

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

***REPORT OF EXAMINATION OF THE***  
**COMMONWEALTH ANNUITY AND LIFE INSURANCE COMPANY**

**Brighton, Massachusetts**

**As of December 31, 2019**

**NAIC GROUP CODE 3891**

**NAIC COMPANY CODE 84824**

**EMPLOYER ID NUMBER 04-6145677**

# Commonwealth Annuity and Life Insurance Company

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**COMMONWEALTH OF MASSACHUSETTS**  
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**GARY D. ANDERSON**  
COMMISSIONER OF INSURANCE

May 26, 2021

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

**COMMONWEALTH ANNUITY AND LIFE INSURANCE COMPANY**

at its home office located at 20 Guest Street, Brighton, MA 02135-2017. Due to the COVID-19 pandemic, the examination was conducted remotely. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Commonwealth Annuity and Life Insurance Company (“Company” or “CwA”) was last examined as of December 31, 2014 by the Commonwealth of Massachusetts Division of Insurance (“Division”). This current examination is part of a Multi-State Coordinated Group examination conducted by the Indiana Department of Insurance as the lead state with the Division, the Iowa Department of Insurance and Vermont Department of Insurance as participating states and covers the five-year period from January 1, 2015 through December 31, 2019, 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 current and 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 PricewaterhouseCoopers, LLP (“PwC”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2015 through 2019. A review and use of the Certified Public Accountants’ work papers were made to the extent deemed appropriate and effective.

Representatives from the firm Risk & Regulatory Consulting, LLC (“RRC”) were engaged by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division’s examination staff. The assistance included a review of accounting records, information systems and information technology general controls (“ITGC’s”), reinsurance, investments and actuarially determined loss and loss adjustment expense reserves as of December 31, 2019.

## Commonwealth Annuity and Life Insurance Company

The Indiana Department of Insurance, as the lead state, contracted with The Thomas Consulting Group to perform the ITGC review and JP Consulting to serve as the Investment Specialists for the lead and participating states.

RRC was also engaged to conduct a concurrent examination of First Allmerica Financial Life Insurance Company (“FAFLIC”). The examination is the subject of a separate report.

### **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

There were no significant findings during the previous examination and there are no significant findings related to the current examination.

### **COMPANY HISTORY**

#### **General**

CwA was incorporated on July 26, 1974, under the laws of the State of Delaware under the name American Variable Annuity Life Assurance Company, Inc. Effective with the close of business, December 31, 1974, a merger agreement was entered into between American Variable Annuity Life Assurance Company of Little Rock, Arkansas, initially incorporated in January 1967, and the American Variable Annuity Life Assurance Company, Inc. of Dover, Delaware. As a result of the merger, American Variable Annuity Life Assurance Company, Inc. became the surviving and continuing company, operating under the laws of the State of Delaware. The surviving company assumed the name American Variable Annuity Life Assurance Company under the terms of the merger agreement.

On October 7, 1981, a Certificate of Amendment to the Certificate of Incorporation was filed with the State of Delaware, changing the Company’s name to SMA Life Assurance Company, effective January 1, 1982. Effective October 1, 1995, the Company’s name was changed to Allmerica Financial Life Insurance and Annuity Company (“AFLIAC”).

Effective July 1, 1999, the subsidiaries of Allmerica Financial Corporation (name changed to The Hanover Insurance Group, Inc. (“THG”) on February 1, 2006) engaged in an “unstacking transaction,” which involved several changes in THG holding company infrastructure. This unstacking transaction was accomplished by first having an affiliate of the Company, known as Allmerica Asset Management, Inc. merge into an affiliate known as SMA Financial Corp., which was the surviving entity in the transaction, and SMA Financial Corp. then changed its name to Allmerica Asset Management, Inc. (“AAM”). AAM contributed certain subsidiaries that had been owned by SMA Financial Corp. (i.e., Allmerica Investments, Inc., Allmerica Investment Management Company, Inc., Allmerica Financial Investment management Services, Inc. and Allmerica Financial Services Insurance Agency, Inc.) to the Company in exchange for one share of the Company’s common stock. AAM then distributed the Company and another subsidiary, Allmerica Trust Company, N.A., to First Allmerica Financial Life Insurance Company (“FAFLIC”), and FAFLIC distributed AAM to THG.

## Commonwealth Annuity and Life Insurance Company

Effective December 30, 2002, the Company re-domiciled and became a Commonwealth of Massachusetts domiciled insurance company. Also effective December 31, 2002, the Division approved an extraordinary dividend of all of the Company's issued and outstanding stock to THG, and the contribution of all 500,001 shares of FAFLIC's common stock to the Company. As a result of these transactions, the Company became a direct subsidiary of THG, as well as the immediate parent of FAFLIC. Under the previous internal ownership structure, FAFLIC was the immediate parent of the Company and a direct subsidiary of THG.

On December 30, 2005, The Goldman Sachs Group, Inc. ("Goldman Sachs") acquired all outstanding shares of the Company from THG. THG made various representations, warranties and covenants in the AFLIAC acquisition agreement to Goldman Sachs. THG agreed to indemnify Goldman Sachs for breaches of such representation, warranties and covenants, although several of the representation and warranties have expired. THG also agreed to indemnify Goldman Sachs for certain litigation, regulatory matters and other liabilities relating to the pre-sale activities of the business being transferred. Similarly, THG has made various representations, warranties and covenants to the Company related to FAFLIC. THG agreed to indemnify the Company for breaches of such representations, warranties and covenants, although several of the representations and warranties have expired. THG has also agreed to indemnify the Company for certain litigation, regulatory matters and other liabilities relating to the pre-sale activities of the business being transferred.

Effective December 30, 2005, the Company reinsured 100% of the variable life insurance and annuity business of FAFLIC in a 100% coinsurance/modified coinsurance agreement. Effective September 1, 2006, the Company's name was changed to its current name of Commonwealth Annuity and Life Insurance Company.

