

**REPORT ON EXAMINATION**  
**OF**  
**THE PENN INSURANCE AND ANNUITY COMPANY**  
**AS OF**  
**DECEMBER 31, 2020**

TRINIDAD NAVARRO  
COMMISSIONER



STATE OF DELAWARE  
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION  
OF  
THE PENN INSURANCE AND ANNUITY COMPANY  
AS OF  
DECEMBER 31, 2020

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.

A handwritten signature in blue ink, which appears to read "Trinidad Navarro", is written over a horizontal line.

Trinidad Navarro  
Insurance Commissioner

Dated this 26th day of May, 2022

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April 14, 2022

Honorable Trinidad Navarro  
Commissioner of Insurance  
Delaware Department of Insurance  
1351 West North Street  
Suite 101  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in examination Certification No. 21.022, dated February 19, 2021, an examination has been made of the affairs, financial condition and management of

**THE PENN INSURANCE AND ANNUITY COMPANY**

hereinafter referred to as the Company or PIA. The Company was incorporated under the laws of the State of Delaware. Due to the COVID-19 Pandemic, the examination was conducted offsite. The registered office of the Company is located at 1209 Orange Street, Wilmington, Delaware 19801. The administrative office of the Company is located at 600 Dresher Road, Horsham, Pennsylvania 19044. 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 five-year period from January 1, 2011 through December 31, 2015. This examination covered the five-year period from January 1, 2016 through December 31, 2020.

The examination was performed as part of the multi-state coordinated examination of The Pennsylvania Mutual Life Insurance Company (PML) group of regulated entities, wherein the State of Pennsylvania Insurance Department is the lead state and Delaware is a participating state. To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

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. The 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.

## **SUMMARY OF SIGNIFICANT FINDINGS**

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

## **COMPANY HISTORY**

The Company, a Delaware corporation and wholly owned subsidiary of PML, was organized in 1980 for the purpose of developing and selling nonparticipating insurance products. Headquartered in Horsham, Pennsylvania, the Company is licensed in forty-nine states and the District of Columbia.

On December 31, 2013, the Company formed a subsidiary, PIA Reinsurance Company of Delaware I (PIA Re), a wholly owned special purpose financial reinsurance company organized under the insurance laws of the State of Delaware.

In 2015, the Company formed Dresher Run I, LLC (Dresher Run), a non-insurance holding company incorporated in the State of Delaware, and subsequently made a capital contribution to Dresher Run in the form of cash of \$11 million. Pursuant to a share purchase agreement effective November 30, 2015, Dresher Run purchased Longevity Insurance Company (Longevity), a Texas-domiciled insurance company, and the state licenses held by Longevity, for a purchase price of \$10 million. Longevity previously issued life insurance and long-term care products which were 100% ceded to a third party. During 2019, Dresher Run sold Longevity. The remaining assets in Dresher Run have been non-admitted by the Company.

### **Capitalization**

The Company has 1,000 shares of common stock issued and outstanding as of December 31, 2020. The par value per share is \$2,500 totaling \$2,500,000.

Dividends

No dividends were paid out during the period under examination.

**MANAGEMENT AND CONTROL**

Directors

The bylaws of the Company do not specify a specific number of Directors of the Company but instead allow the shareholders to elect any number of Directors from time to time as they deem necessary. As of December 31, 2020, the following Directors of the Board (Board) were elected and serving:

<u>Director</u>	<u>Primary Occupation</u>
Eileen Claire McDonnell	Chair & Chief Executive Officer Penn Mutual Insurance Company
David Michael O'Malley	President, Chief Operating Officer Penn Insurance and Annuity Company
David Michael Raszeja	Senior Vice President and CFO Penn Mutual Insurance Company
Gregory Joseph Driscoll	Senior Vice President, Service Operations and CIO Penn Mutual Insurance Company
Thomas Henry Harris	Executive Vice President, Chief Distribution Officer Penn Mutual Insurance Company

Officers

As of December 31, 2020, the following were the Officers of the Company as elected by the Board:

