agreements and undertakings follows.

Investment Advisory Agreement

Effective October 31, 1991, SIAMCO and certain named affiliates entered into an investment advisory agreement with Sentry Investment Management, L.L.C. This contract was amended and restated as of January 1, 2008, and as of September 12, 2011. Under this agreement, SIML is employed to manage and direct the investment and reinvestment of the assets of SIAMCO and certain named affiliates, subject to the control of those companies’ board of directors. SIML agrees to comply with the companies’ articles, bylaws, investment policies, and all applicable federal or state laws. SIML charges the companies a monthly fee computed as follows, annually not to exceed on average 25 basis points of the cash and invested assets reported on the companies’ statutory annual statements:

> One twelfth (1/12) of an amount equal to the sum of (a), (b), and (c)
>
> (a) Common stocks, excluding those of affiliates:
> 0.50% ($5.00 per $1,000) of market value;
>
> (b) Bonds and preferred stocks, excluding those of affiliates:
> 0.15% ($1.50 per $1,000) of market value; and
>
> (c) All other assets, excluding those of affiliates:
> 0.75% ($7.50 per $1,000) of market value
>
> In addition, for any investment advisory services provided by SIML at the request of the companies, SIML is to be reimbursed for actual costs of rendering such services. Settlements are to be made within 60 days of the end of the month.

The contract may be terminated by any of the parties with 60 days’ written notice.

Joint Investment Agreement

Effective October 1, 1996, the company entered into an amended and restated joint investment agreement with various affiliates to establish the Sentry Liquid Asset Partnership (SLAP), a joint venture organized pursuant to the Wisconsin Uniform Partnership Act. This agreement has been amended and restated to add or delete companies as needed. SIAMCO is designated as the managing partner, though the agreement permits a change by a majority decision of the participants. A participant may withdraw from the joint venture upon the delivery of written notice to the managing partner. The joint venture shall dissolve at such time as only one participant remains in the joint venture. The terms of this agreement are continuous; however, all parties to the agreement are required to review and negotiate the agreement no less than once every three years.

The business of the joint venture consists of investing and reinvesting funds contributed by the members in short-term obligations of banks, corporations, and the U.S. federal government with a maximum duration of 12 months. It functions in a manner analogous to a short-term bond mutual fund. Investment advisory services are provided by Sentry Investment Management, L.L.C. This office has directed all Wisconsin-domiciled Sentry companies to report their respective balances in SLAP as a one-line entry on Schedule DA – Part 1 (Short-Term Investments).

Tax Allocation Agreement

On February 22, 1983, the SIAMCO board of directors adopted a written federal income tax allocation policy for the purpose of filing federal income tax returns on a consolidated basis. This agreement has been amended and restated to add or delete companies as needed. The latest amended and restated agreement is effective March 1, 2009, and was amended to comply with requirements of the New York Circular Letter 1979-33 (relates to tax allocation agreements of New York-domestic insurers) because Sentry Life Insurance Company of New York is a party to this agreement. Under this agreement, SIAMCO prepares and files a consolidated U.S. federal income tax return that includes all affiliates of the holding company group. The agreement sets forth the rights and obligations of the parties to the agreement with respect to the determination and settlement of federal income tax liabilities as well as the allocation of Sentry Insurance Group's consolidated U.S. federal income tax liability and tax benefits in accordance with a rational, systematic formula. The agreement provides for computation of tax, settlement of balances between affiliates, tax sharing, filing the return, audits and other adjustments, and other administrative requirements. The agreement calls for the settling of estimated U.S. federal tax payments within 45 days of filing of those payments. Final settlement is due within 45 days of the filing of the consolidated U.S. federal tax return. The agreement has a provision for members entering or departing the group and provides for successors.

General Expense Allocation Agreement

In 1993, the insurance companies of the Sentry Insurance Group entered into a written general expense allocation agreement. The agreement formalized the parties' consent to an accounting allocation process that had been in place since 1982. This agreement has been amended and restated to add or delete companies as needed. Under the agreed procedure, expenses are first grouped and assigned to cost pools, each of which is distinguished by one or more of four characteristics, including activity, location, profit center, and division. Expenses, once assigned to cost pools, are then allocated to specific insurance products. An expense is not assigned to a specific legal entity until after it is coded to a cost pool and then to a specific product, unless the destination (profit center, line of business or legal entity) is known when the expense is originally recorded. Allocation at each phase of this process, outlined here in simplified form, is based on specific identification, utilization estimates developed from such criteria as premium or claim volume, time studies, or other rational means of distribution.