On April 30, 2013, Goldman Sachs contributed several of its insurance subsidiaries, including the Company, to Global Atlantic Financial Group ("GAFG"), and sold approximately 78% of the ordinary shares of GAFG to third party investors. As a result of this transaction, the Company became a wholly-owned subsidiary of Global Atlantic (Fin) Company ("Finco"), a Delaware company, which is a wholly-owned indirect subsidiary of GAFG.

On April 30, 2013, Goldman Sachs waived payment by the Company of \$213 million of current taxes payable under a tax sharing agreement. This was accounted for as paid in capital.

On September 30, 2013, CwA purchased from Athene Holding Ltd. all outstanding shares of capital stock of Presidential Life Insurance Company-USA ("PLIC-USA"). PLIC-USA is an Iowa domiciled insurer.

Included in the purchase were the subsidiaries of PLIC-USA, four captive insurers to replace the captive insurers utilized previously by Aviva Life and Annuity Company, (Cape Verity I, Inc. (an Iowa company), Cape Verity II, Inc. (an Iowa company, subsequently dissolved effective June 26, 2019), Cape Verity III, Inc. (an Iowa company), and Gotham Re, Inc. (a Vermont company), and two LLCs (Tapioca View, LLC (a Delaware company) and Gotham Issuer, LLC (a 90% owned

## Commonwealth Annuity and Life Insurance Company

Delaware company)). Effective October 25, 2013, PLIC-USA was renamed Accordia Life and Annuity Company (“Accordia”).

Effective October 1, 2013, CwA’s subsidiary, Accordia, assumed on a coinsurance basis the life insurance business of Avivia Life and Annuity Company of New York. Concurrently, CwA’s subsidiary, FAFLIC, assumed primarily on a funds withheld basis the life insurance business of Aviva Life and Annuity Company of New York. In connection with these reinsurance assumptions, CwA contributed capital of \$285.3 million and \$12.2 million, respectively, to Accordia and FAFLIC.

On January 2, 2014, the direct parent of CwA, Finco, acquired Forethought Financial Group, Inc. (“FFG”), a privately-held diversified financial services organization that owns life insurance entities. As part of this transaction, effective January 2, 2014, Finco restructured title ownership of certain subsidiaries which resulted in certain changes and transactions involving CwA. Regulatory approval was received for the transactions from the Massachusetts Division of Insurance, the Indiana Division of Insurance, the Texas Department of Insurance and the Iowa Department of Insurance.

On January 2, 2014, CwA issued a \$300 million surplus note to its direct parent, Finco, and issued an intercompany loan to FFG. Finco, in turn, contributed 79% of the common stock of CwA to FFG. Subsequently, FFG repaid 95% of the loan with the transfer of 95% of its investment in common stock of two insurance subsidiaries, Forethought Life Insurance Company (“FLIC”), an Indiana domiciled insurer, and Forethought National Life Insurance Company (“FNLIC”), a Texas domiciled insurer. CwA then paid a dividend of approximately \$39 million to its shareholders. The dividend to FFG retired the remaining balance of the intercompany loan. The dividend was recorded as a return of capital. All of these transactions were approved by the Massachusetts Division of Insurance. FFG then contributed all of its ownership in CwA to its subsidiary, Forethought Financial Services, Inc. (“FFSI”), which changed its name to Forethought Services, LLC effective January 2, 2014. As a part of the restructuring, CwA became a wholly owned indirect subsidiary of Finco.

Effective December 31, 2019, the Company’s wholly-owned subsidiary, Forethought National Life Insurance Company was merged with and into the Company’s subsidiary, FLIC, with FLIC being the surviving entity, with prior approval of the Texas Commissioner of Insurance and the Indiana Secretary of State, pursuant to Indiana Code 27-1-9-5.

### Capital Contributions

On April 24, 2015, FNLIC received a \$5.7 million capital contribution from the Company.

On June 16, 2015, the Company received aggregate capital contributions of \$142.5 million, which was comprised of \$29.9 million from Finco and \$112.6 million from FFSI. The Company in turn made a \$142.5 million capital contribution to FLIC.

On December 28, 2015, the Company received aggregate capital contribution of \$71.3 million, which was comprised of \$15.0 million from Finco, and \$56.3 million from FFSI. The Company in



## Commonwealth Annuity and Life Insurance Company

turn made a \$71.3 million capital contribution to FLIC. The Company owns 95% of the outstanding common stock of FLIC and FFSI owns the remaining 5% of outstanding common stock of the company.

On December 30, 2015, the Company received aggregate capital contributions of \$95 million, which was comprised of \$19.9 million from Finco and \$75.1 million from FFSI. The Company in turn made a \$95 million capital contribution to FLIC.

On June 30, 2016, the Company made a \$71.25 million capital contribution to FLIC which included a \$31.9 million transfer of invested assets. The Company made a \$75.0 million capital contribution to Accordia which included a \$33.0 million transfer of invested assets. On December 28, 2016, the Company made an additional \$25.0 million cash capital contribution to Accordia.

As of December 29, 2017, the Company owns 100% of FLIC, an Indiana domiciled insurance company and FNLIC. Prior to that date, the Company owned 95% of FLIC and FNLIC. The Company received a non-cash capital contribution for the remaining 5% ownership of FLIC and FNLIC, valued at \$67.3 million.

On December 29, 2017, The Company made a \$100 million capital contribution to Accordia, which included a \$47.5 million transfer of invested assets. The Company made a \$50 million capital contribution to FAFLIC, which included a \$25.8 million transfer of invested assets. The Company received a \$50 million cash capital contribution from Finco.

On February 21, 2018, Accordia received a \$40 million capital contribution from the Company.

On December 26, 2018, the Company received a \$130 million cash capital contribution from Finco. On the same date, Accordia received a capital contribution of \$30 million from CwA.

