



BEST'S COMPANY REPORT



MICHIGAN FARM BUREAU LIFE GROUP

AMB #: 070514

NAIC #: N/A

FEIN #: N/A

Phone:

Fax:

Website: N/A

FARM BUREAU LIFE INSURANCE COMPANY OF MICHIGAN

A

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AMB #: 006363

NAIC #: 63096

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Best's Credit Rating Effective Date

July 06, 2023

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Information

[Best's Credit Rating Methodology](#)

[Guide to Best's Credit Ratings](#)

[Market Segment Outlooks](#)

Financial Data Presented

Financial data in this report: (i) includes data of affiliated entities that are not rating unit members where analytics benefit from inclusion; and/or (ii) excludes data of rating unit member entities if they operate in different segments or geographic areas than the Rating Unit generally. See [list of companies](#) for details of rating unit members and any such included and/or excluded entities.

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

Michigan Farm Bureau Life Group

AMB #: 070514

Associated Ultimate Parent: AMB # 050695 - Michigan Farm Bureau

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)

<p>A</p> <p>Excellent</p> <p>Outlook: Stable Action: Affirmed</p>

Issuer Credit Rating (ICR)

<p>a</p> <p>Excellent</p> <p>Outlook: Stable Action: Affirmed</p>

Assessment Descriptors

Balance Sheet Strength	Strongest
Operating Performance	Adequate
Business Profile	Neutral
Enterprise Risk Management	Appropriate

Rating Unit - Members

Rating Unit: Michigan Farm Bureau Life Grp | **AMB #:** 070514

AMB # Rating Unit Members
 006757 Cincinnati Equitable Life Ins
 006363 Farm Bureau Life Ins Co of MI

AMB # Rating Unit Members
 068017 Leaders Life Insurance Company

Rating Rationale

Balance Sheet Strength: **Strongest**

- Risk-adjusted capitalization assessed at the strongest level as measured by Best's Capital Adequacy Ratio (BCAR).
- Solid liquidity from multiple sources and no outstanding debt.
- Investment portfolio is of high credit quality but contains material allocations consisting of mortgage loans and private placement bonds.
- Reserves are exposed to a closed universal life book with interest rate guarantees.

Operating Performance: **Adequate**

- Premiums have remained level over the last five years. There has been a renewed focus on annuity premiums in 2022.
- Profits are vulnerable to spread compression and have been generally decreasing, with a return on equity continuing to be below the industry average.
- Earnings history has been profitable for over 20 years with minimal volatility.
- Policy persistence has been consistently above the life industry average over the past several years.

Business Profile: **Neutral**

- Top seller of lower-risk ordinary life business and number one among farmowners with large market share and balanced product diversification.
- Strong and stable cross-selling multi-line captive agency system that provides a competitive advantage in distribution.
- Premium concentration in the state of Michigan mitigated by Leaders Life and Cincinnati Equitable Life Insurance Company acquisitions.
- Earnings are heavily weighted toward individual annuities, with roughly one-quarter coming from the ordinary life products.

Enterprise Risk Management: **Appropriate**

- The group conducts a yearly audit to identify top risks and individual tolerances for each. A quantitative risk assessment is also used to examine risk likelihood and severity.
- Traditional risk management techniques with regard to operational risk focusing on such areas as pricing, expenses, technology, concentrations, catastrophes, investment risk and cyber security.
- Cash flow testing and monitoring of reserve adequacy are performed at appropriate intervals. The group also performs scenario analysis to determine the impacts of elevated lapse rates in a rising interest rate environment.

Outlook

- The stable outlooks reflect the expectation that Michigan Farm Bureau Life Group will maintain its strongest level of balance sheet strength and adequate operating performance through the intermediate term through prudent underwriting, stable investments, and an overall creditworthy product offering.

Rating Drivers

- Negative rating action could occur given a significant and sustained deterioration in balance sheet quality.
- Negative rating action could occur given a significant and sustained deterioration in the overall operating performance of the individual life and annuity lines.
- Negative rating action could occur if the group fails to generate material profitability across products aside from individual annuities.