Intercompany Settlement Policy

The intercompany settlement policy between SIAMCO and its affiliates was last amended and restated effective December 3, 2012. This agreement has been amended and restated several times to add or delete companies as necessary. According to the terms of this agreement, SIAMCO's cash management department settles intercompany balances, in SLAP where possible, based on policies and procedures listed in the agreement for monthly and annual settlements. Other settlements under the agreement include reinsurance balances, which are to be settled according to the terms contained in the reinsurance agreements, and income tax related balances, which are to be settled in accordance to the terms outlined in the intercompany tax allocation agreement mentioned previously. There is also a clause that establishes procedures for those parties that do not have adequate funds available to settle intercompany debt.

Service Agreement

SIAMCO has established a service agreement with Sentry Life, effective January 1, 2008. Under this agreement SIAMCO is to provide essentially all services required for Sentry Life's business operations. Expenses relating to the services provided under this agreement are to be allocated to the company by SIAMCO through the general expense allocation agreement (described earlier in this section of the report). Services may be terminated by either party by 30 days' written notice or at any time by mutual consent.

Experience Return Reserve and Claim Stabilization Reserve Agreements

SIAMCO has established three separate agreements with Sentry Life Insurance Company to adjust premiums on policies it purchases from Sentry Life, based on experience and/or to smooth out fluctuations in claims experience from year to year that affect premium adjustment calculations. One of the agreements relates to a group life insurance policy for the Sentry Insurance Group's employees, sponsored by SIAMCO and insured by Sentry Life, effective January 1, 2013. The second agreement relates to group long-term disability and group travel accident insurance for the Sentry Insurance Group's employees, sponsored by SIAMCO and insured by Sentry Life, effective January 1, 2013. The third agreement relates to an extended group life insurance policy for the Sentry Insurance Group's employees, sponsored by SIAMCO and insured by Sentry Life, effective January 1, 2013.

Under these agreements the parties have agreed that the premiums for the insurance policies mentioned above are to be adjusted to reflect their respective experiences. For the group life, group long-term disability and group travel accident policies, SIAMCO is required to fund a claim stabilization reserve, which also affects the experience calculation. The claim stabilization reserves range from 20% to 100% of the annual premiums dependent on the line of business. Either party may terminate this agreement giving the other party 30 days' written notice.

Investment Advisory Agreements (on behalf of its separate accounts)

The company entered into four separate investment advisory agreements with Sentry Investment Management, L.L.C., effective on various dates; the latest amendment to the agreements is effective May 17, 2013, and reflects the conversion of SIML to a limited liability corporation. Under this agreement, SIML is employed to manage and direct the investment and reinvestment of the assets of Sentry Life's separate accounts, entities formed pursuant to s. 611.25, Wis. Stat., subject to the control of the company. SIML agrees to comply with the company's investment policies for its separate accounts and all applicable federal or state laws. SIML charges the company an annual fee computed by taking a percentage of the daily net assets of each of the named separate accounts grouped by agreement, which ranged from 5 to 40 basis points. In addition, for any investment advisory services provided by SIML at the request of the company for its separate accounts, SIML is to be reimbursed for actual costs for rendering such services. Settlements are to be made within 15 days of the end of the month.

Sentry Life guarantees maintenance of minimum capitalization necessary to meet the requirements of the Securities Exchange Act of 1934. The contract may be terminated by either party with 60 days' written notice.

Broker-Dealer Agreement

Effective August 1, 1984, Sentry Life has established a broker-dealer agreement with Sentry Equity Services, Inc., which was amended and restated once effective December 31, 2003. Under this agreement Sentry Life employs SESI to act as its broker-dealer for all variable annuity contracts written by the company, which require distribution under the auspices of a registered broker-dealer. Sentry Life under this agreement is to maintain records and accounting books relating to the variable annuity contracts, pay commissions to agents writing the variable annuity business, provide SESI with adequate capital to meet capital requirements under the Securities and Exchange Act of 1934, pay all expenses incurred by SESI on behalf of services provided Sentry Life, and provide SESI with facilities and personnel to carry out its day-to-day operations. Sentry Life no longer sells individual variable annuity contacts; however, SESI administers the products that are currently in force. Either party may terminate the agreement by written notice.