On December 19, 2019, the Company received a \$100 million cash capital contribution from Finco and subsequently made a cash contribution to Accordia.

### Dividends to Policyholders

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

2015	\$1,683,716
2016	1,561,381
2017	1,376,965
2018	1,308,455
2019	1,315,815

### Dividends to Stockholders

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

## Commonwealth Annuity and Life Insurance Company

2015	\$	0
2016		35,500,000
2017		205,500,000
2018		50,000,000
2019		0

On December 28, 2016, the Company distributed a \$35.5 million cash dividend, which was comprised of \$28.05 million to FFSI and \$7.46 million to Finco.

On June 30, 2017, the Company distributed an \$180 million ordinary cash dividend, which was comprised of \$142.59 million to Forethought Services, LLC and \$37.91 million to Finco.

On December 29, 2017, the Company made a \$25 million ordinary cash dividend to Finco.

On March 28, 2018, the Company made a \$50 million ordinary cash dividend, to Finco.

### Extraordinary Dividends

The Company received the following extraordinary dividends during the period under examination:

On June 30, 2016, the Company received a \$75 million extraordinary dividend from FAFLIC with approval from the Division.

On June 30, 2017, the Company received a \$180.5 million extraordinary cash dividend from FLIC having received approval from the Indiana Department of Insurance.

On December 29, 2017, the Company received a \$125 million extraordinary dividend from FLIC with approval from the Indiana Department of Insurance.

## **MANAGEMENT AND CONTROL**

### Board of Directors Minutes

The minutes of meetings of the Board of Directors ("Board") and its Committees for the period under examination were read, and they indicated that all meetings were held in accordance with the Company's bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board.

### Articles of Organization and Bylaws

The Articles of Organization and bylaws of the Company were read. The bylaws were amended and restated in March 2016 with key changes including updates to the number of Board members, committees to consist of two or more directors of the Company and powers and duties of each of

## Commonwealth Annuity and Life Insurance Company

the Officers of the Company. The bylaws state that annual meetings of the stockholders are to be held, whereby, among other things, election of directors is to take place.

### Board of Directors

According to the bylaws, the Company's business shall be managed under the direction of its Board. The number of directors shall be not less than five nor more than fifteen, with the specific number to be determined from time to time by the Board. Directors need not be stockholders. Each director shall hold office until the next annual meeting and until his or her successor is duly elected and qualified. As of December 31, 2019, the Company's Board of Directors consisted of the following individuals:

<u>Name of Director</u>	<u>Title</u>
Robert Michael Arena, Jr.	Chairman, Co-President of Global Atlantic Financial Group
David Allen Jacoby	Chief Accounting Officer, Global Atlantic Financial Group
Hanben Kim Lee	Chief Financial Officer, Global Atlantic Financial Group
Eric David Todd	Managing Director, Global Atlantic Financial Group
David Paul Wilken	President, Traditional Life at Global Atlantic Financial Group

### Officers

Pursuant to the bylaws, officers of the Company shall be elected annually by the Board. The officers of the Company shall be a President, Secretary, Treasurer and such Vice Presidents, Assistant Secretaries, Assistant Treasurers, or other officers as may from time to time be elected by the Board. One person may hold the offices of and perform the duties of any two or more officers. Officers need not be stockholders of the Company or citizens or residents of the Commonwealth of Massachusetts or the United States of America.

Senior officers of the Company as of December 31, 2019 were as follows:

<u>Name of Officers</u>	<u>Title</u>
Robert Michael Arena, Jr.	President
Anup Agarwal	Chief Investment Officer
Robert James Egan	Senior Vice President and Appointed Actuary
Padma Elmgart	Chief Technology Officer
Samuel Ramos	Chief Legal Officer and General Counsel
Susan Lorraine Fiengo	Senior Vice President
Ilya Finkler	Senior Vice President
John Nicholas Giamalis	Senior Vice President and Treasurer