Credit Analysis

Balance Sheet Strength

Michigan Farm Bureau Life Group's risk-adjusted capitalization continues to be enhanced by the profitability and high credit quality of the investment portfolio, which is more than adequate to support the positive quality of the company's capital with no captive transactions, no surplus notes & limited off-balance sheet exposure, along with very low reinsurance leverage. In order to assess

Balance Sheet Strength (Continued...)

liquidity, the company performs periodic benchmark studies and cash flow testing under several interest rate scenarios (as statutorily mandated). Liquidity ratios are favorable compared to industry averages. In addition, the company is a member of the Federal Home Loan Bank (FHLB) of Indianapolis, and through this membership has available borrowing capacity of \$42.4 million for liquidity purposes as of 2022. The company also maintains a line of credit with PNC Bank for \$5 million.

Capitalization

Risk-adjusted capitalization is assessed at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR), and is more than sufficient to support its business and investment risks. Total capital has historically reported a favorable growth trend through organic earnings, but experienced a modest decline in 2019 due to two transactions. Farm Bureau Life paid a \$15.7 million dividend to its parent holding company to fund the acquisition of CELIC and made a \$23.9 million contribution to its pension plan, which was reported as a non-admitted asset. The company utilizes a \$61.8 million loan from the FHLB of Indianapolis to fund the pension contribution. The remainder of the funds were loaned to its affiliate companies on the condition it be used to make contributions on the plan. In 2022, surplus grew 1.6%.

Asset Liability Management - Investments

MFBL's investment portfolio allocation has remained relatively consistent in recent years, composed of approximately 73% bonds, 16% mortgage loans, 7% equities and the remainder mostly in cash and other invested assets. The fixed-income portfolio is of high credit quality, with almost all investment grade holdings and structured securities; however, AM Best notes that About 26% of the bond portfolio is allocated to private placement bonds. The allocation to commercial mortgages is higher than the industry average, but has provided favorable yield enhancement. Mortgage holdings primarily represent loans on office, industrial, and retail properties. The largest percentage of commercial loans are collateralized by properties in the eastern North Central region of the United States (Illinois, Indiana, Michigan, Ohio, and Wisconsin), which is notable given the geographic concentration of its business in the state of Michigan and the potential correlated risk that this creates.

The company's investments in equities, while modest on an absolute level are around 7%. The company's equity holdings are fairly diversified as they consist mainly of four Vanguard index mutual funds, and an Advantus Strategic Dividend Income Fund. The equity holdings are used to augment investment income.

Reserve Adequacy

The Group deployed a reserve strengthening program from 2008 to 2013. Results are reviewed quarterly to determine if additional reserves are necessary. There were no changes in 2022. There were \$19.9 million in Asset Adequacy Reserves at the end of the year. If any reserve increases do occur, they are funded by cash flows from excess spreads and operations.

Operating Performance

MFBL's operating results have been consistently profitable over the long term and although net premiums have been somewhat volatile. Life premium levels have been on the rise as of late after a continued period of decline when the company lowered crediting rates and suspended sales of their UL product back in 2012. Total Premiums had deteriorated as a result of lower crediting rates in the annuity block, but have since began to rebound. Additionally, the continued expansion and integration of Leader's Life and CELIC are expected to support future premium growth.

The group maintains exposure to spread compression due to the universal life and fixed annuity blocks. Current spread margins remain adequate to support profitability but are below pricing expectations as the majority of the in-force annuity block has guaranteed minimum interest rates at or above 3%, and the majority of the closed universal life block has a guaranteed rate at or above 4%. Net investment yield in 2022 was 4.2%, a modest decrease from the prior year. Management attributes this performance to the prudent management of its bond and mortgage portfolios, which yielded 4.3% & 5.1% respectively.

Pre-tax net operating gains have been consistently profitable with 2022 reporting \$20.3 million, down from \$25.0 million in 2021. Return on equity is in-line with other Farm Bureau companies at 3.6%, which are generally lower than life/annuity industry due to high capitalization levels.

Business Profile

Michigan Farm Bureau Life Group (MFBL) reflects the consolidation of the life insurance subsidiaries of the Michigan Farm Bureau, which includes Farm Bureau Life Insurance Company of Michigan, Leaders Life Insurance Company, and Cincinnati Equitable Life

Business Profile (Continued...)

Insurance Company (CELIC). MBFL is a leading provider of life insurance in the state of Michigan. The company uses a multi-line exclusive agent distribution system to distribute its products, benefiting from cross sales with its property/casualty affiliates. The group focuses on ordinary life products, primarily whole life and individual term policies, as well as fixed annuities. The company has a middle market focus with an average life policy face amount exceeding the statewide average.

