Report

of the

Examination of

The Northwestern Mutual Life Insurance Company

Milwaukee, Wisconsin

As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

***Tony Evers,*** *Governor*
***Mark V. Afable****, Commissioner*

***Wisconsin.gov***

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
oci.wi.gov

February 22, 2019

Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY
Milwaukee, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of The Northwestern Mutual Life Insurance Company (the company or NML) was conducted in 2013 as of December 31, 2012. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 and 2019 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate 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, annual statement instructions, and Wisconsin laws and regulations. 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 at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

**Independent Actuary's Review**

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of aggregate life and annuity reserves, aggregate accident and health reserves, dividends to policyholders, asset adequacy analysis, and deferred life insurance premiums. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

**Investment Review**

The Capital Markets Bureau of the NAIC was engaged by the Office of the Commissioner of Insurance to perform a preliminary review of the company's invested assets portfolio as of December 31, 2017. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review.

## II. HISTORY AND PLAN OF OPERATION

The company was organized in 1857 as The Mutual Life Insurance Company of the State of Wisconsin. The name was changed in 1865 to the current name.

In 2017, the company collected direct premium in the following states:

| | | |
|---|---|---|
| New York | $ 1,054,246,111 | 5.96% |
| California | 987,207,305 | 5.57 |
| Illinois | 957,929,243 | 5.41 |
| Florida | 851,199,186 | 4.81 |
| Texas | 823,890,013 | 4.66 |
| Wisconsin | 688,769,859 | 3.89 |
| New Jersey | 518,946,287 | 2.93 |
| Georgia | 518,522,503 | 2.93 |
| Minnesota | 447,178,229 | 2.53 |
| Pennsylvania | 439,240,953 | 2.48 |
| Ohio | 424,571,585 | 2.40 |
| Michigan | 411,884,012 | 2.33 |
| North Carolina | 395,557,378 | 2.24 |
| Colorado | 388,720,770 | 2.20 |
| Connecticut | 378,327,549 | 2.14 |
| Massachusetts | 377,482,982 | 2.13 |
| All others | 8,032,640,184 | 48.39 |
| Total | $17,696,314,149 | 100.00% |

The major product marketed by the company is ordinary life insurance written on a participating basis. Other products include individual annuities, disability income insurance, and variable life insurance and variable annuities. In addition, NML offers CompLife, which combines a basic amount of whole life, plus extra protection consisting of one-year term insurance and paid-up additions provided by policy dividends. The major products are marketed through the company's career agents.

The following chart is a summary of premium income as reported by the company in 2017.

The growth of the company is discussed in the "Financial Data" section of this report.

**Premium Income**

| **Line of Business** | **Direct Premium** | **Reinsurance Assumed** | **Reinsurance Ceded** | **Net Premium** |
|---|---|---|---|---|
| Ordinary life insurance | | | | |
| Permanent life | $11,334,932,287 | $ | $242,026,985 | $11,092,905,302 |
| Term | 1,748,940,616 | | 580,322,386 | 1,168,618,230 |
| Universal life | 770,619,684 | | 20,396,942 | 750,222,742 |
| Variable life | 423,409,655 | | 9,700,978 | 413,708,677 |
| Group Life | 64,679 | 38,595 | | 103,274 |
| Individual annuities | | | | |
| Fixed deferred annuities | 20,152,807 | | | 20,152,807 |
| Variable deferred annuities | 1,310,542,484 | | | 1,310,542,484 |
| Payout annuities | 733,642,722 | | | 733,642,722 |
| Group annuities | 146,667,115 | | | 146,667,115 |
| Group disability income | 117,229,265 | | 48,964,342 | 68,264,923 |
| Individual disability income | 1,189,147,043 | | 5,600,888 | 1,183,546,155 |
| Long-term care | 0 | 810,357,843 | | 810,357,843 |
| | $17,795,348,357 | $810,396,438 | $907,012,521 | $17,698,732,274 |

## III. MANAGEMENT AND CONTROL

### Board of Trustees

NML's bylaws allow for a minimum of nine and a maximum of 20 members on the board of trustees. Currently, the board of trustees consists of 16 members who are elected at the annual meeting of policyholders. The four-year terms of the trustees are staggered so that the policyholders elect approximately one-fourth of the board each year. Members of the company's board of trustees may also be members of other boards in the holding company group. The trustees are compensated for their services as follows:

**Trustees' Fee Schedule**
**As of January 1, 2018**

| | Annual Retainer | Attendance Fee |
|---|---|---|
| Trustees | $245,000 | $ - |
| Lead Non-Management Trustee | 35,000 | - |
| Audit Committee Chair | 18,000 | - |
| Distribution & Technology Committee Chair | 15,000 | - |
| HR, Nominating & Corporate Governance Committee Chair | 15,000 | - |
| Lead Member of Finance Committee | 15,000 | - |
| Finance Committee Members (Except Lead Member) | - | - |
| Committee Member Serving as Acting Chair | - | 3,500 |
| Special Service by Trustee | - | 3,000 |
| Examining Committee | - | 3,000 |
| Examining Committee Chair | 5,000 | 3,000 |
| Voting Inspectors | - | 500 |

Trustees who are employees of the company do not receive any compensation for service as a Trustee.

Currently, the board of trustees consists of the following persons:

| Name and Residence | Principal Occupation | Term Expires |
| --- | --- | --- |
| John N. Balboni<br>Memphis, Tennessee | Retired Vice President, Chief Information Officer<br>International Paper | 2019 |
| Nicholas E. Brathwaite<br>Danville, California | Founding Partner<br>Riverwood Capital | 2021 |
| David J. Drury<br>Brookfield, Wisconsin | Founding Partner<br>WING Capital Group | 2020 |
| P. Russell Hardin<br>Atlanta, Georgia | President<br>Robert W. Woodruff Foundation | 2020 |
| Hans C. Helmerich<br>Tulsa, Oklahoma | Chairman and Chief Executive Officer<br>Helmerich & Payne, Inc. | 2020 |
| Dale E. Jones<br>Washington, DC | Chief Executive Officer and President<br>Diversified Search | 2022 |
| David J. Lubar<br>Milwaukee, Wisconsin | President and Chief Executive Officer<br>Lubar & Co. | 2020 |
| Sheila L. Marcello<br>Waltham, Massachusetts | Founder, Chairwoman, Chief Executive Officer<br>Care.com, Inc. | 2019 |
| Jaime Montemayor<br>Plano, Texas | Former Senior Vice President, Chief Information Officer<br>PepsiCo Americas Foods | 2022 |
| Anne M. Paradis<br>Sunderland, Massachusetts | Retired Chief Executive Officer<br>MicroTek, Inc. | 2021 |
| John E. Schlifske<br>Elm Grove, Wisconsin | Chairman, President, and Chief Executive Officer<br>Northwestern Mutual | 2021 |
| Mary Ellen Stanek<br>Hartland, Wisconsin | Managing Director, Director of Asset Management<br>Robert W. Baird & Co. | 2019 |
| S. Scott Voynich<br>Columbus, Georgia | Managing Partner<br>Robinson, Grimes & Company, PC | 2022 |
| Ralph A. Weber<br>Wauwatosa, Wisconsin | Founding Member<br>Gass, Weber, Mullins, LLC | 2020 |
| Benjamin F. Wilson<br>Washington, DC | Chairman<br>Beverage & Diamond, P.C. | 2019 |
| Juan C. Zarate<br>Washington, D.C. | Chairman and Co-Founder<br>Financial Integrity Network | 2019 |