## Commonwealth Annuity and Life Insurance Company

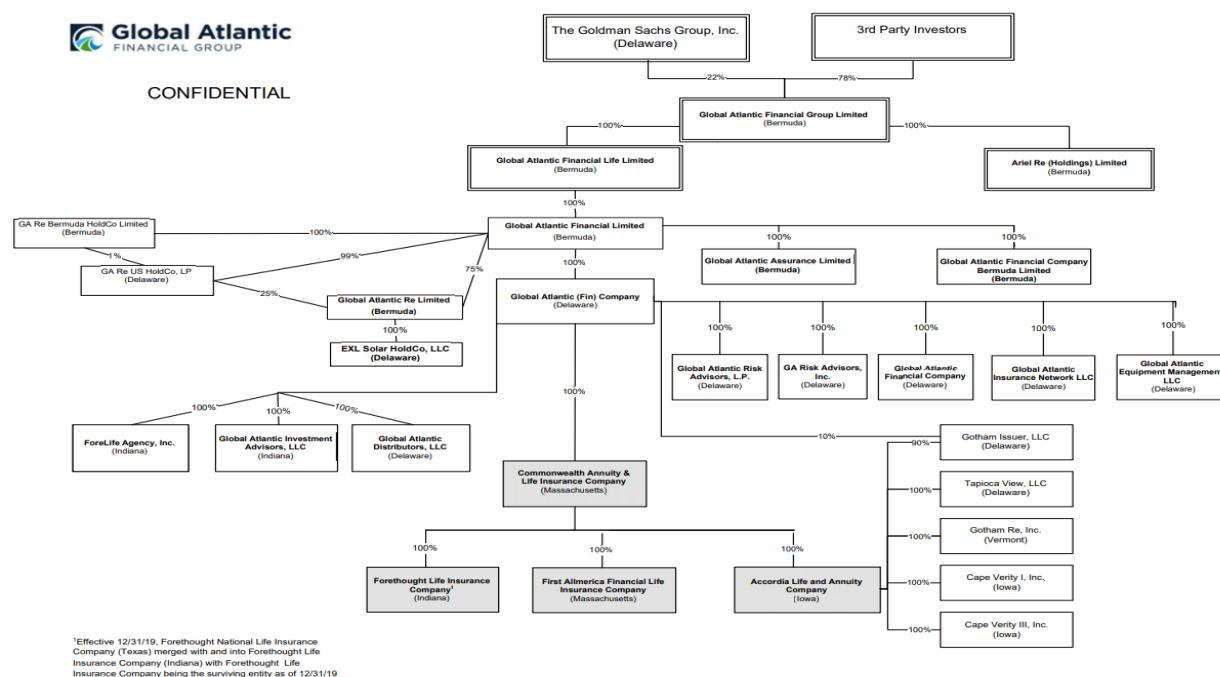
<u>Name of Officers</u>	<u>Title</u>
Jane Spanier Grosso	Senior Vice President and Controller
Maureen Helen Henderson	Senior Vice President
Brian Michael Hendry	Chief Audit Executive
David Allen Jacoby	Chief Financial Officer
Douglas Jaworski	Vice President and Chief Information Security Officer
Virginia Hope Johnson	Senior Vice President, Associate General Counsel and Assistant Secretary
Kevin Michael Kimmerling	Senior Vice President, Associate General Counsel and Assistant Secretary
Victoria Lau	Senior Vice President
Hanben Kim Lee	Executive Vice President
Emily Anne LeMay	Senior Vice President
Juan Mazzini	Senior Vice President
Jason Michael Roach	Senior Vice President
Peter John Rugel	Chief Operations Officer
Kelly Rutherford	Senior Vice President
Andrew Mead Shainberg	Chief Compliance Officer
Natalie Rose Wagner	Vice President, SEC 38a-1 Chief Compliance Officer, Privacy Officer, Anti-Money Laundering Officer and Special Investigative Unit Officer
David Weiss	Senior Vice President
Edward Wilson	Chief Risk Officer

### 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. As of the date of examination, Goldman Sachs was the ultimate controlling party. On February 1, 2021, KKR & Co. Inc. (“KKR”) completed the acquisition of GAFG through its indirect subsidiary Magnolia Parent LLC. As a result, Magnolia Parent LLC (now known as The Global Atlantic Financial Group LLC), an indirect KKR subsidiary, became the new holding company of GAFG’s business.

# Commonwealth Annuity and Life Insurance Company

## Organizational Chart



## Transactions and Agreements with Subsidiaries and Affiliates

### Services and Expense Agreement

Effective April 30, 2013, the Company and its subsidiaries entered into a Services and Expense Agreement with GAFG and Finco under which GAFG and Finco and their affiliates agreed to provide personnel, management services, administrative support, the use of facilities and such other services as the parties may agree to from time to time, which has been amended from time to time.

### Administrative Services Agreements

The Company has entered into administrative service agreements with Goldman Sachs Asset Management, L.P., a related party of Goldman Sachs, to receive management services and investment advisory services, respectively. The administrative service agreement is to receive services which are routine in nature.

The Company has agreements with affiliated parties to receive and pay certain fee income and expenses related to policyholder administration. This agreement terminated as a result of the KKR acquisition in February 2021.

## Commonwealth Annuity and Life Insurance Company

### *Underwriting and Administrative Service Agreements*

The Company entered into Underwriting and Administrative Services Agreements with Epoch Securities, Inc. (“Epoch”) and FAFLIC dated January 22, 2008 and May 1, 2008, as consolidated April 30, 2010, whereby Epoch provides principal underwriting services and CwA provides certain administrative services in connection with the distribution and servicing of the variable annuity contracts and variable life policies issued by FAFLIC. This agreement terminated in 2016.

### *Investment Management Agreement*

The Company pays portfolio management fees to Goldman Sachs Asset Management (“GSAM”), a related party of Goldman Sachs Group, Inc. in connection with the Company’s variable products, certain separate accounts invest in funds of the Goldman Sachs Variable Insurance Trust (“GSVIT”) and Goldman Sachs Trust (“GST”). Management fees are paid directly to GSAM by GSVIT and GST and to GSAM for investment management by the Company. Certain distribution and administration fees are payable to the Company by Goldman Sachs & Co. (“GSCO”) and GSAM.

### *Tax Sharing Agreement*

CwA files a consolidated tax return with certain of GAFG subsidiaries. The Company has a written tax sharing agreement, approved by the Company’s Board, which sets forth the manner in which the total combined Federal income tax is allocated to each entity within the consolidated group.

### *Funds Withheld Agreements*

The Company has funds withheld agreements with related parties. All intercompany balances related to funds withheld agreements are settled subsequent to year end.

### *Administration Agreements*

The Company has agreements with affiliated parties FAFLIC and Global Atlantic Re Limited (“GA Re”) to receive certain fee income related to policyholder administration. The Company also has agreements with affiliated party FLIC to provide reimbursement of certain fees related to policyholder administration.

### *Intercompany Borrowing Arrangement*

The Company and certain subsidiaries and affiliates are part of an intercompany borrowing arrangement whereby companies may borrow from one another on a short-term, basis for various purposes. The Company did not have any borrowings outstanding as of December 31, 2019.

### *Participation Agreement*

On March 25, 2019, the Company entered into an arms-length transaction with FLIC that involved the two parties terminating an existing participation agreement. As a result of the termination,

## Commonwealth Annuity and Life Insurance Company

FLIC purchased a 50% participation interest in the lending facility that was originated by FLIC to a third party, Deephaven Mortgage, LLC, and subsequently sold to CwA. FLIC paid \$92 million in cash to CwA in exchange for the 50% participation interest.

