STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Shelter Life Insurance Company for the period ended December 31, 2012.

ORDER

After full consideration and review of the report of the financial examination of Shelter Life Insurance Company for the period ended December 31, 2012, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Shelter Life Insurance Company as of December 31, 2012 be and is hereby ADOPTED as filed and for Shelter Life Insurance Company 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, if any, mentioned in the Comments on Financial Statement Items and/or Summary of 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 28th day of May, 2014.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

SHELTER LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

FILED
JUN 6 2014
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Columbia, Missouri
April 10, 2014

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

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

Shelter Life Insurance Company

hereinafter referred to as Shelter Life, SLIC, or as the Company. Its administrative office is located at 1817 West Broadway, Columbia, Missouri, 65218, telephone number (573) 445-8441. This examination began on March 25, 2013, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of Shelter Life. The last examination was completed as of December 31, 2007. This examination covers the period of January 1, 2008, through December 31, 2012. This examination also included the material transactions or events occurring subsequent to December 31, 2012.

The examination was conducted concurrently with the examinations of the Company's Missouri domiciled affiliates, which includes the parent, Shelter Mutual Insurance Company (Shelter Mutual or SMIC), Shelter General Insurance Company (Shelter General or SGIC), and Shelter Reinsurance Company (Shelter Re or SRC).

The examination of Shelter Life and its Missouri affiliated entities was coordinated with the concurrent examination of another affiliate, Haulers Insurance Company (Haulers), a Tennessee domiciled insurer, that was conducted by the Tennessee Department of Commerce and Insurance.

Procedures

This examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about corporate governance, identifying and assessing inherent risks, and evaluating the Company's controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The key activities identified in our examination of SLIC were as follows:

- Investments
- Premiums
- Underwriting
- Claims Handling
- Reserving
- Reinsurance
- Related Party Transactions
- Employee Benefits

The examiners relied upon information supplied by the Company's independent auditor, Ernst & Young, LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2012 through December 31, 2012. Areas in which the testing and results from the CPA workpapers were relied upon in our examination included internal controls, bank reconciliations, investment impairment analysis, investment fair values, claims processing, risk transfer analysis, reinsurance treaty confirmations, profit sharing accrual, attorney representation letters, and fraud assessment.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2012 through the date of this report.

COMPANY HISTORY

General

Shelter Life was incorporated on November 13, 1958 and was originally named M.F.A. Life Insurance Company. It was issued a Certificate of Authority and commenced business on March 2, 1959. The Company's name was changed to Shelter Life Insurance Company on July 1, 1981. The Company operates as a stock life and health insurer under the insurance laws of Chapter 376 RSMo (Life and Accident Insurance).

Dividends and Capital Contributions

The Company paid dividends to its sole stockholder, Shelter Mutual, during the examination period, which are listed in the Intercompany Payments section of this report. No capital contributions were received from Shelter Mutual during the examination period.

Mergers and Acquisitions

There were no significant mergers or acquisitions noted for the period under examination.

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed. There were no amendments or changes to the Articles of Incorporation or Bylaws during the examination period.

The minutes of the Board of Directors' and shareholder meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Corporate Governance

The management of the Company is vested in a Board of Directors, which is appointed by the policyholders. The Company's Bylaws specify that the Board of Directors shall consist of nine (9) members. The Board of Directors appointed and serving, as of December 31, 2012, were as follows:

Name	Principal Occupation and Business Affiliation
J. Donald Duello (Chair)	Retired, former President and CEO, SMIC
Ann H. Covington [1] (Vice Chair)	Retired, former Justice, Missouri Supreme Court
Gerald T. Brouder	President, Columbia College
Deborah L. Douglas	President, Douglas Group
Randall C. Ferguson, Jr.	Retired, former Senior Location Executive, IBM
Don A. McCubbin	Retired, former Executive Vice President, SMIC
Barry L. McKuin	Retired, former Financial Manager, Winrock Farms, Inc.
Ricky L. Means	President and CEO, SMIC
J. David Moore	Retired, former President and CEO, SMIC

[1] Retired, effective March 1, 2013, and replaced by Andrez Jimenez

Committees

The Bylaws require an Audit Committee and an Executive and Compensation Committee to be maintained by the Board of Directors. The Bylaws allow for additional committees to be maintained, as deemed necessary. An Investment Committee of the Board of Directors has historically been maintained in addition to the mandatory committees. The committee members appointed and serving, as of December 31, 2012, were as follows:

Audit Committee	Executive and Compensation Committee	Investment Committee
Barry L. McKuin (Chair)	Ann H. Covington (Chair)	J. Donald Duello (Chair)
Deborah L. Douglas	Gerald T. Brouder	Gerald T. Brouder
Randall C. Ferguson, Jr.	J. Donald Duello	S. Daniel Clapp
	Barry L. McKuin	Ann H. Covington
	Ricky L. Means	Don A. McCubbin
		Ricky L. Means
		J. David Moore

Officers

The officers elected by the Board of Directors and serving as of December 31, 2012, were as follows:

Officer	Position
Ricky L. Means	President and Chief Executive Officer
Randa C. Rawlins	General Counsel and Secretary
S. Daniel Clapp	Executive Vice President and Treasurer
Teresa K. Magruder	Executive Vice President
Madison M. Moore	Executive Vice President
David N. Abbott	Vice President of Investments
Terry L. Dykes	Vice President of Claims
H. Lloyd Montgomery	Vice President of Alternate Channels
Joe L. Moseley	Vice President of Public Affairs
John T. Rooney	Vice President of Information Services
Frank L. Thompson	Vice President of Marketing
Todd J. Weyler	Vice President of Underwriting
Christina M. Workman	Vice President of Accounting, Assistant Treasurer

Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed on behalf of the Company by the parent, SMIC, for each year of the examination period.

SMIC is the ultimate controlling entity in a holding company system that includes five insurance companies and seven non-insurance entities. The insurance companies consist of the four Missouri domiciled insurers plus Haulers Insurance Company, Inc., a Tennessee domiciled insurer. Below is a brief synopsis of the non-insurance entities:

Shelter Financial Corporation (SFC) – A holding company for Shelter Bank with no business operations.

Shelter Financial Bank (Shelter Bank) – A former savings and loan company that sold certificates of deposits and provided auto loans and mortgage loans. It did not have any demand accounts (checking or savings). A press release was issued in September 2012 announcing that Shelter Bank was being closed due to increased regulation from the Dodd-Frank Act. Shelter Bank was merged into SFC in March 2013.

Shelter Financial Services, Inc. (SFS) – A holding company for Shelter Benefits Management, Inc. with no business operations. Shelter Life owns 10% of SFS.

Shelter Benefits Management, Inc. (Shelter Benefits) – Manages various agent and employee services for Shelter Mutual employees. Services provided include human resource functions, payroll services, and benefits administration for the employees, agents, and retirees of Shelter Mutual.

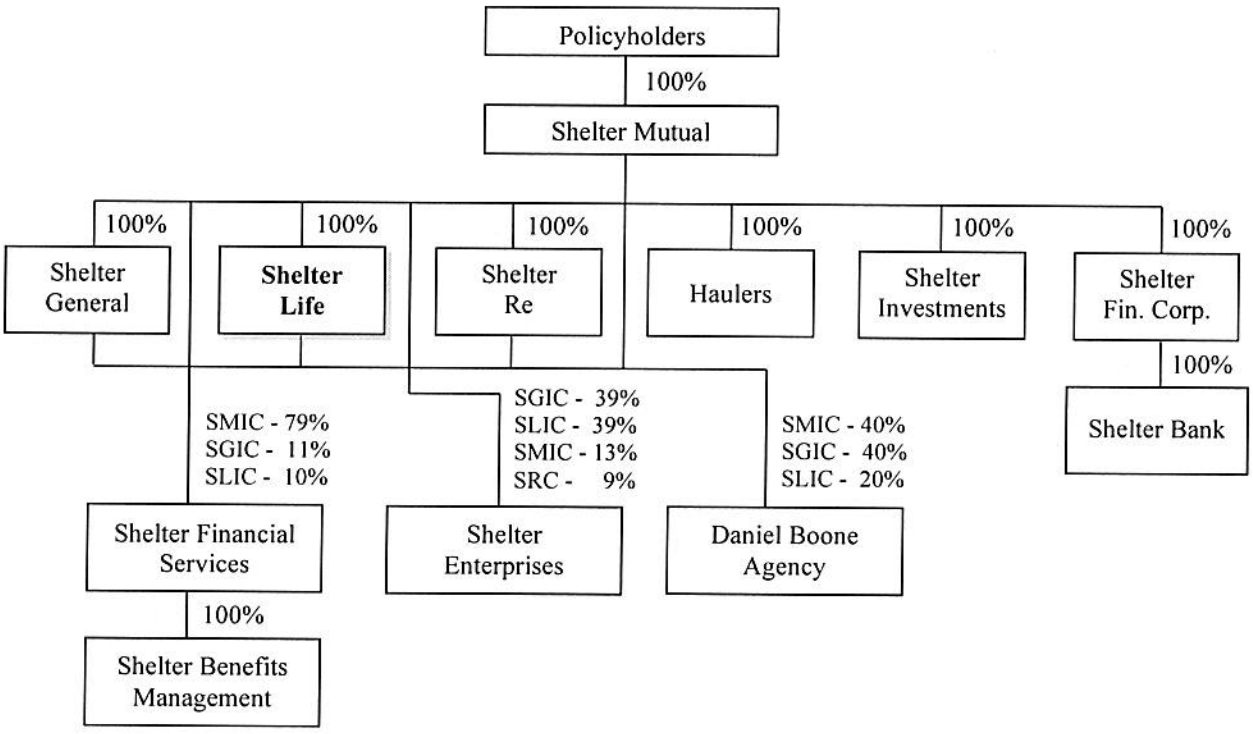
Shelter Enterprises, LLC (Shelter Enterprises) – Owns real estate, property and equipment and derives its income from leasing the assets to affiliates, including Shelter Mutual, and other non-affiliated entities. Shelter Life owns 39% of this entity.