**Officers of the Company**

The principal officers serving at the time of this examination are as follows:

| Name | Office | 2018 Compensation |
|---|---|---|
| John E. Schlifske | Chairman and Chief Executive Officer | $13,489,916 |
| Souheil Badran | Executive Vice President and Chief Innovation Officer | 0* |
| Michael G. Carter | Executive. Vice President, Chief Financial Officer, and Chief Risk Officer | 3,037,784 |
| Joann M. Eisenhart | Executive Vice President and Chief People Officer | 2,191,383 |
| Timothy J. Gerend | Executive Vice President – Career Distribution | 1,408,647 |
| Aditi Javeri Gokhale | Executive Vice President and Chief Marketing Officer | 1,399,419 |
| John M. Grogan | Executive Vice President – Insurance Products and Client Services | 2,247,915 |
| Ronald P. Joelson | Executive Vice President and Chief Investment Officer | 3,892,842 |
| Raymond J. Manista | Executive Vice President, Chief Legal Officer, Chief Compliance Officer, and Secretary | 2,448,500 |
| Christian W. Mitchell | Executive Vice President and Chief Customer Officer | 1,265,861 |
| Don J. Robertson | Executive Vice President, Chief Human Resources Officer | 963,970** |
| Bethany M. Rodenhuis | Executive Vice President and Chief Transformation Officer | 1,577,236 |
| Emilia Sherifova | Executive Vice President and Chief Technology Officer | 1,143,100 |

* Mr. Badran joined the company in January 2019.
** Mr. Robertson joined the company in July 2018.

**Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of trustees.

The committees at the time of the examination are listed below:

**Executive Committee**
John E. Schlifske, Chair
John N. Balboni
David J. Drury
Hans C. Helmerich
Mary Ellen Stanek
S. Scott Voynich

**Audit Committee**
S. Scott Voynich, Chair
Nicholas E. Brathwaite
P. Russell Hardin
Jaime Montemayor
Anne M. Paradis
Mary Ellen Stanek

**Distribution and Technology Committee**
John N. Balboni, Chair
Nicholas E. Brathwaite
Dale E. Jones
Jaime Montemayor
Anne M. Paradis
Ralph A. Weber
Benjamin F. Wilson

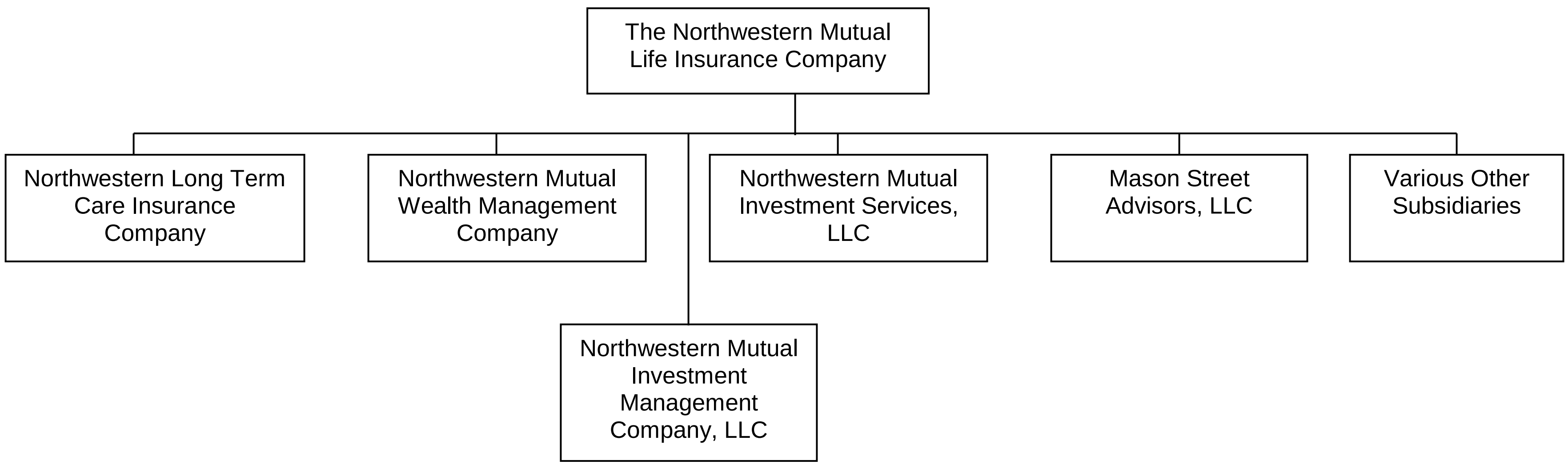
**Finance Committee**
John E. Schlifske, Chair
David J. Drury
P. Russell Hardin
Hans C. Helmerich
David J. Lubar
Mary Ellen Stanek
S. Scott Voynich

**Human Resources, Nominating and Corporate Governance Committee**
Hans C. Helmerich, Chair
John N. Balboni
David J. Drury
Dale E. Jones
David J. Lubar
Ralph A. Weber
Benjamin F. Wilson

## IV. AFFILIATED COMPANIES

The Northwestern Mutual Life Insurance Company is the ultimate parent of a holding company system which includes over 130 entities. The organizational chart on the following page depicts the relationship among selected significant affiliates in the group. A brief description of these significant affiliates is presented in the following pages.

**Organizational Chart**
**As of December 31, 2017**



**Northwestern Long Term Care Insurance Company (NLTC)**

NLTC was organized in Illinois in 1953 as the Poulsen Insurance Company of America. For most of its history, it was known as the Standard of America Life Insurance Company. NML acquired the company in 1982. On October 10, 1997, NLTC redomiciled from Illinois to Wisconsin and the present name was adopted. The company has no employees; all operations are provided through agreements with NML. Prior to August 1998, NLTC's insurance business consisted of paying benefits on supplementary contracts purchased by contract owners from NLTC prior to 1996. In August 1998, NLTC began selling its first long-term care insurance product, QuietCare, and the company is currently used by NML to sell long-term care insurance through its exclusive agency force in all 50 states and the District of Columbia.

