NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

FARM FAMILY LIFE INSURANCE COMPANY

CONDITION: DECEMBER 31, 2015

DATE OF REPORT: MAY 9, 2017

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EXAMINER: JACQUELINE TUCKER

TABLE OF CONTENTS

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

April 27, 2017

Honorable Maria T. Vullo
Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31439, dated March 3, 2016 and annexed hereto, an examination has been made into the condition and affairs of Farm Family Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 344 Route 9W, Glenmont, NY 12077.

Wherever "Department" appears in this report, it refers to the New York State Department of Financial Services.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The material violations contained in this report are summarized below.

- The Company violated Insurance Regulation No. 60, 11 NYCRR Section 51.6(b)(3) and 51.6(b)(4) by failing to examine and ascertain that the Disclosure Statement included all required disclosures for three replacement policies. (See item 7A of this report)
- The Company violated Insurance Regulation No. 187, 11 NYCRR Sections 224.4(a)(1) and 224.4(c) by not informing consumers of all the various features on the annuity contracts. (See item 7A of this report)

2. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2016 Edition* (the "Handbook"). The examination covers the three-year period from January 1, 2013 through December 31, 2015. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2015 but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

In the course of the examination, a review was also made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The results of this review are contained in item 7 of this report.

The examination was conducted on a risk focused basis in accordance with the provisions of the Handbook published by the National Association of Insurance Commissioners ("NAIC"). The Handbook guidance provides for the establishment of an examination plan based on the examiner's assessment of risk in the insurer's operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management's compliance with New York statutes and Department guidelines, Statutory Accounting Principles as adopted by the Department and annual statement instructions.

The coordinated examination was led by the State of Texas with participation from the states of New York, Missouri, Louisiana and California. There are fourteen companies within the holding company group. All of the companies were examined together as part of the coordinated examination. However, the examination was divided into two subgroups; life subgroup and property and casualty subgroup. Texas was the facilitating state for the life subgroup while Missouri was the facilitating state for the property and casualty subgroup. Since the lead and participating states are all accredited by the NAIC, all states deemed it appropriate to rely on each other's work.

Information about the Company's organizational structure, business approach and control environment were utilized to develop the examination approach. The Company's risks and management activities were evaluated incorporating the NAIC's nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The Company was audited annually, for the years 2013 through 2015, by the accounting firm of KPMG LLP. The Company received an unqualified opinion in all years. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. American National Insurance Company ("ANICO"), the Company's ultimate parent, has an internal audit department and is subject to the Sarbanes-Oxley Act of 2002 ("SOX"). ANICO shares, on an enterprise-wide basis, the services of its internal control department, which was given the task of assessing the internal control structure and compliance with SOX, with its holding company members. Where applicable, internal audit and SOX workpapers and reports were reviewed and portions were relied upon for this examination.

The examiner reviewed the corrective action taken by the Company with respect to the violation contained in the prior market conduct report on examination. The result of the examiner's review is contained in item 8 of this report

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York on October 20, 1953, and was licensed and commenced business on January 20, 1954. Initial resources of $600,000, consisting of common capital stock of $300,000 and paid in and contributed surplus of $300,000, were provided through the sale of 3000 shares of common stock (with a par value of $100 each) for $200 per share.

The Company was formerly sponsored and entirely owned by ten farm bureaus. On July 26, 1996, pursuant to a Plan of Reorganization and Conversion, Farm Family Mutual Insurance Company, an affiliated property and casualty insurer, converted from a mutual company to a stock company and changed its name to Farm Family Casualty Insurance Company ("FFCIC"). The Company, FFCIC and United Farm Family Insurance Company ("UFFIC"), all domiciled in New York, had common management before the reorganization. Simultaneous with the reorganization and conversion of FFCIC, Farm Family Holdings, Inc. ("FFH"), a holding company organized under the laws of the State of Delaware, was formed to acquire all of the capital stock of FFCIC. In addition, an option purchase agreement was entered into by FFH and the shareholders of the Company, pursuant to which FFH had an option to acquire the Company through an exchange of stock. FFH acquired the Company in 1999.

