

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

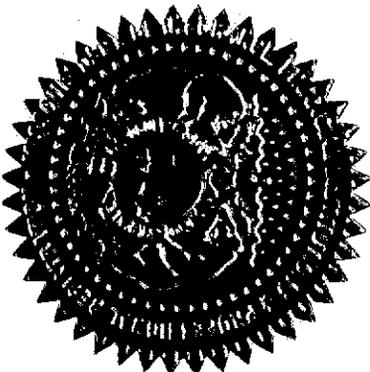
RE: Examination Report of Farm Bureau Life Insurance Company of Missouri as of  
December 31, 2005

### ORDER

After full consideration and review of the report of the financial examination of Farm Bureau Life Insurance Company of Missouri for the period ended December 31, 2005, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, W. Dale Finke, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Farm Bureau Life Insurance Company of Missouri, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this December 11, 2006.



A handwritten signature in cursive script that reads "W. Dale Finke".

W. DALE FINKE, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION

FARM BUREAU LIFE INSURANCE  
COMPANY OF MISSOURI

As of:

DECEMBER 31, 2005

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

## TABLE OF CONTENTS

<b>SALUTATION</b> .....	1
<b>SCOPE OF EXAMINATION</b> .....	1
Period Covered.....	1
Procedures.....	2
Comments - Previous Examination .....	2
<b>HISTORY</b> .....	2
General.....	2
Capital Stock.....	2
Dividends .....	3
Management.....	3
Conflict of Interest .....	3
Corporate Records .....	4
Acquisitions, Mergers, and Major Corporate Events.....	4
Surplus Debentures .....	4
<b>AFFILIATED COMPANIES</b> .....	4
Holding Company.....	4
Organizational Structure .....	4
Payments to Affiliates.....	5
Intercompany Transactions.....	6
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	8
<b>EMPLOYEE BENEFITS AND PENSION PLAN</b> .....	9
<b>STATUTORY DEPOSITS</b> .....	9
Deposits with the State of Missouri .....	9
Deposits with Other States.....	9
<b>INSURANCE PRODUCTS AND RELATED PRACTICES</b> .....	9
Territory and Plan of Operation.....	9
Underwriting Practices and Customer Relations .....	10
<b>REINSURANCE</b> .....	10
General.....	10
Assumed.....	10
Ceded .....	10
<b>ACCOUNTS AND RECORDS</b> .....	10
Independent Auditor .....	10

Independent Actuary.....	11
Consulting Actuary.....	11
Information Systems Audit.....	11
<b>FINANCIAL STATEMENTS .....</b>	<b>11</b>
<b>BALANCE SHEET.....</b>	<b>12</b>
<b>INCOME STATEMENT .....</b>	<b>13</b>
<b>CAPITAL AND SURPLUS.....</b>	<b>14</b>
<b>NOTES TO THE FINANCIAL STATEMENTS.....</b>	<b>15</b>
<b>EXAMINATION CHANGES.....</b>	<b>15</b>
<b>GENERAL COMMENTS AND RECOMMENDATIONS .....</b>	<b>15</b>
<b>SUBSEQUENT EVENTS.....</b>	<b>15</b>
<b>ACKNOWLEDGEMENT.....</b>	<b>16</b>
<b>VERIFICATION .....</b>	<b>16</b>
<b>SUPERVISION .....</b>	<b>16</b>

August 31, 2006  
Jefferson City, Missouri

Honorable Alfred W. Gross, Commissioner  
Bureau of Insurance  
Virginia State Corporate Commission  
Chairman, Financial Condition (E) Committee, NAIC

Honorable Ann Womer Benjamin, Director  
Department of Insurance  
State of Ohio  
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Dear Sirs/Madam:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

**Farm Bureau Life Insurance Company of Missouri**

hereinafter referred to as such or as the "Company". The Company's office is located at 701 South Country Club Drive, Jefferson City, Missouri 65109, telephone number (573) 893-1400. Examination fieldwork began on March 6, 2006, and was completed on August 31, 2006.

**SCOPE OF EXAMINATION**

Period Covered

The last comprehensive financial examination of the Company was performed as of December 31, 2001, by examiners from the state of Missouri.

The current financial examination of the Company covers the period from January 1, 2002, through December 31, 2005, and was conducted by examiners from the state of Missouri. This examination also included material transactions or events occurring subsequent to December 31, 2005.

## Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

Workpapers of the Company's independent auditor, Williams Keepers LLC, were made available to the examiners for review. Standard examination procedures were modified as deemed appropriate under the circumstances.

