

2024

ANNUAL REPORT

PEKIN LIFE INSURANCE COMPANY



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 **PEKIN**
INSURANCE

 **INNOVATIVE**
Empowering the future



TO OUR SHAREHOLDERS

The operating results for 2024 and the financial statements for the year are included in this Annual Shareholder Report.

The results for 2024 reflect net income of \$8.6 million, or \$0.50 per share, compared to net income of \$1.9 million, or \$0.11 per share, last year. The increase in net income is primarily attributable to improved mortality experience in the Ordinary Life line of business. Realized capital gains were \$2.1 million, or \$0.12 per share, compared to realized capital gains of \$1.1 million, or \$0.06 per share, last year.

Premium decreased \$2.7 million this year. The decrease is attributable to a \$4.8 million decrease in Annuity which was offset by premium growth in the Pre-Need line of business of \$2.6 million. Medicare Supplement and Group Annuities also showed growth over 2023.

Investment income excluding capital gains increased to \$71.6 million in 2024, or 2.7 percent from last year. This increase is due to higher yields earned on our bond portfolio compared to the prior year. Additionally, our bond portfolio is comprised of high-quality holdings, of which 96 percent are investment grade.

As of December 31, 2024, assets were \$1.7 billion. Book value increased during the year by \$13.0 million from year end 2023. This increase is attributable to increased earnings through the year in addition to unrealized gains on our equity portfolio. Book value per share was \$7.55 at December 31, 2024.

We are committed to be the carrier of choice by providing the service and experience our distribution partners value most.

We appreciate the continued support of our shareholders, agents, and employees.

Daniel V. Connell, CPA
Chairman of the Board, President & Chief Executive Officer

SIGNIFICANT FIGURES

Pekin Life Insurance Company

	2024	2023	CHANGE
Life Insurance in Force			
Ordinary	\$20,723,643,000	\$20,375,985,000	1.71%
Credit	267,513,000	459,463,000	-41.78%
Group	783,943,000	797,450,000	-1.69%
Total Life Insurance in Force	21,775,099,000	21,632,898,000	0.66%
Assets	1,712,897,439	1,687,081,444	1.53%
Policy Reserves	1,413,282,322	1,396,668,035	1.19%
Premium Income	185,972,738	188,682,054	-1.44%
Payments to Policyholders and Beneficiaries	179,177,703	192,629,785	-6.98%
Investment Income	71,586,920	69,688,528	2.72%
Net Rate of Return on Investments	4.40%	4.36%	0.90%
Net Income (Loss) Before Realized Capital Gains	6,492,674	865,087	650.52%
Net Income (Loss)	8,614,192	1,927,172	346.99%
Net Income (Loss) Before Realized Capital Gains Per Share	0.38	0.05	660.00%
Realized Capital Gains Per Share	0.12	0.06	100.00%
Net Income (Loss) Per Share	0.50	0.11	354.55%
Book Value Per Share	7.55	6.79	11.19%

Pekin Life Insurance Company

Premium Income By Product Line	2024		2023	
	Amount	% of Total	Amount	% of Total
Ordinary Life	\$ 86,281,434	46%	\$ 87,097,840	46%
Annuity	8,140,809	4%	12,951,358	7%
Pre-Need Life and Annuity	49,683,235	27%	47,080,545	25%
Group Life and Health	2,335,281	1%	2,506,641	1%
Group Annuity	377,590	0%	21,099	0%
Individual Health	40,262,374	22%	39,555,159	21%
Credit Life and Health	(1,107,985)	-1%	(530,588)	0%
Total	\$ 185,972,738	100%	\$ 188,682,054	100%

FINANCIAL HIGHLIGHTS

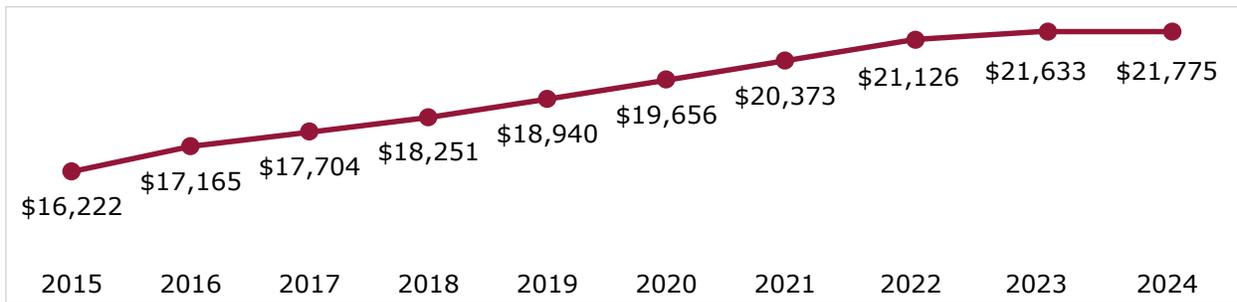
2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
12.42	12.38	12.70	12.65	12.56	12.13	5.55	11.78	11.52	11.88	Marketing Price Per Share
12.64	13.04	11.68	10.81	10.86	10.94	11.56	11.64	11.05	10.90	Premium Income Per Share
3.20	3.29	3.43	3.52	3.60	3.59	3.62	3.77	4.08	4.19	Investment Income Per Share
(.10)	.09	.36	.09	.09	.10	(.31)	(.33)	.05	.38	(A) (C) Earnings Per Share
.03	(.15)	.07	.11	.00	(.03)	.09	.05	.06	.12	(D) Realized Capital Gains (Losses) Per Share
(.07)	(.06)	.43	.20	.09	.07	(.22)	(.28)	0.11	.50	(A) (B) Earnings Per Share
.0400	.0100	.0000	.0300	.0100	.0100	.0200	.0000	.0000	.0000	Dividends Declared Per Share
7.04	7.30	7.48	7.57	7.37	7.14	7.15	6.75	6.79	7.55	(A) Tangible Book Value Per Share
17,068	17,068	17,068	17,068	17,068	17,068	17,068	17,068	17,068	17,068	(B) Common Shares Outstanding (000)
176	170	170	167	170	170	78	174	170	157	% Price to Book Value
-	-	30	63	140	173	-	-	105	23.75	Year End P/E Ratio
.32	.08	-	.24	.08	.08	.36	-	-	-	Year End Dividend Yield (%)
120,157	124,564	127,625	129,198	125,850	121,798	122,042	115,201	115,888	128,898	Net Worth (\$000)
-	-	5.8	2.3	1.0	0.8	-	-	1.7	6.68	% Profits Retained to Common Equity
-	-	-	14.9	11.7	14.4	-	-	-	-	% Cash Dividends to Net Profit

- (A) Due to regulatory changes, the Company's stock in 2021 was temporarily removed from the OTC's publicly quoted market and was resolved as of January 2022.
- (B) The statutory basis of accounting applies (used for reporting to the respective Insurance Departments).
- (C) Includes realized capital gains (losses).
- (D) Excludes realized capital gains (losses).
- (E) Effective January 1, 2001, the statutory basis of accounting requires that unrealized capital losses on investments that are determined to be other than temporary declines in value must be reclassified to be realized capital losses. In 2001, these reclassified unrealized capital losses were reflected as a change in accounting adjusting unassigned surplus, rather than as a charge to earnings. In 2023, 2022, 2019 and 2016, a realized capital loss of \$(0.006), \$(0.005), \$(0.002) and \$(0.17), respectively, is considered to be an other than temporary decline in value and is charged against earnings.