On April 10, 2001, ANICO, a Texas domiciled insurance company, acquired FFH.

Prior to December 2004, the Company owned 100% of the outstanding shares of stock of UFFIC. On December 1, 2004, the Company transferred all of its outstanding shares of UFFIC to FFH in exchange for $3,435,239.

On August 23, 2007, American National Property and Casualty Holding Company, LLC merged into FFH and FFH changed its name to American National Property & Casualty Holdings, Inc. ("ANPAC Holdings").

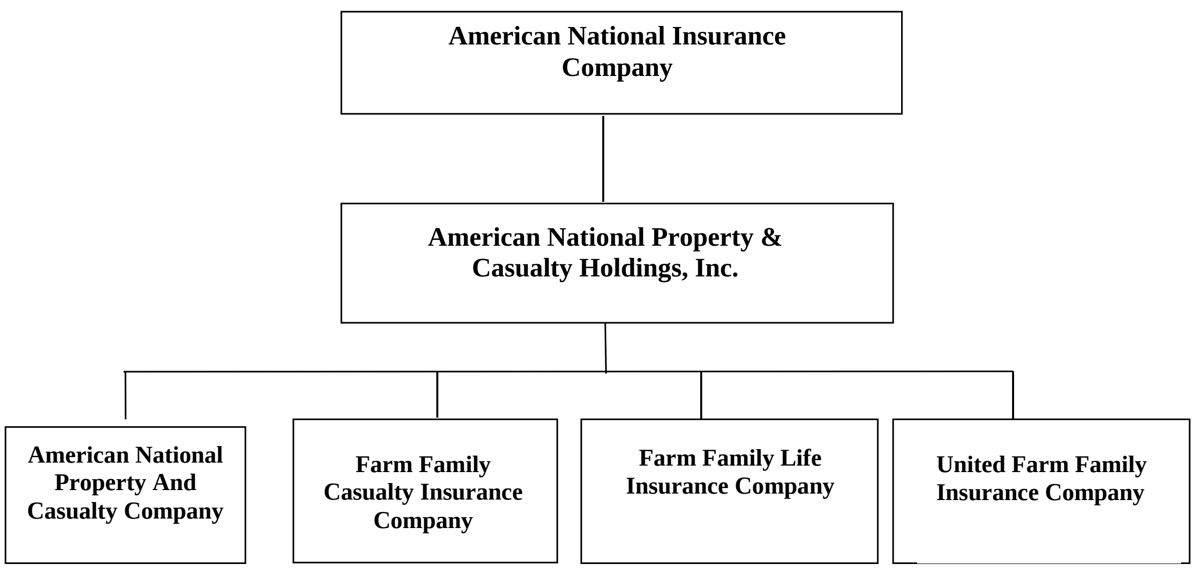
Capital stock and paid in and contributed surplus were $3,000,550 and $300,471, respectively, as of December 31, 2015.

B. Holding Company

The Company is a wholly owned subsidiary of ANPAC Holdings, a holding company organized under the laws of the state of Delaware. ANPAC Holdings is in turn a wholly owned subsidiary of ANICO, a Texas domiciled insurance company, which is the ultimate parent of the Company. The stock of ANICO is owned by The Moody Foundation (22.79%) and The Libbie Shearn Moody Trust (36.99%) while the remaining ownership interest in ANICO is traded on the NASDAQ stock exchange.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2015 follows:



D. Service Agreements

The Company had seven service agreements in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Providers of Services	Recipients of Services	Specific Services Covered	Income/ (Expense)* For Each Year of the Examination
Administrative Services Agreement File No. 29206A Amended and Restated File No. 41459	04/10/2001 11/20/2009	ANICO	The Company	General insurance, operations support and administration, data processing, consulting, information maintenance, accounting, tax, actuarial, legal, corporate secretarial, printing, underwriting, claim and policy administration, payroll and human resources.	2013 $ (734,356) 2014 $(1,086,611) 2015 $ (440,065)
Investment Management Agreement – Amended and Restated File No.35694 Amended and Restated File No.42294	11/07/2006 07/01/2010	ANICO	The Company	Investment advice and investment portfolio management	2013 $(266,808) 2014 $(255,116) 2015 $(377,591)
Expense Sharing Agreement – Amended and Restated File No. 29629	10/30/2001	The Company, ANPAC Holdings or FFCIC	The Company, ANPAC Holdings or FFCIC	Provides for sharing of certain expenses and defines methods of allocating such expenses.	2013 $(5,804,786) 2014 $(6,945,822) 2015 $(6,888,823)