<u>Officer</u>	<u>Position</u>
Eileen Claire McDonnell	Chair and Chief Executive Officer
David Michael O'Malley	President, Chief Operating Officer
David Michael Raszeja	Senior Vice President and Chief Financial Officer

Raymond Gerard Caucci	Senior Vice President, Product Management and Underwriting
Thomas Henry Harris	Executive Vice President, Chief Distribution Officer
Eric Christopher Johnson	Vice President, Appointed Actuary and Qualified Actuary
Steven W. Linville	Vice President, Controller and Treasurer
Victoria Marie Robinson	Senior Vice President, Chief Ethics and Compliance Officer
Gregory Joseph Driscoll	Senior Vice President, Service Operations and Chief Technology Officer

Committee

During 2018, the Company dissolved the legal entity audit committee and appointed the audit committee of PML to serve as the audit committee for PIA. It was its only board designated committee.

Corporate Records

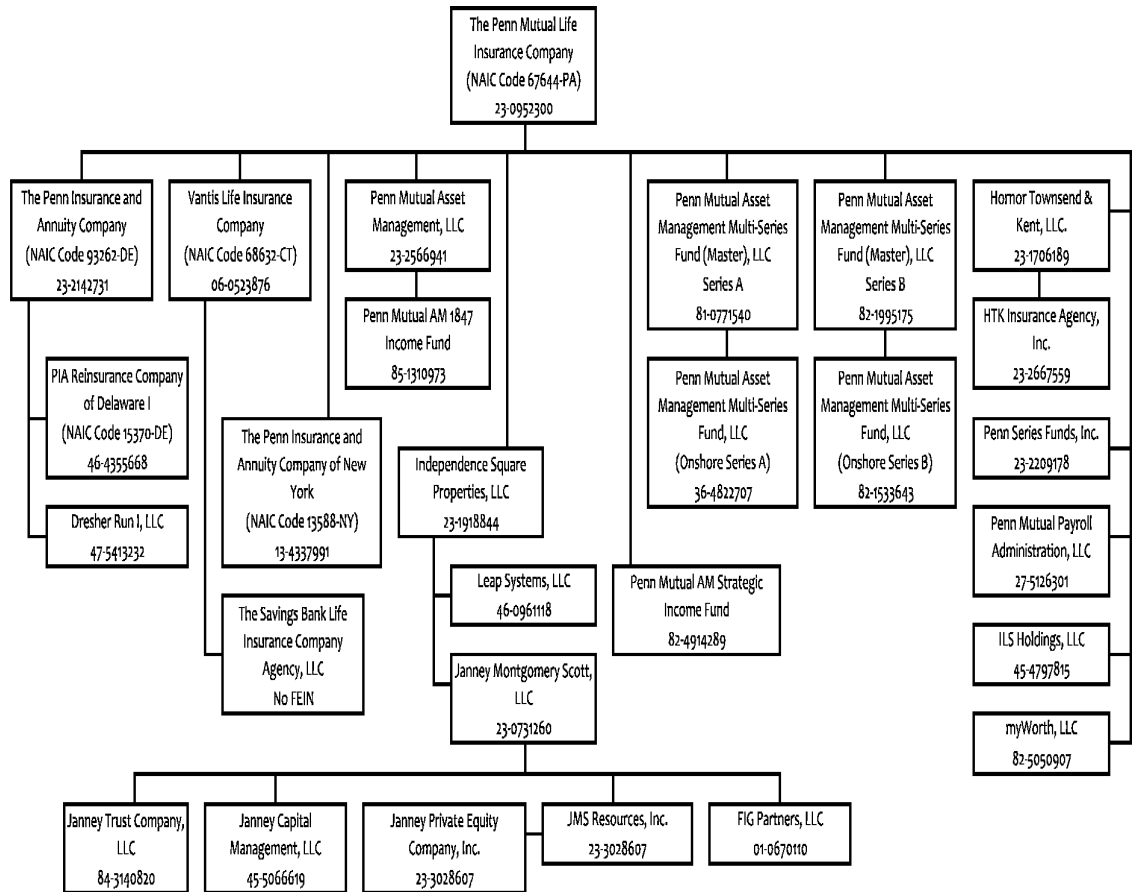
The recorded minutes of the Board and the Company's designated Audit Committee were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* §1304. In addition, the 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 direct subsidiary of PML. The



following is an abbreviated organizational chart of the insurance holding company system as of December 31, 2020:



Affiliated Agreements

*Tax Sharing Agreement*

As amended on January 1, 2014, the Company is a party to a tax sharing agreement with PML and its subsidiaries (Group Tax sharing agreement). The agreement provides that any loss member of the group would receive a cash payment to the extent that said loss results in a reduction of the tax liability for other entities of the group if each had filed a separate return. Income members of the group will make cash payments to the extent that it would have shown a tax liability if each had filed a separate return. Such payments shall be made on the filing of each estimated payment and final consolidated return.

*PIA-Captive Tax Agreement*

Effective December 31, 2013, the Company is a party to a tax sharing agreement with PIA Re. PIA has elected to be treated as the Intermediate Parent of an Intermediate Parent Group that includes PIA Re for purposes of the Group Tax Sharing Agreement. PIA and PIA Re desire to make payments in respect of tax liabilities and tax attributes to one another determined as if PIA were Parent and PIA Re was not a member of an Intermediate Parent Group

*Administrative Services and Support Agreement*

Effective January 20, 2020, PIA entered into an Administrative Service and Support Agreement with PML. The Administrative Service and Support Agreement contains the following compensation/reimbursement provision: The Company is charged an amount equal to all expenses, direct and indirect, reasonably, and equitably determined to be attributable to PIA by PML for services and facilities provided by PML to PIA. PML is to submit to PIA within thirty (30) days of the end of each calendar month a written statement of charges due to PML from PIA. In turn, PIA shall submit payment of such charges within thirty (30) days of receipt of such written statement. The total expenses incurred under this agreement were \$57,178,000 for 2020.

Effective December 31, 2013, PIA entered into an Administrative Service and Support Agreement with PIA Re. PIA provides certain services and the use of facilities to PIA Re for the operation of PIA Re's business. The total expenses incurred under this agreement were \$415,000 for 2020.

*Investment Management Agreement*

As amended on January 1, 2015, PIA is a party to an Investment Management Agreement with Penn Mutual Asset Management, Inc. for investment management services. For 2020, the total expenses incurred under this agreement were \$5,394,000.

*Revolving Loan Agreement*

PIA entered into a revolving loan agreement with its affiliate, Janney Montgomery Scott (JMS) on August 19, 2011, to provide funding to JMS in an amount not to exceed \$40,000,000. Terms of the loan specify that semi-annual interest be paid on the outstanding balances based on market rates determined at the dates of the loans. The principal balances are not due until maturity in August 2030. The Company recorded \$3,660,000 in interest income on this note for the year ended December 31, 2020. As of December 31, 2020, the Company had outstanding principal receivable from JMS of \$0, and outstanding interest receivables of \$920,000, respectively, related to this agreement.

**TERRITORY AND PLAN OF OPERATION**

The Company offers indexed universal life products, fixed universal life products (receives renewal premiums on existing blocks of policies) and indexed annuities. There is a block of business that includes both immediate annuity and deferred annuity policies. The Company also has a significant amount of universal life business assumed from PML. Prior to 2007, PIA was primarily running off older books of business and reported minimal new sales. In 2007, the Company began offering Indexed Universal Life (IUL) products. The Company markets its business through PML's distribution systems. PML services its in-force business, which consist of a network of career and independent financial professionals.

Additionally, it has closed blocks of current assumption universal life insurance and deferred and payout annuities.