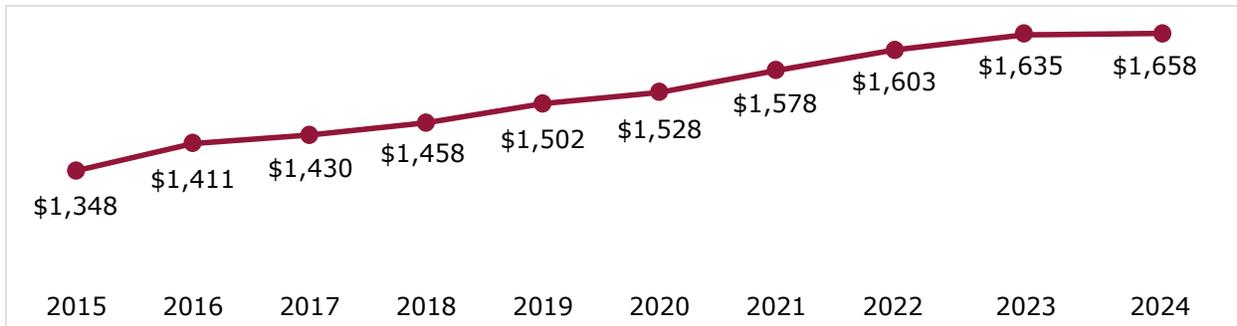
PREMIUM INCOME (In Millions)



LIFE INSURANCE IN FORCE (In Millions)



CASH AND INVESTED ASSETS (In Millions)



INVESTMENT INCOME (In Millions)





**INDEPENDENT AUDITOR'S REPORT
ON THE STATUTORY FINANCIAL STATEMENTS**

To the Board of Directors and Shareholders
Pekin Life Insurance Company
Pekin, Illinois

Report on the Audit of the Statutory Financial Statements

Opinions

We have audited the statutory financial statements of Pekin Life Insurance Company (the Company), which are comprised of the statutory balance sheets as of December 31, 2024 and 2023, and the related statutory statements of operations, changes in policyholders' surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying statutory financial statements present fairly, in all material respects, the statutory financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance described in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the statutory financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2024 and 2023, or the results of its operations or its cash flows thereof for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statutory Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the statutory financial statements, the statutory financial statements are prepared using accounting practices prescribed or permitted by the Illinois Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the statutory financial statements of the variances between these statutory accounting practices described in Note 1 and accounting principles generally accepted in the United States of America have not been determined but are presumed to be material and pervasive.

Responsibilities of Management for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the statutory financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the statutory financial statements are issued.

Auditor's Responsibilities for the Audit of the Statutory Financial Statements

Our objectives are to obtain reasonable assurance about whether the statutory financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the statutory financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statutory financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statutory financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.



- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statutory financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Strohm Ballweg, LLP

Madison, Wisconsin
March 22, 2025

STATUTORY BALANCE SHEETS

DECEMBER 31, 2024 AND 2023

	2024	2023
Admitted Assets:		
Bonds	\$ 1,430,859,822	\$ 1,417,582,172
Preferred Stocks	1,500,000	-
Common Stocks	43,482,898	35,899,031
Mortgage Loans	115,299,511	114,123,346
Real Estate Occupied by the Company, Net of Depreciation	1,203,063	1,298,713
Cash, Cash Equivalents, and Short-Term Investments	12,582,649	11,816,831
Contract Loans	14,458,256	14,197,576
Receivables for Securities	67,746	120,875
Securities Lending Reinvested Collateral Assets	38,440,488	39,628,722
Total Cash and Invested Assets	1,657,894,433	1,634,667,266
Life and Health Premiums Due and Unpaid	49,457	73,133
Life Premiums Deferred	26,883,674	26,591,470
Investment Income Accrued	16,839,908	16,731,886
Amounts Recoverable from Reinsurers	772,359	313,815
Current Federal Income Tax Recoverable	3,069,678	1,233,114
Net Deferred Tax Asset	7,387,930	7,470,760
Total Admitted Assets	\$ 1,712,897,439	\$ 1,687,081,444
Liabilities:		
Aggregate Reserve for Contracts:		
Life	\$ 1,106,044,338	\$ 1,061,602,479
Annuity	296,908,304	320,372,408
Health	10,329,680	14,693,148
Total Aggregate Reserve for Contracts	1,413,282,322	1,396,668,035
Contract Claims:		
Life	12,671,959	14,023,327
Health	5,604,636	4,691,470
Total Contract Claims	18,276,595	18,714,797
Other Policy Liabilities:		
Premium Received in Advance	2,457,405	2,181,218
Policyholders' Dividends	9,856	10,991
Deposit Administration Contracts	41,696,149	37,806,941
Other Deposit-Type Contracts	15,029,402	16,227,140
Total Other Policy Liabilities	59,192,812	56,226,290
Interest Maintenance Reserve	4,595,892	11,384,851
Expenses and Taxes Accrued	7,424,352	5,550,950
Amounts Withheld or Retained	2,326,687	1,677,352
Asset Valuation Reserve	25,012,579	21,771,395
Due to Parent	1,524,851	2,937,218
Drafts Outstanding	5,071,820	4,864,888
Payable for Securities Lending	38,440,488	39,628,722
Pension Liability	-	708,978
Post-Retirement Liability	7,222,874	8,209,875
Other Liabilities	1,628,509	2,850,576
Total Liabilities	1,583,999,781	1,571,193,927
Policyholders' Surplus:		
Capital Stock, Par Value \$1.25; 22,000,000 Shares Authorized; Shares Issued - 17,600,000; and Shares Outstanding - 17,068,023	22,000,000	22,000,000
Paid-In Surplus	900,000	900,000
Unassigned Surplus	110,267,262	97,257,121
Treasury Stock, Shares at Cost, 531,977 in 2024 and 2023	(4,269,604)	(4,269,604)
Total Policyholders' Surplus	128,897,658	115,887,517
Total Liabilities and Policyholders' Surplus	\$ 1,712,897,439	\$ 1,687,081,444

