

**Report on Examination**  
**of**  
**American Heritage Life Insurance Company**  
**Jacksonville, Florida**  
**as of**  
**December 31, 2013**



**FLORIDA OFFICE OF  
INSURANCE REGULATION**

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
Tallahassee, Florida

Dear Sir:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of American Heritage Life Insurance Company as of December 31, 2013. Our report on the examination follows.

Florida Office of Insurance Regulation  
April 2, 2015

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## SCOPE OF EXAMINATION

We have completed a financial condition examination of American Heritage Life Insurance Company (the "Company"), a multi-state insurer domiciled in Florida. The examination covered the period of January 1, 2011 through December 31, 2013. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2010. This financial examination was part of a multi-state association examination coordinated by the Illinois Department of Insurance. A substantial portion of the Company examination work was conducted by Risk & Regulatory Consulting, LLC on behalf of the Office.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## COMPANY HISTORY

The Company was incorporated in Florida on September 11, 1956 and commenced business on December 27, 1956. It was licensed by the Office as an insurer on September 14, 1956.

The Company was authorized by the State of Florida to operate as a life and health insurer in accordance with Section 624.401, Florida Statutes, (F.S.) in the following lines:

- Life
- Accident and health
- Credit disability
- Credit life
- Group life and annuities

### Dividends and Capital Contributions

The Company distributed shareholder dividends in the amounts of \$27,000,000, \$60,250,000 and \$74,000,000 during 2011, 2012 and 2013, respectively. During the period of examination, the Company did not receive capital contributions.

## CORPORATE RECORDS

The minutes of the Shareholder, Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S.

## MANAGEMENT AND CONTROL

The Company was wholly owned by American Heritage Life Investment Corporation, a wholly-owned subsidiary of The Allstate Corporation (Allstate). The Company owned 100% of First Colonial Insurance Company (First Colonial), a property and casualty insurer domiciled in Florida, and was affiliated with numerous other entities through common ownership.

The Company's senior officers, directors and audit committee members were as shown below.

| <b>Senior Officers</b> |  |
|------------------------|--|
| <b>Name</b>            | <b>Title</b>   |
| Gregory J. Guidos      | President  |
| Keith A. Hauschildt    | Executive Vice President, Operations and Technology            |
| W. Wayne Watkins       | Executive Vice President, Distribution                         |
| Bruce E. Armel         | Senior Vice President, Information Technology/Infrastructure   |
| Walter M. Jones        | Senior Vice President, National Accounts                       |
| Elizabeth A. Mahin     | Senior Vice President and Controller                           |
| Ronald C. Pizur        | Senior Vice President, Information Technology/Project Delivery |
| Scott K. Randles       | Senior Vice President, Financial Actuary                       |
| Richard D. Schaefer    | Senior Vice President and Chief Actuary                        |
| Gary S. Stere          | Senior Vice President, General Counsel and Secretary           |
| Pearl K. Harrison      | Vice President, Claims   |
| Eunice R. Holmes       | Vice President, New Business and Underwriting                  |
| Samuel H. Pilch        | Group Vice President   |
| Mario Rizzo            | Vice President and Treasurer                                   |
| Jesse E. Merten        | Chief Financial Officer  |

**Board of Directors**

| <b>Name</b>          | <b>Location</b>            |
|----------------------|----------------------------|
| Don Civgin           | Northfield, Illinois       |
| Angela K. Fontana    | Lake Forest, Illinois      |
| Gregory J. Guidos    | Ponte Vedra Beach, Florida |
| Keith A. Hauschildt  | Ponte Vedra Beach, Florida |
| Wilford J. Kavanaugh | Hawthorn Woods, Illinois   |
| Elizabeth A. Mahin   | St. Augustine, Florida     |
| Jesse E. Merten      | Highland Park, Illinois    |
| Samuel H. Pilch      | Long Grove, Illinois       |

