



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
BOSTON MUTUAL LIFE INSURANCE COMPANY

Canton, Massachusetts

As of December 31, 2016

NAIC GROUP CODE 00581

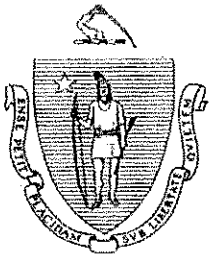
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BOSTON MUTUAL LIFE INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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AND BUSINESS REGULATION

GARY D. ANDERSON
COMMISSIONER OF INSURANCE

March 15, 2018

The Honorable Gary D. Anderson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

BOSTON MUTUAL LIFE INSURANCE COMPANY

at its home office located at 120 Royall Street, Canton, Massachusetts 02021-1098. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Boston Mutual Life Insurance Company ("BML" or "Company") was last examined as of December 31, 2011 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the five-year period from January 1, 2012 through December 31, 2016, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

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, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company is audited annually by Ernst & Young LLP ("EY"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2012 through 2016. A review and use of the Certified Public Accountants' workpapers was made to the extent deemed appropriate and effective.

Representatives from the firm of Risk & Regulatory Consulting, LLC ("RRC") were retained by the Division to perform certain examination procedures, including a review of information systems and actuarially determined policy reserves, as well as other significant actuarial estimates.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There are no significant findings of a material nature related to the current examination.

COMPANY HISTORY

General

BML is a Massachusetts domiciled company originally incorporated under the assessment laws of Massachusetts on August 18, 1891. The Company commenced business on February 15, 1892 under the name Boston Mutual Life Association. The new name, Boston Mutual Life Insurance Company, was adopted in 1899 when the Company was reorganized as a legal reserve company. In 1955, the Company expanded its operations by being licensed as an accident and health insurer. In 1968, the Company entered into the mutual fund business through a wholly-owned subsidiary, Boston Mutual Sales Corporation, for the distribution of mutual funds and other equity funds. The Company subsequently withdrew from the mutual fund business.

By 1988, the Company had expanded its geographical licensure to write insurance business in 49 states, as well as the District of Columbia and Puerto Rico. Although inactive, the Company is also licensed to write insurance business at United States defense installations in Europe. In 1989, the Company gained access to the State of New York market through a newly formed wholly-owned subsidiary, Life Insurance Company of Boston & New York ("LICOBNY"), a New York domiciled stock insurance company. Boston Mutual Life Insurance Agency, Inc. ("BMLI") is a Massachusetts for-profit corporation, formed by BML in 1982 to act as an insurance agent and broker. Royall Development, LLC ("Royall") is a Massachusetts limited liability company, formed by BML in 2015 to own, develop and finance, and otherwise deal in real estate. 66 Beacon Street, LLC is a Massachusetts limited liability company formed by BML in 2011 to own, develop and finance a commercial and residential building in the Beacon Hill section of Boston, Massachusetts and two condominiums at Blue Hill Commons in Canton, Massachusetts. The 66 Beacon Street property was sold in September, 2017. BML is the lead company of the Boston Mutual Group, which includes all of the previously mentioned entities.

Dividends

The Company issued the following dividends to policyholders during the period under examination:

2016	\$ 1,521,743
2015	1,488,334
2014	1,477,123
2013	735,841
2012	966,220

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors and its committees for the period under examination were read and they indicated that all meetings were held in accordance with the

Boston Mutual Life Insurance Company

Company's bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the committees were reported upon at meetings of the Board of Directors.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed. The bylaws indicate that the annual meeting of the Company for the election of Directors shall be held at the Company's principal office in Canton, MA on the third Wednesday of April in each year. The articles of organization and the bylaws were not amended during the examination period, with the bylaws last amended on February 18, 2009.

Board of Directors

According to the bylaws, the Company's business shall be managed by a Board of Directors which may exercise all of the powers of the Company, except as otherwise provided by the articles of incorporation, by law, or the bylaws. The Board of Directors shall consist of not fewer than seven nor more than fifteen Directors. As of December 31, 2016, the Company's Board of Directors consisted of the following individuals:

<u>Name of Director</u>	<u>Title</u>
Paul A. Quaranto, Jr.	Chairman, Chief Executive Officer and President
John J. Cook, Jr.	Managing Director (Retired), Seaward Management
John M. Cornish, Esq.	Partner, Choate, Hall & Stewart LLP
Henry T. Goldman, Esq.	Principal, Law Office of Henry T. Goldman
Aurilee A. Hawley	Director (Retired), Isabella Stewart Gardner Museum
Thomas M. Joyce, Jr., Esq.	President, Joyce and Joyce
Austin T. Lydon	Partner (Retired), Deloitte & Touche
Paul E. Petry, FSA, CLU	Chairman (Retired), Boston Mutual Life Insurance Company
Richard P. Quincy	President, Quincy & Company