STATUTORY STATEMENTS OF OPERATIONS AND CHANGES IN POLICYHOLDERS' SURPLUS

YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
Income:		
Life Premiums	\$ 133,853,920	\$ 132,597,217
Annuity Considerations	11,808,660	16,233,028
Health Premiums	40,310,158	39,851,809
Net Investment Income	<u>71,586,920</u>	<u>69,688,528</u>
Total Income	<u>257,559,658</u>	<u>258,370,582</u>
Deductions:		
Benefits to Policyholders and Beneficiaries:		
Life	91,942,915	94,580,280
Annuity	46,490,549	59,953,183
Health	<u>40,744,239</u>	<u>38,096,322</u>
Total Benefits to Policyholders and Beneficiaries	<u>179,177,703</u>	<u>192,629,785</u>
Changes to Policy Reserves:		
Life	44,441,857	47,703,561
Annuity	(23,464,102)	(31,895,758)
Health	<u>(4,363,468)</u>	<u>(5,000,778)</u>
Total Changes to Policy Reserves	<u>16,614,287</u>	<u>10,807,025</u>
Expenses:		
Commissions and Service Fees	15,127,099	16,600,428
General Insurance Expenses	31,176,405	32,228,403
Taxes, Licenses, and Fees	<u>4,345,313</u>	<u>3,837,330</u>
Total Expenses	<u>50,648,817</u>	<u>52,666,161</u>
Total Deductions	<u>246,440,807</u>	<u>256,102,971</u>
Income Before Federal Income Tax Expense and Net Realized Capital Gains	11,118,851	2,267,611
Federal Income Tax Expense	<u>4,626,177</u>	<u>1,402,524</u>
Income Before Net Realized Capital Gains, Net of Tax	6,492,674	865,087
Net Realized Capital Gains, Net of Tax	<u>2,121,518</u>	<u>1,062,085</u>
Net Income	<u>\$ 8,614,192</u>	<u>\$ 1,927,172</u>
Net Income Before Net Realized Capital Gains Per Share	\$ 0.38	\$ 0.05
Net Realized Capital Gains, Net of Income Taxes Per Share	0.12	0.06
Net Income Per Share	<u>\$ 0.50</u>	<u>\$ 0.11</u>
Shares Outstanding	<u>17,068,023</u>	<u>17,068,023</u>
Changes in Policyholders' Surplus:		
Policyholders' Surplus - Beginning of Year	<u>\$ 115,887,517</u>	<u>\$ 115,201,002</u>
Changes in Policyholders' Surplus:		
Net Income	8,614,192	1,927,172
Net Unrealized Capital Gains	4,183,714	6,082,946
Asset Valuation Reserve	(3,241,184)	(7,070,944)
Net Deferred Tax Asset	422,160	(172,145)
Non-Admitted Assets	418,348	2,623,520
Provision for Reinsurance	-	45,550
Pension Benefit Obligations	1,047,666	(694,154)
Post-Retirement Benefit Obligations	<u>1,565,245</u>	<u>(2,055,430)</u>
Net Increase	<u>13,010,141</u>	<u>686,515</u>
Policyholders' Surplus - End of Year	<u>\$ 128,897,658</u>	<u>\$ 115,887,517</u>

STATUTORY STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
Cash from Operations:		
Premiums Collected, Net of Reinsurance	\$ 186,021,025	\$ 187,197,408
Net Investment Income	71,110,248	66,257,395
Miscellaneous Income	663,577	729,703
Total Cash Received	<u>257,794,850</u>	<u>254,184,506</u>
Benefits and Loss Related Payments	180,065,944	193,794,470
Commissions, Expenses Paid, and Other Deductions	46,837,797	52,697,998
Dividends Paid to Policyholders	9,641	11,026
Federal Income Taxes Paid	5,436,209	260,001
Total Cash Disbursed	<u>232,349,591</u>	<u>246,763,495</u>
Net Cash from Operations	<u>25,445,259</u>	<u>7,421,012</u>
Cash from Investments:		
Proceeds from Investments Sold, Matured, or Repaid:		
Bonds	136,642,988	202,635,331
Stocks	18,834,058	10,127,033
Mortgage Loans	8,808,144	6,943,873
Miscellaneous	1,241,363	350,000
Total Investment Proceeds	<u>165,526,553</u>	<u>220,056,237</u>
Cost of Investments Acquired:		
Bonds	157,971,974	210,073,521
Stocks	20,902,995	8,648,660
Mortgage Loans	10,197,670	11,176,198
Real Estate	(215,220)	276,516
Miscellaneous	-	13,829,848
Total Investments Acquired	<u>188,857,419</u>	<u>244,004,743</u>
Net Increase in Contract Loans	<u>260,680</u>	<u>486,177</u>
Net Cash from Investments	<u>(23,591,546)</u>	<u>(24,434,683)</u>
Cash from Financing and Miscellaneous Sources:		
Net Deposits on Deposit-Type Contracts	2,691,470	9,038,210
Other Cash Provided (Applied)	(3,779,365)	15,603,710
Net Cash from Financing and Miscellaneous Sources	<u>(1,087,895)</u>	<u>24,641,920</u>
Net Change in Cash, Cash Equivalents, and Short-Term Investments	765,818	7,628,249
Cash, Cash Equivalents, and Short-Term Investments at Beginning of Year	<u>11,816,831</u>	<u>4,188,582</u>
Cash, Cash Equivalents, and Short-Term Investments at End of Year	<u>\$ 12,582,649</u>	<u>\$ 11,816,831</u>

1. Nature of Operations and Summary of Significant Accounting Practices

Pekin Life Insurance Company (Company) is a life and accident and health insurance company domiciled in the State of Illinois that is licensed to operate in 24 states across the nation. The Company sells insurance primarily through independent agents. Insurance products primarily include ordinary life, Medicare Supplement, annuities, and pre-need life. The Company also offers group life, dental, and short-term disability as well as voluntary products.

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Illinois Department of Insurance (statutory accounting practices).

Prescribed statutory accounting practices include those practices denoted in the National Association of Insurance Commissioners' (NAIC) "*Accounting Practices and Procedures Manual*" as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed when such practices are approved by the insurance department of the insurer's state of domicile. The Company does not use any permitted practices.

Accounting Estimates

The preparation of statutory financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term relate to: 1) the estimated life, annuity, and health insurance contract reserves, 2) the assumptions regarding the other than temporary impairment analysis of the investment portfolio, 3) the assumptions, including the discount rate, used to determine the benefit obligations for the defined benefit pension plan and other post-retirement benefit plan, 4) the amount of deferred tax assets expected to be realized in future years, and 5) the amount of net deferred premium.

Summary of Significant Accounting Practices and Differences Between Statutory Accounting and GAAP

A description of the significant accounting practices used by the Company and significant variances from accounting principles generally accepted in the United States of America (GAAP) are as follows:

A. Investments

Bonds and stocks are valued in accordance with rules prescribed by the NAIC, whereby bonds eligible for amortization under such rules are stated at amortized cost. The Company uses a modified scientific method for amortizing bonds. Common stocks are generally carried at fair market value. Redeemable preferred stocks are stated at amortized cost; however, redeemable preferred stocks with an NAIC designation of three or lower are carried at the lower of amortized cost or fair value. Perpetual preferred stocks are carried at fair value.

