

EXAMINATION REPORT
OF
PARK AVENUE LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2018

Office of the
Commissioner




Delaware
Department of Insurance

REPORT ON EXAMINATION
OF
PARK AVENUE LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2018

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.



Trinidad Navarro
Insurance Commissioner

Dated this 11 day of June, 2020

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April 30, 2020

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 19.023, dated March 14, 2018, an examination has been made of the affairs, financial condition and management of

PARK AVENUE LIFE INSURANCE COMPANY

Herein after referred to as the Company or PALIC and incorporated under the laws of the State of Delaware as a stock company with its registered office located at 251 Little Falls Drive, Wilmington, Delaware. The examination was conducted at the administrative office of the Company located at 10 Hudson Yards, New York, New York 10001. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. The previous regulatory examination of the Company covered the four-year period from January 1, 2012 through December 31, 2015. This examination covered the three-year period from January 1, 2016 through December 31, 2018, and encompasses a general review of transactions during the period, the Company's business policies and practices,

as well as management and relevant corporate matters, with a determination of the financial condition of the Company as of December 31, 2018. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination of the Company was performed as part of the multi-state coordinated examination of the Guardian Life Insurance Company of America (GLIC). New York is the lead state. The Company is a direct subsidiary of the GLIC. The examination of the Company was conducted concurrently with that of GLIC and its affiliates as summarized below.

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
The Guardian Life Insurance Company of America	64246	NY
Managed DentalGuard Inc.	52556	TX
Managed DentalGuard Inc.	11199	NJ
The Guardian Insurance and Annuity Company	78778	DE
Park Avenue Life Insurance Company	60003	DE
Family Service Life Insurance Company	74004	TX
Sentinel American Life Insurance Company	77119	TX
First Commonwealth of Missouri, Inc.	47716	MO
First Commonwealth Insurance Company	60239	IL
First Commonwealth Limited Health Svc. Co.	11221	IL
First Commonwealth Limited Health Svc. Co. of Michigan	12146	MI
Managed DentalGuard Inc.	14142	OH
Premier Access Insurance Company	60237	CA
Access Dental Plan of Utah, Inc.	15494	UT
Avesis Insurance Incorporated	11163	AZ

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company, and evaluate system controls and procedures used to

mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* § 321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm PricewaterhouseCoopers, LLP (PwC). Certain auditor work papers of the 2018 PwC audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination, and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material changes in the financial statements as a result of this examination.

COMPANY HISTORY

The Company was incorporated as AM Life Insurance Company under the laws of the Commonwealth of Massachusetts on November 19, 1964, and commenced business on April 9, 1965. It was chartered as a stock company to issue policies for life, annuities and accident and health insurance. The Company was ultimately controlled by American Mutual Liability Insurance Company until January 5, 1987, when ultimate control was transferred to The Cooperants Mutual Life Insurance Society (Cooperants Mutual) as a result of an acquisition of the Company's direct parent by Cooperants Mutual and its affiliates. On June 1, 1988, the Company's name was changed to First International Life Insurance Company as part of a structural reorganization within Cooperants Mutual. The Company was sold in 1992 as a result of the bankruptcy of Cooperants Mutual. Effective April 17, 1992, ultimate control of the Company was transferred to Standard Management Corporation (Standard Management) as result of an acquisition of the Company's direct parent by Standard Management.

On March 18, 1996, the Company was purchased by Guardian Insurance and Annuity Company (GIAC), a wholly owned subsidiary of GLIC, which then re-domesticated the Company from Massachusetts to Delaware. In conjunction with the re-domestication, the name of the Company was changed to Park Avenue Life Insurance Company. GLIC purchased PALIC from GIAC on December 23, 1996.

GLIC and its subsidiaries provide financial services throughout the United States that include a full range of insurance, investment, securities brokerage, and other financial products and services. Principal products and services include individual life and disability insurance; group life and health insurance; annuities; mutual funds; pension and retirement related investments and administration; and asset management and securities brokerage

Capitalization

The Company's Certificate of Incorporation authorizes the issuance of 100,000 shares of common stock with a par value of \$25 per share. As of December 31, 2018, the Company had 100,000 common shares issued and outstanding totaling \$2.5 million in common capital stock. All outstanding shares of the Company are owned by GLIC. As of December 31, 2018, the Company reported gross paid-in and contributed surplus of \$144.9 million.

Return of Capital

On November 1, 2017, the Board of Directors (Board) approved a distribution in the amount of \$25 million. The Department approved the extraordinary distribution on November 7, 2017. The Company paid the return of capital in the amount of \$25 million to GLIC on December 23, 2017. The Company has complied with notification requirements. No other dividends were paid during the examination period.