During July 2012, NLTC announced the suspension of the lifetime benefit period and limited payment options for all new sales and policy changes beginning August 24, 2012, for its long-term care products in response to the historically low-interest rate environment and updated industry morbidity information. NML made a capital contribution to NLTC of $300 million during 2012.

NLTC was ranked the second largest long-term care (LTC) carrier, by direct premiums earned, among companies currently issuing policies, in 2017. The low-interest rate environment and unfavorable morbidity continue to pressure product fundamentals for the general LTC market, with active writers dropping significantly from over 100 in the late 1990s to only 17 writers in 2016. The market for LTC insurance is also shrinking, with policies sold going from approximately 750,000 in 2002 to 89,000 in 2016. In response to these evolving market conditions NLTC repriced QuietCare TT products in 2013. In 2015, NLTC introduced QuiteCare UU, which was priced on a gender-distinct basis to reflect the differences in anticipated claim costs. A repriced QuiteCare UU product was introduced in 2016 and is the current product for new sales. Implementation of an inforce premium rate increase for QuietCare RR, RS, and TT2010 series policies began in approved states in 2017 with rate increases ranging from 10% for a three-year benefit period to 30% for a lifetime benefit period. Also in 2017, the company made modifications to certain underwriting requirements. Policyholder dividends have also been reduced in recent periods, with virtually no policyholder dividends paid in the last four years.

Pursuant to the introduction of NLTC's QuietCare long-term care product, NML and NLTC executed two agreements. Effective January 1, 1998, NML and NLTC entered into a Product and General Service Agreement, which replaced a previous service agreement. Under the terms of the current agreement, NML agreed to contribute to NLTC the long-term care product developed by NML at an amount that reflects NML's actual development expense. NLTC reported this transaction as a capital contribution. NLTC then expensed the development costs and nonadmitted the related software. No goodwill was carried as a result of the transaction. In addition to the contribution of the product, NML agreed to provide all requested services including legal, accounting, investment, marketing, and information technology services as necessary for NTLC's operation. Reimbursement to NML for these services is based on actual expenses incurred and allocation of shared costs based on the number of employee hours of service provided to each entity. The agreement also provides that, rather than direct reimbursement from NLTC for future services, NML may choose to have its capital investment in NLTC increased by the value of the services rendered. The option was exercised for start-up costs incurred prior to the product's introduction in August 1998. Beginning in September 1998 NLTC began reimbursing NML for administrative expenses.

Effective April 29, 1998, NML and NLTC entered into a Capital Support Agreement and Guarantee of Benefits under which NML agrees to maintain the capital and surplus of NLTC at a level that is greater than the lesser of a) 30% of earned premium plus 5% of the value of total net reserves, or b) 150% of the NAIC risk-based capital requirements applicable to NLTC. NML also guarantees to the policyholders of NLTC the ability of NLTC to pay all policy benefits due on contracts of insurance sold by NLTC during the term of the agreement. Effective September 18, 2012, NML and NLTC amended the agreement to extend the term to December 31, 2017, or at such time as NML has invested a total of $800 million in NLTC. Effective December 31, 2017, NML and NLTC amended the agreement to extend the term to December 31, 2022, or at such time as NML has invested a total of $200 million in NLTC. As of December 31, 2017, NML contributed an aggregate of $130.2 million to NLTC. The guarantee to policyholders of NLTC survives the termination of the agreement.

Effective October 1, 2014, NLTC and NML entered into a reinsurance agreement under which NML assumed 100% of the risks associated with the NLTC's LTC business inforce, apart from the

LTC business already reinsured by Munich American Reassurance Company (MARC). The agreement also provides 100% automatic reinsurance on all new LTC business issued by NLTC subsequent to the effective date of the agreement. As a result of this agreement, assets, liabilities, policyholder surplus, and net premium of NLTC declined substantially in 2014. In April 2017, NLTC and MARC reached an agreement to fully commute (or recapture) the LTC business which NLTC had previously ceded to MARC, effective January 1, 2017. NLTC and NML amended their existing automatic coinsurance agreement and reinsured 100% of the recaptured LTC business with NML, effective January 1, 2017. As a result, NML now reinsures all of NLTC's LTC business. The only remaining obligations of NLTC consist of a small block of supplementary contracts with life contingencies, a product that is no longer actively being sold, and deposit funds related to LTC policy owner refunds.

NLTC is also party to a consolidated federal tax agreement with NML and certain of its subsidiaries whereby NML files its federal income tax on a consolidated basis. Under this agreement, separate tax liability calculations are performed for each affiliate together with all corporations directly or indirectly controlled by each affiliate which would otherwise be entitled or required to file consolidated federal income tax returns with that affiliate. In accordance with these calculations, each affiliate then either pays NML for any taxes so calculated or receives cash or credits from NML.

As of December 31, 2017, NLTC had approximately 249,000 policies inforce and their statutory annual statement reported assets of $200 million, liabilities of $96 million, policyholders' surplus of $104 million, and earned net income of $7.5 million. NLTC is the subject of a separate examination report.

**Northwestern Mutual Wealth Management Company (WMC)**

WMC is a wholly owned subsidiary of NML. WMC is a limited-purpose, federally chartered savings bank whose principal business is providing fiduciary services, including investment advisory services, certain trust services, and financial planning services.

Effective May 31, 2006, NML and WMC entered into a service agreement where NML is to perform certain administrative and support services with respect to WMC's trust and investment advisory business and its facilities, and to include WMC employees under certain NML benefit plans. WMC agrees to compensate NML for the services provided based on a fee schedule for the given service being provided. The initial term of this agreement was through December 31, 2006, and is renewed automatically for successive one-year terms unless notice of nonrenewal is given by either party not less than 60 calendar days prior to the end of the initial or renewal term or 90 days' prior written notification.

As of December 31, 2017, the audited financial statements of Northwestern Mutual Wealth Management Company reported assets of $252 million, liabilities of $98 million, and total stockholder's equity of $154 million. Operations for 2017 produced net income of $39 million.

**Northwestern Mutual Investment Services, LLC (NMIS)**

NMIS is a wholly owned subsidiary of NML and is a dually registered introducing broker-dealer and investment advisor. NMIS offers a variety of products and services to NML clients. NMIS is managed and operated by NMIS employees.

Effective May 6, 2006, NMIS and NML entered into a distribution agreement related to services involving the distribution of NML's variable annuity and life insurance products that are supported by assets held in NML's separate accounts. Under this agreement, NMIS acts in an agency capacity as principal underwriter and selling broker-dealer for those lines of business. The distribution agreement also sets the terms under which NMIS selects, trains, and supervises the financial representatives of who sell variable annuities and variable life insurance. NML pays an annual fee to NMIS based on expenses incurred by NMIS in performing these services.