Loan-backed securities (mortgage-backed and asset-backed securities) are stated at amortized cost using a prospective basis. The prospective approach recognizes, through the recalculation of the effective yield to be applied to future periods, the effects of all cash flows whose amounts differ from those estimated earlier. Changes in amortization and amortized cost will occur in future periods. Assumptions for loan-backed securities are updated on a quarterly basis. Loan-backed securities with an initial NAIC designation of six are carried at the lower of amortized cost or fair value. Agency pass-through and collateralized mortgage obligations use the three-month generic prepayment speed assumption. Non-agency collateralized mortgage obligations and asset-backed securities are updated using projected principal payment windows.

Investment income is recorded when earned. Realized gains and losses on sale or maturity of investments are determined on the basis of specific identification. Aggregate unrealized

capital gains and losses are credited or charged directly to unassigned surplus, along with the deferred federal income tax effect. Unrealized capital losses on investments that are determined to be other than temporary declines in value are recognized as realized capital losses. The Company reviews its investment portfolio on a periodic basis to determine other than temporary declines in value. In evaluating whether a decline in value is other than temporary, management considers several factors including, but not limited to: 1) the Company's ability and intent to retain the security for a sufficient amount of time for it to recover, 2) the extent and duration of the decline in value, 3) the probability of collecting all cash flows according to contractual terms in effect at acquisition or restructuring, 4) relevant industry conditions and trends, and 5) the financial condition and current and future business prospects of the issuer.

Investments in debt securities are generally carried at amortized cost and investments in equity securities are carried at fair value. Under GAAP, the Company's debt securities would be classified as held-to-maturity, trading, or available-for-sale. For GAAP, debt securities classified as held-to-maturity would be carried at cost or amortized cost, with a corresponding allowance for credit-related unrealized losses reported in net income; and debt securities classified as trading would be carried at fair value with the unrealized holding gains and losses reported in income; debt securities classified as available for sale would be carried at fair value with a corresponding allowance for credit-related losses reported in net income and non-credit unrealized holding gains and losses reported as a separate component of surplus. Equity securities would be carried at fair value with the unrealized holding gains and losses reported in income.

Mortgage loans and contract loans are stated at the aggregate of unpaid loan balances, which approximate fair value. The stated value of contract loans is not in excess of cash surrender values of related policies.

The asset valuation reserve (AVR) is maintained as prescribed by the NAIC for the purpose of stabilizing surplus against fluctuations in the market values of invested assets. The AVR is reported as a liability and changes are charged or credited directly to unassigned surplus. The AVR would not be required under GAAP.

The interest maintenance reserve (IMR) is maintained as prescribed by the NAIC to defer realized capital gains and losses which result from changes in interest rates for fixed income securities and to amortize these capital gains and losses into investment income over the remaining life of the investments sold, rather than reflecting the gains or losses in the year of sale. The IMR would not be required under GAAP.

An occupancy rental charge on home office real estate owned is recorded as investment income and as offsetting rental expense; under GAAP, no such rental charge would be recognized.

B. Non-Admitted Assets

Certain assets designated as "non-admitted assets" (primarily prepaid pension, nonoperating system software, office furniture and equipment, and certain deferred tax assets) are charged against policyholders' surplus. Under GAAP, nonoperating software and office furniture and equipment would be recognized as assets net of accumulated depreciation and amortization, and deferred taxes would be accounted for as noted in Note 1G.

C. Policy Reserves and Claim Reserves

Policy reserves on life insurance are based on statutory mortality and interest rate requirements and are computed using principally net level and modified preliminary term methods with interest rates ranging primarily from 2.25 percent to 6.00 percent. The use of a modified reserve basis partially offsets the effect of immediately expensing policy acquisition costs. Policy reserves on annuities are based on statutory mortality and interest requirements with interest rates ranging primarily from 1.50 percent to 9.25 percent. Under GAAP, reserves

would be based on mortality, lapse, withdrawal, and interest rate assumptions that are based on Company experience.

Liabilities for accident and health policies include unearned premiums and additional reserves. The liability for future policy benefits and claims on life and health insurance products includes estimated unpaid claims that have been reported to the Company and claims incurred but not yet reported. Changes in estimates are reflected in current operations.

D. Reinsurance

The Company has long-standing reinsurance treaties in place for its life insurance business to reduce exposure to large losses. Although reinsurance does not relieve the Company of its legal liability to its policyholders, it provides a measure of protection against catastrophic losses and provides a means of risk reduction on individual losses. In order to maintain an appropriate balance between the cost of reinsurance and surplus growth, the Company periodically evaluates its retention levels related to specific types of life insurance policies.

Assets and liabilities related to reinsurance ceded transactions are netted with respective accounts: under GAAP, reinsurance balances would be shown on a separate gross basis.

Commissions on reinsurance ceded are credited to income at the time premium is ceded; under GAAP, commissions on ceded premium would be deferred and recognized as income over the periods covered by the policies.

E. Premiums

Premiums deferred and uncollected represent modal premiums, either due and uncollected or not yet due, where policy reserves have been provided on the assumption that the full modal premium for the current policy year has been collected. Also, where policy reserves have been provided on a continuous premium assumption, premiums uncollected are similarly defined.

Premiums and annuity considerations are recognized as income over the premium paying period of the policies. Acquisition costs, such as commissions and other costs related to the new business, are expensed as incurred. Contracts that permit the insured to change the amount and timing of premium payments, such as universal life products, are recorded as revenue when received. Under GAAP, revenues would include only policy charges for the cost of insurance, contract initiation and administration, surrender charges, and other fees that have been assessed against contract account values; and benefits would represent the excess of benefits paid over the policy account value and interest credited to the account values. Additionally, acquisition costs under GAAP would be capitalized and amortized over the policy period.

F. Cash, Cash Equivalents, and Short-Term Investments

For purposes of reporting cash flows, the Company follows statutory accounting practices and considers cash in checking accounts, certain money market funds, and highly liquid debt instruments purchased with a remaining maturity of one year or less to be cash, cash equivalents, and short-term investments. The Company occasionally has on deposit in a financial institution a balance in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). On December 31, 2024, the Company held \$2,661,011 in one financial institution in excess of the FDIC limit. The Company does not believe it is exposed to any significant credit risks on this account.

G. Deferred Tax Assets

Deferred income taxes are provided for differences between the financial statement and the tax basis of assets and liabilities and are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets would not be realized. Additionally, under statutory accounting practices, limitations are placed on the admissibility of deferred tax assets. All changes in ordinary deferred tax assets and liabilities are reported as changes in surplus, and state income taxes are not included in deferred tax calculations; under GAAP, there is no admissibility concept, changes in deferred tax assets and liabilities would be reported through operations and/or surplus depending on their characteristics, and state income taxes would be included in the deferred tax calculation.

H. Leases

All leases are accounted for as operating leases and are expensed as incurred. Under GAAP, leases would be classified separately as either finance or operating leases and recorded on the balance sheet as right-of-use assets and lease liabilities. For finance leases, the lessee would recognize amortization of the right-to-use asset and interest expense on the lease liability in separate line items on the statement of operations. For operating leases, the lessee would recognize a single lease cost, which is generally amortized on a straight-line basis over the remaining lease term.