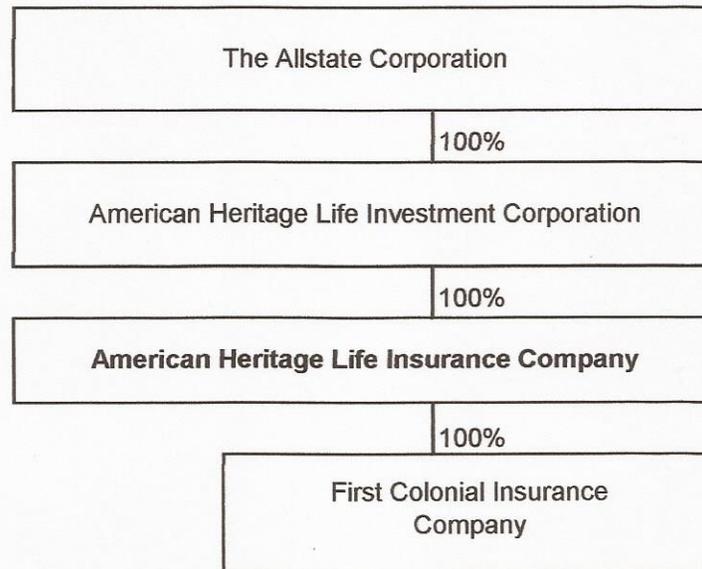
**Audit Committee**

Don Civgin  
Gregory J. Guidos  
Samuel H. Pilch

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code (F.A.C.). Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C., on April 21, 2014.

An abbreviated organizational chart reflecting the holding company system is shown below.

**American Heritage Life Insurance Company  
Abbreviated Organizational Chart  
December 31, 2013**



The following agreements were in effect between the Company and its affiliates:

Service and Expense Agreement

The Company became party to an amended and restated service and expense agreement effective January 1, 2004 between Allstate Insurance Company (AIC), Allstate, certain affiliates and certain third parties whereby AIC furnished a variety of services. The agreement provided for cost sharing and allocation of operating expenses among the parties.

#### Tax Sharing Agreement

The results of the Company's operations were included in the consolidated federal income tax return of Allstate pursuant to a tax sharing agreement, effective November 12, 1996, to which the Company became a party on January 7, 2005. The consolidated income tax liability was allocated to members of the consolidated group on a pro rata basis according to the separate return tax liabilities of included members.

#### Intercompany Settlement of State and Local Tax Credits Agreement

The Company became party to an agreement with other affiliates, effective January 1, 2007 regarding the intercompany settlement of state and local tax credits utilized by one company but related to a credit generating investment made by another company.

#### Investment Management Agreement

The Company became party to an investment management agreement with Allstate Investments, LLC, effective January 1, 2007, whereby Allstate Investments, LLC provided investment management services to the Company and its affiliates subject to the Company's investment policy.

#### Information Sharing Agreement

The Company became party to an agreement, effective May 1, 2009, between AIC and certain affiliates to provide access to customer information from one affiliate to another for marketing purposes.

## **FIDELITY BONDS AND OTHER INSURANCE**

Allstate, of which the Company was a named insured, maintained fidelity bond coverage up to \$10,000,000 with a deductible of \$25,000,000, which provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$1,750,000.

In addition, Allstate maintained Directors and Officers liability insurance coverage with limits up to \$10,000,000 for wrongful acts (fiduciary), up to \$15,000,000 for all wrongful acts other than fiduciary, and an aggregate limit of liability up to \$25,000,000 with \$0 retention. Allstate provided other insurance coverage, such as automobile liability, workers' compensation, excess workers' compensation, property, general liability, and surety bonds.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had no employees and did not directly provide employee benefits nor sponsor retirement plans. Employees of AIC and Allstate provided various benefits, including defined benefit pension plans, certain health care and life insurance benefits for certain eligible employees and retired employees, and participation in the Allstate 401(k) Savings Plan.

## **TERRITORY AND PLAN OF OPERATION**

The Company marketed ordinary life, individual accident and health, group life, group accident and health, credit life, and credit accident and health insurance products and annuities through licensed agents and brokers. It was authorized to transact insurance in the District of Columbia, Guam, Puerto Rico, the Virgin Islands and all U.S. states except New York.

## COMPANY GROWTH

The Company reported the following for years 2011, 2012 and 2013:

(In millions)

|                          | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--------------------------|-------------|-------------|-------------|
| Premiums                 | \$ 639.9    | \$ 649.7    | \$ 707.7    |
| Revenues                 | \$ 794.4    | \$ 735.1    | \$ 794.4    |
| Net income               | \$ 41.5     | \$ 74.7     | \$ 57.0     |
| Shareholder dividends    | \$ 27.0     | \$ 60.3     | \$ 74.0     |
| Paid in surplus received | \$ -        | \$ -        | \$ -        |
| Admitted assets          | \$ 1,650.1  | \$ 1,710.7  | \$ 1,770.2  |
| Liabilities              | \$ 1,356.4  | \$ 1,374.8  | \$ 1,432.7  |
| Capital and surplus      | \$ 293.7    | \$ 335.8    | \$ 337.7    |