To support product and geographic diversification, the company acquired Leaders Life in 2016 and CELIC in 2019, through an intermediate holding company, Michigan Farm Bureau Corporation. Leader's Life focus on worksite term insurance and CELIC is a pre-need and final expense writer. Additionally, the company is expanding the state licensing of Leaders Life and CELIC to continue to reduce the concentration of the profile in Michigan. Additionally, MFBL entered into a partnership with Securian Life for MBFL's agents to sell Securian's indexed universal life products, to offset the withdrawal of its own UL product in 2012.

AM Best notes that the reserves profile maintains a large proportion of interest sensitive reserves due its fixed annuities and legacy universal life policies, which subject the company to notable spread compression in the current economic environment.

The group is naturally concentrated in Michigan, which exposes the company to the economic and political environment of that state. However management has made efforts to mitigate this through the acquisitions of Cincinnati Equitable and Leaders' Life.

The group benefits from a mature and developed distribution channel with a stable career multi-line captive agency distribution marketing to a loyal customer base of over 200 thousand Farm Bureau family members in 83 counties in Michigan. The network is organized into 4 regions and around 400 agents.

As a farm bureau, the group also boasts a strong cross selling rate between the PC and Life companies. There are also cross selling incentives for agents. However, this does mean a component of their distribution strategy is dependent on the PC industry. Despite this, Farm Bureau households have shown a greater propensity to own Life insurance than the general population. 26% of Farm Bureau households have a Life product compared to the 19% of households observed in a LIMRA study.

The entire Michigan Farm Bureau operation has embraced innovation & technology through improvements in digital capabilities with a focus on customer and agent experience, as the company created an additional two roles focused entirely on just innovation to drive efficiency within the company. The life technology plan involves a new term life E-Application solution, along with some electronic paramedical exam scheduling. The group has implemented automated underwriting for term life & whole life insurance, along with an E-Application solution for whole life insurance.

Enterprise Risk Management

MFBL's enterprise risk management (ERM) is integrated into the framework of its property/casualty affiliates. The company has adopted a risk appetite statement, which covers general risks such as underwriting risk, policyholder security, earnings volatility, liquidity, and brand equity and includes a Quantitative Risk Assessment (QRA) process with metrics for each risk scenario, ranking scenarios based on likelihood and severity metrics and then a more detailed quantification for the subset of the scenarios with the highest rankings. The detailed quantification includes various impacted quantities, appropriate time horizons and relationships with correlated risks.

The top enterprise risks identified in 2022 include executing profitable growth, ransomware attacks, rate regulation, data security, interest rate risk, and staffing concerns. Some of these risks remain consistent with the top risks specified in 2021.

For cybersecurity, there is a formal incidence response plan and team in place. There are security awareness training programs in place as well as data encryption practices, multi factor authentication requirements and phishing tests. They also require all 3rd party vendors and agencies to agree to an attestation statement. The group also has a \$15 million cybersecurity liability insurance policy in place.

The group also employs a consistently conservative cash flow testing approach that reflects the needs of a prolonged low interest rate environment. To mitigate the adverse effects of a rapidly rising interest rate environment, scenario analysis is performed to assess the impacts of increased surrenders. Reserve adequacy is monitored on a quarterly basis. Despite the increase in interest rates that occurred in 2022, company management specified that reserve valuation rates will remain conservative. Reserve increases are funded by excess spreads from operations.

Environmental, Social & Governance

The group invests in municipal bonds used to support clean energy. It also targets assets designed to have a positive environmental impact. In addition, the home office was renovated to include energy efficient appliances and solar paneling to reduce the group's

Enterprise Risk Management (Continued...)

energy consumption. A core mission is to engage with the community. This includes investments in bonds supporting public education and nursing homes, donating to Agricultural charities, food banks, and scholarship program. MFBG continues to improve its diversity, equity, and inclusion by ensuring that its staff is representative of the community they serve. The group also began its For Purpose program which provides an avenue to play a role in more sustained community change, such as reducing childhood food insecurity in rural areas. It is committed to sustaining high standards of effective governance to protect the customer and organization. Its governance framework provides a structure to ensure sound decision making, integrity, and accountability are present throughout both companies. The Controller Division is also updating their Business Continuity, Contract Management and Vendor Management programs to mitigate risk and enhance governance.