I. Subsequent Events

Subsequent events were evaluated through March 22, 2025, which is the date the financial statements were available to be issued.

J. Other

Under GAAP, allowances for credit losses are required to be assessed and recorded for certain financial assets measured at cost or amortized cost such as mortgage loans, uncollected premium and amounts due from reinsurers; under statutory accounting, no such allowance for credit losses are recorded.

Treasury Stock is recorded at cost and reported as a reduction of capital and surplus under both statutory accounting practices and GAAP.

Statutory financial statements are prepared in a form using language and groupings substantially the same as the annual statement filed with the NAIC and state regulatory authorities which differ from the presentation and disclosure of financial statements presented under GAAP.

Necessary reclassifications are made in prior period financial statements, whenever appropriate, to conform to the current presentation.

2. Pension Plan, Post-Retirement Benefits, 401(k) Savings Plan, and Deferred Compensation**Pension Benefits**

The Company, its parent (The Farmers Automobile Insurance Association), and its affiliates participate in a trustee non-contributory defined benefit pension plan for certain employees. The Company and its affiliates adopted an amendment to freeze participation in the Plan for employees hired after January 1, 2013. The Company and its affiliates also adopted an amendment to freeze accrued benefits for all non-grandfathered participants. Non-grandfathered participants are participants who did not attain age 50 on or before December 31, 2017, and whose age and credited years of service as of December 31, 2017, did not exceed 75 points. Additionally, the Company and its affiliates adopted an amendment to offer a one-time, voluntary, early retirement benefit for certain grandfathered Plan participants.

The funding policy is to contribute annually an amount that represents the current cost of benefits expected to be earned in the current year offset by the expected asset return higher than the discount rate, but no more than the maximum amount that can be deducted for federal income tax purposes. Each affiliate is charged for its applicable share of such contributions based on a percent of projected benefit obligation.

Post-Retirement Benefits

In addition to providing pension benefits, the Company and its affiliates provide certain health care and life insurance benefits (post-retirement benefits) for retired employees. Employees hired prior to 2013 may become eligible for these benefits if they reach retirement age while working for the Company.

Expected Cash Flows

The Company and its affiliates do not expect to contribute to the Pension Plan in 2025. The Company and its affiliates do not expect to contribute to the Post-Retirement Benefit Plan in 2025.

The following benefit payments for the Company and its affiliates, which reflect expected cash flows for future service, are expected to be paid:

Year	Pension Benefits	Post-Retirement Benefits
2025	\$ 2,939,000	\$ 2,372,000
2026	3,108,000	2,565,000
2027	5,338,000	2,624,000
2028	4,083,000	2,810,000
2029	4,221,000	2,999,000
2030-2034	17,698,000	17,103,000

NOTES TO FINANCIAL STATEMENTS

STATUTORY BASIS

Obligations, Assets, and Assumptions

A summary, on an aggregate basis, of obligations, assets and net periodic benefit costs of the Pension and Post-Retirement Benefit Plans for the Company and its affiliates is as follows at December 31:

	Pension Benefits		Post-Retirement Benefits	
	2024	2023	2024	2023
Change in Benefit Obligation:				
Benefit Obligation at Beginning of Year	\$ 39,940,231	\$ 40,795,243	\$57,331,030	\$49,059,032
Service Cost	385,622	383,449	925,910	814,965
Interest Cost	1,863,488	1,977,195	2,788,250	2,470,380
Actuarial (Gain)/Loss	(2,036,308)	966,221	(7,134,157)	7,010,601
Benefits Paid	(2,092,066)	(4,181,877)	(1,571,078)	(2,023,948)
Benefit Obligation at End of Year	<u>\$ 38,060,967</u>	<u>\$ 39,940,231</u>	<u>\$52,339,955</u>	<u>\$57,331,030</u>
Accumulated Benefit Obligation	\$ 36,537,769	\$ 38,269,394	\$52,339,955	\$57,331,030
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Year	\$ 51,970,524	\$ 53,116,605	\$21,116,321	\$22,139,060
Actual Return on Plan Assets	6,158,220	3,035,796	701,182	662,622
Employer Contribution	-	-	-	-
Benefits Paid	(2,092,066)	(4,181,877)	(1,177,440)	(1,685,361)
Fair Value of Plan Assets at End of Year	<u>\$ 56,036,678</u>	<u>\$ 51,970,524</u>	<u>\$20,640,063</u>	<u>\$21,116,321</u>
Funded Status:				
Recognized Liabilities				
Accrued Benefit Costs (Prepaid Asset) Liability (Prepaid Asset) for Benefits	\$ (9,725,063)	\$ (8,424,307)	\$32,687,386	\$31,358,731
Total Liabilities Recognized (Nonadmitted Prepaid Asset)	<u>\$ (17,975,711)</u>	<u>\$ (12,030,293)</u>	<u>\$31,699,892</u>	<u>\$36,214,709</u>
Unrecognized Liabilities	\$ -	\$ -	\$ -	\$ -
Components of Net Periodic Benefit Cost:				
Service Cost	\$ 385,622	\$ 383,449	\$ 925,910	\$ 814,965
Interest Cost	1,863,488	1,977,195	2,788,250	2,470,380
Expected Return on Plan Assets	(3,549,866)	(3,525,845)	(1,161,398)	(1,162,301)
Amortization of Net (Gains) Losses	-	(16,263)	166,956	-
Prior Service Cost (Credit)	-	-	(997,425)	(997,425)
Settlement/Curtailment	-	(377,559)	-	-
Total Net Periodic Benefit Cost	<u>\$ (1,300,756)</u>	<u>\$ (1,559,023)</u>	<u>\$ 1,722,293</u>	<u>\$ 1,125,619</u>

The net periodic benefit cost of the Pension and Other Post-Retirement Benefit Plans is measured on a seriatim basis that projects future benefit costs participant by participant based on demographic characteristics. The projected costs are discounted to a present value.