## REINSURANCE

The Company assumed and ceded reinsurance pursuant to agreements with various affiliated and unaffiliated companies, primarily on a coinsurance and quota share basis. The Company reported details of assumed and ceded reinsurance on Schedule S of its 2013 annual statement.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and with other jurisdictions as required:

| Holder                 | Description        | Par<br>Value               | Market<br>Value            |
|------------------------|--------------------|----------------------------|----------------------------|
| Florida                | U.S. Treasury Bond | \$ 200,000                 | \$ 267,060                 |
| Florida                | U.S. Treasury Bond | 415,000                    | 559,130                    |
| Florida                | U.S. Treasury Bond | 3,935,000                  | 5,242,600                  |
| Florida                | U.S. Treasury Bond | <u>650,000</u>             | <u>877,500</u>             |
| Total Florida deposits |                    | 5,200,000                  | 6,946,290                  |
| Georgia                | U.S. Treasury Bond | 35,000                     | 47,204                     |
| Guam                   | U.S. Treasury Bond | 75,000                     | 101,344                    |
| Nevada                 | U.S. Treasury Bond | 250,000                    | 337,813                    |
| New Mexico             | U.S. Treasury Bond | 200,000                    | 274,242                    |
| North Carolina         | U.S. Treasury Note | 400,000                    | 540,242                    |
| Ohio                   | U.S. Treasury Bond | <u>100,000</u>             | <u>135,125</u>             |
| Total deposits         |                    | <u><u>\$ 6,260,000</u></u> | <u><u>\$ 8,382,260</u></u> |

**American Heritage Life Insurance Company**

**Assets**

**December 31, 2013**

|  | Per<br>Company   | Examination<br>Adjustments | Per<br>Examination |
|--|------------------|----------------------------|--------------------|
| Bonds  | \$ 856,150,197   | \$ -                       | \$ 856,150,197     |
| Common stocks  | 245,262,604      | -                          | 245,262,604        |
| Mortgage loans on real estate - first liens          | 118,339,114      | -                          | 118,339,114        |
| Real estate - Properties occupied by the company     | 35,591,327       | -                          | 35,591,327         |
| Cash, cash equivalents and short-term investments    | 28,637,875       | -                          | 28,637,875         |
| Contract loans                                       | 296,362,457      | -                          | 296,362,457        |
| Other invested assets                                | 545,905          | -                          | 545,905            |
| Aggregate write-ins for invested assets              | 16,051           | -                          | 16,051             |
|  | 1,580,905,530    | -                          | 1,580,905,530      |
| Investment income due and accrued                    | 16,011,412       | -                          | 16,011,412         |
| Uncollected premiums and agents' balances            | 41,556,246       | -                          | 41,556,246         |
| Deferred premiums and agents' balances               | 8,576,960        | -                          | 8,576,960          |
| Amounts recoverable from reinsurers                  | 1,070,330        | -                          | 1,070,330          |
| Other amounts receivable under reinsurance contracts | 1,714,376        | -                          | 1,714,376          |
| Net deferred tax asset                               | 38,092,568       | -                          | 38,092,568         |
| Guaranty funds receivable or on deposit              | 432,696          | -                          | 432,696            |
| Receivables from parent, subsidiaries and affiliates | 1,606,842        | -                          | 1,606,842          |
| Aggregate write-ins for other than invested assets   | 80,206,290       | -                          | 80,206,290         |
| Total assets   | \$ 1,770,173,250 | \$ -                       | \$ 1,770,173,250   |