Officers

Officers and management of the Company as of December 31, 2016 were as follows:

<u>Name of Officers</u>	<u>Title</u>
Paul A. Quaranto, Jr.	Chairman, Chief Executive Officer and President
Nicholas K. Barishian	Second Vice President and Head of General Agencies
John R. Flores, Esq.	Vice President, General Counsel and Secretary
Linda M. Izzo	Vice President, Human Resources and Insurance Operations
Clifford A. Lange	Vice President, Chief Financial Officer, Chief Actuary and Chief Risk Officer
Charles R. Mabry	Vice President, Workplace Solutions

Boston Mutual Life Insurance Company

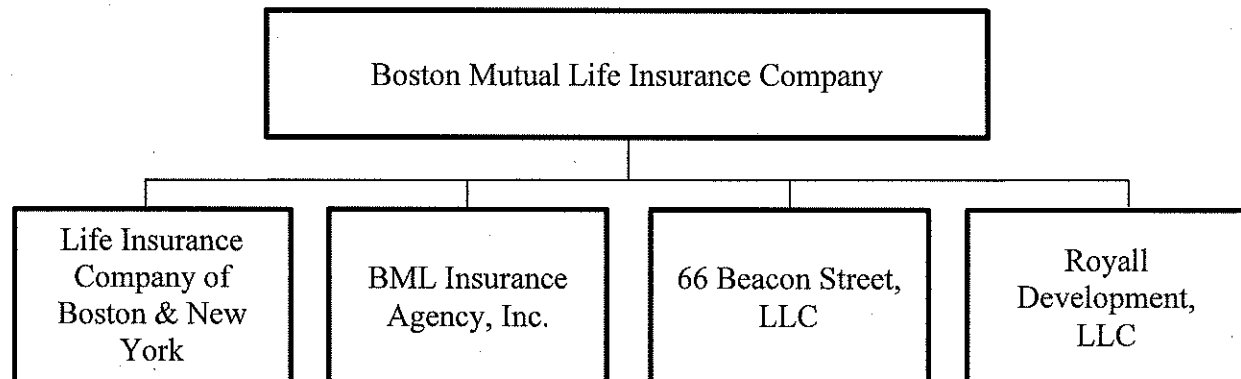
David C. Mitchell	Vice President, Strategic Planning and Communications
Howard V. Neff, Jr.	Senior Vice President and Chief Investment Officer
Mary T. Tillson	Vice President, Claims Services and Product Support
Christine T. Coughlin	Second Vice President and Treasurer
Stephen G. Evans	Second Vice President and Auditor
Susan J. Gardner	Second Vice President and Controller
Paul S. Painchaud	Second Vice President and Appointed Actuary
Grant D. Ward, Sr., Esq.	Second Vice President and Chief Compliance Officer
Peter S. Connolly, MD	Medical Director

Affiliated Companies

As stated in the Insurance Holding Company System Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts General Laws, Chapter 175, Section 206C and 211 CMR 7.00. The Company is the “ultimate controlling person” of the group.

Organizational Chart

At December 31, 2016, the Company is a member of the following organizational structure:



Transactions and Agreements with Subsidiaries and Affiliates

Administrative Services Agreements

The Company provides certain accounting, management and other services to LICOBNY, BMLI, 66 Beacon and Royall. Fees charged for these services are agreed upon by the parties.

Cost Sharing Arrangement

The Company pays for various general and administrative expenses on behalf of certain subsidiaries and is repaid on a cost reimbursement basis.

Boston Mutual Life Insurance Company

Inter-Company Settlement of Balances

The Company participates in a tax allocation agreement with its subsidiaries, including LICOBNY. The allocation method is based upon the respective tax liability of each member computed as if a separate return were filed, in accordance with the Internal Revenue Code.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in 49 states, the District of Columbia and Puerto Rico, with the largest number of insurance risks written in Massachusetts, New Jersey and Pennsylvania. The Company is not licensed in New York, but transacts business in that state through its wholly-owned subsidiary, LICOBNY, a New York domiciled insurance company. BML is primarily dedicated to the low and middle-income markets. The Company sells individual life, individual accident and health, group life, and group accident and health products. BML sells through a variety of distribution channels such as worksite marketing specialists, personal producing general agencies, and independent agents and brokers. In 2016, the Company reported \$227 million of direct premium written, with \$46 million written in Massachusetts.