NOTES TO FINANCIAL STATEMENTS

STATUTORY BASIS

Below is a summary, on a Company basis, of obligations, assets, and net periodic benefit costs of the Pension Benefit Plan at December 31:

	Farmers Automobile Insurance Association		Pekin Insurance Company		Pekin Life Insurance Company		Combined Companies	
	2024	2023	2024	2023	2024	2023	2024	2023
Benefit Obligation	\$ 23,335,940	\$ 24,398,688	\$ 5,833,985	\$ 6,099,672	\$ 8,891,042	\$ 9,441,871	\$ 38,060,967	\$ 39,940,231
Plan Assets	34,357,208	31,747,754	8,589,302	7,936,938	13,090,168	12,285,832	56,036,678	51,970,524
Underfunded (Overfunded)	\$ (11,021,268)	\$ (7,349,066)	\$ (2,755,317)	\$ (1,837,266)	\$ (4,199,126)	\$ (2,843,961)	\$ (17,975,711)	\$ (12,030,293)
Accrued Benefit Costs (Prepaid Asset)	\$ (4,691,698)	\$ (3,897,092)	\$ (1,172,927)	\$ (974,276)	\$ (3,860,438)	\$ (3,552,939)	\$ (9,725,063)	\$ (8,424,307)
Liability (Asset) for Benefits	(6,329,568)	(3,451,973)	(1,582,392)	(862,991)	(338,688)	708,978	(8,250,648)	(3,605,986)
	\$ (11,021,266)	\$ (7,349,065)	\$ (2,755,319)	\$ (1,837,267)	\$ (4,199,126)	\$ (2,843,961)	\$ (17,975,711)	\$ (12,030,293)
Net Periodic Benefit Cost	\$ (794,606)	\$ (929,302)	\$ (198,651)	\$ (232,326)	\$ (307,499)	\$ (397,395)	\$ (1,300,756)	\$ (1,559,023)

Below is a summary, on a Company basis, of obligations, assets, and net periodic benefit costs of the Post-Retirement Benefit Plan at December 31:

	Farmers Automobile Insurance Association		Pekin Insurance Company		Pekin Life Insurance Company		Combined Companies	
	2024	2023	2024	2023	2024	2023	2024	2023
Benefit Obligation	\$ 32,693,630	\$ 35,467,268	\$ 8,173,407	\$ 8,866,817	\$ 11,472,918	\$ 12,996,945	\$ 52,339,955	\$ 57,331,030
Plan Assets	12,892,609	13,063,401	3,223,152	3,265,850	4,524,302	4,787,070	20,640,063	21,116,321
Underfunded	\$ 19,801,021	\$ 22,403,867	\$ 4,950,255	\$ 5,600,967	\$ 6,948,616	\$ 8,209,875	\$ 31,699,892	\$ 36,214,709
Accrued Benefit Costs (Prepaid Asset)	\$ 20,371,614	\$ 19,551,879	\$ 5,092,899	\$ 4,887,965	\$ 7,222,873	\$ 6,918,887	\$ 32,687,386	\$ 31,358,731
Liability (Asset) for Benefits	(570,593)	2,851,992	(142,644)	712,998	(274,257)	1,290,988	(987,494)	4,855,978
	\$ 19,801,021	\$ 22,403,871	\$ 4,950,255	\$ 5,600,963	\$ 6,948,616	\$ 8,209,875	\$ 31,699,892	\$ 36,214,709
Net Periodic Benefit Cost	\$ 1,065,617	\$ 700,495	\$ 266,404	\$ 175,124	\$ 390,272	\$ 250,000	\$ 1,722,293	\$ 1,125,619

NOTES TO FINANCIAL STATEMENTS

STATUTORY BASIS

Following are components of net periodic benefit cost as they related to unassigned surplus for the Company and its affiliates at December 31:

	Pension Benefits		Post-Retirement Benefits	
	2024	2023	2024	2023
Amounts in Unassigned Surplus Recognized as Components of Net Periodic Benefit Cost:				
Items Not Yet Recognized from Prior Year	\$ (3,605,986)	\$ (5,456,078)	\$ 4,855,978	\$ (3,651,727)
Net Prior Service Cost Recognized	-	-	997,425	997,425
Net (Gain) Loss Arising During the Period	(4,644,662)	1,456,270	(6,673,941)	7,510,280
Net Gain (Loss) Recognized	-	393,822	(166,956)	-
Items Not Yet Recognized Current Year	<u>\$ (8,250,648)</u>	<u>\$ (3,605,986)</u>	<u>\$ (987,494)</u>	<u>\$ 4,855,978</u>
Amounts in Unassigned Surplus Not Yet Recognized as Components of Net Periodic Benefit Cost:				
Net Prior Service Cost/(Credit)	\$ -	\$ -	\$ (1,565,956)	\$ (2,563,381)
Net Recognized (Gains) Losses	\$ (8,250,648)	\$ (3,605,986)	\$ 578,462	\$ 7,419,359

Weighted average assumptions used to determine the projected benefit obligation are shown below at December 31:

	Pension Benefits		Post-Retirement Benefits	
	2024	2023	2024	2023
Discount Rate	5.51%	4.91%	5.81%	5.11%
Rate of Compensation Increase	4.00% to 8.75%	4.00% to 8.75%	N/A	N/A

Weighted average assumptions used to determine the net periodic benefit cost are shown below for the years ended December 31:

	Pension Benefits		Post-Retirement Benefits	
	2024	2023	2024	2023
Discount Rate	4.91%	5.11%	5.11%	5.29%
Rate of Compensation Increase	4.00% to 8.75%	4.00% to 8.75%	N/A	N/A
Expected Long-Term Rate of Return on Plan Assets	7.00%	6.75%	5.50%	5.25%

The health care portion of the post-retirement benefit plan is contributory, with participants' contributions adjusted annually as determined by the Company; the life insurance portion of the post-retirement benefit plan is noncontributory. For 2024, the health care cost trend rate for 2025 was 8.07 percent/9.90 percent for pre-65/post-65, then graded down to 4.50 percent by 2033 onwards. In 2023, the health care cost trend rate for 2024 was 7.66 percent/8.27 percent for pre-65/post-65, then graded down to 4.50 percent by 2032 onwards.

The retirement plan assets are held in a deposit administration contract and equity securities. The Trustees of the Farmers Automobile Insurance Association Retirement Plan maintain a deposit administration contract with the Company for pension benefits. The contract is a group annuity contract consisting of employer contributions with guaranteed interest, less annuities purchased, to provide benefit payments to retirees and lump sum benefits paid directly to participants. The fair value of the contract included in plan assets of the Company and its affiliates was \$21,056,087 and \$16,690,620 as of December 31, 2024 and 2023, respectively, or 38 percent and 32 percent of total plan assets. Equity securities comprise the remaining plan assets. At December 31, 2024

and 2023, equity securities, cash and cash equivalents amounted to \$34,980,591 and \$35,279,904, respectively, or 62 percent and 68 percent of total plan assets. In 2024 and 2023, the Trustees liquidated \$5,800,000 and \$15,000,000 of equity securities and transferred these funds into the deposit administration contract.

The expected long-term rate of return on plan assets was selected based upon current market conditions, company experience, and future company expectations.