**American Heritage Life Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2013**

|   | Per<br>Company          | Examination<br>Adjustments | Per<br>Examination     |
|---|-------------------------|----------------------------|------------------------|
| <b>Liabilities</b>                                      |                         |                            |                        |
| Aggregate reserve for life contracts                    | \$ 882,293,025          | \$ -                       | \$ 882,293,025         |
| Aggregate reserve for accident and health contracts     | 226,459,980             | -                          | 226,459,980            |
| Liability for deposit-type contracts                    | 2,191,530               | -                          | 2,191,530              |
| Contract claims: Life                                   | 2,684,947               | -                          | 2,684,947              |
| Contract claims: Accident and health                    | 107,924,002             | -                          | 107,924,002            |
| Dividends not yet apportioned                           | 13,699                  | -                          | 13,699                 |
| Coupons and similar benefits                            | 10,328                  | -                          | 10,328                 |
| Premiums and annuity considerations received in advance | 6,728,976               | -                          | 6,728,976              |
| Other amounts payable on reinsurance                    | 1,079,872               | -                          | 1,079,872              |
| Commissions to agents due or accrued                    | 18,551,343              | -                          | 18,551,343             |
| General expenses due or accrued                         | 35,917,412              | -                          | 35,917,412             |
| Taxes, licenses and fees due or accrued                 | 3,889,688               | -                          | 3,889,688              |
| Current federal and foreign income taxes                | 40,310,650              | -                          | 40,310,650             |
| Unearned investment income                              | 349,565                 | -                          | 349,565                |
| Amounts withheld or retained by company as agent        | 25,635                  | -                          | 25,635                 |
| Amounts held for agents' account                        | 821,082                 | -                          | 821,082                |
| Remittances and items not allocated                     | 11,364,001              | -                          | 11,364,001             |
| Liability for benefits for employees and agents         | 1,754,494               | -                          | 1,754,494              |
| Asset valuation reserve                                 | 39,478,327              | -                          | 39,478,327             |
| Reinsurance in unauthorized companies                   | 21,465                  | -                          | 21,465                 |
| Payable to parent, subsidiaries and affiliates          | 26,867,235              | -                          | 26,867,235             |
| Funds held under coinsurance                            | 5,367,861               | -                          | 5,367,861              |
| Aggregate write-ins for liabilities                     | 18,331,004              | -                          | 18,331,004             |
| <b>Total liabilities</b>                                | <b>1,432,436,121</b>    | <b>-</b>                   | <b>1,432,436,121</b>   |
| <b>Surplus and Other Funds</b>                          |                         |                            |                        |
| Common capital stock                                    | 3,311,316               | -                          | 3,311,316              |
| Gross paid in and contributed surplus                   | 190,658,514             | -                          | 190,658,514            |
| Unassigned funds (surplus)                              | 143,767,299             | -                          | 143,767,299            |
| <b>Total surplus and other funds</b>                    | <b>337,737,129</b>      | <b>-</b>                   | <b>337,737,129</b>     |
| <b>Total liabilities, surplus and other funds</b>       | <b>\$ 1,770,173,250</b> | <b>\$ -</b>                | <b>\$1,770,173,250</b> |

**American Heritage Life Insurance Company**  
**Summary of Operations**  
**(As reported by the Company)**  
**For The Year Ended December 31, 2013**

|   |                      |
|---|----------------------|
| Premiums and annuity considerations   | \$ 707,745,696       |
| Net investment income   | 63,421,017           |
| Amortization of interest maintenance reserve  | 413,060              |
| Commission and expense allowances on reinsurance ceded                              | 20,083,852           |
| Aggregate write-ins for miscellaneous income  | 2,710,952            |
| <b>Total revenues</b>   | <b>794,374,577</b>   |
| Death benefits  | 28,459,061           |
| Matured endowments  | 11,160               |
| Annuity benefits  | 898,952              |
| Disability benefits and benefits under accident and health contracts                | 277,256,513          |
| Coupons, guaranteed annual pure endowments and similar benefits                     | 5,127                |
| Surrender benefits and withdrawals for life contracts                               | 17,582,171           |
| Interest and adjustments on contract or deposit-type contract funds                 | 1,340,840            |
| Increase in aggregate reserves for life and accident and health contracts           | 37,893,208           |
|   | <b>363,447,032</b>   |
| Commissions on premiums, annuity considerations and deposit-type contract funds     | 167,774,390          |
| Commissions and expense allowances on reinsurance assumed                           | 3,543,784            |
| General insurance expenses  | 144,596,506          |
| Insurance taxes, licenses and fees, excluding federal income taxes                  | 22,555,290           |
| Increase in loading on deferred and uncollected premiums                            | (156,921)            |
| Aggregate write-ins for deductions  | (121,373)            |
|   | <b>701,638,708</b>   |
| Net gain from operations before dividends to policyholders and federal income taxes | 92,735,870           |
| Dividends to policyholders  | 441                  |
| Net gain from operations before income taxes and capital gains                      | 92,735,429           |
| Federal and foreign income taxes incurred   | 34,879,032           |
| Net gain from operations before capital gains and losses                            | 57,856,397           |
| Net realized capital gains (losses)   | (833,440)            |
| <b>Net income</b>   | <b>\$ 57,022,957</b> |