## Comments - Previous Examination

The previous examination report contained no comments of weaknesses identified during the examination.

# HISTORY

## General

Farm Bureau Life Insurance Company of Missouri is a life and accident and health company organized and operating under the laws of the State of Missouri. The Company is authorized to write life and accident and health insurance in the state of Missouri. The Company was incorporated on May 6, 1950 and commenced business on July 27, 1950. The Company currently operates under the provisions of Chapter 376 RSMo as a joint stock legal reserve life insurance company.

The Company is a wholly owned subsidiary of Missouri Farm Bureau Services, Inc. (Services) and is directly controlled by the Missouri Farm Bureau Federation (the Federation), a not for profit corporation organized under the laws of the state of Missouri. Services also owns 100% of the outstanding common stock of Farm Bureau Town and Country Insurance Company of Missouri (Town and Country), a fire and casualty insurance company organized and operating under the laws of the state of Missouri. The Company owns 33.33% of the outstanding common stock of Farm Bureau New Horizons (New Horizons) a fire and casualty insurance company organized in 2005 under the laws of the state of Missouri.

## Capital Stock

The Company has authority to issue 6,000 shares of common stock with a par value of \$100 per share. As of December 31, 2005, all of the shares were outstanding for a balance of \$600,000 in the common capital stock account. All shares were owned by the parent, Missouri Farm Bureau Services, Inc.

## Dividends

During the period being examined, the Company paid dividends to the sole stockholder as follows:

2002	\$	149,449
2003		4,731,404
2004		294,774
2005		130,863
Total	\$	<u>5,306,490</u>

## Management

The members of the board of directors serving at December 31, 2005, were as follows:

<u>Name and Location</u>	<u>Position</u>	<u>Name and Location</u>	<u>Position</u>
William C. Bastin, Jr. Jasper	Farmer	Leon Kreisler Salem	Farmer
Gary G. Branum New Madrid	Farmer	Charles E. Kruse Dexter	President, Farm Bureau
Jami M. Geske Matthews	Farmer	Paul W. LePage Jefferson City	Farmer
Ronald G. Hardecke Owensville	Farmer	Dwayne Schad Versailles	Farmer
Todd P. Hays Monroe City	Farmer	Hal R. Swaney Platte City	Farmer
Charles B. Hurst Westboro	Farmer	Barbara L. Wilson Mexico	Farmer

The officers elected and serving as of December 31, 2005, were as follows:

<u>Name</u>	<u>Office</u>
Charles E. Kruse	President
Daniel L. Cassidy	Secretary, Chief Administrative Officer
Randall J. Campbell	Treasurer, Chief Financial Officer

## Conflict of Interest

All officers and directors signed conflict of interest disclosures each year of the examination. No instances of conflict of interest situations were reported.

### Corporate Records

Board meeting minutes were reviewed for the meetings held during the examination period. Attendance was adequate and the minutes documented significant company transactions.

Members of the board of directors signed affidavits on May 19, 2003, acknowledging receipt of the previous Report of Examination.

### Acquisitions, Mergers, and Major Corporate Events

On August 31, 2005, the Company purchased \$2,000,000 worth of common stock in Farm Bureau New Horizons Insurance Company of Missouri. This represents a one-third ownership interest along with Farm Bureau Town & Country Insurance Company of Missouri and Missouri Farm Bureau Services, Inc.

### Surplus Debentures

The Company has no surplus debentures.

## **AFFILIATED COMPANIES**

### Holding Company

The Company is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo. Pursuant to Missouri Insurance Regulation 20 CSR 200-11.100 and Section 382.100 RSMo., the Company has filed Form B of the Insurance Holding Company System with the Missouri Department of Insurance.