The specific goal of the investment portfolio is to maintain a fully funded plan over time to ensure the benefit for the plan participants. New contributions are invested in equity securities until the amount in equities exceeds 45 percent of the plan's total assets. Additional amounts will be paid into the deposit administration contract, unless the equity portfolio falls under 45 percent. If the equity portfolio exceeds 60 percent of the plan's assets, part of the equity portfolio will be liquidated and proceeds moved into the deposit administration contract within a reasonable time frame. There are three return objectives. The primary benchmark is the projected annual rate of return used by the plan's actuary. The average annualized investment performance of the invested assets, net of investment-related expenses, should be equal to or in excess of this benchmark. The secondary (equity) benchmark is the percent total rate of return of a balanced portfolio comprised of a 70 percent weighting of the Standard & Poor's 500 Index and a 30 percent weighting of the Barclay's Government Corporate Index. The secondary (fixed income) benchmark is the weighted average rate of return of the Company's bond portfolio, excluding mortgage-backed securities, less 0.75 percent which includes 0.25 percent for expenses and 0.50 percent for spread. All plan assets, in excess of those funds targeted for short-term cash flows needs, should be invested in a manner consistent with the basic principles of prudent long-term portfolio management. Derivatives, private placement securities, and commodity contracts are prohibited investment vehicles. The Trustees of the plan recognize the long-term nature of the majority of the plan's assets.

The Farmers Automobile Insurance Association Retirement Plan maintains an account to partially fund health benefits provided to certain retirees and eligible dependents through a deposit administration contract with the Company. The permissible account funding was determined in accordance with generally recognized and accepted actuarial principles and practices, which are consistent with the Actuarial Standards of Practice. As of December 31, 2024 and 2023, the fair value of the contract was \$20,640,063 and \$21,116,321, respectively. No contributions were made into the deposit administration contract in 2024 and 2023.

The Company utilizes the following valuation techniques in determining the level within the fair value hierarchy of the Pension Plan and Post-Retirement Plan assets:

Level 1 – Quoted market prices reported on the active markets on which the individual stocks and money market funds are traded.

Level 3 – Principal valuation technique is discounted cash flows. Unobservable inputs are credit rate and payout date.

NOTES TO FINANCIAL STATEMENTS

STATUTORY BASIS

The following table sets forth by level, within the fair value hierarchy, the assets of the Pension Plan and Post-Retirement Plan at fair value as of December 31, 2024, for the Company and its affiliates:

	Assets at Fair Value as of December 31, 2024			
	Level 1	Level 2	Level 3	Total
Pension Plan Assets:				
Equity Securities				
Communications Services	\$ 2,184,345	\$ -	\$ -	\$ 2,184,345
Consumer Discretionary	1,119,900	-	-	1,119,900
Consumer Staples	3,445,731	-	-	3,445,731
Energy	2,976,190	-	-	2,976,190
Financials	6,539,399	-	-	6,539,399
Health Care	4,690,186	-	-	4,690,186
Industrials	3,005,775	-	-	3,005,775
Information Technology	3,766,300	-	-	3,766,300
Materials	793,410	-	-	793,410
Utilities	5,945,610	-	-	5,945,610
Total Equity Securities	34,466,846	-	-	34,466,846
Cash and Cash Equivalents	513,745	-	-	513,745
Deposit Administration Contract	-	-	21,056,087	21,056,087
Total Pension Plan Assets	<u>\$ 34,980,591</u>	<u>\$ -</u>	<u>\$ 21,056,087</u>	<u>\$ 56,036,678</u>
Post-Retirement Plan Assets:				
Deposit Administration Contract	\$ -	\$ -	\$ 20,640,063	\$ 20,640,063
Total Post-Retirement Plan Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,640,063</u>	<u>\$ 20,640,063</u>

The following table sets forth by level, within the fair value hierarchy, the assets of the Pension Plan and Post-Retirement Plan at fair value as of December 31, 2023, for the Company and its affiliates:

	Assets at Fair Value as of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Pension Plan Assets:				
Equity Securities				
Communications Services	\$ 1,919,087	\$ -	\$ -	\$ 1,919,087
Consumer Discretionary	1,275,915	-	-	1,275,915
Consumer Staples	3,860,430	-	-	3,860,430
Energy	2,424,905	-	-	2,424,905
Financials	6,220,699	-	-	6,220,699
Health Care	4,615,606	-	-	4,615,606
Industrials	3,610,806	-	-	3,610,806
Information Technology	4,451,097	-	-	4,451,097
Materials	776,493	-	-	776,493
Utilities	5,343,056	-	-	5,343,056
Total Equity Securities	34,498,093	-	-	34,498,093
Cash and Cash Equivalents	781,810	-	-	781,810
Deposit Administration Contract	-	-	16,690,620	16,690,620
Total Pension Plan Assets	<u>\$ 35,279,904</u>	<u>\$ -</u>	<u>\$ 16,690,620</u>	<u>\$ 51,970,524</u>
Post-Retirement Plan Assets:				
Deposit Administration Contract	\$ -	\$ -	\$ 21,116,321	\$ 21,116,321
Total Post-Retirement Plan Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,116,321</u>	<u>\$ 21,116,321</u>

Director Retirement Plan

Pursuant to a retirement plan for directors elected prior to 2004, eligible directors will receive a retirement benefit equal to the annual retainer in effect on the directors' retirement dates. The Company's benefits paid were \$60,300 and \$67,300 in 2024 and 2023. The Company's liability for the director retirement benefit was \$169,039 and \$191,845 at December 31, 2024 and 2023, respectively. In December 2021, the Board adopted an additional director retirement plan for eligible directors not in the aforementioned director retirement plan. The benefits paid were \$55,106 and \$52,571 at December 31, 2024 and in 2023, respectively. The liability for the director retirement benefit under the additional plan was \$936,814 and \$907,389 at December 31, 2024 and 2023, respectively.

401(k) Savings Plan

The Company and its affiliates participate in a voluntary 401(k) savings plan for eligible participants. Participation requires that an employee be at least 18 years of age and not a temporary employee. The Company may elect, at the discretion of the Trustees, to contribute a matching percentage of the participants' contributions to the participants' accounts. In 2024 and 2023, the Company elected to match 25 percent of the employee's contribution up to a maximum match of \$400 to employees hired prior to January 1, 2013.

Employees hired after January 1, 2013, may receive, at the discretion of the Company, a contribution from the Company based on a percentage of eligible earnings and a Company match of the employee's percentage of contribution. The Company contributed 3.0 percent of employees' eligible earnings in 2024 and 2023, as well as a 75.0 percent match of the employees' percentage of contribution not to exceed 7.0 percent of employees' eligible earnings in 2024 in 2023.

Employer contributions of \$335,774 and \$333,315, respectively, were made to this plan for all participants in 2024 and 2023.

Deferred Compensation

The Company maintains a deferred compensation plan for the directors. This plan allows for voluntary deferral of all or any part of the compensation to which a director might otherwise be entitled to as director fees, in accordance with the plan provisions. During 2024 and 2023, \$26,000 and \$26,000 of director fees were deferred, respectively. The liability for director deferred compensation was \$277,813 and \$255,002 at December 31, 2024 and 2023, respectively.

3. Affiliated Entity Transactions

The Farmers Automobile Insurance Association (Association) and its wholly owned subsidiary, Pekin Insurance Company, owned 92.68 percent and 91.71 percent of the Company at December 31, 2024 and 2023, respectively. The Company and the Association utilize many common facilities, management, administrative and office personnel, and services. The Association incurs such expenses and allocates the related cost to the Company on a specific identification basis. Intercompany balances are paid periodically throughout the year based on estimates and settled within 45 days after year end based on actual allocated expenses. Such expenses allocated to the Company were \$6,027,805 in 2024 and \$6,474,240 in 2023.