Total Net Premiums for the year ended December 31, 2020, were as follows:

Direct	\$ 663,146,277
Reinsurance assumed from affiliates	208,424,452
Reinsurance assumed from non-affiliates	<u>-</u>
Total gross (direct and assumed)	\$ 871,570,729
Reinsurance ceded to affiliates	53,701,035
Reinsurance ceded to non-affiliates	<u>32,505,933</u>
Total ceded	<u>\$ 86,206,968</u>
Total premiums written	<u><u>\$ 785,363,761</u></u>

### REINSURANCE

As of December 31, 2020, the Company reinsurance program in place is primarily with affiliates. The Company maintains various reinsurance agreements with affiliates:

		Assumed (ceded) 000'omitted	
	<u>Affiliate</u>	<u>Premium</u>	<u>Reserves</u>
Coinsurance Funds Withheld	PML	\$ 36,560	\$ 1,370,240
Coinsurance Funds Withheld	PIA Re	(50,417)	(2,153,832)
Coinsurance - Inforce block	PML	46,680	485,990
Coinsurance	PML	112,295	1,101,466
Yearly renewable term- index credits	PIA Re	12,890	6,445
Yearly renewable term- over retention	PML	<u>(3,284)</u>	<u>(384)</u>
Totals		<u><u>\$ 154,724</u></u>	<u><u>\$ 809,925</u></u>

#### Assumed

##### *Coinsurance – Funds Withheld*

As of December 31, 2014, the Company entered into a contract with PML to assume reserves pursuant to transactions subject to the requirements of Section 7 of the NAIC XXX and AXXX Reinsurance Model Regulation. The contract is a 70% coinsurance with funds withheld agreement with PML that reinsures all risks related to an in-force block of single life no-lapse guaranteed universal life policies, net of inuring reinsurance, issued between October 2007 and June

2013, and inforce as of December 31, 2014. The policies are within the scope of the NAIC Valuation of Life Insurance Policies Model Regulation (Regulation AXXX). The Company then contemporaneously reinsured the policies to PIA Re, effective December 31, 2014, by amending the 2013 Funds Withheld Reinsurance Agreement with PIA Re.

*IUL Inforce*

Effective January 1, 2015, the Company assumes from PML an inforce force block of single life index universal life policies issued by PML between 2012 and 2014. PIA assumed 100% of the risk, net of inuring reinsurance.

*YRT-index credits-PIA Re*

Effective January 1, 2017, PIA assumed the equity risk associated with PIA's Re's indexed universal life products on a yearly renewable term (YRT) basis.

*Various Coinsurance PML*

PIA assumes certain risks under coinsurance agreement with PML related to universal life business.

Ceded

*Coinsurance Funds Withheld*

The Company ceded a closed block of business to PIA Re on a 100% coinsurance funds withheld basis at December 31, 2013.

*YRT Over retention*

The Company ceded on a YRT basis to PML, policies issued after October 1, 2006, and before October 1, 2014, that resulted in retention greater than \$1,000 per life.

Unaffiliated

PIA does cede business totaling premiums of \$32,505,933 to various unaffiliated reinsurers on a YRT basis. Associated reserves credits amounted to \$3,849,117. The majority of these contracts are ten years old or older with the exception of four treaties.

**FINANCIAL STATEMENTS**

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

- Statement of Assets as of December 31, 2020
- Statement of Liabilities and Surplus as of December 31, 2020
- Summary of Operations for the year ended December 31, 2020
- Reconciliation of Capital and Surplus for the Period January 1, 2016 to December 31, 2020