### *Agreements with Third Party Administrators*

In addition to the management and service arrangements with affiliates, the Company has outsourced policyholder administration to certain third party administrators. The Company has outsourced administration of the core block of variable life and variable annuity books (including variable product business reinsured from FAFLIC) to Se2, an affiliate of Security Benefit Corporation. Under the terms of a master third party administration agreement, Se2 provides customary administrative services, including operations of a call center, premium accounting, claims payments and disbursements. Se2 does not market or underwrite new policies on behalf of the Company.

In connection with reinsurance transactions, the Company may from time to time enter into administrative services agreements with the ceding insurance companies. Administration of the reinsured blocks of fixed business are subcontracted to third party administrators, including Dell, Concentrix and LOGiQ<sup>3</sup>, pursuant to the terms of third party administration agreements between the respective service providers and CwA and its affiliates.

### *Guarantees*

GAFG agreed to make capital contributions to the Company, subject to a maximum of \$250 million, if necessary to ensure that the Company maintains a risk-based capital ratio of at least 100% of the Company Action Level.

On December 19, 2012, the Company entered into an agreement to guarantee the performance of FAFLIC, related to the insurance of a block of fixed annuities.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed in 49 states, the District of Columbia and the U.S. Virgin Islands with the largest numbers of insurance risks written in California, Pennsylvania and Texas. The Company reported \$3.6 million of 2019 direct premium written in the Commonwealth of Massachusetts.

CwA sells variable annuities in the 403(b) channel. Other than this limited CwA annuity business, the Company ceased issuing new contracts in 2002. The primary business of CwA is reinsurance of blocks of variable and fixed annuities, universal life, variable universal life and traditional life insurance. In 2019, the Company expanded into the reinsurance of pension risk transfer transactions executed by other retirement and life insurance companies and the reinsurance of ongoing “flow” business from other retirement and life insurance companies. Key to the Company’s growth strategy is the acquisition through reinsurance of in-force blocks of business.

## Commonwealth Annuity and Life Insurance Company

The Company markets solutions to most major U.S. carriers across the life and annuity industry but focuses its coverages efforts on 50 of the largest companies.

### Treatment of Policyholders – Market Conduct

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination. During the claims test work, it was noted that the Company investigates and settles claims on a timely and fair basis.

## **REINSURANCE TRANSACTIONS**

The Company utilizes the assumption of business through indemnity reinsurance to support its growth strategy. As part of this strategy, the Company has acquired various blocks of businesses in recent years. The Company is also party to numerous reinsurance agreements as the ceding company, whereby the Company seeks to reduce the risk associated with assumed business.

The significant reinsurance transactions and agreements in place at December 31, 2019 are as follows:

### Assumed Reinsurance - Affiliate

Effective December 31, 2015, the Company entered into a coinsurance with funds withheld agreement and a modified coinsurance agreement with FLIC, the Company's wholly-owned subsidiary, whereby CwA assumed variable annuity reserves of \$148 million. The Company retroceded this business on a funds withheld basis to GA Re.

Effective December 31, 2005, the Company entered into a reinsurance agreement with FAFLIC whereby FAFLIC retroceded and the Company assumed on a (i) 100% coinsurance basis with respect to general account liabilities and (ii) 100% modified coinsurance basis with respect to separate account liabilities the block of Transamerica Life Insurance Company business assumed by FAFLIC.

### Assumed Reinsurance – Non-Affiliate

Effective January 1, 2015, the Company entered into a coinsurance agreement with Vantis Life Insurance Company, whereby it assumed a block of fixed annuity reserves. The Company retroceded this block on a 80% quota share with funds withheld basis to GA Re.

Effective April 1, 2015, the Company entered into an agreement whereby it assumed on a coinsurance basis, universal life and variable universal life business from Lincoln National Life Insurance Company. The Company retroceded 100% of this business on a funds withheld basis to GA Re.



## Commonwealth Annuity and Life Insurance Company

Effective October 1, 2015, the Company entered into a coinsurance agreement with Transamerica Life Insurance Company, whereby it assumed fixed annuity reserves. The Company retroceded this block on a 80% quota share with funds withheld basis to GA Re.

Effective January 1, 2018, the Company entered into a coinsurance agreement with Standard Insurance Company whereby it assumed a block of fixed annuity reserves.

Effective June 1, 2018, the Company entered into a coinsurance agreement with Talcott Resolution Life Insurance Company (“TLIC”) and Talcott Resolution Life and Annuity Insurance Company (“TLIAC”), whereby it assumed fixed annuity and payout annuity reserves and deposits and retroceded to a portion to a non-affiliated reinsurer and a portion to GA Re, both on a funds withheld modified coinsurance basis.

Effective December 20, 2018, the Company entered into a coinsurance agreement with Banner Life Insurance Company, whereby it assumed a group annuity contract on a 50% quota share with funds withheld basis. Amendment 1 to the agreement, also effective December 20, 2018, added a new group annuity contract to the agreement and provided for adding additional group annuity contracts to the agreement from time to time. Amendment 2 to the agreement, effective July 3, 2019, added an additional group annuity contract on a 55% quota share with funds withheld basis. Amendment 3 to the agreement, effective November 4, 2019 added an additional group annuity contract to the agreement on a 50% quota share with funds withheld basis. Amendment 4, effective November 15, 2019, added an additional group annuity contract on a 50% quota share with funds withheld basis.

Effective January 1, 2019, the Company entered into a coinsurance agreement with Riversource Life Insurance Company whereby it assumed a fixed annuity block of business. The Company subsequently retroceded that business on a 90% quota share basis to GA Re.

Effective January 1, 2019, the Company entered into a coinsurance agreement with USAA Life Insurance Company, whereby it assumes Multi Year Guaranteed Annuity business. The Company subsequently retroceded that business to GA Re.

Effective July 23, 2019, the Company entered into a coinsurance agreement with Mass Mutual Life Insurance Company whereby it assumes blocks of payout group annuity reserves regularly.