Type of Agreement and Department File Number	Effective Date	Provider of Services	Recipient of Services	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Mortgage Loan and Real Estate Investment Services Agreement File No. 29206A Amended and Restated File No. 42295	06/01/2001 07/01/2010	ANICO	The Company	Manager of mortgage loans and real estate investments.	2013 $(31,286) 2014 $(53,395) 2015 $(41,623)
Administrative Services Agreement File No. 29206A	04/10/2001	American National Property And Casualty Company	The Company	Telecommunication, mail, internet and intranet, agent licensing and training, data processing, information maintenance, accounting, printing, payroll and human resources.	2013 $ (67,730) 2014 $ (4,195) 2015 $(105,775)
Lease Amendment No. 4 File No. 42251 Amendment No. 5 File No. 49344	01/01/2010 01/01/2015	The Company	FFCIC	Lease of office and storage space in the Glenmont, NY home office.	2013 $1,543,531 2014 $1,604,716 2015 $1,551,130
Master Investment Participation Agreement File No. 46360	11/8/2012	ANICO	The Company	Administration of investment participations purchased from ANICO.	2013 $(107) 2014 $ 0 2015 $ 0

*Amount of Income or (Expense) Incurred by the Company

During 2015 the Company transferred Electronic Data Processing assets to ANICO which resulted in the Company receiving approximately $271,000 from ANICO as well as receiving approximately $411,000 related to a mortgage loan stand by fee. These transactions resulted in the Company receiving approximately $682,000 from ANICO that went through as an intercompany receivable reducing the net intercompany payable to ANICO.

E. Management

As of December 31, 2015, the Company's by-laws provide that the board of directors shall be comprised of not less than seven and not more than 15 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in May of each year. As of December 31, 2015, the board of directors consisted of 11 members. Meetings of the board are held quarterly.

The eleven board members and their principal business affiliation, as of December 31, 2015, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
John J. Dunn, Jr. League City, TX	Vice President and Chief Financial Officer American National Life Insurance Company of New York	2015
Irwin M. Herz, Jr. Galveston, TX	Partner/Attorney Greer, Herz & Adams, LLP	2001
A. Ingrid Moody* Kemah, Texas	Volunteer Worker and Former Farmer	2001
Edward J. Muhl* Malvern, PA	Retired Partner PricewaterhouseCoopers, LLP	2001
Gregory V. Ostergren Springfield, MO	Chairman, President and CEO American National Property And Casualty Company	2001
Elvin J. Pederson* Galveston, TX	Managing Director CitareTx Management, LLC	2015
James E. Pozzi Galveston, TX	Chairman Of the Board, and Chief Executive Officer American National Life Insurance Company of New York	2001

Name and Residence	Principal Business Affiliation	Year First Elected
Victoria M. Stanton Glenmont, NY	Executive Vice President, General Counsel and Secretary Farm Family Companies and American National Property and Casualty Company	2004
Timothy A. Walsh Friendswood, TX	President and Chief Executive Officer Farm Family Life Insurance Company	2001
Ronald J. Welch League City, TX	Retired, Senior Executive Vice President, Corporate Risk Office and Chief Actuary American National Insurance Company	2001
James D. Yarbrough* Galveston, TX	Mayor City of Galveston, Texas	2015

* Not affiliated with the Company or any other company in the holding company system

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2015:

Name	Title
Timothy A. Walsh	President and Chief Executive Officer
Victoria M. Stanton*	Executive Vice President, General Counsel and Secretary
Michele Bartkowski	Senior Vice President, Chief Financial Officer and Treasurer
Patrick A. Wejrowski	Senior Vice President, Application Development & Support, Multiple Line
Lewis Dufort	Senior Vice President, Ag/Commercial Sales
Kathryn Lentivech	Vice President, Life Actuarial Services
John A. Cole	Vice President, Life Operations

* Designated consumer services officer per Insurance Regulation No. 64, 11 NYCRR Section 216.4(c)

4. TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in 13 states. Policies are written on a participating and non-participating basis.