Financial Statements

	3-Months		Year End - December 31			
	2023		2022		2021	
Balance Sheet	USD (000)	%	USD (000)	%	USD (000)	%
Cash and Short Term Investments	18,395	0.6	3,164	0.1	11,090	0.4
Bonds	1,953,747	67.4	1,967,070	67.7	1,939,570	66.7
Preferred and Common Stock	175,314	6.1	176,277	6.1	191,428	6.6
Other Invested Assets	568,844	19.6	567,047	19.5	580,883	20.0
Total Cash and Invested Assets	2,716,301	93.8	2,713,557	93.4	2,722,971	93.6
Premium Balances	28,502	1.0	28,851	1.0	28,079	1.0
Net Deferred Tax Asset	5,155	0.2	7,147	0.2	1,591	0.1
Other Assets	147,174	5.1	155,735	5.4	156,935	5.4
Total General Account Assets	2,897,133	100.0	2,905,290	100.0	2,909,576	100.0
Total Assets	2,897,133	100.0	2,905,290	100.0	2,909,576	100.0
Net Life Reserves	2,133,143	73.6	2,136,275	73.5	2,124,921	73.0
Net Accident & Health Reserves	258	...	211	...	210	...
Liability for Deposit Contracts	18,786	0.6	19,066	0.7	20,273	0.7
Asset Valuation Reserve	42,823	1.5	33,017	1.1	53,524	1.8
Other Liabilities	158,465	5.5	177,711	6.1	180,181	6.2
Total General Account Liabilities	2,353,475	81.2	2,366,280	81.4	2,379,109	81.8
Total Liabilities	2,353,475	81.2	2,366,280	81.4	2,379,109	81.8
Capital Stock	3,166	0.1	3,166	0.1	3,166	0.1
Paid-In and Contributed Surplus	22,184	0.8	22,184	0.8	14,184	0.5
Unassigned Surplus	519,253	17.9	514,605	17.7	514,062	17.7
Other Surplus	-946	...	-946	...	-946	...
Total Capital and Surplus	543,657	18.8	539,010	18.6	530,466	18.2
Total Liabilities, Capital and Surplus	2,897,133	100.0	2,905,290	100.0	2,909,576	100.0

Source: BestLink® - Best's Financial Suite

Michigan Farm Bureau Life Group

Last Update

July 06, 2023

Identifiers

AMB #: 070514

This company is a data record that AM Best utilizes to represent the AM Best Consolidated financials for the Life, Annuity, and Accident business of AMB#: [050695 Michigan Farm Bureau](#).

AMB#: [006363 Farm Bureau Life Insurance Company of Michigan](#) has been assigned as the AMB Group Lead for this consolidation and should be used to access name, address, or other contact information for this AM Best Consolidated Group.

Financial Data Presented

See [LINK](#) for details of the entities represented by the data presented in this report.

Operations

Domiciled: Michigan, United States

Business Type: Life, Annuity, and Accident

Organization Type: Stock

Marketing Type: Independent Agency

Best's Credit Ratings

Rating Relationship

This group represents an AM Best Rating Unit. In our opinion, companies under this Rating Unit have an Excellent ability to meet their ongoing insurance obligations and an Excellent ability to meet their ongoing senior financial obligations.

Best's Credit Rating Effective Date: July 06, 2023

Rating rationale and credit analysis can be found in the [Best's Credit Report for AMB# 070514 - Michigan Farm Bureau Life Group](#).

AMB#	Rating Unit Members	Best's Credit Ratings	
		Financial Strength Rating	Long-Term Issuer Credit Rating
006757	Cincinnati Equitable Life Ins	A	a
006363	Farm Bureau Life Ins Co of MI	A	a
068017	Leaders Life Insurance Company	A	a

Farm Bureau Life Insurance Company of Michigan

Last Update

July 06, 2023

Identifiers

AMB #: 006363

NAIC #: 63096

FEIN #: 38-6056370

LEI #: 549300XQFOZP1IKPOC33

Contact Information

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Financial Data Presented

The financial data in this report reflects the most current data available at the time the report was printed.

Operations

Date Incorporated: September 20, 1951 | **Date Commenced:** September 20, 1951

Domiciled: Michigan, United States

Licensed: (Current since 11/05/2020). It is qualified or accredited for reinsurance in Ohio and Oklahoma. The company is licensed in Michigan.

Business Type: Life, Annuity, and Accident

Organization Type: Stock

Marketing Type: Independent Agency

Financial Size: X (\$500 Million to \$750 Million)

Best's Credit Ratings

Best's Credit Rating History

AM Best has assigned ratings on this company since 1957. In our opinion, the company has an Excellent ability to meet their ongoing insurance obligations and an Excellent ability to meet their ongoing senior financial obligations.