On December 31, 2019, the Company entered into a coinsurance agreement with Guaranty Income Life Insurance Company whereby, effective September 30, 2018 it assumed universal life variable universal life and fixed annuity contracts. The Company subsequently retroceded this business on a 90% quota share basis to GA Re.

### Ceded Reinsurance – Non-Affiliate

In addition to the business assumed from non-affiliates noted above, the Company had the following ceded reinsurance transactions and agreements with non-affiliates:

## Commonwealth Annuity and Life Insurance Company

Effective June 1, 2018, the Company entered into a funds withheld coinsurance agreement with Kuvare Life Re, Ltd., an unaffiliated non-U.S. unauthorized reinsurer, whereby the Company retroceded on a 75% quota share basis certain risks associated with the annuity contracts CwA assumed from TLIC and TLIAC.

Commonwealth Annuity and 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, 2019. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2019

Statement of Income for the Year Ended December 31, 2019

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2019

# Commonwealth Annuity and Life Insurance Company

## Statement of Assets, Liabilities, Surplus and Other Funds

As of December 31, 2019

	Per Annual Statement
<b>ASSETS</b>	
Bonds	\$ 14,203,617,978
Stocks	
Preferred stocks	20,594,824
Common stocks	2,859,789,061
Mortgage loans on real estate	
First liens	1,513,948,010
Cash, cash equivalents and short-term investments	698,917,145
Contract loans	364,457,835
Derivatives	82,538,440
Other Invested Assets	72,986,615
Receivable for securities	6,583,536
Subtotals, cash and invested assets	19,823,433,444
Investment income due and accrued	141,038,287
Premiums and considerations	
Uncollected premiums and agents' balances in the course of collection	198,482
Deferred premiums and agents' balances and installments booked but deferred and not yet due	2,655,472
Reinsurance:	
Amounts recoverable from reinsurers	2,965,142
Funds held by or deposited with reinsured companies	102,073,999
Other amounts receivable under reinsurance contracts	202,221,785
Current federal and foreign income tax recoverable and interest thereon	29,106,395
Net deferred tax asset	44,301,059
Guaranty funds receivable on deposit	557,566
Aggregate write-ins for other than invested assets	560,559,666
Total assets exluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	20,909,111,297
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	2,216,843,904
Total Assets	\$ 23,125,955,201

Commonwealth Annuity and Life Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds (Cont'd)

As of December 31, 2019

	Per Annual Statement
<b>LIABILITIES</b>	
Aggregate reserve for life contracts	\$3,314,720,530
Aggregate reserve for accident and health contracts	74,751
Liability for deposit-type contracts	723,100,622
Contract claims:	
Life	5,824,806
Accident and health	31
Provision for policyholders' dividends, refunds to members and coupons payable in following calendar year-estimated amounts:	
Policyholders' dividends and refunds to members apportioned for payment	506,748
Premiums and annuity considerations for life and accident and health contracts	221,459
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	227,163,440
Interest maintenance reserve	94,268,933
Commissions and expense allowances payable on reinsurance assumed	389,093
General expenses due or accrued	7,258,572
Transfers to Separate Accounts due or accrued	(29,053,240)
Taxes, licenses and fees due or accrued, excluding federal income taxes	2,432,794
Unearned investment income	173,591
Amounts withheld or retained by reporting entity as agent or trustee	588,149
Remittances and items not allocated	14,842,441
Miscellaneous liabilities:	
Asset valuation reserve	44,881,351
Reinsurance in unauthorized and certified companies	2,167,837
Funds held under reinsurance treaties with unauthorized and certified reinsurers	12,676,119,655
Payable to parent, subsidiaries and affiliates	1,797,082
Funds held under coinsurance	293,605,247
Derivatives	42,007,091
Payable for securities	32,857,810
Aggregate write-ins for liabilities	607,326,041
Total Liabilities excluding Separate Accounts business	18,063,274,834
From Separate Accounts Statements	2,216,843,904
Total Liabilities	20,280,118,738
Common capital stock	2,526,000
Surplus notes	820,000,000
Gross paid in and contributed surplus	1,520,011,004
Aggregate write-ins for special surplus funds	44,999
Unassigned funds (surplus)	503,254,460
Surplus as regards policyholders	2,845,836,463
Total Liabilities, Surplus and Other Funds	\$ 23,125,955,201

# Commonwealth Annuity and Life Insurance Company

## Statement of Income

For the Year Ended December 31, 2019

	Per Annual Statement
Premiums and annuity considerations for life and accident and health contracts	\$ 1,591,831,683
Considerations for supplementary contracts with life contingencies	4,023,409
Net investment Income	717,963,484
Amortization of interest Maintenance Reserve	8,936,627
Commissions and expense allowances on reinsurance ceded	135,914,691
Miscellaneous Income:	
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	39,479,314
Aggregate write-ins for miscellaneous income	85,818,065
Total	<u>2,583,967,273</u>
Death benefits	52,813,609
Annuity benefits	135,610,716
Disability benefits and benefits under accident and health contracts	1,412,666
Coupons, guaranteed annual pure endowments and similar benefits	40,693
Surrender benefits and withdrawals for life contracts	308,594,412
Interest and adjustments on contract or deposit-type contract funds	(14,644,490)
Payments on supplementary contracts with life contingencies	32,024
Increase in aggregate reserves for life and accident and health contracts	1,369,868,278
Totals	<u>1,853,727,908</u>
Commissions on premiums, annuity considerations, and deposit-type contract funds	5,963,340
Commissions and expense allowances on reinsurance assumed	143,909,553
General insurance expenses and fraternal expenses	83,328,590
Insurance taxes, licenses and fees, excluding federal income taxes	3,550,062
Increase in loading on deferred and uncollected premiums	(85,726)
Net transfers to or (from) Separate Accounts net of reinsurance	(62,094,397)
Aggregate write-ins for deductions	408,870,706
Totals	<u>2,437,170,036</u>
Net gain from operations before dividends to policyholders, refunds to members and federal income	146,797,237
Dividends to policyholders and refunds to members	1,315,815
Net gain from operations after dividends to policyholders, refunds to members and before federal	145,481,422
Federal and foreign income taxes incurred	46,008,392
Net gain from operations after dividends to policyholders, refunds to members and federal income taxes and before realized capital gains or (losses)	99,473,030
Net realized capital gains (losses) less capital gains tax	(131,949,209)
Net income(loss)	<u>\$ (32,476,179)</u>