Effective January 1, 2002, NML and NMIS entered into a master service agreement. Under the agreement, NML provides NMIS with certain administrative services and support with respect to NMIS broker-dealer and investment advisory business, and grants NMIS the right to use certain equipment and facilities. The agreement term is one year, with automatic renewal for successive one-year terms unless one party gives 90 days' prior written notice of nonrenewal. NML is reimbursed for these services and facilities based on either expenses incurred or an allocation of expenses, as defined in the agreement.

As of December 31, 2017, the audited financial statements of NMIS reported assets of $208 million, liabilities of $54 million, and member equity of $154 million. Net income for 2017 was $80 million.

**Mason Street Advisors, LLC (MSA)**

Mason Street Advisors, LLC, is a single member limited liability company whose sole member is NML. MSA was formed on May 31, 2001, by NML and is wholly owned and controlled by the company. Since 2002, MSA has been a party to separate investment management and investment advisory agreements with NML, NLTC, and other clients. Pursuant to these agreements MSA, a federally registered investment advisor, provides investment management and advisory services to these entities with respect to publicly traded securities and related investments. In addition, MSA is also the investment advisor to Northwestern Mutual Series Fund, Inc., an open-end registered management investment company consisting of 27 separate investment portfolios, which underlie the investment options for NML's variable life and variable annuity products. For MSA's service with respect to the public market securities group, NML pays a management fee to MSA based on the value of assets in the investment portfolio as of the last business day of each calendar month.

MSA is managed and operated by MSA employees. NML employees perform certain administrative and support services for MSA, for which NML is reimbursed under an amended and restated administrative services agreement dated October 1, 2011. The agreement also grants MSA the right to use certain property, equipment, and facilities of NML.

As of December 31, 2017, the unaudited financial statements of MSA reported assets of $40 million, liabilities of $9 million and member's equity of $31 million. Operations for 2017 produced net income of $24.9 million. MSA is reported as a nonadmitted asset by NML.

**Northwestern Mutual Investment Management Company, LLC (NMIMC)**

Northwestern Mutual Investment Management Company provides investment management and investment advisory services with respect to privately placed debt and equity securities, real estate investments, publicly traded securities, derivatives, and related investments for NML's general account, its group annuity separate account, and for NLTC. NML provides administrative and support services, and provides certain property, equipment, and facilities to NMIMC under an Administrative Services Agreement, effective January 1, 2015. Northwestern Mutual Capital, LLC (NMC) was merged into NMIMC in 2016. Prior to merging with NMIMC, NMC provided investment management, advisory, and administrative and support services related to the management of NML's general and group annuity separate accounts, and numerous investment subsidiaries owned directly by NML or through its wholly owned subsidiaries. Such services are now among those provided by NMIMC. NML paid NMC an investment management fee based on the value of managed assets as of the last business day of each month and NMC paid NML for services, facilities, and leased premises based upon mutually agreed to terms.

As of December 31, 2017, the unaudited financial statements of NMIMC reported assets of $108 million, liabilities of $63 million and member's equity of $45 million. Operations for 2017 produced net income of $38.7 million. NMIMC is reported as a nonadmitted asset by NML.

**Other Affiliated Agreements**

In addition to the agreements mentioned above, NML provided management and administrative services to NML Real Estate Holdings, LLC; NML Securities Holdings, LLC; and other subsidiaries under the terms of individual services agreements.

NML is also party to a consolidated federal tax agreement with certain affiliates whereby it files its federal income tax on a consolidated basis. Under these agreements, separate tax liability calculations are performed for each of these affiliates together with all corporations directly or indirectly controlled by each affiliate which would otherwise be entitled or required to file consolidated federal income tax returns with that affiliate. In accordance with these calculations, each affiliate then either pays NML for any taxes so calculated or receives cash or credits from NML.

## V. REINSURANCE

NML reinsures segments of its business to limit the amount of risk on an individual life, to provide a more competitive price for a broader range of policyholders, to enable a better classification on impaired lives, to protect participating policy owners from adverse experience on other business, or to minimize the company's risk when entering a new line of business. The company cedes a relatively small amount of business to numerous unaffiliated companies. Ceded net reinsurance premiums were less than 5% of direct premiums written in 2017. Other than the long-term care business written by NLTC, the company does not assume any reinsurance. The company's reinsurance portfolio at the time of the examination is described below.

**Yearly Renewable Term**

The company currently reinsures on a Yearly Renewable Term (YRT) basis, at 30-45%, two-term insurance products to a pool of five reinsurers. NML determines the underwriting classification for this business unless the term life insurance inforce on the life exceeds $40 million or the total amount of insurance inforce and applied for on the life in all companies exceeds $65 million. The policies are reinsured as long as they remain inforce as term life, subject to recapture by the company under the terms of the treaties. In addition, the risk passes back to NML if the coverage is converted to a permanent life insurance plan. Reinsurance premiums are based on comprehensive schedules attached to the reinsurance agreements. The pool of reinsurers for new and inforce business consists of:

Metropolitan Life Insurance Company
American United Life Insurance Company
Generali USA Life Reassurance Company (Generali)
Canada Life Insurance Company

General Re Life Corporation (GenRe)
Lincoln National Life Insurance Company (Lincoln)
Munich American Reassurance Company (Munich)
RGA Reinsurance Company (RGA)

SCOR Global Life Americas Reinsurance Company (SCOR)
Security Life of Denver Insurance Company (Security)
Swiss Re Life and Health America Inc.(Swiss RE)
Transamerica Life Insurance Company (Transamerica)
Hannover Life Reassurance Company of America (Hannover)

The percentage assumed by each participant varies depending on the specific product and series.

**Automatic Reinsurance for Substandard Nonsmokers**

Under this program, NML can offer a standard plus policy to non-tobacco or occasional tobacco-using applicants who meet the company's underwriting standards for substandard classes 1 to 5. The coverage is subject to a minimum of $50,000 and a maximum of $10 million of life insurance. The risk is 100% ceded automatically and the first $3 million of conditional receipt claims is split equally among the four reinsurers (except NML retains 50% of conditional receipt claims on lives it evaluates class 1). The reinsurance remains inforce as long as the policy remains inforce, even if it is on a term life policy later converted to permanent life coverage. The current participating reinsurers are SCOR, RGA, Munich, and Swiss RE. This program resulted in $3.0 million of ceded first-year premiums in 2017. The program covered $54.3 billion of reinsurance inforce at year-end 2017.

**Automatic Reinsurance for Substandard Tobacco Users**

Under this program, NML can offer a standard plus policy to tobacco-using applicants who meet the company's underwriting standards for substandard classes 1 to 5. The coverage is subject to a minimum of $50,000 and a maximum of $10 million of life insurance. As with the program above, the risk is 100% ceded automatically and the first $3 million of conditional receipt claims is split evenly among four reinsurers (except NML retains 50% of conditional receipt claims on lives it evaluates class 1). The current participating reinsurers are SCOR, Munich, Swiss RE, and RGA. This coverage also continues for the lifetime of the underlying coverage. This program resulted in $ 0.6 million of ceded first-year premiums in 2017 and had $3.4 billion of reinsurance inforce at year-end 2017.