Principal Underwriter's Agreements

Sentry Life Insurance Company entered into two separate principal underwriter's agreements with Sentry Equity Services, Inc., relating to the distribution of the company's flexible premium variable life insurance policies and variable annuity contracts by SESI, effective February 28, 1986, and May 1, 1984, respectively. Both of these agreements were amended and restated effective December 31, 2003. Under these agreements SESI is given the exclusive right to sell flexible premium variable life insurance policies and variable annuity contacts through the Sentry Variable Life Account I and Sentry Variable Account II, respectively; SESI will pay direct agent commissions out of its compensation from Sentry Life. Sentry Life no longer sells individual variable annuity or universal life products; however, SESI administers the products that are currently in force. SESI is to receive compensation for distribution services provided under these agreements as follows:

Flexible premium variable life insurance policies – A compensation rate ranging from 105% to 115% based on all commissions and overwrites attributable to policy premiums accepted; and

Variable annuity contracts – 2.5% for house accounts and 4.7% for direct writer accounts.

Either party may terminate the agreement by 60 days' written notice.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Affiliated Ceding Contracts

1.	Type:	100% Quota Share
	Reinsurer:	Sentry Insurance a Mutual Company
	Scope:	All business written and assumed by the company classified as group accident and health excluding group long-term disability, blanket travel accident and dental coverage on certain named policies
	Retention:	None
	Coverage:	100% of losses and any or all other expenses incurred by or assessed against the reinsured arising from business covered by this contract
	Premium:	100% of gross premiums on ceded policies pursuant to this treaty
	Commissions:	None annually; however, there was a $17,000,000 commission paid to the reinsured on the effective date of this agreement, which was based on the present value of future profits of said business
	Effective date:	December 31, 1986, amended and restated January 1, 2012, and is continuous
	Termination:	Either party may terminate with 90 days’ prior written notice to any anniversary date

Affiliated Assuming Contracts

1.	Type:	Individual Medical Conversion Plans
	Reinsured:	Sentry Life Insurance Company of New York
	Scope:	All business written and assumed by SLONY classified as Individual Medical Conversion Plans
	Retention:	$100,000 per covered person per calendar year
	Coverage:	100% of SLONY’s paid claims in excess of $100,000 per covered person per calendar year retention
	Premium:	Annual premium of $100 per each covered person under the policy

	Commissions:	None	
	Effective date:	January 1, 2012, and is continuous	
	Termination:	Either party may terminate with 90 days' prior written notice to any anniversary date	
2.	Type:	Automatic and Facultative Yearly Renewable Term	
	Reinsured:	Sentry Life Insurance Company of New York	
	Scope:	Individual ordinary life and accidental death coverage	

Retention:

Risk Class	Ages	Amount
Standard - Table D	0-60	$50,000
	61+	50,000
Tables E-H	0-60	35,000
	61+	25,000
Tables J-P	0-60	25,000
	61+	10,000

Coverage: 100% of death benefits in excess of the reinsured's retention

Premium: Individual ordinary life – premiums are equal to:

a) premium rates based on policy year, sex, age when coverage began, age attained and substandard risk factors; plus
b) annual policy fees of $2.00 per million of gross risk per policy for the first five years not to exceed a maximum of $5.00 per year, and $2.50 thereafter; plus
c) 25% of any flat extra premium charged policyholders in the first policy year and 10% of those fees thereafter

Commissions: None

Effective date: January 1, 1973, and amended 12 times with the most recent amendment effective January 1, 1996. This agreement is continuous.

Termination: By either party with three months' written notice

Non Affiliated Ceding Contracts

SLONY cedes individual life on an excess basis to Sentry Life as previously outlined in this section of the examination report in the Affiliated Assuming Contract subsection. SLONY retains up to $50,000 of life and/or accidental death benefits; Sentry Life retains the next $200,000 and then cedes the remaining risks to Canada Life Assurance Company under yearly renewable term and coinsurance excess of loss agreements.