Commonwealth Annuity and Life Insurance Company

Reconciliation of Capital and Surplus

For Each Year in the Five-Year Period Ended December 31, 2019

	2019	2018	2017	2016	2015
Capital and surplus					
December 31, prior year	\$ 2,788,001,665	\$ 2,488,247,766	\$ 2,155,615,359	\$ 2,169,816,641	\$ 1,645,981,568
Net income/(loss)	(32,476,179)	(22,946,729)	267,841,348	105,232,477	59,220,738
Change in net unrealized capital gains (losses) less capital gains tax	(24,426,718)	94,010,220	(188,539,787)	(29,491,530)	179,850,640
Change in net unrealized foreign exchange capital gain(loss)	-	(4,611)	55,401,808	(21,674,426)	(13,938,512)
Change in net deferred income tax	2,324,199	(20,880,903)	(69,174,771)	(36,286,988)	(1,699,589)
Change in non-admitted assets	(8,976,955)	9,097,149	(3,983,194)	17,543,280	10,426,849
Change in liability for reinsurance in unauthorized and certified companies	(729,883)	(1,081,824)	1,059,944	(977,165)	1,043,475
Change in asset valuation reserve	7,789,982	(12,954,053)	2,286,992	(2,440,228)	(13,552,570)
Surplus (contributed to) withdrawn from Separate Accounts during period	993,356	(733,989)	1,603,701	1,618,652	(531,883)
Other changes in surplus in Separate Accounts Statement	(993,356)	733,989	(1,603,701)	(1,618,652)	531,883
Change in surplus notes	-	200,000,000	365,000,000	-	-
Capital changes:					
Transferred to surplus	-	-	-	470,000,000	-
Surplus adjustment:					
Paid in	100,000,000	130,000,000	117,363,231	-	308,750,000
Transferred from capital	-	-	-	(470,000,000)	-
Change in surplus as a result of reinsurance	(8,763,270)	(11,265,350)	(9,123,164)	(10,606,702)	(6,265,958)
Dividends to stockholders	-	(50,000,000)	(205,500,000)	(35,500,000)	-
Aggregate write-ins for gains and losses in surplus	23,093,622	(14,220,000)	-	-	-
Change in surplus as regards policyholders for the year	57,834,798	299,753,899	332,632,407	(14,201,282)	523,835,073
Surplus as regards policyholders, December 31, current year	<u>\$ 2,845,836,463</u>	<u>\$ 2,788,001,665</u>	<u>\$ 2,488,247,766</u>	<u>\$ 2,155,615,359</u>	<u>\$ 2,169,816,641</u>

SEPARATE ACCOUNTS

Section 132F and 132G of Chapter 175 of the Massachusetts General Laws were enacted in 1960 and 1968 respectively, and amended several times thereafter. These laws provide for the establishment by life companies of one or more separate investment accounts, independent of the insurer's general investment account.

For individual insurance, the separate accounts held by the Company relate to variable annuities or life insurance of both a guaranteed and non-guaranteed return nature. The net investment return of the separate account is credited directly to the policyholder and can be positive or negative. The variable annuities provide a guaranteed minimum death benefit ("GMDB"), the nature of which has varied over time. In 1996, the Company began offering a GMDB that is adjusted annually to the current account value. In 1998, the Company began offering GMDB benefit riders that provide guaranteed death benefits that could exceed current account value. The assets and liabilities of these accounts are carried at market value, and the business has been included in the Company's General Account Annual Statement. The Company's risk under the GMDB riders have been reinsured under the GMDB mortality reinsurance program and hedge under the GMDB Hedging program discussed above.

In 1997, the Company began offering annuities with market value adjustment. While there are guarantees associated with these annuities, returns above the guaranteed level may be subject to market value adjustments which can be positive or negative. The assets and liabilities of these annuities are carried at market value.

For group insurance, the separate accounts held by the Company relate to group annuity contracts, which fund defined contribution and defined benefit plans. The assets and liabilities of these accounts are carried primarily at market value.



Commonwealth Annuity and Life Insurance Company

SEPARATE ACCOUNTS 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, 2019. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities and Surplus as of December 31, 2019

Summary of Operations for the Year Ended December 31, 2019

Reconciliation of Surplus for the Year Ended December 31, 2019

Commonwealth Annuity and Life Insurance Company

Separate Account Business

Statement of Assets, Liabilities and Surplus

As of December 31, 2019

	Per Annual Statement
<b>ASSETS</b>	
Bonds	\$ 10,010,898
Common stocks	2,205,375,194
Cash and cash equivalents	1,375,088
Investment income due and accrued	82,724
Total assets	<u>\$ 2,216,843,904</u>
<b>LIABILITIES</b>	
Aggregate reserve	\$ 2,209,980,118
Other transfers to general account due or accrued	6,863,786
Total liabilities	<u>2,216,843,904</u>
Total surplus	<u>-</u>
Total liabilities and surplus	<u>\$ 2,216,843,904</u>