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2015:

Life Insurance Premiums		Annuity Considerations	
New York	37.1%	New York	38.0%
New Jersey	13.5	Massachusetts	15.7
West Virginia	6.5	West Virginia	10.5
Massachusetts	6.3	New Jersey	9.7
Subtotal	63.4%	Subtotal	73.9%
All others	36.6	All others	26.1
Total	100.0%	Total	100.0%

A. Statutory and Special Deposits

As of December 31, 2015, the Company had $500,000 (par value) of United States Treasury Bonds on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company. An additional $395,311 was reported in Schedule E of the 2015 filed annual statement as being held by the State of Virginia.

B. Direct Operations

The Company has an agricultural niche market serving rural and suburban clientele. The Company primarily offers individual life products including: whole life, term life, and universal life policies; individual annuities and group annuity contracts; and individual accident and health policies, primarily disability income products. The Company's individual fixed annuity products, which include single premium deferred annuities, are offered on a qualified and non-qualified basis. The group annuities are deposit fund type products. The individual accident and health business is comprised of four guaranteed renewable disability income products. The General Disability Income product is designed to protect the income of wage earners. The Farmers Disability Income product is designed to protect full-time, self-employed farmers. The Business Owners Policy and Business Overhead Expense Policy are designed for the protection of full-time, self-employed persons.

The Company's agency operations are conducted on a general agency basis.

C. Reinsurance

As of December 31, 2015 the Company had reinsurance treaties in effect with five companies, of which four were authorized or accredited. The Company's life and accident and health business is reinsured on a coinsurance, and/or yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is $600,000. The total face amount of life insurance ceded to non-affiliated reinsurers as of December 31, 2015, was $2,097,350,042, which represents 27.0% of the total face amount of life insurance in force. The Company did not take a reserve credit for reinsurance ceded to its ultimate parent, ANICO, which is the only unauthorized reinsurer to which it ceded business during the examination period.

5. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

	December 31, 2013	December 31, 2015	Increase
Admitted assets	$1,248,406,710	$1,308,905,580	$60,498,870
Liabilities	$1,096,547,765	$1,142,426,900	$45,879,135
Common capital stock	$ 3,000,550	$ 3,000,550	$ 0
Gross paid in and contributed surplus	300,471	300,471	0
Group Life Contingency Reserve	145,945	149,144	3,199
Unassigned funds (surplus)	148,411,979	163,028,515	14,616,536
Total capital and surplus	$ 151,858,945	$ 166,478,680	$14,619,735
Total liabilities, capital and surplus	$1,248,406,710	$1,308,905,580	$60,498,870

The Company's invested assets as of December 31, 2015, were mainly comprised of bonds (78.2%), stocks (9.0%), and mortgage loans (6%).

The majority (86.5%) of the Company's bond portfolio, as of December 31, 2015, was comprised of investment grade obligations.

The following indicates, for each of the years listed below, the amount of group life insurance issued and in force by type (in thousands of dollars):

	Group Life	
Year	Issued & Increases	In Force
2013	$6,548	$69,289
2014	$3,080	$ 1,210
2015	$ 0	$ 0

The Company had group life policies in force which covered employees of Farm Family and State Farm Bureaus. The group life policy issued to the Farm Family employee group terminated in 2014 and the State Farm Bureau employee group policies terminated in 2015. The groups obtained alternate coverage and terminated their policies with the Company. As a result, in 2015 the Company did not have any in force group life business.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	2013	2014	2015
Ordinary:			
Life insurance	$6,047,612	$3,796,773	$4,750,082
Individual annuities	2,087,936	1,313,232	1,545,721
Supplementary contracts	(339,118)	33,717	(171,911)
Total ordinary	$8,474,666	$5,143,722	$6,123,892
Group:			
Life	$ 297,480	$ 265,647	$ (2,813)
Annuities	67,082	41,580	32,288
Total group	$ 364,562	$ 307,227	$ 29,475
Accident and health:			
Group	$ (25,946)	$ (7,052)	$ 10,788
Other	893,576	(159,145)	599,492
Total accident and health	$ 867,629	$ (166,197)	$ 610,280
Total	$9,028,622	$5,284,752	$6,763,647