Statement of Assets  
As of December 31, 2020

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	\$ 5,207,478,980	\$ -	\$ 5,207,478,980	
Preferred Stock	54,928,137	-	54,928,137	
Common Stock	142,633,057	-	142,633,057	
Cash (\$8,108,484) & cash equivalents	226,007,307	-	226,007,307	
Contract loans	581,849,494	-	581,849,494	
Derivatives	529,811,943	-	529,811,943	
Other invested assets	374,108,994	871,372	373,237,622	
Receivables for securities	3,086,247	-	3,086,247	
Subtotals, cash and invested assets	<u>\$ 7,119,904,159</u>	<u>\$ 871,372</u>	<u>\$ 7,119,032,787</u>	
Investment income due and accrued	72,278,614	-	72,278,614	
Amounts recoverable from reinsurers	40,347,943		40,347,943	
Funds held or deposited with reinsured	940,754,753		940,754,753	1
Other amounts recoverable under	34,333,415		34,333,415	
Net deferred tax asset	104,618,282	35,427,503	69,190,779	
Guaranty funds receivable or on deposit	94,830		94,830	
Receivable from parent, subsidiary and	4,332,890	-	4,332,890	
Aggregate write-ins for other than invested	<u>24,677,184</u>	<u>12,700</u>	<u>24,664,484</u>	
Total Assets excluding separate accounts	\$ 8,341,342,070	\$ 36,311,575	\$ 8,305,030,495	
From Separate Accounts	<u>53,424,267</u>	<u>-</u>	<u>53,424,267</u>	
Total Assets	<u><u>\$ 8,394,766,337</u></u>	<u><u>\$ 36,311,575</u></u>	<u><u>\$ 8,358,454,762</u></u>	

Statement of Liabilities, Surplus and Other Funds  
As of December 31, 2020

		<u>Note</u>
Aggregate Reserves for life contracts	\$ 5,336,859,034	2
Liabilities for deposit type contracts	8,883,809	2
Contract claims: Life	10,505,595	2
Premiums and annuity considerations for life and accident and health	68,291,044	
Other amounts payable on reinsurance including (\$13,888,416) assumed and (\$29,957,363) ceded	43,485,779	
Interest maintenance reserves	30,173,649	
due or accrued	(29,603)	
Taxes, licenses, and fees (excluding federal and foreign income tax)	1,846,136	
Current federal and foreign income taxes (\$3,745,943) on realized capital gains	4,540,767	
Remittances and items not allocated	21,429,282	
Assets valuation reserve	79,236,351	
Payable to parent, subsidiaries and affiliates	15,981,102	
Drafts outstanding	2,265,248	
Funds held under coinsurance	1,443,848,861	3
Derivatives	324,568,900	
Payable for securities	6,243,448	
Aggregate write-ins for liabilities	235,526,314	
Total liabilities excluding separate accounts	<u>\$ 7,633,655,716</u>	
From separate account statement	<u>53,424,267</u>	
Total liabilities	<u>\$ 7,687,079,983</u>	
Common capital stock	<u>\$ 2,500,000</u>	
Gross paid in and contributed capital	\$ 439,661,695	
Unassigned funds (surplus)	<u>229,213,084</u>	
Surplus	<u>\$ 668,874,779</u>	
Total surplus and capital stock	<u>671,374,779</u>	
Total	<u><u>\$ 8,358,454,762</u></u>	



Summary of Operations  
For the year ended December 31, 2020

Premium and annuity considerations for life and accident and health contracts	\$ 785,363,761
Considerations for supplementary contracts with life contingencies	112,887
Net investment income	278,440,041
Amortization of Interest Maintenance Reserve	502,965
Commission and expense allowances on reinsurance ceded	4,967,352
Income from fees associated with investment management, administration and contract guarantees from separate accounts	685,310
Aggregate write-ins for miscellaneous income	40,303,224
Total	<u>\$ 1,110,375,540</u>
Death benefits	\$ 39,078,290
Annuity benefits	13,049,101
Disability benefits and benefits under accident and health contracts	627,771
Surrender benefits and withdrawals from life contracts	111,089,243
Interest and adjustments on contract and deposits type funds	(65,276,200)
Payments on supplementary contracts with life contingencies	236,094
Increase in aggregate reserves for life and accident and health contracts	757,717,413
Total	<u>\$ 856,521,712</u>
Commissions on premiums, annuity considerations, and deposit type contract funds	\$ 51,328,980
Commissions and expense allowance on reinsurance assumed	15,107,219
General insurance expenses	100,603,623
Insurance taxes, licenses and fees, excluding federal income taxes	13,912,633
Increase in loading on deferred and uncollected premiums	(5,286,295)
Aggregate write ins for deductions	88,530,391
Total	<u>\$ 1,120,718,263</u>
Net gain from operations	(10,342,723)
Federal and Foreign income tax (excluding tax on capital gains)	10,281,468
Net realized capital gains (losses) less capital gains tax of \$1,904,044 excluding taxes of \$1,841,188 of transferred IMR	(1,619,801)
Net income	<u>\$ (22,243,992)</u>