# Commonwealth Annuity and Life Insurance Company

## Separate Account Business

### Summary of Operations

For the Year Ended December 31, 2019

	Per Annual Statement
Transfer to separate accounts:	
Net premiums and annuity considerations	\$ 22,240,906
Considerations for supplementary contracts with life contingencies	19,612,456
Net investment income and capital gains and losses	<u>469,953,012</u>
Totals	<u>511,806,374</u>
Transfers from the separate accounts on account of contract benefits:	
Annuity benefits	63,037,902
Payments on supplementary contracts with life contingencies	8,121,915
Surrender benefits and withdrawals for life contracts	179,657,617
Transfer on account of policy loans	(208,536)
Net transfer of reserves from or (to) separate accounts	40,759,264
Other transfers from the separate accounts:	
Aggregate write-ins for other transfers from separate accounts on account of conti	507,809
Fees associated with charges for investment management, administration and contrac	57,621,482
Increase in aggregate reserve	161,417,904
Aggregate write-ins for reserve and funds	<u>(91,956)</u>
Totals	<u>510,823,401</u>
Net gain from operations	<u>\$ 982,973</u>

Commonwealth Annuity and Life Insurance Company

Separate Accounts Business

Reconciliation of Surplus

As of December 31, 2019

	<u>Per Annual Statement</u>
Surplus, December 31 prior year	<u>\$ 1</u>
Net gain from operations	982,973
Surplus contributed or (withdrawn) during year	(982,974)
Surplus, December 31 current year	<u><u>\$ -</u></u>

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

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

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

The Division engaged the services of an independent consulting actuary from RRC to perform a review of the statutory reserves of the Company as of December 31, 2019.

Based on the procedures performed, the consulting actuary concluded that it appears that the aggregate net amounts which were reported by the Company met or exceeded the statutory minimums of the Commonwealth of Massachusetts. The reserves reported by the Company were deemed to be reasonable in light of the liabilities they support, and materially in compliance with Massachusetts laws.

**SUBSEQUENT EVENTS**

**Reinsurance Transactions**

Effective December 17, 2020, the Company entered into a reinsurance agreement with UNUM Life Insurance Company of America whereby CwA assumes disability insurance. As of December 31, 2020, the Company assumed \$7.0 billion of reserves and subsequently retroceded \$4.9 billion to a third party, Ivy Re Limited (“Ivy Re”).

Effective October 1, 2020, the Company entered into a block reinsurance deal with Great American Life Insurance Company, an affiliate of American Financial Group, whereby \$5.7 billion of traditional fixed and indexed annuities and related investment assets were assumed by CwA and subsequently retroceded \$4.1 billion to third parties.

Effective July 1, 2020, the Company entered into a coinsurance agreement with John Hancock Life Insurance Company whereby it assumes blocks of bank owned life insurance. This agreement is treated as deposit accounting. The total deposit liability established as of December 31, 2020 was \$2.3 billion.

Effective April 7, 2020, the Company and its insurance subsidiaries entered into an arrangement with Ivy Co-Invest Vehicle LLC (“Ivy”) and its subsidiaries designed to deploy approximately \$1 billion of capital provided by Ivy into qualifying reinsurance transactions alongside the Company and its subsidiaries. Under the terms of the arrangement, the Company entered into several funds

## Commonwealth Annuity and Life Insurance Company

withheld coinsurance agreements with Ivy Re whereby it ceded \$553.3 million of reserves and established a deposit receivable of \$1.1 billion as of December 31, 2020.

### Capital Transactions

On December 18, 2020, the Company received a \$100 million cash extraordinary dividend from its affiliate, FAFLIC. This was approved by the Division with no issues or concerns noted.

On December 18, 2020 the Company received a \$150 million cash dividend from its affiliate, FLIC.

On December 18, 2020 the Company made a \$250 million cash contribution to its affiliate, Accordia.

On December 29, 2020 the Company received a \$340 million capital contribution from its parent, Finco.

### KKR Acquisition

On February 1, 2021, KKR completed the acquisition of GAFG following the merger of GAFG and Magnolia Merger Sub Limited, a KKR subsidiary, with GAFG as the surviving entity of the merger transaction, as contemplated by the Merger Agreement. The total purchase price for the transaction was \$4.7 billion, subject to certain post-closing purchase price adjustments as provided in the Merger Agreement. Prior to the merger, Magnolia Merger Sub Limited was a Bermuda exempted company, a direct wholly owned subsidiary of Magnolia Parent LLC (now known as The Global Atlantic Financial Group LLC (“TGAFG”)) and became the new holding company of GAFG’s business. Also in connection with the closing, certain previous shareholders of GAFG and Global Atlantic Financial Life Limited (“GAFL”) elected to participate in an equity roll-over to become shareholders of TGAFG, and the new co-investors agreed to fund in cash a portion of the purchase price to become shareholders of TGAFG. Following these roll-overs and coinvestments, KKR now owns 61.1% of TGAFG as of the closing. In addition, the aforementioned roll-over syndication process was used to generate \$250 million of additional equity capital to fund Global Atlantic's business needs. KKR is now the investment manager of the Company.

### COVID-19

The COVID-19 outbreak is currently impacting the United States and many countries around the world. Due to the recent and rapidly evolving nature of these events, the Company is unable to estimate the full impact at this time. However, at this time, the Company does not believe the situation will materially impact the Company’s liquidity or capital position.

## **SUMMARY OF RECOMMENDATIONS**

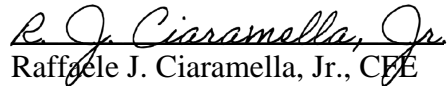
There are no recommendations being made as part of this examination report.

**SIGNATURE PAGE**

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

The assistance rendered by RRC and the following examiners participating in this examination is acknowledged.

Maria Gannon, CFE, Supervising Examiner  
Carla Mallqui, CFE, Financial Examiner II  
Steven Tsimtsos, CFE, Financial Examiner II



Raffaele J. Ciaramella, Jr., CFE  
Supervising Examiner  
Commonwealth of Massachusetts  
Division of Insurance