The company has shifted its writing of new business toward its Patriot Term products. Patriot Term are level benefit term life products with multiple guaranteed level premium duration options. Sentry Life has established two distinct reinsurance programs, one for its Patriot Term policies and one for all other policies it writes, each of which distinguishes ceding risk by categorizing business between policies covering Sentry Group employees (Sentry) and non-Sentry Group employees (Non). The following is a chart depicting the reinsurance.

Patriot Term Policies	**All Other Term Policies**
Facultative Cessions (in 000s) $5,000 excess of $5,000 - Non $5,000 excess of $5,000 - Sentry	Facultative Cessions (in 000s) $7,000 excess of $3,000 - Non $7,000 excess of $3,000 - Sentry
Automatic Cessions (in 000s) 100% excess company's maximum retention up to $5,000 - Non & Sentry	Automatic Cessions (in 000s) $2,100 excess of $900 - Non $2,600 excess of $400 - Sentry
Quota Share QS% to company's maximum retention - Non & Sentry	50% Quota Share (000s) 50% of $800 excess of $100 - Non 50% of $300 excess of $100 - Sentry
Company's Maximum Retention $500,000 - Non $250,000 - Sentry	Company's Maximum Retention $500,000 - Non $250,000 - Sentry

The company cedes 100% of its accidental death risk liabilities covered under its term policies (Patriot Term and Non-Patriot Term) to SCOR Global Life USA Reinsurance Company.

Sentry Life's reinsurance for group life policies is an excess of loss program under which the company is covered for $2,850,000 in excess of its retention of $150,000 for each policy written covering a Sentry employee and $500,000 in excess of $150,000 for non-Sentry employees' policies. The reinsurance treaty is with RGA Reinsurance Company.

Sentry Life's reinsurance program for group disability policies consists of ceding risks under a 50% quota share agreement with Reliance Standard Life Insurance Company and has a maximum coverage limit of $60,000 on risks.

The company no longer writes new universal life policies; however, due to a guaranteed insurable rider in the provisions of some of those policies, Sentry Life needed a means to cede increases in coverage. Therefore, the company amended its automatic reinsurance agreement with Munich American Reassurance Company to cover universal life policies written on and after January 1, 2005, with the guaranteed insurable rider provision. Under this agreement the company is covered for increases in universal life coverage in excess of its retention of $250,000.

All coverages are placed with reinsurers directly by Sentry Life. A review of the reinsurers participating under these agreements showed that all are companies licensed or authorized to do business in Wisconsin. It was also found that the company adequately reviews security rankings of all reinsurers it directly places business with.

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, 2013, 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."

Sentry Life Insurance Company
Assets
As of December 31, 2013

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$2,325,075,697	$	$2,325,075,697
Stocks:			
Common stocks	10,285,277		10,285,277
Cash, cash equivalents, and short-term investments	26,117,381		26,117,381
Contract loans	13,615,977		13,615,977
Receivables for securities	43,043		43,043
Investment income due and accrued	34,521,901		34,521,901
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	231,775		231,775
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	6,542,184		6,542,184
Reinsurance:			
Amounts recoverable from reinsurers	608,188		608,188
Funds held by or deposited with reinsured companies	100,000		100,000
Net deferred tax asset	6,936,779	3,474,695	3,462,084
Guaranty funds receivable or on deposit	78,122		78,122
Write-ins for other than invested assets:			
Funds in transit	329,061		329,061
Accounts receivable – other	189,576	187,620	1,956
From separate accounts, segregated accounts and protected cell accounts	2,488,656,947		2,488,656,947
Total Assets	$4,913,331,908	$3,662,315	$4,909,669,593