**Facultative Substandard**

Prepaid substandard policies that do not qualify for one of the automatic programs and that meet specified face value or premium minimums are eligible for the facultative substandard reinsurance program. Under this program, underwriting papers are forwarded to several reinsurers who make competitive offers. The reinsurer offering the most favorable classification reinsures the entire contract; NML retains no mortality risk. This coverage continues for the lifetime of the reinsurance coverage. This program involved $1.4 million of first-year reinsurance premiums and $30.5 billion of reinsurance inforce in 2017. Reinsurers currently participating under this program include GenRe, SCOR, Munich, and RGA.

**Facultative Excess Reinsurance**

To avoid irregular mortality costs from the untimely deaths of one or more insureds with very large policies, the company established a retention limit of life insurance of up to $40 million per life for most ages. Limits vary by underwriting class also. Munich provides automatic excess coverage up to $5 million on permanent single life fixed-dollar policies. If approval of an application would result in NML coverage of the life in excess of NML's retention, the application must be submitted facultatively.

| | NML Retention | | |
|---|---|---|---|
| Issue Age | PremierNT<br>Preferred NT<br>Standard Plus NT | Classes 1-9 NT<br>All Classes OT<br>Premier to Standard Plus T | Classes 1-7 T |
| 0-55 | $40M | $30M | $10M |
| 56-60 | $35M | $30M | $10M |
| 61-65 | $25M | $20M | $7.5M |
| 66-70 | $17.5M | $15M | $5M |
| 71-75 | $10M | $10M | $2.5M |
| 76-80 | $5M | $5M | zero |
| 81-85 | $5M | $5M | zero |

Under the facultative excess program, NML ceded $0.5 million of first-year premiums in 2017. These programs represented about $2.3 billion of reinsurance as of December 31, 2017.

**Automatic Reinsurance for Joint Substandard**

The program provides automatic reinsurance of survivorship products with a minimum amount of $100,000 and maximum cumulative amount of $8 million for a pair of lives if either life is rated in any of five substandard non-tobacco or tobacco classes. (These are the same classes as the automatic reinsurance programs for nonsmokers and smokers, respectively.) The risks are reinsured by RGA and Munich; NML retains no mortality risk on these lives. The coverage also continues for the lifetime of the underlying coverage. Under this program, NML ceded $7,000 of first-year premiums in 2017. The program represented about $1.6 billion of reinsurance inforce as of December 31, 2017.

**Automatic Guaranteed Issue Reinsurance for Corporate Clients**

A pool of three reinsurers provides automatic YRT reinsurance of 45% of the mortality risk on Bank Owned (BOLI) and Corporate Owned (COLI) Life insurance business. Current participating reinsurers are Hannover, Munich, and Swiss RE. Amounts of insurance must be based on a formula benefit and are limited to an amount related to the number of lives in the group. This program allows the company to write BOLI and COLI business to larger limits at more competitive premium rates than if retained. NML paid $0.5 million of first-year reinsurance premiums under this program in 2017. The program represented about $11.3 billion of reinsurance inforce at year-end 2017.

**Group Disability Reinsurance**

The company participates with Standard Insurance Company (Standard) to offer both long-term and short-term disability coverage for employees of small businesses. Due to its group disability experience, Standard performs the product development, pricing, underwriting, and claims administration. The business is written on NML paper, but Standard reinsures 60% of the risk. NML may recapture the risk under the terms of the treaty. In addition, NML recaptures the entire risk on any life who converts to individual disability income coverage upon leaving the employer. NML ceded $49.0 million of net (first-year and renewal) reinsurance premiums under this program in 2017. The program represented about $1.077 billion of monthly benefit reinsurance inforce at year-end 2017.

**Group Life Reinsurance**

The company also participates with Standard to offer life insurance for employees of small businesses. Standard performs product development, pricing, underwriting, and claims administration. The business is written on NML paper, but Standard reinsures 60% of the risk. NML may recapture the risk under the terms of the treaty. In addition, NML recaptures the entire risk on any life who converts to individual life insurance upon leaving the employer. This agreement was effective as of September 1, 2017, and thus there was minimal business by the end of 2017.

## VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2017, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

**The Northwestern Mutual Life Insurance Company**
**Assets**
**As of December 31, 2017**

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|---|---|---|
| Bonds | $146,944,967,133 | $ | $146,944,967,133 |
| Stocks: | | | |
| Preferred stocks | 263,818,890 | | 263,818,890 |
| Common stocks | 5,667,485,065 | 2,765,731 | 5,664,719,334 |
| Mortgage loans on real estate: | | | |
| First liens | 35,462,284,333 | | 35,462,284,333 |
| Other than first liens | 287,989,916 | | 287,989,916 |
| Real estate: | | | |
| Occupied by the company | 682,048,821 | | 682,048,821 |
| Held for production of income | 1,673,637,510 | | 1,673,637,510 |
| Cash, cash equivalents, and short-term investments | 2,469,272,815 | | 2,469,272,815 |
| Contract loans | 17,421,869,271 | 550,814 | 17,421,318,457 |
| Derivatives | 434,599,164 | | 434,599,164 |
| Other invested assets | 13,807,168,632 | 229,829,271 | 13,577,339,361 |
| Receivables for securities | 563,361,372 | | 563,361,372 |
| CSA Receivable | 89,816,199 | | 89,816,199 |
| Investment income due and accrued | 1,888,199,380 | 150 | 1,888,199,230 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents' balances in course of collection | 144,845,683 | 1,571,665 | 143,274,018 |
| Deferred premiums, agents' balances, and installments booked but deferred and not yet due | 2,130,241,692 | | 2,130,241,692 |
| Reinsurance: | | | |
| Amounts recoverable from reinsurers | 30,311,659 | | 30,311,659 |
| Other amounts receivable under reinsurance contracts | 72,994,888 | | 72,994,888 |
| Net deferred tax asset | 1,788,313,967 | | 1,788,313,967 |
| Guaranty funds receivable or on deposit | 46,104,614 | | 46,104,614 |
| Electronic data processing equipment and software | 343,768,773 | 280,092,967 | 63,675,806 |
| Furniture and equipment, including health care delivery assets | 106,668,396 | 106,668,396 | |
| Receivable from parent, subsidiaries and affiliates | 16,646,458 | | 16,646,458 |
| Write-ins for other than invested assets: | | | |
| Employees and agents trusts | 831,731,516 | | 831,731,516 |
| Prepaid pension cost | 676,746,254 | 676,746,254 | |
| Prepaid expenses and miscellaneous | 93,984,973 | 93,984,973 | |
| Agents' balances | 78,116,572 | 78,116,572 | |