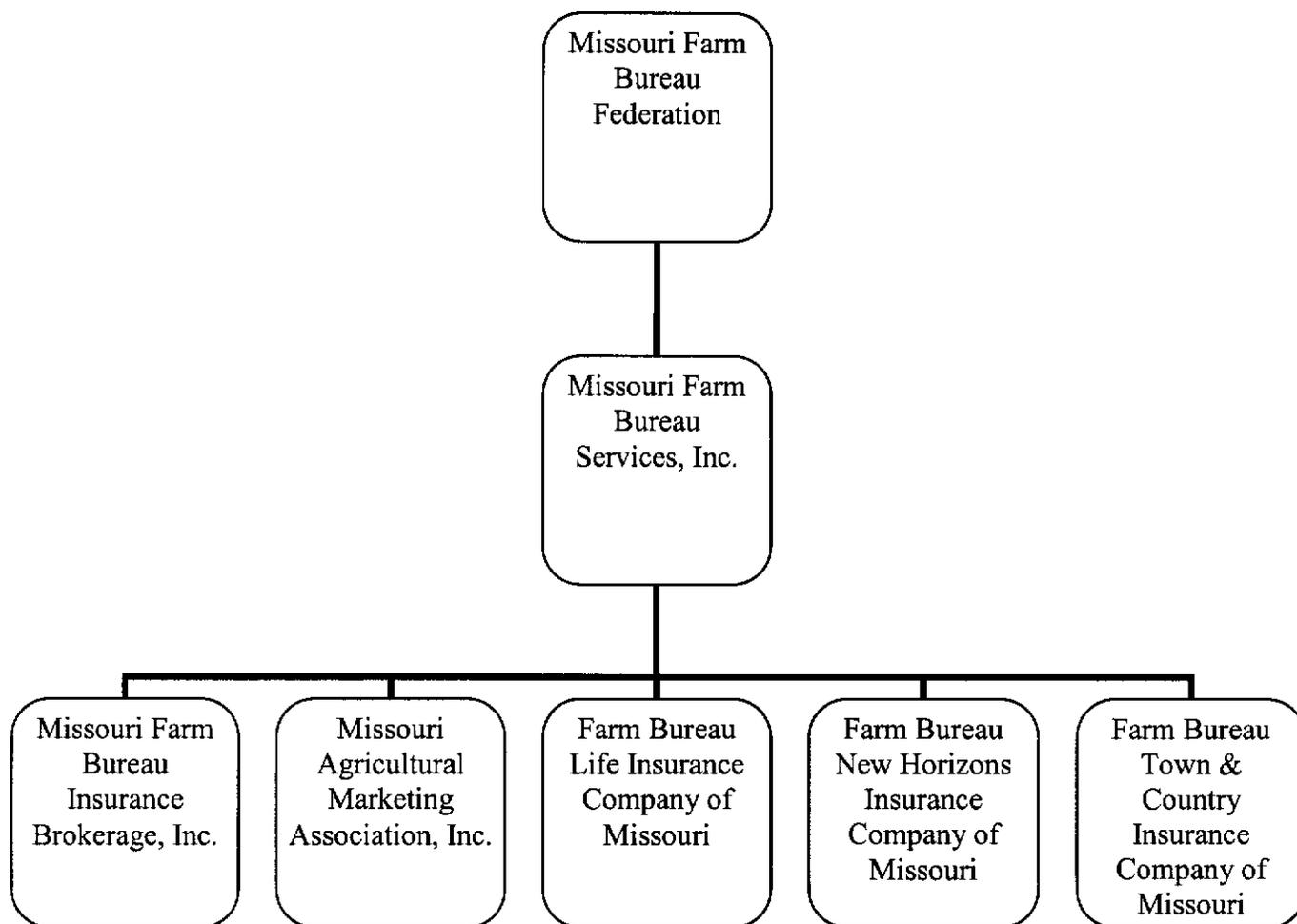
The Federation and Services provides the premises and equipment for the operations of the Company, Town and Country and New Horizons. Capital expenditures for such investments are made and funded by the Federation and Services. Services also provides a number of joint activity services to the Company, Town and Country and New Horizons. Such services include all management and equipment necessary for the day to day operations of the Company.

Services holds all of the outstanding common stock of Missouri Farm Bureau Insurance Brokerage, Inc. (Brokerage). Brokerage provides the sales force and sales operations for the Company, Town and Country and New Horizons. Brokerage also provides access to health and accident coverages and other types of insurance coverage not underwritten by the Missouri Farm Bureau Affiliated Companies.

### Organizational Structure

The Company is wholly owned by Services and, in turn, the Company owns one-third of

The Company is wholly owned by Services and, in turn, the Company owns one-third of Farm Bureau New Horizons Insurance Company of Missouri. The following organizational chart depicts the ownership structure of the Company:



Payments to Affiliates

The Company has submitted all intercompany agreements to the Department and all were non-disapproved. The Company made the following payments for various management and service contracts provided by affiliated entities:

2002	\$ 10,961,966
2003	9,598,967
2004	10,655,907
2005	<u>11,186,034</u>
Total	<u>\$ 42,402,874</u>

### Intercompany Transactions

The Company and its affiliates share the use and cost of facilities, equipment and personnel under various service and cost sharing agreements.