MANAGEMENT AND CONTROL

Directors

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the business and affairs of the Company must be exercised by, or under the authority of its Board. The Company's bylaws require its Board consist of not less than five members. Directors are elected annually by the stockholders for a term of one year. Directors duly elected and serving as of December 31, 2018 were as follows:

<u>Name</u>	<u>Title</u>
Anthony Del Vecchio	Executive Vice President, Chief Information Office and Chief of Operations Guardian Life Insurance Company of America

Christopher Sivert Dythaug	Executive Vice President, Individual Markets Guardian Life Insurance Company of America
John Hunter Flannigan	Senior Vice President and Corporate Controller Guardian Life Insurance Company of America
Sean David Quinn	Vice President and Counsel Guardian Life Insurance Company of America
Michael Slipowitz	Senior Vice President, Corporate Chief Actuary Guardian Life Insurance Company of America

Officers

Officers were appointed in accordance with the Company's bylaws during the period under examination. The bylaws require appointment of the following executive officers: a President, a Vice President, a Secretary, and a Treasurer. The Board may appoint other officers and agents at its discretion. Any number of offices may be held by the same person. The primary officers of the Company serving as of December 31, 2018, were as follows:

<u>Name</u>	<u>Title</u>
Michael Slipowitz	President and CEO
Alphonsus Lawrence Padavano	AVP and Controller
Sonya Lee-Anne Crosswell	Corporate Secretary
Walter Robert Skinner	VP, Treasurer
Jeffrey Joseph Butscher	2nd VP, Chief Compliance Officer
Keven Francis Carey	VP Investment & RE Counsel
Harris Oliner	SVP, Associate Corporate Secretary
Roland Raymond Rose	Associate Actuary

Corporate Records

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and

approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* §1304. In addition, review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. The Company is a wholly owned subsidiary of GLIC, which is a mutual insurance company that is wholly owned by its policyholders. The following is an abbreviated organizational chart depicting the Company's primary relationships with affiliated entities within the holding company system as of December 31, 2018:

<u>Company</u>	<u>Domicile</u>	<u>% Own</u>
The Guardian Life Insurance Company of America	New York	
Park Avenue Life Insurance Company	Delaware	100%
Family Service Life Insurance Company	Texas	100%
Sentinel American Life Insurance Company	Texas	100%

Family Service Life Insurance Company (FSLIC) and Sentinel American Life Insurance Company (SALIC) were both acquired by the Company in 1998 from Liberty National Life Insurance Company. FSLIC is licensed in forty-three states, the District of Columbia and the U.S. Virgin Islands. SALIC is licensed in twelve states. Prior to being placed into run-off, both companies were direct writers of preneed and final expense insurance. No new policies have been written by either FSLIC or SALIC since the mid-1990s.

Agreements with Affiliates

Tax Sharing Agreement

Effective July 19, 2011, and covering all tax years after December 31, 1982, and most recently amended December 31, 2017, the Company became party to a Tax Sharing Agreement

between GLIC and its subsidiaries. In accordance with the agreement, each qualifying member of the group computes its tax provision and liability on a separate return basis, but may, where applicable, recognize benefits of net operating losses and capital losses utilized in the consolidated group. Subsidiary tax liabilities/benefits are settled subsequent to the filing of the federal income tax return.

General Operating Expense Agreement

Effective December 31, 2007, the Company entered into an Amended and Restated Agreement for Services and Reimbursement Agreement with GLIC and its subsidiaries. The agreement supersedes all prior agreements for the provision of services and reimbursement between GLIC and all other parties to the agreement. In accordance with the agreement, GLIC provides office space, furniture, equipment, building utilities, clerical staff, employee benefits, and any other services including but not limited to policy services, consulting services and advisory services. The agreement authorizes GLIC to enter other agreements to provide assets or services on behalf of all parties. Expenses are allocated to the parties based on a direct basis or through an allocation system developed by GLIC's cost accounting department utilizing assets, head count, or overhead information. The agreement requires settlement within forty-five days following the end of each quarter and permits payment by offset. As of December 31, 2018, the Company reported \$410,644 as an amount due to GLIC, and \$148,954 and \$25,979 respectively as amounts due from FSLIC and SALIC.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company was licensed to write life insurance, accident & health insurance, disability insurance, and fixed and variable annuities in forty-eight states and the District of Columbia. The Company is not licensed in Hawaii or New York. The Company