Treatment of Policyholders – Market Conduct

The Company has no unusual claim related litigation with any policyholders and has not experienced significant complaints regarding its claims practices. Procedures performed in conjunction with the claims test work indicated that the Company investigates and settles claims on a timely and equitable basis.

REINSURANCE

Assumed Reinsurance

The majority of the assumed reinsurance activity is with the Company's wholly-owned subsidiary, LICOBNY. Individual life, group life, and accident and health are the principal products offered by LICOBNY. Approximately 10% of LICOBNY's in-force life business is assumed by the Company. The Company has a nominal amount of assumed reinsurance business through retrocessions or mutual (pooled) arrangements for universal life products and short-term disability.

Ceded Reinsurance

The Company has various reinsurance agreements in which blocks of business are reinsured in the ordinary course of business. All reinsurers are rated "A-" or better. The goals of the reinsurance program are to reduce volatility, share risk, have access to reinsurer's expertise and resources, and have earlier access to trends due to larger more credible data sets of reinsurers. The Company is cognizant of the worksite risk where many insureds could be part of a single event and attempts to mitigate this risk through reinsurance.

Boston Mutual Life Insurance Company

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2016. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2016

Summary of Operations for the Year Ended December 31, 2016

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2016

Boston Mutual Life Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2016

	Per Annual Statement
ASSETS	
Bonds	\$ 807,936,461
Common stocks	65,125,253
Mortgage loans: First liens	183,154,823
Properties held for the production of income	8,695,186
Cash, cash equivalents and short-term investments	5,769,736
Contract loans	154,407,159
Other invested assets	6,550,658
Receivables for securities	164
Subtotals, cash and invested assets	<u>1,231,639,440</u>
Investment income due and accrued	16,437,313
Uncollected premiums and agents' balances	5,328,783
Deferred premiums	40,283,579
Amounts recoverable from reinsurers	2,801,104
Other amounts receivable under reinsurance	1,566,101
Current federal tax recoverable	1,871,375
Net deferred tax asset	18,310,447
Guaranty funds receivable or on deposit	371,849
Electronic data processing equipment	43,708
Receivables from parent, subsidiaries and affiliates	487,859
Aggregate write-ins	<u>40,570,336</u>
Total Assets	<u>\$ 1,359,711,894</u>

Boston Mutual Life Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2016

	Per Annual Statement
LIABILITIES	
Aggregate reserve for life contracts	\$ 1,041,676,309
Aggregate reserve for accident and health contracts	11,594,352
Liability for deposit-type contracts	16,425,730
Contract claims: Life	12,946,455
Contract claims: Accident and health	4,100,505
Dividends apportioned for payment	785,288
Dividends not yet apportioned	959,796
Premiums and annuity considerations received in advance	2,141,189
Interest maintenance reserve	17,930,099
Commissions to agents due or accrued	2,853,562
General expenses due or accrued	6,700,524
Taxes, licenses and fees due or accrued	982,322
Unearned investment income	11,434
Amounts withheld as agent or trustee	5,932,380
Remittances and items not allocated	5,413,585
Asset valuation reserve	12,385,695
Reinsurance in unauthorized and certified companies	1,036,860
Aggregate write-ins	37,841,875
Total Liabilities	<u>1,181,717,961</u>
SURPLUS	
Aggregate write-ins for special surplus funds	5,500,000
Unassigned funds (surplus)	<u>172,493,933</u>
Surplus as regards policyholders	<u>177,993,933</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 1,359,711,894</u>

Boston Mutual Life Insurance Company

Summary of Operations For the Year Ended December 31, 2016

	Per Annual Statement
Premiums and annuity considerations	\$ 188,077,323
Net investment income	55,649,845
Amortization of Interest Maintenance Reserve	512,728
Commissions and expense allowance on reinsurance ceded	11,808,753
Reserve adjustments on reinsurance ceded	390,219
Aggregate write-ins for miscellaneous income	308,361
Total income	<u>256,747,227</u>
Death benefits	66,072,065
Matured endowments	203,784
Annuity benefits	2,559
Disability benefits and benefits under A&H contracts	15,475,475
Surrender benefits and withdrawals for life contracts	33,972,106
Interest and adjustments on contract or deposit-type contract funds	863,763
Increase in aggregate reserves	35,691,238
Commissions on premiums	34,124,987
Commissions and expense allowances on reinsurance assumed	9,501
General insurance expenses	43,537,557
Insurance taxes, licenses and fees, excluding federal taxes	7,318,339
Increase in loading on deferred and uncollected premiums	828,473
Aggregate write-ins for deductions	221,871
Total disbursements	<u>238,321,720</u>
Net gain from operations before dividends to policyholders and federal income taxes	18,425,508
Dividends to policyholders	1,521,743
Net gain from operations after dividends to policyholders and before federal income taxes	<u>16,903,765</u>
Federal and foreign income taxes incurred	5,200,075
Net gain from operations after dividends to policyholders and federal income taxes and before capital gains (losses)	<u>11,703,690</u>
Net realized capital gains (losses)	<u>(259,668)</u>
Net income	<u>\$ 11,444,022</u>