**American Heritage Life Insurance Company  
Statement of Changes in Capital and Surplus  
For The Three Years Ended December 31, 2013**

|   |                |
|---|----------------|
| Capital and surplus - December 31, 2010                       | \$ 255,022,095 |
| Net income  | 41,471,603     |
| Change in net unrealized capital gains (losses)               | 10,899,695     |
| Change in net deferred income tax                             | (504,709)      |
| Change in nonadmitted assets and related items                | 10,301,892     |
| Change in liability for reinsurance in unauthorized companies | 1,688,167      |
| Change in asset valuation reserve                             | 782,613        |
| Dividends to stockholders                                     | (27,000,000)   |
| Aggregate write-ins for gains and losses in surplus           | 1,023,722      |
| <hr/>   |                |
| Capital and surplus - December 31, 2011                       | 293,685,078    |
| Net income  | 74,675,716     |
| Change in net unrealized capital gains (losses)               | 33,062,363     |
| Change in net deferred income tax                             | 19,464,289     |
| Change in nonadmitted assets                                  | 2,975,052      |
| Change in liability for reinsurance in unauthorized companies | 73,648         |
| Change in asset valuation reserve                             | (5,181,491)    |
| Paid in surplus adjustment                                    | (60,250,000)   |
| Aggregate write-ins for gains and losses in surplus           | (22,694,792)   |
| <hr/>   |                |
| Capital and surplus - December 31, 2012                       | 335,809,863    |
| Net income  | 57,022,957     |
| Change in net unrealized capital gains (losses)               | 14,856,884     |
| Change in net deferred income taxes                           | 2,162,763      |
| Change in nonadmitted assets                                  | 7,023,626      |
| Change in liability for reinsurance in unauthorized companies | 24,332         |
| Change in asset valuation reserve                             | (7,018,096)    |
| Dividends to stockholders                                     | (74,000,000)   |
| Aggregate write-ins for gains and losses in surplus           | 1,854,800      |
| <hr/>   |                |
|   | 337,737,129    |
| Examination adjustments                                       | -              |
| <hr/>   |                |
| Capital and surplus - December 31, 2013                       | \$ 337,737,129 |
| <hr/>   |                |

**American Heritage Life Insurance Company  
Comparative Analysis of Changes in Capital & Surplus  
December 31, 2013**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

|  |                        |                            |   |                      |
|--|------------------------|----------------------------|---|----------------------|
| <b>Capital &amp; surplus, December 31, 2013 - per annual statement</b> |                        |                            |   | <b>\$337,737,129</b> |
|  | <b>Per<br/>Company</b> | <b>Per<br/>Examination</b> | <b>Increase<br/>(Decrease)<br/>In Capital<br/>&amp; Surplus</b> |                      |
| Total assets   | \$1,770,173,250        | \$1,770,173,250            | \$ -  |                      |
| Total liabilities  | \$1,432,436,121        | \$1,432,436,121            | \$ -  | \$ -                 |
| <b>Capital &amp; surplus, December 31, 2013 - per examination</b>      |                        |                            |   | <b>\$337,737,129</b> |

## SUBSEQUENT EVENTS

Don Civgin, Angela K. Fontana, and Wilford J. Kavanagh resigned from the Board as of February 7, 2014, and were succeeded by Alice M. Byrne, Katherine A. Mabe, and David G. Nadig.

On February 28, 2014, the Company received a dividend from its subsidiary, First Colonial in the amount of \$42 million.

Effective March 27, 2014 the parent company's name changed from American Heritage Life Investment Corporation to Allstate Financial Insurance Holdings Corporation.

On July 7, 2014, the Company's Board declared and approved a dividend of \$106 million. The dividend was paid out to the Company's parent, Allstate Financial Insurance Holdings Corporation, on August 13, 2014.

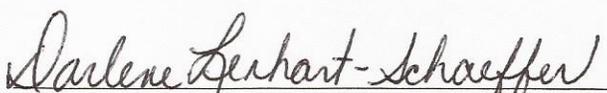
## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of American Heritage Life Insurance Company as of December 31, 2013, consistent with the insurance laws of the State of Florida.

At December 31, 2013, the Company's total capital and surplus was \$337,737,129 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, Kerry A. Krantz, Actuary and Risk & Regulatory Consulting, LLC participated in the examination.

Respectfully submitted,



Darlene Lenhart-Schaeffer, APIR, CFE, CISA  
Financial Examiner/Analyst Supervisor  
Florida Office of Insurance Regulation