was acquired by GLIC as part of a growth strategy that included the acquisition of several entities and blocks of business within its ‘Reinsurance Profit Center’. The Reinsurance Profit Center stopped acquiring blocks of business in the early 2000’s. As a result, the Reinsurance Profit Center business and related entities, including the Company, were placed in run-off in the mid 2000’s. The Company’s remaining book of business is made up of whole life, annuities and preneed insurance (i.e. to cover funeral expenses) on a direct, reinsurance assumed and reinsurance ceded basis. For the year-ended December 31, 2018, the majority of the Company’s gross and net premium revenue and remaining gross and net contract reserves relate to an assumed block of ordinary life insurance consisting principally of term and universal life insurance contracts.

The following is a summary of the Company’s premium written on a gross and net basis by line of business for the year-ended December 31, 2018:

Line of Business	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Total</u>	<u>% of Total</u>
Ordinary Life Insurance	435,710	1,216,643	22,739	1,629,614	99.8%
Group Life Insurance	360	695		1,055	0.1%
Ordinary Individual Annuities	1,913			1,913	0.1%
	<u>437,983</u>	<u>1,217,338</u>	<u>22,739</u>	<u>1,632,582</u>	<u>100.0%</u>

The majority of the Company’s policy administration is outsourced to a single third-party administrator, and a small amount is administered by separate reinsurance entities handling the same functions. As of December 31, 2018, over 84% of the Company’s consolidated reserves were administered by Concentrix Insurance Administration Solutions Corporation (CIS) in accordance with a third-party insurance administrative services agreement. CIS provides transactional and record keeping services related to: premiums, commissions, policy loans and surrenders, claims and reinsurance. The CIS operation is headquartered in Greenville, South

Carolina, with a supporting site in Mumbai, India.

REINSURANCE

PALIC utilizes coinsurance, agreements to provide for reinsurance of select individual life, annuity, group life policies. The Company has no new reinsurance transactions since 2006.

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets and Liabilities as of December 31, 2018
- Statement of Operations for the year ended December 31, 2018
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2015 to December 31, 2018

Statement of Assets
As of December 31, 2018

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets 2018
Bonds	\$ 188,395,718	\$ -	\$ 188,395,718
Common Stock	35,238,330	-	35,238,330
Cash	249,557	-	249,557
Cash equivalents	2,599,726	-	2,599,726
Contract loans	1,985,436	-	1,985,436
Other Invested Assets	519,115	-	519,115
Subtotals, cash and invested assets	<u>228,987,882</u>	<u>-</u>	<u>228,987,882</u>
Investment income due and accrued	3,083,130	-	3,083,130
Uncollected premiums and agents' balances	75,603	36,417	39,186
Deferred premiums	509,753	-	509,753
Current federal and foreign income tax recoverable	183,914	-	183,914
Net deferred tax asset	1,845,154	1,033,919	811,235
Receivables from parent; subsidiaries and affiliates	174,933	-	174,933
Total Assets Excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>234,860,369</u>	<u>1,070,336</u>	<u>233,790,033</u>
Total Assets	<u><u>\$ 234,860,369</u></u>	<u><u>\$ 1,070,336</u></u>	<u><u>\$ 233,790,033</u></u>

Liabilities, Surplus and Other Funds
As of December 31, 2018

	<u>2018</u>	<u>Note</u>
Aggregate reserve for life contracts	\$ 157,253,117	1
Liability for deposit-type contracts	3,373,840	1
Contract claims: Life	7,415,589	1
Premiums and annuity considerations for life and accident and health contracts received in advance	24,205	
Contract liabilities not included elsewhere: Interest maintenance reserve	8,506,060	
Commissions to agents due or accrued-life contracts	68,587	
Commissions and expense allowances payable on reinsurance assumed	15,586	
General expenses due or accrued	66,679	
Taxes, licenses, and fees (excluding federal and foreign income tax)	246,846	
Unearned Investment Income	60,147	
Amounts withheld or retained by company as agent or trustee	981	
Amounts held for agents account	5,959	
Remittances and items not allocated	332,784	
Miscellaneous liabilities:		
Asset Valuation Reserve	1,319,678	
Payable to parent, subsidiaries and affiliates	410,678	
Aggregate write-ins for liabilities	4,258,810	
Total liabilities	<u>\$ 183,359,546</u>	
Common capital stock	\$ 2,500,000	
Gross paid in and contributed surplus	144,941,332	
Unassigned funds (surplus)	<u>(97,010,845)</u>	
Surplus	<u>\$ 47,930,487</u>	
Totals	<u>\$ 50,430,487</u>	
Totals of liabilities & surplus	<u><u>\$ 233,790,033</u></u>	