Daniel Boone Agency, Inc. (DBA) – An insurance broker that places risks from leads generated by agents of the Shelter Insurance Companies. The risks placed are in lines of business that are not written by Shelter Mutual, Shelter General, or Shelter Life. Shelter Life owns 20% of DBA.

Shelter Investments, LLC (Shelter Investments) – An entity used to hold limited partnership investments of Shelter Mutual. No admitted value for this subsidiary was reported by SMIC, as of December 31, 2012.

Organizational Chart

Below is the organizational chart of Shelter Life and its affiliates, as of December 31, 2012.



Intercompany Agreements

The Company's agreements with related parties that were in effect, as of December 31, 2012, and subsequent periods are outlined below.

1. **Type:** Agreement for Management Services and Facilities

   Affiliate: Shelter Mutual

   Effective: January 1, 1997

   Terms: Shelter Mutual agrees to provide the employees to operate all aspects of the Company. Services to be provided include recordkeeping, processing, planning, budgeting, receipt and disbursement activities, and all work incidental to the operation of the SLIC's business. Shelter Mutual agrees to provide office space, utilities, computer systems, office equipment, and supplies. In exchange for the services and facilities provided by Shelter Mutual, the Company will make monthly payments to Shelter Mutual. Payments will be calculated in accordance with the Joint Expense Allocation Agreement between Shelter Mutual and its subsidiaries, including SLIC.

2. **Type:** Joint Expense Allocation Agreement

   Affiliates: Shelter Mutual, Shelter General, Shelter Re, SFS, SFC, DBA, Shelter Enterprises, Shelter Investments

   Effective: December 1, 2004 (revised and restated version)

   Terms: Each party agrees to pay its direct expenses in instances when each entity's actual usage can be determined. The parties agree to allocate any joint expenses for instances in which the identification and segregation of each entity's actual share is not practically feasible. The allocation methodologies for each category of joint expenses are as follows:

   (1) Personnel – estimated or actual time
   (2) Real Estate – square footage and employee count
   (3) Investment – portfolio value
   (4) Claims Adjustment (applicable to Shelter Mutual and Shelter General only) – incurred losses
   (5) Reinsurance (applicable to Shelter Mutual and Shelter General only) – actual premiums and claims of each entity
   (6) Other Expenses – assets, employee count, or written premium

3. **Type:** Transfer and Assumption Agreement

   Affiliates: Shelter Benefits, Shelter Mutual, Shelter General

   Effective: May 19, 1999

   Terms: Shelter Mutual, Shelter General and Shelter Life transferred agent liabilities and employee benefit liabilities to Shelter Benefits in 1999. The liabilities transferred included agents termination benefits, post-retirement benefits, accrued vacation benefits, and director's retirement plan benefits. In exchange, Shelter Mutual assigned its rights to a promissory note issued by Shelter Life to Shelter Benefits. Shelter Benefits also issued shares of preferred stock to Shelter Mutual, as part of the 1999 transactions. Shelter Benefits agrees to assume future agent liabilities and employee benefit liabilities from Shelter Mutual. Each year, Shelter Mutual makes a payment to Shelter Benefits for the incurred expenses for the agent and employee benefits under its administration.