Boston Mutual Life Insurance Company

Reconciliation of Capital and Surplus For Each Year in the Five-Year Period Ended December 31, 2016

	2016	2015	2014	2013	2012
Surplus as regards policyholders, December 31, prior year	\$ 159,091,128	\$ 145,310,372	\$ 142,514,224	\$ 125,989,914	\$ 126,301,796
Net income/(loss)	11,444,021	12,793,045	9,945,302	15,951,254	12,754,121
Change in net unrealized capital gains or (losses) less capital gains tax	4,962,460	876,521	3,026,562	(1,104,453)	2,049,534
Change in net deferred income tax	(2,315,102)	(146,017)	5,312,552	(1,340,089)	4,004,943
Change in non-admitted assets	6,847,277	204,147	(13,110,992)	3,245,315	(17,705,174)
Change in liability for reinsurance in unauthorized and certified companies	(56,082)	-	20,215	(380,083)	(108,680)
Change in asset valuation reserve	(1,979,770)	145,694	(2,397,492)	152,360	(1,307,108)
Aggregate write-ins for gains and losses in surplus	-	(92,635)	-	-	-
Change in surplus as regards policyholders for the year	18,902,804	13,780,755	2,796,147	16,524,304	(312,364)
Surplus as regards policyholders, December 31, current year	<u>\$ 177,993,932</u>	<u>\$ 159,091,127</u>	<u>\$ 145,310,371</u>	<u>\$ 142,514,218</u>	<u>\$ 125,989,433</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There are no changes in the financial statements resulting from the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1: Actuarial Items, Reserves and Liabilities:

In connection with the Division's examination of the Company and its 2016 Annual Statement, the services of RRC ("Consulting Actuary") were retained to perform a detailed review of the Company's actuarial items, reserves and claims liability.

RRC reviewed EY's, the Company's independent auditors, assessment of the reasonableness of the reported U.S. Statutory reserve calculations for BML. EY's actuarial team independently calculated the statutory reserve for a sample of policies as of the valuation date of December 31, 2016. EY concluded that the statutory reserves were between their threshold of + or - 2.5%. Hence, the reserves held by BML for these policies appeared to be reasonable. The Division's consulting actuary is comfortable with the results of EY's independent recalculation of reserves against the Company's booked reserves.

Furthermore, RRC reviewed the booked reserves reported by the Company as of December 31, 2016. No adjustments to reserves or surplus were indicated as a result of the actuarial portion of the examination. The assumptions used were generally found to be reasonable and met the requirements of the insurance laws and regulations of the state of Massachusetts.

Additionally, the Consulting Actuary reviewed the Company's asset adequacy and cash flow testing ("CFT") results to determine if the Company's profitability is eroded in the low interest rate environment. Business not modeled through CFT was reviewed, and the Consulting Actuary is comfortable the CFT results would not be significantly impacted if they were included in the CFT model. The Consulting Actuary concluded that the CFT results are favorable in both increasing and decreasing rate environments, and is satisfied with the overall results of CFT. The Consulting Actuary also concluded that the mortality CFT assumptions are reasonable based on actual Company experience.

SUBSEQUENT EVENTS

In September, 2017 the Company sold the property located at 66 Beacon Street for \$20.45 million in cash. The building was acquired by the Company in June, 2011 for \$14.5 million.

SUMMARY OF RECOMMENDATIONS

There are no recommendations being made as part of this examination report.

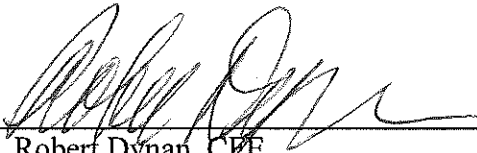
Boston Mutual Life Insurance Company


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Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by the following examiner participating in this examination is acknowledged.

Michael Lewandowski, Financial Examiner II


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