The following are the most recent rating events, for longer history refer to [Rating History](#) in BestLink:

Effective Date	Best's Financial Strength Ratings				Best's Long-Term Issuer Credit Ratings		
	Rating	Affiliation	Outlook	Action	Rating	Outlook	Action
Current -							
Jul 6, 2023	A	g (Group Rating)	Stable	Affirmed	a	Stable	Affirmed
Jul 6, 2022	A	g (Group Rating)	Stable	Affirmed	a	Stable	Affirmed
Jul 7, 2021	A	g (Group Rating)	Stable	Affirmed	a	Stable	Affirmed
Jun 30, 2020	A	g (Group Rating)	Stable	Affirmed	a	Stable	Affirmed
Jun 28, 2019	A	g (Group Rating)	Stable	Affirmed	a	Stable	Affirmed

Management

Officers

CEO: Donald E. Simon

President: Carl J. Bednarski

Corporate Controller, Vice President: Daniel J. O'Shea (Life Operations)

Vice President, Treasurer, Chief Investment Officer: David D. Baker

Officers (Continued...)

Vice President: Kim E. Bailey (IT)
Vice President: Debra R. Dansby (Marketing)
Vice President: Michael DeRuiter (Board of Directors)
Vice President: Dawn E. Elzinga (Underwriting Actuarial)
Vice President: Roger D. Graff (Property & Casualty Claims)
Vice President: Thomas M. Nelson (Commercial & Agribusiness)
Secretary: Andrew J. Kok

Directors

David H. Bahrman
Carl J. Bednarski
Leona M. Daniels
Douglas E. Darling
Michael A. DeRuiter
Travis E. Fahley
Michael C. Fusilier
Paul Pridgeon
Benjamin J. LaCross
Brigette L. Leach
Jennifer L. Lewis
Patrick W. McGuire
Michael R. Mulders
Jeffrey B. Sandborn
Stephanie L. Schafer
Larry M. Shaw

Financial Statements

Financial Statements reflected were compiled from the most recent company-filed statement available in BestLink - Best's Statement File – L/H, US.

Currency: US Dollars

	3-Months		Year End - December 31			
	2023		2022		2021	
	USD (000)	%	USD (000)	%	USD (000)	%
Balance Sheet						
Cash and Short Term Investments	11,897	0.4	-1,611	-0.1	8,914	0.3
Bonds	1,763,442	65.9	1,777,794	66.2	1,763,453	65.1
Preferred and Common Stock	170,088	6.4	171,125	6.4	186,565	6.9
Other Invested Assets	558,150	20.9	556,710	20.7	572,410	21.1
Total Cash and Invested Assets	2,503,577	93.6	2,504,018	93.2	2,531,343	93.4
Premium Balances	26,831	1.0	27,338	1.0	26,500	1.0
Net Deferred Tax Asset	2,659	0.1	4,846	0.2
Other Assets	141,862	5.3	150,907	5.6	151,760	5.6
Total General Account Assets	2,674,929	100.0	2,687,109	100.0	2,709,603	100.0
Total Assets	2,674,929	100.0	2,687,109	100.0	2,709,603	100.0
Net Life Reserves	1,934,341	72.3	1,940,917	72.2	1,940,024	71.6
Liability for Deposit Contracts	18,608	0.7	18,894	0.7	20,082	0.7
Asset Valuation Reserve	40,596	1.5	30,862	1.1	51,529	1.9
Other Liabilities	155,243	5.8	174,783	6.5	177,072	6.5
Total General Account Liabilities	2,148,788	80.3	2,165,456	80.6	2,188,707	80.8
Total Liabilities	2,148,788	80.3	2,165,456	80.6	2,188,707	80.8
Capital Stock	966	...	966	...	966	...
Paid-In and Contributed Surplus	3,049	0.1	3,049	0.1	2,549	0.1
Unassigned Surplus	523,071	19.6	518,584	19.3	518,326	19.1
Other Surplus	-946	...	-946	...	-946	...
Total Capital and Surplus	526,140	19.7	521,653	19.4	520,895	19.2
Total Liabilities, Capital and Surplus	2,674,929	100.0	2,687,109	100.0	2,709,603	100.0

Source: BestLink® - Best's Financial Suite

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, AM Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, AM Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

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