4. **Type:** Tax Allocation Agreement

   Affiliates: Shelter Mutual, Shelter General, Shelter Re, SFS, SFC, Shelter Benefits, Shelter Bank, Haulers

   Effective: No stated effective date. Applicable to 1999 and subsequent tax years.

   Terms: Shelter Mutual will file a consolidated federal income tax return on behalf of itself and its subsidiaries. The tax liability for each company will be the amount that would have been determined on a separate filing basis. The subsidiaries will pay their share of tax payments to Shelter Mutual within 10 days following any tax payments made by Shelter Mutual. Shelter Mutual will refund any amount due to the subsidiaries within 10 days after filing the consolidated return.

5. **Type:** Credit Insurance Servicing Agreement

   Affiliate: Shelter Financial Bank

   Effective: July 1, 2005

   Terms: Shelter Bank agrees to service credit insurance policies sold by Shelter Life. Shelter Bank's duties include the following: completing insurance applications, collecting and remitting premiums, tracking premium balances over the life of the loan, claim filing assistance, calculation of premium payoffs, filing cancellations, and providing data extracts. Shelter Life will pay a monthly fee of $1.75 for each credit insurance policy in force at the beginning of each month.

6. **Type:** Commission Agreement

   Affiliate: Daniel Boone Agency

   Effective: September 9, 2006

   Terms: Shelter Life may sell life and annuity products to affiliated entities and DBA agrees to be the licensed producer for such policies. Laws in the State of Missouri require a licensed producer to facilitate the sale of such products. DBA shall receive a fee equal to 1% of premiums or annuity considerations for any products sold by Shelter Life.

7. **Type:** Secured Promissory Note

   Affiliate: Shelter Enterprises

   Effective: May 1, 2006

   Terms: SLIC extends credit to allow Shelter Enterprises to borrow up to $8,000,000, as needed. Shelter Enterprises will pay principal and 6.8% annual interest over a 20 year amortization period. The actual amount borrowed by Shelter Enterprises was $6,500,000 in 2007 to be fully repaid in 2027. The loan balance is secured by real estate in Columbia, Missouri. The interest rate was reduced to 5.25% in October 2011. The loan balance outstanding was $5,424,656, as of December 31, 2012.

8. **Type:** Line of Credit Promissory Note

   Affiliate: Shelter Enterprises

   Effective: October 24, 2008

   Terms: SLIC extends credit to allow Shelter Enterprises to borrow up to $1,000,000, as needed. Shelter Enterprises pays interest on loan amounts at a rate of 1.0% under the Prime Rate on an "interim reset date", which is mutually agreed upon at the time of the advance. The principal amounts are to be paid upon demand. Principal of $350,000 was borrowed by Shelter Enterprises in 2008 and fully repaid in 2010. There were no other borrowings under this agreement during the examination period or subsequent periods.

9. **Type:** Line of Credit Promissory Note

   Affiliate: Shelter Mutual

   Effective: September 1, 2011 to September 1, 2012

   Terms: SLIC extends credit to allow Shelter Mutual to borrow up to $16,750,000, as needed. Shelter Mutual will pay interest on any principal balance at a rate of 0.25% over the Targeted Federal Funds Rate. The interest rate will be adjusted to correspond to any changes in the Targeted Federal Funds Rate. The principal amounts are to be paid upon demand. The full amount of the note was borrowed and repaid by Shelter Mutual in 2011. There were no other borrowings under

this agreement during the examination period or subsequent periods. The note was not renewed after expiration on September 1, 2012.

Intercompany Payments

The following table summarizes the payments made during the examination period, between SLIC and its affiliates, pursuant to intercompany agreements and other transactions.