The fluctuations in ordinary life were due to: a decrease in net investment income in both 2014 and 2015 as compared to 2013 due to declining interest rates; a decrease in dividend scale in both 2014 and 2015 as compared to 2013; a decrease in single premium life sales 2014 compared to 2013; and an increase in death benefits incurred in 2015.

The decrease in group life insurance was due to the termination of the Farm Family employee group life policy in 2014 and the State Farm Bureau employee group life policies in 2015.

The fluctuations in accident and health was due to an increase in the claim reserve of disability income policies in 2014.

The fluctuations in all lines were also driven by a difference in the federal income taxes incurred in each year. Subsequent to the filing of the 2013 annual statement, the Company discovered an error in the federal income tax provision. A correction was made and reported in the 2013 audited financial statements and the 2014 annual statement. This resulted in the recognition of additional federal income tax incurred in the amount of $3.5 million in the 2014 annual statement.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2015, as contained in the Company's 2015 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2015 filed annual statement.

A. Independent Accountants

The firm of KPMG LLP was retained by the Company to audit the Company's combined statutory basis statements of financial position as of December 31st of each year in the examination period and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

KPMG LLP concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

B. Net Admitted Assets

Bonds	$1,003,503,495
Stocks:	
Preferred stocks	601,988
Common stocks	117,235,032
Mortgage loans on real estate:	
First liens	76,475,558
Other than first liens	
Real estate:	
Properties occupied by the company	4,950,638
Cash, cash equivalents and short term investments	28,411,693
Contract loans	44,587,907
Other invested assets	5,976,067
Receivable for securities	709,460
Investment income due and accrued	11,662,568
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	719,576
Deferred premiums, agents' balances and installments booked but deferred and not yet due	11,452,887
Reinsurance:	
Amounts recoverable from reinsurers	152,608
Current federal and foreign income tax recoverable and interest thereon	147,810
Guaranty funds receivable or on deposit	509,177
Receivables from parent, subsidiaries and affiliates	1,808,098
Health care and other amounts receivable	1,019
Total admitted assets	$1,308,905,580

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$ 998,829,318
Aggregate reserve for accident and health contracts	15,048,096
Liability for deposit-type contracts	71,795,167
Contract claims:	
Life	2,941,384
Accident and health	65,071
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts:	
Dividends apportioned for payment	6,271,712
Premiums and annuity considerations for life and accident and health contracts received in advance	183,607
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	1,472,968
Interest maintenance reserve	3,066,339
Commissions to agents due or accrued	540,058
Commissions and expense allowances payable on reinsurance assumed	
General expenses due or accrued	1,210,301
Taxes, licenses and fees due or accrued, excluding federal income taxes	417,170
Net deferred tax liability	9,045,723
Unearned investment income	1,251,400
Amounts withheld or retained by company as agent or trustee	441,392
Remittances and items not allocated	1,740,200
Miscellaneous liabilities:	
Asset valuation reserve	24,495,741
Payable to parent, subsidiaries and affiliates	2,384,079
Uncashed check reserve	689,833
Underfunded pension plan	503,476
Underfunded postretirement plan	33,865
Total liabilities	$1,142,426,900
Common capital stock	$ 3,000,550
Gross paid in and contributed surplus	300,471
Group life contingency reserve	149,144
Unassigned funds (surplus)	163,028,515
Surplus	$ 163,478,130
Total capital and surplus	$ 166,478,680
Total liabilities, capital and surplus	$1,308,905,580