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|---|---|---|
| Remaining write-ins from overflow page | 50,978,773 | 10,726,064 | 40,252,709 |
| Total assets excluding separate accounts, segregated accounts and protected cell assets | 234,067,972,719 | 1,481,052,857 | 232,586,919,862 |
| From separate accounts, segregated accounts and protected cell assets | 32,461,832,032 | | 32,461,832,032 |
| Total Assets | $266,529,804,751 | $1,481,052,857 | $265,048,751,894 |

**The Northwestern Mutual Life Insurance Company**
**Liabilities, Surplus, and Other Funds**
**As of December 31, 2017**

| | | |
|---|---|---|
| Aggregate reserve for life contracts | | $182,225,290,096 |
| Aggregate reserve for accident and health contracts | | 8,912,098,932 |
| Liability for deposit-type contracts | | 3,266,463,416 |
| Contract claims: | | |
| Life | | 570,933,336 |
| Accident and health | | 63,699,255 |
| Policyholders' dividends and coupons due and unpaid | | 236,126,171 |
| Provision for policyholders' dividends and coupons payable in following calendar year: | | |
| Apportioned for payment | | 5,335,000,000 |
| Premiums and annuity considerations received in advance | | 126,010,163 |
| Contract liabilities not included elsewhere: | | |
| Other amounts payable on reinsurance | | 82,450,260 |
| Interest maintenance reserve | | 911,005,944 |
| Commissions to agents due or accrued | | 46,471,860 |
| Commissions and expense allowances payable on reinsurance assumed | | 12,674,235 |
| General expenses due or accrued | | 234,575,541 |
| Transfers to separate accounts due or accrued (net) | | (39,779,147) |
| Taxes, licenses, and fees due or accrued, excluding federal income taxes | | 28,162,181 |
| Current federal and foreign income taxes | | 125,119,963 |
| Unearned investment income | | 88,712,176 |
| Amounts withheld or retained by company as agent or trustee | | 130,994,921 |
| Remittances and items not allocated | | 47,609,888 |
| Miscellaneous liabilities: | | |
| Asset valuation reserve | | 4,334,678,551 |
| Payable to parent, subsidiaries and affiliates | | 92,917,795 |
| Derivatives | | 238,004,542 |
| Payable for securities | | 859,339,125 |
| Payable for securities lending | | 914,744,273 |
| Write-ins for liabilities: | | |
| Liability for deferred compensation plans | | 1,440,993,995 |
| Deferred commissions | | 763,449,718 |
| Post-retirement benefit obligation | | 641,645,394 |
| Remaining write-ins from overflow page | | 47,298,259 |
| Total liabilities excluding separate accounts business | | 211,736,690,843 |
| From separate accounts statement | | 32,461,832,029 |
| Total Liabilities | | 244,198,522,872 |
| Surplus notes | $ 2,947,465,300 | |
| Unassigned funds (surplus) | 17,902,763,722 | |
| Total Capital and Surplus | | 20,850,229,022 |
| Total Liabilities, Capital and Surplus | | $265,048,751,894 |

**The Northwestern Mutual Life Insurance Company**
**Summary of Operations**
**For the Year 2017**

| | | |
|---|---|---|
| Premiums and annuity considerations for life and accident and health contracts | | $17,698,732,274 |
| Considerations for supplementary contracts with life contingencies | | 197,947,246 |
| Net investment income | | 9,378,686,419 |
| Amortization of interest maintenance reserve | | 162,393,770 |
| Commissions and expense allowances on reinsurance ceded | | 146,031,132 |
| Miscellaneous income: | | |
| Income from fees associated with investment management, administration, and contract guarantees from separate accounts | | 326,901,567 |
| Charges and fees for deposit-type contracts | | 19,199 |
| Write-ins for miscellaneous income: | | |
| Contract fees and other income | | 175,663,260 |
| Total income items | | 28,086,374,867 |
| Death benefits | $3,534,572,381 | |
| Matured endowments | 5,961,204 | |
| Annuity benefits | 436,226,609 | |
| Disability benefits and benefits under accident and health contracts | 762,558,344 | |
| Surrender benefits and withdrawals for life contracts | 5,463,763,835 | |
| Interest and adjustments on contract or deposit-type contract funds | 151,262,198 | |
| Payments on supplementary contracts with life contingencies | 104,869,223 | |
| Increase in aggregate reserves for life and accident and health contracts | 8,572,156,054 | |
| Subtotal | 19,031,369,848 | |
| Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only) | 1,218,300,918 | |
| Commissions and expense allowances on reinsurance assumed | 119,495,697 | |
| General insurance expenses | 1,452,519,286 | |
| Insurance taxes, licenses, and fees excluding federal income taxes | 285,166,215 | |
| Increase in loading on deferred and uncollected premiums | 27,384,726 | |
| Net transfers to or (from) separate accounts net of reinsurance | (229,476,450) | |
| Write-in for deductions: | | |
| Interest Maintenance reserve transferred under reinsurance agreement | 17,368,833 | |
| Fines and penalties | 170,289 | |
| Total deductions | | 21,922,299,362 |
| Net gain (loss) from operations before dividends to policyholders and federal income taxes | | 6,164,075,505 |

| | |
|---|---|
| Dividends to policyholders | 5,337,641,975 |
| Net gain (loss) from operations after dividends to policyholders and before federal income taxes | 826,433,530 |
| Federal and foreign income taxes incurred (excluding tax on capital gains) | (97,839,125) |
| Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses | 924,272,655 |
| Net realized capital gains or (losses) | 92,744,033 |
| Net Income | $ 1,017,016,688 |

**The Northwestern Mutual Life Insurance Company**
**Cash Flow**
**For the Year 2017**

| | | | |
|---|---|---|---|
| Premiums collected net of reinsurance | | | $12,405,299,437 |
| Net investment income | | | 9,012,145,636 |
| Miscellaneous income | | | 551,702,928 |
| Total | | | 21,969,148,001 |
| Benefit - and loss - related payments | | $9,344,283,027 | |
| Net transfers to separate accounts, segregated accounts, and protected cell accounts | | (227,698,650) | |
| Commissions, expenses paid, and aggregate write-ins for deductions | | 2,948,806,482 | |
| Dividends paid to policyholders | | 161,465,412 | |
| Federal and foreign income taxes paid (recovered) | | 130,583,318 | |
| Total deductions | | | 12,357,439,589 |
| Net cash from operations | | | 9,611,708,412 |
| Proceeds from investments sold, matured, or repaid: | | | |
| Bonds | $44,510,574,101 | | |
| Stocks | 2,750,088,970 | | |
| Mortgage loans | 2,580,572,889 | | |
| Real estate | 284,219,119 | | |
| Other invested assets | 1,920,245,658 | | |
| Net gains (losses) on cash, cash equivalents, and short-term investments | (1,239,143) | | |
| Miscellaneous proceeds | 274,066,213 | | |
| Total investment proceeds | | 52,318,527,806 | |
| Cost of investments acquired (long-term only): | | | |
| Bonds | 50,472,167,887 | | |
| Stocks | 3,563,931,592 | | |
| Mortgage loans | 4,095,649,990 | | |
| Real estate | 148,335,454 | | |
| Other invested assets | 2,250,564,351 | | |
| Miscellaneous applications | 2,164,466,464 | | |
| Total investments acquired | | 62,695,115,739 | |
| Net increase (or decrease) in contract loans and premium notes | | (74,216,141) | |
| Net cash from investments | | | (10,302,371,791) |
| Cash from financing and miscellaneous sources: | | | |