Sentry Life Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2013

Aggregate reserve for life contracts		$2,104,151,379
Aggregate reserve for accident and health contracts		12,122,266
Liability for deposit-type contracts		1,193,971
Contract claims:		
Life		3,461,743
Accident and health		95,261
Provision for policyholders' dividends and coupons payable in following calendar year:		
Not yet apportioned		195,769
Contract liabilities not included elsewhere:		
Surrender values on canceled policies		413,533
Provision for experience rating refunds		4,361,204
Other amounts payable on reinsurance		1,031,419
Interest maintenance reserve		6,827,068
Commissions to agents due or accrued		2,792
Transfers to separate accounts due or accrued (net)		(70,930)
Taxes, licenses, and fees due or accrued, excluding federal income taxes		(468,437)
Current federal and foreign income taxes		3,030,997
Amounts withheld or retained by company as agent or trustee		26,063
Remittances and items not allocated		937,963
Miscellaneous liabilities:		
Asset valuation reserve		8,397,657
Payable to parent, subsidiaries and affiliates		2,811,343
Write-ins for liabilities:		
VUL policy loans liability		405,349
Escheat funds		311,396
Total liabilities excluding separate accounts business		2,149,237,806
From separate accounts statement		2,487,897,666
Total liabilities		4,637,135,473
Common capital stock	$ 3,161,780	
Gross paid in and contributed surplus	43,719,081	
Unassigned funds (surplus)	225,653,259	
Total capital and surplus		272,534,120
Total Liabilities, Capital and Surplus		$4,909,669,593

Sentry Life Insurance Company
Summary of Operations
For the Year 2013

Premiums and annuity considerations for life and accident and health contracts		$502,128,758
Net investment income		135,601,455
Amortization of interest maintenance reserve		1,214,650
Separate accounts net gain from operations excluding unrealized gains or losses		1,467,241
Commissions and expense allowances on reinsurance ceded		4,975,685
Miscellaneous income:		
Income from fees associated with investment management, administration, and contract guarantees from separate accounts		10,492,649
Write-ins for miscellaneous income:		
Administration fees - other		6,433,686
Surrender charges		3,680
Total income items		662,317,803
Death benefits	$ 16,012,916	
Matured endowments	34,968	
Annuity benefits	70,951,535	
Disability benefits and benefits under accident and health contracts	1,945,726	
Surrender benefits and withdrawals for life contracts	290,272,616	
Interest and adjustments on contract or deposit-type contract funds	162,455	
Payments on supplementary contracts with life contingencies	30,942	
Increase in aggregate reserves for life and accident and health contracts	76,135,512	
Subtotal	455,546,671	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	7,459,124	
Commissions and expense allowances on reinsurance assumed	471	
General insurance expenses	34,591,269	
Insurance taxes, licenses, and fees excluding federal income taxes	3,307,649	
Increase in loading on deferred and uncollected premiums	(33,995)	
Net transfers to or (from) separate accounts net of reinsurance	127,501,859	
Write-in for deductions:		
VUL policy loan liability	11,683	
Total deductions		628,384,731
Net gain (loss) from operations before dividends to policyholders and federal income taxes		33,933,072
Dividends to policyholders		188,736

Net gain (loss) from operations after dividends to policyholders and before federal income taxes	33,744,336
Federal and foreign income taxes incurred (excluding tax on capital gains)	6,617,127
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses	27,127,209
Net realized capital gains or (losses)	(924,037)
Net Income	$ 26,203,172

Sentry Life Insurance Company
Cash Flow
For the Year 2013

Premiums collected net of reinsurance			$501,507,543
Net investment income			135,618,121
Miscellaneous income			23,372,941
Total			660,498,604
Benefit- and loss-related payments		$380,581,723	
Net transfers to separate accounts, segregated accounts and protected cell accounts		127,488,955	
Commissions, expenses paid, and aggregate write-ins for deductions		45,620,058	
Dividends paid to policyholders		195,053	
Federal and foreign income taxes paid (recovered)		7,761,560	
Total deductions			561,647,350
Net cash from operations			98,851,255
Proceeds from investments sold, matured, or repaid:			
Bonds	$119,712,385		
Miscellaneous proceeds	4,334		
Total investment proceeds		119,716,719	
Cost of investments acquired (long-term only):			
Bonds	201,817,550		
Miscellaneous applications	768,463		
Total investments acquired		202,586,013	
Net increase (or decrease) in contract loans and premium notes		(817,240)	
Net cash from investments			(82,052,053)
Cash from financing and miscellaneous sources:			
Net deposits on deposit-type contracts and other insurance liabilities		(134,731)	
Dividends to stockholders		20,000,000	
Other cash provided (applied)		3,257,674	
Net cash from financing and miscellaneous sources			(16,877,057)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(77,856)
Cash, cash equivalents, and short-term investments:			
Beginning of year			26,195,237
End of Year			$ 26,117,381