Affiliate	Agreement / Transaction	Net Expense / (Revenue) 2008	2009	2010	2011	2012
Mutual	Joint Exp. Alloc.	$10,997,988	$12,117,704	$13,114,354	$12,564,916	$13,835,701
SBMI	Management Svcs.#	173,426	201,331	232,158	258,056	193,729
SBMI	Trsfer. & Assump.*	171,318	0	0	0	0
Mutual	Tax Allocation	6,014,000	9,115,457	5,681,404	327,994	2,245,021
Bank	Credit Ins. Serv.	39,696	34,599	29,578	25,394	20,653
DBA	Commission	69,587	7,912	3,990	0	0
SBMI	Note Pay. – Princ.^	20,000,000	20,223,532	0	0	0
SBMI	Note Pay. – Int.^	1,667,192	417,953	0	0	0
Enterprises	Prom Note – Princ.	(164,664)	(176,216)	(188,580)	(209,440)	(245,422)
Enterprises	Prom Note – Int.	(429,808)	(418,707)	(405,757)	(362,916)	(290,756)
Enterprises	LOC – Principal	350,000	(172,378)	(177,622)	0	0
Enterprises	LOC – Interest	(875)	(7,195)	(2,455)	0	0
Mutual	LOC – Interest	0	0	0	(14,455)	
Mutual	Dividends	0	20,000,000	30,000,000	16,750,000	15,000,000
DBA	Dividends	(700,000)	(500,000)	(620,000)	(500,000)	(540,000)
TOTAL		$38,187,860	$60,843,992	$47,667,070	$28,839,549	$30,218,926

* After 2008, the Company's allocation of agent and employee benefit liabilities was paid to Shelter Mutual, pursuant to the Joint Expense Allocation Agreement.

\# The Company is not a party to this agreement, but expenses are reported due to management's assertion that the Company is an indirect party due to the ownership by SMIC.

^ Promissory Note with SBMI executed in 1999 for $100,223,532 was collected in full in 2009.

The Company purchased and sold investments with subsidiaries during the examination period, as follows:

- 2009 – Shelter Life sold common stocks at a sales price totaling $40,824,489 to Shelter Mutual. Shelter Life also purchased bonds at a costs totaling $20,317,434 from Shelter Mutual.
- 2012 – Shelter Life sold bonds at a sales price totaling $36,851,088 to Shelter Mutual.

The Company also had several transactions with affiliates during the exam period that are provided in the normal course of business. Shelter Life issued life insurance policies to SBMI to insure executives of Shelter Mutual. The Company provided group health insurance for employees of Shelter Mutual with applicable premiums paid by SBMI. The Company also sold structured settlement policies to SMIC and SGIC for the settlement of claim liabilities.

FIDELITY BOND AND OTHER INSURANCE

The Company's parent, Shelter Mutual, has a financial institution bond to cover losses resulting from fraudulent or dishonest acts of an employee. All subsidiaries of SMIC, including Shelter Life, are also listed as named insureds on the bond. The bond has a liability limit of $5,000,000 with a $150,000 deductible, which meets the minimum coverage that is recommended by the NAIC.

The Company is also a named insured on several other insurance policies of the parent, SMIC. These policies include the following: property, general liability (self-insured), umbrella excess liability, automobile physical damage and liability (self-insured), fiduciary liability, kidnap and ransom / extortion, and earth movement (self-insured).

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

As of December 31, 2012, the parent, Shelter Mutual, had 1,806 employees and 1,285 agents. Approximately 1,000 employees are located in the home office in Columbia, Missouri. Remaining employees are located among 19 branch offices throughout the operating territory or work from home. The employees work on the operations of Shelter Mutual and several subsidiaries, including Shelter Life. The agents produce business for Shelter Mutual, Shelter General, and Shelter Life. Benefit costs for employees and agents are allocated from SMIC to the subsidiaries, pursuant to the Joint Expense Allocation Agreement that is described in the Intercompany Agreements section of this report.

A variety of standard benefits are provided to the Shelter Mutual employees and agents. These benefits include, but are not limited to, the following: health insurance, dental insurance, life insurance, personal accident insurance, disability insurance, sick leave, tuition reimbursement, 401(k) savings and profit sharing plan, and a defined benefit pension plan.