| | | |
|---|---|---|
| Surplus notes, capital notes | 1,197,465,300 | |
| Net deposits on deposit-type contracts and other insurance liabilities | (220,548,367) | |
| Other cash provided (applied) | (117,543,365) | |
| Net cash from financing and miscellaneous sources | | 859,373,568 |
| **Reconciliation:** | | |
| Net Change in Cash, Cash Equivalents, and Short-Term Investments | | 168,710,189 |
| Cash, cash equivalents, and short-term investments: | | |
| Beginning of year | | 2,300,562,626 |
| End of year | | $ 2,469,272,815 |

**The Northwestern Mutual Life Insurance Company**
**Compulsory and Security Surplus Calculation**
**December 31, 2017**

| | | | |
|---|---|---|---|
| Assets | | | $265,045,951,895 |
| Less investments in insurance subsidiaries net of security surplus of insurance subsidiaries | | | 2,800,000 |
| Less liabilities | | | 244,198,522,872 |
| *Less assets in excess of investment limitations per s. 620.23 (4), Wis. Stat. | | | 6,672,489,983 |
| Adjusted surplus | | | $ 14,172,139,040 |
| Annual premium: | | | |
| Individual life and health | $10,175,257,406 | | |
| Factor | 15% | | |
| Total | | $1,526,288,610 | |
| Group life and health | 117,361,925 | | |
| Factor | 10% | | |
| Total | | 11,736,192 | |
| Greater of 7.5% of considerations or 2% of reserves for annuities and deposit administration funds | | 172,999,333 | |
| Compulsory surplus requirement (subject to a $2,000,000 minimum) | | | 1,711,024,135 |
| Compulsory Surplus Excess (Deficit) | | | $ 12,461,114,906 |
| Adjusted surplus (from above) | | | $ 14,172,139,040 |
| Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum of 110%) | | | 1,882,126,548 |
| Security Surplus Excess (Deficit) | | | $ 12,290,012,493 |

* This subtraction is primarily related to foreign investments. Section 620.22 (9), Wis. Stat. (commonly known as the “basket clause”) allows insurers to invest an additional 5% of the first $500 million of assets plus 10% of the insurer’s assets exceeding $500 million in investments not otherwise permitted and not specifically prohibited by statute. The effect of these limitations is set forth in s. 620.21 (1), Wis. Stat., which states: “Assets may be counted toward satisfaction of the compulsory surplus requirement or security surplus standard only so far as they are invested in compliance with this chapter and applicable rules promulgated by the commissioner.”

**The Northwestern Mutual Life Insurance Company**
**Analysis of Surplus**
**For the Five-Year Period Ending December 31, 2017**
**(Thousands)**

The following schedule details items affecting the company's total capital and surplus during the period under examination as reported by the company in its filed annual statements:

| | **2017** | **2016** | **2015** | **2014** | **2013** |
|---|---|---|---|---|---|
| Capital and surplus, beginning of year | $20,229,584 | $19,659,624 | $19,055,128 | $17,198,785 | $16,175,773 |
| Net income | 1,017,017 | 810,130 | 801,202 | 330,943 | 886,377 |
| Change in net unrealized capital gains/losses | 773,557 | (329,102) | (184,165) | 1,621,880 | 281,705 |
| Change in net unrealized foreign exchange capital gains/losses | 47,763 | 2,947 | (47,926) | (10,695) | (9,472) |
| Change in net deferred income tax | (1,323,338) | 6,731 | 86,589 | 412,890 | 175,177 |
| Change in nonadmitted assets and related items | (389,759) | (217,565) | 44,224 | 584,721 | (998,537) |
| Change in reserve on account of change in valuation bases | 7,086 | | | | |
| Change in asset valuation reserve | (887,528) | 116,703 | (19,566) | (236,423) | (128,330) |
| Change in surplus notes | 1,197,465 | | | | |
| Cumulative effect of changes in accounting principles | | | | | (161,747) |
| Change in surplus as a result of reinsurance | 39,724 | | | | |
| Benefit plan adjustments | 105,979 | 180,116 | (80,334) | (846,973) | 960,429 |
| Prior period and other adjustments | 32,679 | | 4,472 | | 17,410 |
| Capital and Surplus, End of Year | $20,850,229 | $20,229,584 | $19,659,624 | $19,055,128 | $17,198,785 |

**The Northwestern Mutual Life Insurance Company**
**Insurance Regulatory Information System**
**For the Five-Year Period Ending December 31, 2017**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

| | Ratio | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| #1 | Net change in capital & surplus | -3% | 3% | 3% | 11% | 6% |
| #2 | Gross change in capital & surplus | 3 | 3 | 3 | 11 | 6 |
| #3 | Net income to total income | 4 | 3 | 3 | 1 | 3 |
| #4 | Adequacy of investment income | 120* | 127 | 130 | 129 | 129 |
| #5 | Non-admitted to admitted assets | 1 | 0 | 0 | 0 | 1 |
| #6 | Total real estate & mortgage loans to cash & invested assets | 18 | 18 | 18 | 17 | 17 |
| #7 | Total affiliated investments to capital & surplus | 41 | 38 | 42 | 43 | 45 |
| #8 | Surplus relief | 0 | 0 | 0 | 1 | 1 |
| #9 | Change in premium | 0 | 0 | -4 | 15 | 7 |
| #10 | Change in product mix | 0.3 | 0.1 | 1.7 | 2.4 | 0.8 |
| #11 | Change in asset mix | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 |
| #12 | Change in reserving | -3 | -3 | -2 | -2 | -2 |

Ratio No. 4 compares the net investment income to the increase in reserves from tabular interest; the usual range for the ratio is between 125% and 900%. The ratio has been above the benchmark each year during the period under examination with the exception of 2017 when the ratio fell slightly below the benchmark. Overall investment returns have been depressed, in part, because of the low-interest rate environment.