### **Marketing and Sales Agreement**

Parties: Missouri Farm Bureau Insurance Brokerage, Inc., Farm Bureau Town & Country Insurance Company of Missouri and Farm Bureau Life Insurance Company of Missouri

Effective: July 24, 1996

Terms: Missouri Farm Bureau Insurance Brokerage, Inc. provides sales and customer relations for Farm Bureau Life Insurance Company of Missouri and Farm Bureau Town & Country Insurance Company of Missouri in connection with all the insurance products offered by the two insurance companies. All commissions earned as a result of the sale of insurance products are payable through Missouri Farm Bureau Insurance Brokerage, Inc. Missouri Farm Bureau Insurance Brokerage, Inc. is solely responsible to remit the commissions to its agents.

Missouri Farm Bureau Insurance Brokerage, Inc. receives no compensation for the use of its licensed insurance agents.

### **Service Agreement**

Parties: Missouri Farm Bureau Services, Inc., Farm Bureau Life Insurance Company of Missouri and Farm Bureau Town & Country Insurance Company of Missouri

Effective: January 1, 2004

Terms: Missouri Farm Bureau Services, Inc. provides the following services to the two insurance companies: administrative fees, investment, information technology, information (public affairs), furniture and equipment, fleet rental, administrative, customer support, actuarial, print shop and special. Special services include addressing, mail, messenger and imaging. Charges for the special services are based on actual use and rates are designed to cover the costs of operation of these areas.

Charges for most of the services provided are based upon the gross departmental expenses, plus a reasonable profit.

## **Cost Sharing Agreement**

**Parties:** Missouri Farm Bureau Services, Inc., Missouri Farm Bureau Federation, Farm Bureau Life Insurance Company of Missouri, Farm Bureau Town & Country Insurance Company of Missouri and Missouri Farm Bureau Insurance Brokerage, Inc.

**Effective:** January 1, 2004

**Terms:** The companies agree to share the following costs:

**Sales:**

Sales expenses are paid by Farm Bureau Town & Country Insurance Company of Missouri and split with Farm Bureau Life Insurance Company of Missouri and Missouri Farm Bureau Insurance Brokerage, Inc. on a predetermined percentage basis, which is reviewed annually.

**Sales Contests:**

These costs are allocated based on the production rules of the specific contest.

**Promotional Events:**

The cost of various donations, contributions and promotional events share by Town & Country, Life and Brokerage on specific identification bases as determined.

**Agents Payroll:**

Agent payroll expenses are shared by the companies based upon specific agent production.

**Partners for Growth:**

This program supports the service center operations for the companies' insurance activities. These expenses will be split among the companies on a predetermined basis and reviewed annually.

**Operational Costs:**

Allows the companies to share costs for various day to day expenses. (Many of these are already covered in the Service Agreement described above.)

### **Allocation of Consolidated Tax Liability Agreement**

Parties: Missouri Farm Bureau Federation, Missouri Farm Bureau Services, Inc., Farm Bureau Life Insurance Company of Missouri, Farm Bureau Town & Country Insurance Company of Missouri, Missouri Agricultural Marketing Association, Missouri Farm Bureau Insurance Brokerage, Inc. and Missouri Farm Bureau Broadcasting, Inc.

Effective: January 1, 1999

Terms: Each member of the group agrees to pay its share of the consolidated federal income tax liability as allocated among the members under the rules provided by the Internal Revenue Code. Missouri Farm Bureau Services, Inc. is designated as the agent that pays the consolidated tax liability and each member agrees to make timely payment of its share of the tax liability and estimated payments.

### **Space Rent Agreement**

Parties: Missouri Farm Bureau Federation (Lessor), Farm Bureau Life Insurance Company of Missouri and Farm Bureau Town & Country Insurance Company of Missouri.

Effective: January 1, 1999

Terms: The purpose of this agreement is to provide space within the properties owned by the Lessor for the efficient operations of the companies. Rent for the use of the facilities is computed on a pro rata basis using assigned square footage as the basis. The rents are computed annually and will include the various expenses associated with the operation of the facilities including: depreciation, maintenance and repairs, utilities, taxes, management charges, insurance, interest, plus other costs incurred in the building operation, less rental income received plus an amount computed to provide sufficient cash flow to fund the Industrial Revenue Bond financing due December 1, 2005.