TERRITORY AND PLAN OF OPERATION

Shelter Life is licensed as a life and health insurer by the Missouri DIFP under Chapter 376 RSMo (Life, Health and Accident Insurance). The Company is licensed and writes business in fourteen (14) states. The states with the largest written premiums were as follows:

State	2012 Direct Written Premiums	% of Total
Missouri	$ 40,028,254	29.3%
Arkansas	24,699,322	18.1%
Oklahoma	10,709,725	7.8%
Kansas	8,858,120	6.5%
Tennessee	8,344,071	6.1%
All Other	43,888,844	32.1%
Total	$136,528,336	100.0%

The Company's significant lines of business are shown below.

Line of Business	2012 Net Written Premiums	% of Total
Ordinary Life	$ 93,502,054	72.8%
Group Accident and Health (A&H)	24,468,481	19.1%
Annuities	7,273,624	5.7%
All Other	3,185,089	2.5%
Total	$128,429,248	100.0%

Ordinary life products include whole life, term life, and universal life policies. The group accident and health business in 2012 insured the employees, agents, and retirees of the parent, Shelter Mutual, as well as a few non-affiliated groups in run-off. Effective May 1, 2013, Shelter Life's group A&H policies for employees and retirees was terminated and the coverage was transferred to a self-insured policy with an unaffiliated insurer. As a result, written premiums will decrease significantly in 2013. Sales of new annuity products were suspended in September 2011, which reduced annuity considerations from $35 million in 2011 to $7 million in 2012.

The Company's business is produced mostly by a captive agency system of 1,285 agents, as of December 31, 2012, that also sell policies for SMIC and an affiliate, SGIC. Shelter Life leverages the customer base of SMIC and SGIC by cross-selling life insurance products to these existing policyholders.

GROWTH OF COMPANY

The table below shows the Company's premium writings and writing ratios for the examination period.

Year	Direct Premiums and Annuity Considerations	Net Premiums and Annuity Considerations	Change in Net Premiums	Capital and Surplus	Ratio of Net Premiums to Surplus
2007	$125,546,225	$115,846,860	na	$171,799,388	0.67
2008	135,616,897	125,426,705	8.3%	169,482,491	0.74
2009	138,099,539	126,024,814	0.5%	176,650,269	0.71
2010	149,619,571	135,578,127	7.6%	164,108,513	0.83
2011	161,119,095	146,959,009	8.4%	162,305,141	0.91
2012	142,904,196	128,429,248	-12.6%	165,387,763	0.78

Premium growth from 2007 to 2011 was mostly attributable to significant increases in annuity sales that featured an attractive interest rate. Sales of annuity products were suspended in September 2011, which resulted in the large drop in premium volume in 2012. The premium to surplus ratio increased slightly during the examination period, but remained at a very strong level at the end of 2012. Capital and surplus decreased 4% during the examination period due to high

levels of dividends paid to the parent, Shelter Mutual. Net income totaled $84.9 million during 2008 to 2012, but dividend payments totaled $81.8 million for the same period, which is the main cause for the overall decrease to capital and surplus.

MORTALITY AND POLICY BENEFITS EXPERIENCE

The table below shows the Company's policy benefits (death claims, annuity benefits, surrender benefits, etc.) and reserve increases for the most recent five years, which includes the current examination period. Also shown in the table are the changes in premiums and annuity considerations for the same period.

Year	Net Premiums and Annuity Considerations	Increase (Decrease)	Total Policy Benefits and Reserve Increases	Increase (Decrease)
2008	$125,426,705	N/A	$121,804,368	N/A
2009	126,024,814	0.5%	111,873,071	-8.2%
2010	135,578,127	7.6%	123,535,485	10.4%
2011	146,959,009	8.4%	143,167,026	15.9%
2012	128,429,248	-12.6%	116,362,074	-18.7%

Overall, the yearly changes in policy benefits and reserves were commensurate to the changes in premium and annuity income.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	2008	2009	2010	2011	2012
Direct Business	$135,616,897	$138,099,539	$149,619,571	$161,119,095	$142,904,196
Assumed:					
Affiliates	0	0	0	0	0
Non-affiliates	0	0	0	0	0
Ceded:					
Affiliates	0	0	0	0	0
Non-affiliates	(10,190,192)	(12,074,725)	(14,041,444)	(14,160,086)	(14,474,948)
Net Prem. Written	$125,426,705	$126,024,814	$135,578,127	$146,959,009	$128,429,248

Assumed

The Company does not assume any business.