**Growth of The Northwestern Mutual Life Insurance Company (Thousands)**

| Year | Admitted Assets | Liabilities | Capital and Surplus |
|---|---|---|---|
| 2017 | $265,048,752 | $244,198,523 | $20,850,229 |
| 2016 | 250,507,191 | 230,277,607 | 20,229,584 |
| 2015 | 238,543,832 | 218,884,208 | 19,659,624 |
| 2014 | 230,003,964 | 210,948,836 | 19,055,128 |
| 2013 | 215,165,006 | 197,966,221 | 17,198,785 |
| 2012 | 200,945,404 | 184,769,631 | 16,175,773 |

**Net Life Premiums, Annuity Considerations, and Deposits**

| Year | Life Insurance Premiums | Annuity Considerations | Deposit-type Contract Funds |
|---|---|---|---|
| 2017 | $13,324,417,900 | $2,065,367,643 | $ 97,322,403 |
| 2016 | 13,297,719,337 | 2,258,636,230 | 100,674,511 |
| 2015 | 13,266,304,112 | 2,344,895,289 | 82,659,527 |
| 2014 | 12,490,237,538 | 2,470,407,098 | 68,457,823 |
| 2013 | 12,295,825,243 | 2,383,919,042 | 57,993,138 |
| 2012 | 11,815,872,065 | 1,716,648,230 | 44,954,547 |

**Life Insurance Inforce (in thousands)**

| Year | Inforce End of Year | Reinsurance Ceded | Net Inforce |
|---|---|---|---|
| 2017 | $1,758,858,478 | $517,981,224 | $1,240,877,254 |
| 2016 | 1,680,582,964 | 498,912,710 | 1,181,670,254 |
| 2015 | 1,602,931,242 | 484,138,168 | 1,118,793,074 |
| 2014 | 1,534,358,348 | 484,626,006 | 1,049,732,342 |
| 2013 | 1,462,926,019 | 481,951,338 | 980,974,681 |
| 2012 | 1,386,244,263 | 479,243,500 | 907,000,763 |

**Accident and Health**

| Year | Net Premiums Earned | Incurred Claims and Cost Containment Expenses* | Commissions Incurred | Other Expenses Incurred** | Combined Loss and Expense Ratio |
|---|---|---|---|---|---|
| 2017 | $2,036,698,474 | $1,211,188,673 | $252,088,649 | $285,535,199 | 85.9% |
| 2016 | 1,785,249,726 | 1,177,135,164 | 271,381,616 | 301,244,282 | 98.0 |
| 2015 | 1,698,982,647 | 1,036,162,139 | 279,704,901 | 258,210,971 | 92.7 |
| 2014 | 3,059,230,186 | 2,811,495,558 | 161,929,022 | 216,514,409 | 104.3 |
| 2013 | 1,068,905,898 | 604,943,845 | 118,132,347 | 217,964,403 | 88.0 |
| 2012 | 1,020,801,554 | 626,725,874 | 115,311,318 | 209,094,754 | 93.2 |

* Includes increase in contract reserves
** Includes taxes, licenses, and fees

The company's net life premium increased 12.8% to $13.3 billion during the examination period, while annuity consideration increased 20.3% to $2.1 billion over the same period. Deposit type funds increased 116.5% to $97.3 million during the examination period. Life insurance inforce increased 26.9% to $1.8 trillion, with a net of reinsurance ceded inforce increase of 36.8% to $1.2 trillion over the same period.

Net premium in the Accident and Health table above includes assumed long-term care business from its wholly-owned subsidiary, NLTC, since 2014, as well as disability insurance written directly. In 2017, the company assumed $802 million of long-term care premium. Total net A&H premium earned, the bulk of which is individual disability insurance, increased 99.5% to $2.0 billion during the period under examination, a significant portion of which was caused by the assumption of long-term care business starting in 2014. Incurred claims and cost containment expenses and commissions incurred increased 93.3% and 118.6%, respectively, to $1.2 billion and $252 million, primarily due to the assumption of NLTC business starting in 2014.

The tables above reflect a consistent pattern of premium growth in all lines of business from a combination of strong sales and excellent persistence. Assets and liabilities increased 31.9% and 32.2% to $265 and $244 billion, respectively, and surplus increased 28.9% to $20.9 billion.

**Reconciliation of Surplus per Examination**

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2017, is accepted.

## VII. SUMMARY OF EXAMINATION RESULTS

**Compliance with Prior Examination Report Recommendations**

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Board of Directors' Audit Committee—Since pursuant to s.611.51 (6), Wis. Stat., the board of directors is the ultimate responsible party to which management reports to, it is recommended that the company remove that sentence from the Audit Committee Charter.

   Action—Compliance

2. Reporting – Investment Purchases and Sales—it is recommended that the company discontinue reporting internal transfers within the general account as purchases and sales to and from itself on Schedule D of future annual statements.

   Action—Compliance

3. Investment Policy—Therefore, it is recommended that the company establish specific limits on swaptions in their investment policy and update it as needed.

   Action—Compliance

4. General Interrogatories—It is recommended that the board of directors or a subordinate committee thereof pass upon the purchases or sales of all investments in the future so that the company can affirmatively answer the question in future statements.

   Action—Compliance

5. CPA Audit Report—It is recommended that the company ensure that the audit opinion contains the auditor's name and signature when filed with the NAIC for future years.

   Action—Compliance

**Summary of Current Examination Results**

There were no adverse findings as a result of the examination.

## VIII. CONCLUSION

The Northwestern Mutual Life Insurance Company is the ultimate parent of a holding company system which includes one other insurance company, Northwestern Long Term Care Insurance Company, as well as numerous complimentary affiliates related to the investment management and financial planning businesses. The two insurance companies in the group were examined concurrently.

Over the examination period the company's surplus increased nearly $4.7 billion to $20.9 billion at year-end 2017 from $16.2 billion at year-end 2012. Admitted assets increased $64.1 billion to $265 billion from $201 billion over the same time period. The company reported net income in each of the five years under examination, including $1.0 billion for 2017.

There were no recommendations as a result of this examination. No adjustments to surplus or reclassifications of account balances were made as a result of the examination. The company was found to be in compliance with all of the recommendations made on the previous examination.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

## X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

| **Name** | **Title** |
|---|---|
| Nicholas Barsuli | Insurance Financial Examiner |
| Jacob Burkett | Insurance Financial Examiner |
| Thomas Hilger | Insurance Financial Examiner |
| Adrian Jaramillo | Insurance Financial Examiner |
| Terry Lorenz | Insurance Financial Examiner-Advanced, Exam Planning and Quality Control Specialist |
| David Jensen, CFE | Insurance Financial Examiner-Advanced, Information Systems Audit Specialist |
| Jerry. DeArmond, CFE | Insurance Financial Examiner-Advanced, Loss Reserve Specialist |

Respectfully submitted,

James Vanden Branden
Examiner-in-Charge