Sentry Life Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2013

Assets			$4,909,669,593
Less security surplus of insurance subsidiaries			2,800,000
Less liabilities			4,637,135,473
Adjusted surplus			269,734,120
Annual premium:			
Individual life and health	$23,113,230		
Factor	15%		
Total		$ 3,466,984	
Group life and health	5,455,025		
Factor	10%		
Total		545,502	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		37,214,067	
Compulsory surplus (subject to a $2,000,000 minimum)			41,226,553
Compulsory Surplus Excess or (Deficit)			$ 228,507,567
Adjusted surplus (from above)			$ 269,734,120
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%)			51,945,456
Security Surplus Excess or (Deficit)			$ 217,788,664

Sentry Life Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2013

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:

	2013	**2012**	**2011**	**2010**	**2009**
Capital and surplus, beginning of year	$269,829,948	$274,793,007	$275,645,973	$275,113,093	$262,501,290
Net income	26,203,172	20,546,567	22,877,357	23,850,630	18,516,064
Change in net unrealized capital gains/losses	10,308	105,088	(110,507)	26,541	81,970
Change in net deferred income tax	(1,982,682)	(2,680,054)	(1,651,922)	(1,907,985)	(218,662)
Change in nonadmitted assets and related items	744,754	1,508,268	1,505,639	1,209,758	3,272,666
Change in asset valuation reserve	(1,436,592)	(2,304,171)	(1,258,094)	(3,232,811)	1,109,137
Change in treasury stock					
Surplus (contributed to) withdrawn from separate accounts	3,349,284	475,656	(477,502)	31	(2,027,069)
Other changes in surplus in separate accounts statement	(4,184,072)	(114,412)	543,830	439,154	2,193,404
Dividends to stockholders	(20,000,000)	(22,500,000)	(22,000,000)	(18,500,000)	(15,000,000)
Write-ins for gains and (losses) in surplus:					
Change in additional admitted deferred tax assets			(302,043)	(1,352,439)	4,684,295
Parent company aggregate reinsurance]			20,277		
Capital and Surplus, End of Year	$272,534,120	$269,829,948	$274,793,007	$275,645,973	$275,113,094

Sentry Life Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2013

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. There were no unusual results.

	Ratio	2013	2012	2011	2010	2009
#1	Net change in capital and surplus	1%	(2)%	0%	0%	5%
#2	Gross change in capital and surplus	1	(2)	0	0	5
#3	Net income to total income	4	3	4	4	4
#4	Adequacy of investment income	135	135	136	135	136
#5	Nonadmitted to admitted assets	0	0	0	0	0
#6	Total real estate and mortgage loans to cash and invested assets	0	0	0	0	0
#7	Total affiliated investments to capital and surplus	4	4	4	4	4
#8	Surplus relief	2	2	2	3	3
#9	Change in premium	7	16	4	13	7
#10	Change in product mix	0.1	0.3	0.5	0.2	0.4
#11	Change in asset mix	0.0	0.1	0.1	0.2	0.1
#12	Change in reserving	5	4	(3)	2	(5)

Growth of Sentry Life Insurance Company

Year	Admitted Assets	Liabilities	Capital and Surplus
2013	$4,909,669,593	$4,637,135,473	$272,534,120
2012	4,364,894,534	4,095,064,586	269,829,948
2011	3,873,509,960	3,598,716,953	274,793,007
2010	3,732,027,113	3,456,381,140	275,645,973
2009	3,340,601,635	3,065,488,542	275,113,093
2008	2,882,466,199	2,619,964,910	262,501,289

Net Life Premiums, Annuity Considerations, and Deposits

Year	Life Insurance Premiums	Annuity Considerations	Deposit-type Contract Funds
2013	$35,905,119	$472,750,553	$0
2012	37,132,838	438,787,403	0
2011	36,191,244	375,045,301	0
2010	38,931,653	354,771,274	0
2009	38,178,177	309,984,569	0
2008	32,299,273	290,772,875	0

Life Insurance In Force (in thousands)

Year	In Force End of Year	Reinsurance Ceded	Net In Force
2013	$7,057,745	$2,265,921	$4,791,824
2012	7,264,528	2,313,169	4,951,359
2011	7,466,303	2,312,018	5,154,285
2010	7,524,791	2,278,029	5,246,762
2009	7,583,872	2,313,024	5,270,848
2008	7,626,302	2,223,705	5,402,597