Ceded

The Company's level term policies are ceded on a quota share basis to Generali USA Life Reassurance (Generali). Shelter Life cedes 25% of policy limits up to $1,300,000 and 100% of policy limits in excess of $1,300,000 up to a maximum of $6,000,000. For all other life insurance policies, Shelter Life retains $1,000,000 for each policy and policy limits in excess of $1,000,000 are 100% ceded on a facultative basis to three reinsurers – Generali, RGA Reinsurance Company (RGA), and Munich American Reassuance Company (Munich Re). These three reinsurers place competitive bids to determine the reinsurer for each of the facultative risks over the $1,000,000 retention. The Company's per policy maximum retention of $1,000,000 has increased from $650,000 in the prior examination period.

Shelter Life has historically maintained aggregate excess of loss coverage for the death of multiple insureds from one event. As of December 31, 2012, the aggregate excess of loss agreement covered $30,000,000 of losses in excess of a $45,000,000 retention for Shelter Life. This coverage expired March 31, 2013 and was not renewed. Management modeled the exposure from various event scenarios and determined that it was not cost effective to continue the aggregate reinsurance coverage.

The most significant reinsurers for Shelter Life, based upon in-force and reserves ceded as of December 31, 2012, were as follows:

Reinsurer	Ceded In-Force as of 12/31/2012	Percent of Total	Ceded Reserves as of 12/31/2012	Percent of Total
Generali	$4,012,061,760	66.0%	$20,593,334	63.6%
RGA	1,727,071,418	28.4%	8,359,379	25.8%
All Other	339,487,212	5.6%	3,423,989	10.6%
Total	$6,078,620,390	100.0%	$32,376,702	100.0%

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

ACCOUNTS AND RECORDS

Information Systems

Policy management utilizes eCommerce and Customer Access applications, both of which are internally developed. Claims management utilizes Claims Work Station (CWS), which is also internally developed. Financial reporting utilizes Provision, a HUON product; however, the Company plans to change to Workday, Inc.'s Financial Management Solution for financial reporting during 2014. Investment and fund management is handled through Camra, a SS&C Technologies product. Reinsurance is managed through URS, a StoneRiver, Inc. product. Producer management is handled through the Agent Management System, which is developed internally.

External Audits and Actuarial Opinions

The CPA firm, Ernst & Young, LLP, of Kansas City, Missouri issued audited statutory financial statements of the Company for all years in the examination period. The actuarial opinion regarding the Company's policy and claim reserves was issued by Alan S. Larson, ASA, MAAA, for the years ending 2010, 2011, and 2012, and by Robert W. Omdal, FSA, MAAA, for the years ending 2008 and 2009. Mr. Larson is a current employee of Shelter Life and Mr. Omdal is a former employee.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP as of December 31, 2012, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Trust Deposits). The funds on deposit were as follows:

Type of Security	Par Value	Fair Value	Book Value
U.S. Treasury Bond and Note	$2,500,000	$2,819,625	$2,480,856

Deposits with Other States

The Company also has funds on deposit with other states. Those funds on deposit, as of December 31, 2012, were as follows:

State	Type of Security	Par Value	Fair Value	Book Value
Arkansas	U.S. Treasury Note	$350,000	$385,686	$347,404
Nevada	Fed. Home Loan Bank Note	250,000	278,145	260,352
Total		$600,000	$663,831	$607,756

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Shelter Life Insurance Company for the period ending December 31, 2012. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statement Items." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets
as of December 31, 2012

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$ 892,515,570	$ 0	$ 892,515,570
Common Stocks	9,088,212	0	9,088,212
Mortgage Loans	5,424,656	0	5,424,656
Cash, Cash Equivalents and Short-Term Investments	20,753,132	0	20,753,132
Contract Loans	25,384,771	289,862	25,094,909
Other Invested Assets	33,487,356	0	33,487,356
Investment Income Due and Accrued	10,178,547	0	10,178,547
Uncollected Premiums	743,961	0	743,961
Deferred Premiums	29,348,455	0	29,348,455
Amounts Recoverable from Reinsurers	774,556	0	774,556
Other Reinsurance Receivables	294,232	0	294,232
Net Deferred Tax Asset	15,732,891	2,969,088	12,763,803
Guaranty Funds Receivable	3,993,299	0	3,993,299
EDP Equipment and Software	6,134	0	6,134
Furniture and Equipment	3,523	3,523	0
Receivable from Parent, Sub., Affiliates	320,056	0	320,056
Health Care Receivables	1,171	0	1,171
Aggregate Write-In Assets	12,671	0	12,671
TOTAL ASSETS	**$1,048,063,193**	**$3,262,473**	**$1,044,800,720**