D. Condensed Summary of Operations

	2013	2014	2015
Premiums and considerations	$ 75,364,901	$ 73,091,384	$ 77,790,218
Investment income	56,510,241	55,096,675	51,862,655
Commissions and reserve adjustments on reinsurance ceded	932,706	882,728	818,124
Miscellaneous income	211,880	321,350	313,714
Total income	$133,019,728	$129,392,137	$130,784,711
Benefit payments	$ 66,626,230	$ 70,199,473	$ 75,528,215
Increase in reserves	29,193,191	22,516,282	21,215,486
Commissions	5,935,038	5,914,229	5,750,435
General expenses and taxes	14,213,681	12,633,313	12,355,767
Increase in loading on deferred and uncollected premium	(107,967)	(294,762)	(348,870)
Miscellaneous deductions	0	150,000	827
Total deductions	$115,870,173	$111,118,535	$114,501,860
Net gain from operations	$ 17,159,555	$ 18,273,602	$ 16,282,851
Dividends	7,973,727	6,831,061	6,003,821
Federal and foreign income taxes incurred	157,206	6,157,789	3,515,383
Net gain from operations before net realized capital gains	$ 9,028,622	$ 5,284,752	$ 6,763,647
Net realized capital gains	9,611,473	4,946,877	2,654,625
Net income	$ 18,640,095	$ 10,231,629	$ 9,418,272

The fluctuations in federal and foreign income taxes incurred in 2014 as compared to 2013 and 2015 was due to the Company discovering an error in the federal income tax provision subsequent to the filing of the 2013 annual statement. A correction was made and reported in the 2013 audited financial statements and the 2014 annual statement. This resulted in the recognition of additional federal income tax incurred of $3.5 million in the 2014 annual statement which related to 2013. This is also the major contributing factor in the fluctuations in net gain from operations.

The decrease in net realized capital gains is primarily related to a decrease of realized capital gains from unaffiliated common stocks in 2014, and an impairment loss recognized in 2014 on an office building held for the production of income, which had been acquired through foreclosure in 2013. The decrease from 2014 to 2015 is primarily due to an increase in the federal income tax incurred on realized capital gains.

E. Capital and Surplus Account

	2013	2014	2015
Capital and surplus, December 31, prior year	$134,227,519	$151,858,945	$160,539,150
Net income	$ 18,640,095	$ 10,231,629	$ 9,418,272
Change in net unrealized capital gains (losses)	11,742,778	4,003,588	(3,415,769)
Change in net deferred income tax	782,620	(3,323,113)	548,714
Change in non-admitted assets and related items	(6,178,631)	816,064	(1,105,297)
Change in liability for reinsurance in unauthorized companies	0	(72,769)	72,769
Change in reserve valuation basis	0	0	0
Change in asset valuation reserve	(2,707,463)	239,531	583,983
Cumulative effect of changes in accounting principles	(314,908)	0	0
Change in surplus as a result of reinsurance	0	0	0
Dividends to stockholders	(6,500,000)	(3,125,000)	0
Change in underfunded pension plan net of deferred tax	2,874,965	(105,362)	(171,976)
Change in deferred tax on non-admitted items	(708,030)	15,637	8,834
Net change in capital and surplus for the year	$ 17,631,426	$ 8,680,205	$ 5,939,530
Capital and surplus, December 31, current year	$151,858,945	$160,539,150	$166,478,680

The change in net unrealized capital gains (losses) from 2013 through 2015 is primarily attributable to the change in the market value of the common stock portfolio. The overall Standard and Poor's 500 increased almost 30% from 2012 to 2013, 11% from 2013 to 2014 and dropped slightly from 2014 to 2015.

The change in net deferred income tax is primarily attributable to the changes in the tax effect of the change in investments, including unrealized gains (losses), and the tax effect of the change in the pension liability.

The change in non-admitted assets is primarily due to the change in the non-admitted deferred tax asset.

The equity component of the asset valuation reserve increased in 2014 over 2013, primarily due to the unrealized capital gains on the common stock portfolio and additional investment real estate acquired through foreclosure.

In 2013, the Company adopted SSAP No. 92, Accounting for Postretirement Benefits Other Than Pensions and SSAP No. 102, Accounting for Pensions, A Replacement of SSAP No. 89. The Company's share of the minimum pension liability as of December 31, 2012 was $5.8 million, and its share of the underfunded pension liability as of December 31, 2013 was $800 thousand. The change in surplus in 2013 is primarily the result of this reduction in the pension liability.