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

The Company is a named insured on a financial institution bond Form 25 purchased by Missouri Farm Bureau Federation with an aggregate loss limit of \$2 million and a single loss limit of \$2 million. The loss limits exceed the NAIC suggested minimum guidelines.

The Company is also insured through policies providing coverage for real and personal property, general liability, automobile liability, fiduciary responsibility, workers compensation and employer liability and directors' and officers' liability.

### **EMPLOYEE BENEFITS AND PENSION PLAN**

The Company and its affiliates provide their employees benefits typical of the industry. The primary benefits provided to full time employees include: paid time off, holidays, cafeteria plan, group life, short-term disability, long-term disability, employee group health plan, educational assistance, 401(k) savings plan and defined benefit or defined contribution retirement plans.

### **STATUTORY DEPOSITS**

#### Deposits with the State of Missouri

The U.S. Treasury Bond on deposit with the Missouri Department of Insurance was sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Sections 376.290 RSMo (Deposit and transfer of securities).

<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U. S. Treasury Bond	<u>\$ 1,000,000</u>	<u>\$ 1,296,600</u>	<u>\$ 1,014,700</u>

#### Deposits with Other States

The Company had no funds on deposit with any other state as of December 31, 2005.

### **INSURANCE PRODUCTS AND RELATED PRACTICES**

#### Territory and Plan of Operation

The Company is licensed in Missouri under Chapter 376 RSMo (Life and Accident Insurance) to write life, annuities, endowments, accident and health and variable contracts.

The Company primarily writes ordinary life and individual annuity products. Insurance is offered in all counties in Missouri. Insurance is produced and serviced through 137 Farm Bureau Service centers. The business is produced by approximately 200 employee agents of an affiliate, Missouri Farm Bureau Insurance Brokerage, Inc. The agents are supervised by 16 district field managers. The districts are divided into Eastern and Western Missouri Regions and are supervised by a Regional Sales Director in each region.

## Underwriting Practices and Customer Relations

The Missouri Department of Insurance has a Market Conduct Staff that performs a review of these issues and generates a separate market conduct report. The most recent Missouri Market Conduct examination was for 1997 and was filed in 1999. The Market Conduct Report did not disclose any issues having a significant impact on the Company's financial condition.

## **REINSURANCE**

### General

Premiums reported during the period under examination were as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Direct	\$ 35,809,150	\$ 33,022,891	\$ 34,543,396	\$ 35,202,366
Assumed	753,119	-	-	-
Ceded	<u>(3,018,578)</u>	<u>(3,269,223)</u>	<u>(3,698,066)</u>	<u>(4,056,140)</u>
Net Premiums	<u>\$ 33,543,691</u>	<u>\$ 29,753,668</u>	<u>\$ 30,845,330</u>	<u>\$ 31,146,226</u>

### Assumed

The Company does not assume any reinsurance, however, it does participate in an agreement with Special Pooled Risk Administrators, Inc. This agreement calls for participants to share in any losses that occur when three or more lives, insured by one company, are lost in a single accident. Activity resulting from membership in this pool has been minimal.

### Ceded

The Company has agreements with several companies, but generally retains \$150,000 per life. The vast majority of reinsurance business is placed with RGA Reinsurance Company and Generali USA.

## **ACCOUNTS AND RECORDS**

### Independent Auditor

For the years 2002, 2003, 2004 and 2005, the Company's financial statements were audited by the firm of Williams Keepers LLC.

### Independent Actuary

Reserve requirements were evaluated and certified by the Company's consulting actuary, Terry Long, MAAA, of Lewis & Ellis, Inc. for each year covered by this examination.

### Consulting Actuary

Consulting actuary, Timothy F. Harris, MAAA, of Milliman, Inc., Consulting Actuaries, was retained by the Department to review the adequacy of losses and other related liabilities.

### Information Systems Audit

The Information Systems Examination Specialist with the Department completed an electronic data processing controls audit and concluded that systems controls were reasonable.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

**BALANCE SHEET**  
**Farm Bureau Life Insurance Company**  
**December 31, 2005**

**Assets**

	Assets	Non-admitted	Net Admitted Assets
Bonds	\$ 283,784,782	-	\$ 283,784,782
Preferred stocks	19,360,242	-	19,360,242
Common stocks	8,158,681	-	8,158,681
Cash	1,113,562	-	1,113,562
Contract loans	14,555,903	-	14,555,903
Other invested assets	51,158	-	51,158
Investment income due and accrued	3,145,136	-	3,145,136
Uncollected premiums	3,836	-	3,836
Deferred premiums	5,837,529	-	5,837,529
Amounts recoverable from reinsurers	123,642	-	123,642
Other amounts receivable under reinsurance contracts	6,609	-	6,609
Federal income tax recoverable	248,742	-	248,742
Net deferred tax asset	4,367,740	2,909,964	1,457,776
Receivables from parent, subsidiaries and affiliates	2,415	-	2,415
<b>Total Assets</b>	<b><u>\$ 340,759,977</u></b>	<b><u>\$ 2,909,964</u></b>	<b><u>\$ 337,850,013</u></b>