Liabilities, Surplus and Other Funds
as of December 31, 2012

Aggregate Reserve for Life Contracts	$ 782,374,102
Aggregate Reserve for A&H Contracts	6,478,785
Liability for Deposit-Type Contracts	57,858,151
Contract Claims – Life	7,365,001
Contract Claims – A&H	2,325,558
Policyholder Dividends Apportioned for Payment	5,134,621
Premiums Received in Advance	218,204
Provision for Experience Rating Refunds	871,855
Other Reinsurance Amounts Payable	1,192,490
Interest Maintenance Reserve	1,988,812
Commissions Due or Accrued	75,187
General Expenses Due or Accrued	11,900
Taxes, Licenses and Fees	4,363,688
Federal Income Taxes Payable	1,448,747
Unearned Investment Income	18,204
Remittances and Items Not Allocated	1,092,372
Asset Valuation Reserve	3,591,544
Payable to Parent, Subsidiaries and Affiliates	3,003,736
TOTAL LIABILITIES	**$ 879,412,957**
Common Capital Stock	12,000,000
Unassigned Funds (Surplus)	153,387,763
Capital and Surplus	**$ 165,387,763**
TOTAL LIABILITIES AND SURPLUS	**$1,044,800,720**

Summary of Operations
For the Year Ended December 31, 2012

Premiums and Annuity Considerations	$128,429,248
Considerations for Supp. Contracts with Life Contingencies	598,431
Net Investment Income	44,587,482
Amortization of Interest Maintenance Reserve	1,191,729
Commission and Expense Allowances on Reins. Ceded	2,932,962
Miscellaneous Income	6,073
TOTAL	**$177,745,925**
Death Benefits	$36,443,246
Matured Endowments	214,076
Annuity Benefits	14,008,846
Disability Benefits and Benefits Under A&H Policies	19,165,214
Surrender Benefits and Withdrawals for Life Contracts	16,258,874
Interest and Adjust. on Policy or Deposit-Type Contract Fun	2,794,888
Payments on Supp. Contracts with Life Contingencies	399,652
Increase in Aggregate Reserves for Life, A&H Policies	27,077,278
Commissions on Direct Business	7,946,020
General Insurance Expenses	22,659,729
Insurance Taxes, Licenses and Fees	3,081,894
Increase in Loading on Deferred and Uncollected Premiums	(489,307)
TOTAL	**$149,560,410**
NET GAIN FROM OPERATIONS	$28,185,515
Dividends to Policyholders	6,073,977
Federal Income Taxes Incurred	6,587,759
Net Realized Capital Gains (Losses)	0
NET INCOME	**$ 15,523,779**
CAPITAL AND SURPLUS:	
Capital and Surplus, December 31, 2011	$162,305,139
Net Income	15,523,779
Change in Net Unrealized Capital Gains or (Losses)	1,051,946
Change in Deferred Income Tax	2,639,261
Change in Non-Admitted Assets	(584,924)
Change in Asset Valuation Reserve	(547,434)
Dividends to Stockholders	(15,000,000)
CAPITAL AND SURPLUS, DECEMBER 31, 2012	**$165,387,767**

Comments on Financial Statement Items

None.

Examination Changes

None.

General Comments and/or Recommendations

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Shelter Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Levi Nwasoria, CFE, Examiner-In-Charge, Shannon Schmoeger, CFE, Steve Koonse, CFE, Emily Turek, Sara McNeely, and Kim Dobbs, CFE, examiners for the Missouri DIFP, participated in this examination. Donna Weninger, FSA, MAAA, of Miller & Newberg, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

I, Tim L. Tunks, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Shelter Life Insurance Company its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Tim L. Tunks

Tim L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 12th day of March, 2014.

My commission expires: May 1, 2016

Debbie J. Nolke
Notary Public

DEBBIE J. NOLKE
Notary Public - Notary Seal
STATE OF MISSOURI
County of Boone
My Commission Expires 5/1/2016
Commission #12413452

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Mark A. Nance, CPA, CFE
Audit Manager
Missouri DIFP