The fluctuation in the change in deferred tax on non-admitted items from 2013 to 2014 is primarily attributable to the change in the non-admitted pension asset.

7. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company’s market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company’s advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

> Insurance Regulation No. 60, 11 NYCRR Section 51.6(b) states, in part:
>
> “Where a replacement has occurred or is likely to occur, the insurer replacing the life insurance policy or annuity contract shall: . . .
> (3) prior to the delivery of the life insurance policy or annuity contract, require an accurate and complete "Disclosure Statement" signed by the insurance agent or broker in the form prescribed in Appendices 10A or 10B to this Part, including the primary reason or reasons for recommending the new life insurance policy or annuity contract and why the existing life insurance policy or annuity contract cannot meet the applicant's objectives;
> (4) examine the sales material, including any proposal, used in the sale of the life insurance policy or annuity contract, and the ”Disclosure Statement”, and ascertain that they are accurate and meet the requirements of the Insurance Law and regulations promulgated thereunder . . .
>
> Section 4223(a) of the New York Insurance Law states, in part:
>
> “(1) In the case of contracts issued on or after the operative date of this section, no contract of annuity, except as provided in subsection (b) of this section, shall be delivered or issued for delivery in this state unless it contains in substance the following provisions, or corresponding provisions that in the opinion of the superintendent are at least as favorable to the contract holder, upon cessation of payment of considerations under the contract. . . .
> (C) A statement of the mortality table, if any, and interest rates used in calculating any minimum paid-up annuity during the period it is guaranteed, and any cash surrender or death benefits that are guaranteed under the contract, and any times at which such guaranteed benefits are payable, together with sufficient information to determine the amounts of such benefits and, if the contract provides for the determination of any cash surrender value in accordance with a market-value adjustment formula authorized by paragraph two of subsection (e) of this section, a brief description of the formula and the circumstances in which it is applied, together with a statement that a detailed description has been filed with the superintendent.”

Insurance Regulation No. 187, 11 NYCRR Section 224.4 states, in part:

"(a) In recommending to a consumer the purchase or replacement of an annuity contract, the insurance producer, or the insurer where no insurance producer is involved, shall have reasonable grounds for believing that the recommendation is suitable for the consumer on the basis of the facts disclosed by the consumer as to the consumer's investments and other insurance policies or contracts and as to the consumer's financial situation and needs, including the consumer's suitability information, and that there is a reasonable basis to believe all of the following:

(1) the consumer has been reasonably informed of various features of the annuity contract, such as the potential surrender period and surrender charge, availability of cash value, potential tax implications if the consumer sells, surrenders or annuitizes the annuity contract, death benefit, mortality and expense fees, investment advisory fees, potential charges for and features of riders, limitations on interest returns, guaranteed interest rates, insurance and investment components, and market risk . . .

(c) Except as provided under subdivision (d) of this section, an insurer shall not issue an annuity contract recommended to a consumer unless there is a reasonable basis to believe the annuity contract is suitable based on the consumer's suitability information."

A review of three immediate annuity replacement files in which the Company replaced a deferred annuity policy with an immediate annuity policy revealed:

a) The Company did not provide or indicate the amounts on the Disclosure Statements for the comparison on the "proposed" single premium individual annuity contract.

   (i) In accordance with Section 4223(a)(1)(C) of the New York Insurance Law, every accumulation type deferred annuity issued to consumers in New York State must set forth the guaranteed interest rate and annuity mortality table being utilized for the guaranteed income purchase rates under the contract. The examiner noted that the Company did not provide the amount of guaranteed income available under the existing deferred annuity contract on the Disclosure Statements. Similarly, the Company did not provide the payout amount for the guaranteed income available under the proposed immediate annuity.

   (ii) The Company failed to inform the existing companies that the new or replacement contract would be an immediate annuity contract. Thus, the Company requested and/or accepted Disclosure Statements with the replaced company’s account values listed as a lump sum, rather than a monthly payment amount that the annuitant would receive with an immediate annuity.