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2013	$ 63,723	$ 698,402	$(3,148,958)	$3,537,152	1,705.0%
2012	(837,243)	(83,316)	(3,616,887)	4,109,957	(49.0)
2011	1,148,465	2,322,183	(3,961,478)	4,653,460	261.0
2010	(1,559,788)	(432,246)	(4,055,094)	5,054,403	(37.0)
2009	(1,312,872)	(213,803)	(4,094,786)	5,749,842	(110.0)
2008	2,140,387	3,007,577	(4,386,430)	6,083,175	219.8

* Includes increase in contract reserves
** Includes taxes, licenses, and fees

Capital and surplus has increased 3.8% during the five years under examination. Sentry Life has paid stockholder dividends to SIAMCO totaling $98.0 million over the last five years, which limited its capital and surplus growth.

Sentry Life cedes over 99% of their accident and health business to SIAMCO, retaining only the employee long-term disability business. The negative accident and health group premium reflects experience rated return (ERR) premium payments that were received during 2009, 2010 and 2012. The combined loss and expense ratios in 2011 and 2013 were largely impacted by the reduced premiums, which resulted from the ERR payments. The ratios are further influenced by annual increases in the losses incurred.

The company has had no significant changes in business written for the various life products that Sentry Life offers. As described earlier in the examination report, the company's fastest growing segment is its group pension business. Annuity considerations have increased

62.6% since 2008. In 2013, approximately 90.4% of Sentry Life's direct premium writings were from group annuities considerations received.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus of $269,372,340 reported by the company as of December 31, 2013, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation 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 file all affiliated service agreements and amendments to existing ones with the Commissioner for approval in accordance with s. Ins 40.04 (2) (d), Wis. Adm. Code.

   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.

Actuarial Examination

As mentioned previously, the Office of the Commissioner of Insurance contracted with an actuary to review the company's aggregate reserves for accident and health contracts (policy reserve), contract claims liability, and asset adequacy analysis. The actuary concluded that the company generally followed accurate and appropriate procedures in determining the policy reserve and contract claims liability. The reserves were found to be adequate.

The company's actuary completed an actuarial memorandum including an asset adequacy analysis and regulatory asset adequacy summary pursuant to s. Ins 50.79, Wis. Adm. Code. However, the consulting actuary found that the company's actuarial memorandum failed to include a description of the assets tested which is contrary to the requirements of s. Ins 50.79 (2), Wis. Adm. Code. It is recommended that the company include a thorough description of the assets tested, including a risk profile disclosing the quality, distribution and types of assets used in the cash flow testing in all future actuarial memoranda pursuant to s. Ins 50.79 (2), Wis. Adm. Code.

VIII. CONCLUSION

Sentry Life's reported capital and surplus has increased from $262,501,289 as of year-end 2008 to $272,534,120 as of year-end 2013. This represents an increase of 3.8% during the period under examination. Life and accident and health business have steadily declined since the previous examination of the company, while the group annuity considerations relating to group pensions have increased 62.6% over the examination period. Sentry Life reported $2,488,656,947 in Separate Accounts for its individual employees' personal retirement savings, which are invested in a wide range of mutual funds, some of which may be managed by Sentry affiliates. In 2013 consideration received from group annuities was 90.4% of the company's direct premium writings compared to 89% in 2008. Operating earnings were profitable each of the last five years primarily due to steady investment income.

The current examination resulted in one recommendation and did not make any reclassification of account balance or adjustments to surplus as reported as of year-end 2013. The examination determined that, as of December 31, 2013, the company had admitted assets of $4,909,669,593, liabilities of $4,637,135,473 and capital and surplus of $272,534,120.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 34 - Actuarial Examination—It is recommended that the company include a thorough description of the assets tested, including a risk profile disclosing the quality, distribution and types of assets used in the cash flow testing in all future actuarial memoranda pursuant to s. Ins 50.79 (2), Wis. Adm. Code.

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
Levi Olson	Insurance Financial Examiner
John Pollock	Insurance Financial Examiner
Derek Sliter	Insurance Financial Examiner
James Vanden Branden	Insurance Financial Examiner
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist
John Litweiler	Workpaper Specialist

Respectfully submitted,

Judith Michael
Examiner-in-Charge