**Summary of Operations
For the Year Ended December 31, 2018**

Premiums and annuity considerations for life and accident and health contracts	\$ 1,632,582
Net investment income	11,758,118
Amortization of Interest Maintenance Reserve (IMR)	1,299,809
Commissions and expense allowances on reinsurance ceded	3,197
Aggregate write-ins for miscellaneous income	2,430,746
Total	<u>\$17,124,452</u>
Death Benefits	\$12,466,383
Matured endowments	2,711
Annuity benefits	2,990,749
Surrender benefits and withdraws for life contracts	989,106
Interest and adjustments on contract or deposit-type contract funds	45,749
Payments on supplementary contracts with life contingencies	9,592
Increase in aggregate reserves for life and accident and health contracts	(8,686,488)
Total	<u>\$ 7,817,802</u>
Commissions on premiums, annuity considerations, and deposit-type contract funds	\$ 5,396
Commissions and expense allowances on reinsurance assumed	957,172
General insurance expenses	890,197
Insurance taxes, licenses, and fees, excluding federal income taxes	226,892
Increase in loading on deferred and uncollected premiums	(5,066)
Aggregate write-ins for deductions	51
Totals	<u>\$ 9,892,444</u>
Net gain from operations before dividends to policyholders and federal income taxes	\$ 7,232,008
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 7,232,008
Federal and foreign income taxes incurred (excluding tax on capital gains)	837,369
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	<u>\$ 6,394,639</u>
Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax of \$29,607 (excluding taxes of \$14,710 transferred to the IMR)	(29,618)
Net Income	<u><u>\$ 6,365,021</u></u>

**Reconciliation of Capital and Surplus
For the Period from the Prior Examination
As of December 31, 2015 to December 31, 2018**

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Funds (Surplus)	Total	Notes
12/31/2015	\$ 2,500,000	\$ 169,941,332	\$(121,766,995)	\$ 50,674,337	
12/31/2016		-	12,855,688	12,855,688	(1)
12/31/2017		(25,000,000)	2,656,110	(22,343,890)	(1)
12/31/2018			9,244,351	9,244,351	(1)
	<u>\$ 2,500,000</u>	<u>\$ 144,941,332</u>	<u>\$ (97,010,846)</u>	<u>\$ 50,430,486</u>	

- (1) Represents net income, change in unrealized capital gains(losses), change in unrealized foreign exchange gain(losses), change in net deferred income tax, change in non- admitted assets, change in provisions for reinsurance.
- (2) Return of capital paid to the parent GLIC \$25,000,000 on December 18, 2017.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes made to the Financial Statements as a result of this Examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

Aggregate Reserve for Life Contracts	\$157,253,117
Liability for Deposit-type Contracts	\$3,373,840
Contract Claims – Life Contracts	\$7,415,589

The examination liability for the aforementioned captioned items is the same as those balances reported by the Company as of December 31, 2018. The examination analysis of life and accident and health reserves was conducted in accordance with Generally Accepted Actuarial Principles and Statutory Accounting Principles, including *NAIC Accounting Practices and Procedures Manual*, Statements of Statutory Accounting Principle No. 51, 52, and 54 (SSAPs No. 51, 52, and 54).

SUBSEQUENT EVENTS

It was observed that on December 31, 2019, the Company paid an extraordinary dividend of \$13 million. The Company properly notified the Department and received approval to account for this transaction as a return of capital.

During March of 2020, the United States experienced a pandemic related to the COVID-19 virus. As of the date of this report, the Company has not been able to quantify the effects of this pandemic on its current or future financial statements. As of the date of this report, the Company was fully operational and was providing services to its policyholders.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations contained in the prior examination report issued by the Department as of December 31, 2015.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the Company's outside audit firm, PwC, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



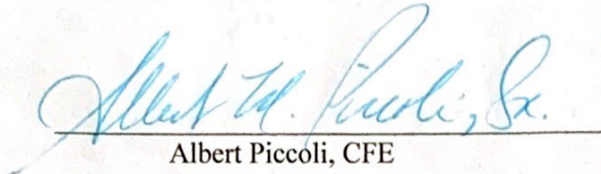
Albert Piccoli, CFE
Examiner In-Charge
State of Delaware



Anthony Cardone, CPA, CFE
Supervising Examiner
State of Delaware

Park Avenue Life Insurance Company

I, Albert Piccoli, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 19.023.


Albert Piccoli, CFE