(iii) The information requested on the authorization form by the agent or Company did not indicate to the existing companies that the proposed coverage would be an immediate annuity contract. The letter/authorization form stated “ . . . Please be advised that the owner of the above referenced Policy may be replacing such Policy with a new policy to be issued by Farm Life Insurance Company . . . you are hereby requested to provide such information … regarding the above reference policy as is necessary for the completion of the required ‘Disclosure Statement’ . . . ”. Thus, the Company requested and accepted Disclosure Statements with account values listed as a lump sum instead of a monthly payment amount that the annuitant would have received with an immediate annuity. The Company failed to inform the existing company that their new or replacement contract to be issued by the Company would be an immediate annuity contract and thereby failed to give the existing insurer an opportunity to provide the applicable monthly annuitized amounts.

(iv) As stated in item (i) above, none of the files or Disclosure Statements indicate a comparison regarding payout options. Although Section 4223(a)(1)(C) of the New York Insurance Law requires all deferred contract to contain a provision allowing payout option, there was no payout option comparison disclosed on the Company’s prepared Disclosure Statements.

b) The agent’s statement contained in the Disclosure Statement did not include key disadvantages pertaining to replacing a deferred annuity with an immediate annuity, for example: the agent statement failed to indicate that the existing deferred annuity could be annuitized for a monthly payment as an option versus purchasing a new immediate annuity. The monthly payout amount should be shown on the Disclosure Statement for both the existing deferred annuity and the proposed immediate annuity.

Based on items 1a and 1b above:

- The Company accepted Disclosure Statements where the replaced company’s account values were listed as a lump sum rather than the monthly payment amount that the policyholder would receive with an immediate annuity. In these instances the Company did not request, from the existing insurer, an appropriate comparison for the proposed Immediate Annuity.

- The Disclosure Statement did not provide the monthly payment amount or any figures on the proposed immediate annuity for comparison with the existing deferred annuity.
- The agent did not state on the authorization forms that the new product being offered was an Immediate Annuity policy.

The Company violated Insurance Regulation No. 60, 11 NYCRR Section 51.6(b)(3) and 51.6(b)(4) by failing to examine and ascertain that the Disclosure Statement included all required disclosures for three replacement policies.

In addition, the Company violated Insurance Regulation No. 187, 11 NYCRR Sections 224.4(a)(1) and 224.4(c) by not informing consumers of all the various features on the annuity contracts.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the violation contained in the prior market conduct report on examination and the subsequent actions taken by the Company:

Item	Description
A	The Company violated Section 420.18 of Department Regulation No. 169 by failing to specify a length of time for which the authorization shall remain valid, which in no event shall be for more than 24 months. The examiner's review revealed that the Company revised the authorizations to comply with Insurance Regulation No. 169, 11 NYCRR Section 420.18. (cited as Section 420.18 of Department Regulation No. 169 in the prior market conduct report on examination)

9. SUMMARY AND CONCLUSIONS

Following are the violations contained in this report:

Item	Description	Page No(s).
A	The Company violated Insurance Regulation No. 60, 11 NYCRR Section 51.6(b)(3) and 51.6(b)(4) by failing to examine and ascertain that the Disclosure Statement included all required disclosures for the three replacement policies.	25
B	The Company violated Insurance Regulation No. 187, 11 NYCRR Sections 224.4(a)(1) and 224.4(c) by not informing consumers of all the various features on the annuity contracts.	25

Respectfully submitted,

_____________/s/____________
Jacqueline Tucker
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Jacqueline Tucker, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

_____________/s/____________
Jacqueline Tucker

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 31439

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, Acting Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

JACQUELINE TUCKER

as a proper person to examine the affairs of the

FARM FAMILY LIFE INSURANCE COMPANY

and to make a report to me in writing of the condition of said

COMPANY

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed my name
and affixed the official Seal of the Department
at the City of New York

this 3rd day of March, 2016

MARIA T. VULLO
Acting Superintendent of Financial Services

By:

MARK MCLEOD
ASSISTANT CHIEF - LIFE BUREAU