Reconciliation of Capital and Surplus  
As of January 1, 2016 thru December 31, 2020

		Gross Paid Capital	Unassigned funds	Total Surplus
	<u>Common Stock</u>			
1/1/2016	\$ 2,500,000	\$ 289,661,695	\$ 70,901,051	\$ 363,062,749
12/31/2016	1		(4,190,708)	(4,190,708)
12/31/2016	2		5,047,394	5,047,394
12/31/2016	3	30,000,000		30,000,000
12/31/2017	1		(15,914,525)	(15,914,525)
12/31/2017	2		23,542,936	23,542,936
12/31/2017	3	30,000,000		30,000,000
12/31/2018	1		40,191,564	40,191,564
12/31/2018	2		(29,153,290)	(29,153,290)
12/31/2018	3	30,000,000		30,000,000
12/31/2019	1		(21,904,621)	(21,904,621)
12/31/2019	2		144,604,312	144,604,312
12/31/2019	3	30,000,000		30,000,000
12/31/2020	1		(22,243,992)	(22,243,992)
12/31/2020	2		38,332,963	38,332,963
12/31/2020	3	30,000,000		30,000,000
Totals	<u>\$ 2,500,000</u>	<u>\$ 439,661,695</u>	<u>\$ 229,213,084</u>	<u>\$ 671,374,782</u>

1 - Net Income

2 - Change in unrealized capital gains (losses), change in unrealized foreign exchange, change in deferred income tax, change in non-admitted assets, change in Asset valuation reserve, change in liability for reinsurance in unauthorized and certified companies and cumulative effect in accounting principles

3 - Paid in Capital

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

There were no changes made to the financial Statements as a result of the examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

Note 1:

Funds held or deposited with reinsured companies	\$ 940,754,753
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The Company has recorded an asset for funds withheld established for the economic reserves related to the 70% coinsurance agreement with PML. This agreement reinsures as in-force block of single life no-lapse guarantee universal life policies.

Note 2:

Aggregate reserve for life contracts	\$5,336,859,034
Liability for deposit-type contracts	\$ 8,883,809
Contract claims – life contracts	\$ 10,505,595

The examination liabilities for the aforementioned captioned items are the same as those balances reported by the Company as of December 31, 2020. 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).

Note 3:

Funds held under coinsurance	\$ 1,443,848,861
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The Company recorded a liability for funds held pursuant to the 100% coinsurance reinsurance agreement entered into with PIA Re. This represents the economic reserves under the terms of the reinsurance agreement.

**SUBSEQUENT EVENTS**

There were no significant subsequent events.

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

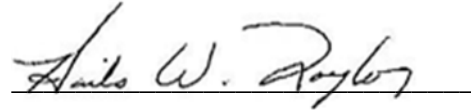
There were no recommendations contained in the prior examination report issued by the Department as of December 31, 2015.

**SUMMARY OF RECOMMENDATIONS**

There were no recommendations as a result of this examination.

The assistance and cooperation of the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



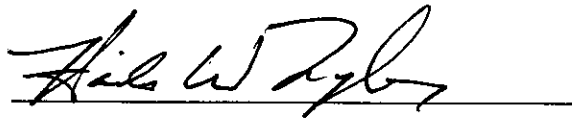
Hails W. Taylor, CFE  
Examiner In-Charge  
State of Delaware



Anthony Cardone, CPA, CFE  
Supervising Examiner  
State of Delaware

The Penn Insurance and Annuity Company

I, Hails W. Taylor, 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 21.022.

A handwritten signature in black ink, appearing to read "Hails W. Taylor", is written over a horizontal line.

Hails W. Taylor, CFE