**Liabilities, Surplus and Other Funds**

Aggregate reserve for life contracts	\$ 258,435,266
Aggregate reserve for accident and health contracts	38,779
Liability for deposit-type contracts	18,980,087
Life contract claims	1,277,326
Accident and health contract claims	15,000
Policyholders' dividends due and unpaid	2,054
Dividends apportioned for payment	2,898,785
Premiums and annuity considerations received in advance	102,160
Interest maintenance reserve	1,952,526
Commissions to agents due or accrued	299,897
General expenses due or accrued	617,768
Taxes, licenses and fees	181,739
Unearned investment income	341,303
Amounts withheld or retained by company	15,663
Remittances and items not allocated	215,195
Liability for benefits for employees and agents	254,294
Asset valuation reserve	1,985,182
Aggregate write-ins for liabilities	2,640
<b>Total Liabilities</b>	<b><u>\$ 287,615,664</u></b>
Common capital stock	\$ 600,000
Gross paid in and contributed surplus	50,000
Unassigned funds (surplus)	49,584,349
<b>Total common and preferred stock and surplus</b>	<b><u>50,234,349</u></b>
<b>Total liabilities, common and preferred stock and surplus</b>	<b><u>\$ 337,850,013</u></b>

## INCOME STATEMENT

### Farm Bureau Life Insurance Company For the Year Ending December 31, 2005

Premiums and annuity considerations	\$ 31,146,226
Considerations for supplementary contracts with life contingencies	157,703
Net investment income	18,660,725
Amortization of Interest Maintenance Reserve (IMR)	194,758
Commissions and expense allowances on reinsurance ceded	591,573
Aggregate write-ins for miscellaneous income	600
Total Underwriting and Investment Income	<u>50,751,585</u>
Death benefits	4,272,794
Matured endowments (excluding guaranteed annual pure endowments)	278,693
Annuity benefits	5,664,258
Disability benefits and benefits under accident and health contracts	146,629
Surrender benefits and withdrawals for life contracts	4,782,580
Interest and adjustments on contract or deposit-type contract funds	638,854
Payments on supplementary contracts with life contingencies	506,948
Increase in aggregate reserves for life and accident and health contracts	17,878,573
Commissions on premiums and annuity considerations	4,329,900
Commissions and expense allowances on reinsurance assumed	0
General insurance expenses	6,939,645
Insurance taxes, licenses and fees, excluding federal income taxes	768,747
Increase in loading on deferred and uncollected premiums	32,650
Aggregate write-ins for deductions	(95,711.00)
Total Benefits and Underwriting Expenses	<u>46,144,560</u>
Net gain from operations before dividends and federal income taxes	4,607,025
Dividends to policyholders	2,842,234
Net gain from operations after dividends and before federal income taxes	<u>1,764,791</u>
Federal and foreign income taxes recovered / (incurred)	183,201
Net gain from operations before realized capital gains or (losses)	<u>1,947,992</u>
Net realized capital gains or (losses)	(379,328)
Net income	<u>\$ 1,568,664</u>

## CAPITAL AND SURPLUS

### Farm Bureau Life Insurance Company December 31, 2005

Capital and surplus, December 31, prior year		\$ 49,092,833
Net income	1,568,664	
Change in net unrealized capital gains or (losses)	(115,082)	
Change in net deferred income tax	483,967	
Change in nonadmitted assets and related items	(538,391)	
Change in asset valuation reserve	(14,801)	
Dividends to stockholders	(130,863)	
Aggregate write-ins for gains and losses in surplus	<u>(111,976)</u>	
Net change in capital and surplus for the year		<u>1,141,518</u>
Capital and surplus, December 31, current year		<u>\$ 50,234,351</u>

**NOTES TO THE FINANCIAL STATEMENTS**

None.

**EXAMINATION CHANGES**

None.

**GENERAL COMMENTS AND RECOMMENDATIONS**

None.

**SUBSEQUENT EVENTS**

None.