The Company's home office building has a book value of \$1,203,063 and was constructed on land leased from the Association for a term expiring on December 31, 2026, with a year-to-year extension of the lease thereafter. Automatic termination would occur with change of control of the Company. The Association has an irrevocable option to purchase the building at any time during the lease or in the event the lease is canceled. The purchase price of the building shall be the fair market value as of the closing date. The annual lease payment is \$1,000.

In connection with structured settlements, the Association purchased 11 annuities from the Company in 2024 and 5 annuities in 2023. The single premium for these annuities totaled \$362,140 and \$207,596 in 2024 and 2023, respectively. The total reserve carried by the Company at

NOTES TO FINANCIAL STATEMENTS

STATUTORY BASIS

December 31, 2024 and 2023, is \$9,145,009 and \$9,387,774, respectively. The Association's claimants are the payees.

4. Investments

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2024, are as follows:

Obligation	2024			Market Value
	Admitted Value	Unrealized Gain	Unrealized Loss	
U.S. Government	\$ 2,896,057	\$ -	\$ 102,018	\$ 2,794,039
Other Government	5,793,247	-	1,496,319	4,296,932
U.S. States, Territories and Possessions	5,125,000	-	838,031	4,286,969
U.S. Political Subdivisions	3,550,000	-	855,138	2,694,862
U.S. Special Revenue and Special Assessment	84,827,259	924,691	9,561,162	76,190,790
Industrial and Miscellaneous	1,077,660,959	9,039,811	116,665,400	970,035,370
Hybrid Securities	8,296,942	32,892	31,816	8,298,018
Loan-Backed Securities	242,710,358	242,592	24,379,428	218,573,526
Total	\$ 1,430,859,822	\$ 10,239,986	\$ 153,929,312	\$ 1,287,170,506

The admitted value, unrealized gain and loss, and market value of investments in bonds as of December 31, 2023, are as follows:

Obligation	2023			Market Value
	Admitted Value	Unrealized Gain	Unrealized Loss	
U.S. Government	\$ 2,897,813	\$ -	\$ 149,399	\$ 2,748,414
Other Government	5,790,891	-	991,704	4,799,187
U.S. States, Territories and Possessions	5,125,000	14,620	671,313	4,468,307
U.S. Political Subdivisions	3,550,000	-	845,011	2,704,989
U.S. Special Revenue and Special Assessment	93,499,523	2,041,980	9,626,391	85,915,112
Industrial and Miscellaneous	1,059,471,464	19,240,201	90,076,686	988,634,979
Hybrid Securities	4,002,733	-	87,484	3,915,249
Loan-Backed Securities	243,244,748	296,780	23,739,434	219,802,094
Total	\$ 1,417,582,172	\$ 21,593,581	\$ 126,187,422	\$ 1,312,988,331

The admitted value of loan-backed securities includes \$96,981 and \$118,854 of U.S. Government Guaranteed Securities for 2024 and 2023, respectively.

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The admitted value and market value of bonds at December 31, 2024, by contractual maturity, are shown below:

	<u>Admitted Value</u>	<u>Market Value</u>
Due in One Year or Less	\$ 16,194,102	\$ 15,935,455
Due After One Year Through Five Years	201,877,814	198,308,889
Due After Five Years Through Ten Years	399,259,316	368,936,689
Due After Ten Years	813,528,590	703,989,473
Total	<u>\$ 1,430,859,822</u>	<u>\$ 1,287,170,506</u>

The Company does not engage in direct subprime residential mortgage lending. The Company's minimal exposure to subprime lending is limited to investments within the fixed maturity investment portfolio which contain securities collateralized by mortgages that have characteristics of subprime lending such as adjustable rate mortgages and alternative documentation mortgages. These investments are in the form of asset-backed securities collateralized by subprime mortgages and collateralized mortgage obligations backed by alternative documentation mortgages. The Company did not hold any such investments as of December 31, 2024 or 2023.

The adjusted cost and market value of investments in preferred stock as of December 31 are as follows:

	<u>2024</u>		<u>2023</u>	
	<u>Adjusted Cost</u>	<u>Market Value</u>	<u>Adjusted Cost</u>	<u>Market Value</u>
Preferred Stocks				
Redeemable Preferred Stock	\$ 1,500,000	\$ 1,512,404	\$ -	\$ -
Gross Unrealized Gains		\$ 12,404		\$ -
Gross Unrealized Losses		-		-

The adjusted cost and market value of investments in common stock as of December 31 are as follows:

	<u>2024</u>		<u>2023</u>	
	<u>Adjusted Cost</u>	<u>Market Value</u>	<u>Adjusted Cost</u>	<u>Market Value</u>
Common Stock				
Common Stock	\$26,341,650	\$ 43,482,898	\$22,941,496	\$ 35,899,031
Gross Unrealized Gains		\$ 18,171,146		\$ 13,795,280
Gross Unrealized Losses		1,029,908		837,745

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Debt securities with unrealized losses based on estimated market values as of December 31, 2024, are shown below:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Government	\$ 610,875	\$ 7,294	\$ 2,183,164	\$ 94,724	\$ 2,794,039	\$ 102,018
Other Government	-	-	4,296,932	1,496,316	4,296,932	1,496,316
U.S. States, Territories and Possessions	1,840,000	160,000	2,446,969	678,031	4,286,969	838,031
U.S. Political Subdivisions	1,917,820	582,180	777,042	272,958	2,694,862	855,138
U.S. Special Revenue and Special Assessment	4,977,125	122,875	54,443,972	9,438,287	59,421,097	9,561,162
Industrial and Miscellaneous	200,172,127	9,494,712	554,277,650	107,170,689	754,449,777	116,665,401
Hybrid Securities	-	-	3,969,618	31,816	3,969,618	31,816
Loan-Backed Securities	35,943,076	408,174	132,599,921	23,971,256	168,542,997	24,379,430
Total Bonds with Unrealized Losses	<u>\$ 245,461,023</u>	<u>\$ 10,775,235</u>	<u>\$ 754,995,268</u>	<u>\$ 143,154,077</u>	<u>\$ 1,000,456,291</u>	<u>\$ 153,929,312</u>

Debt securities with unrealized losses based on estimated market values as of December 31, 2023, are shown below:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Government	\$ -	\$ -	\$ 2,748,414	\$ 149,398	\$ 2,748,414	\$ 149,398
Other Government	-	-	4,799,187	991,704	4,799,187	991,704
U.S. States, Territories and Possessions	-	-	2,453,688	671,313	2,453,688	671,313
U.S. Political Subdivisions	-	-	2,704,989	845,012	2,704,989	845,012
U.S. Special Revenue and Special Assessment	6,612,620	506,423	53,445,510	9,119,970	60,058,130	9,626,393
Industrial and Miscellaneous	33,268,168	1,067,212	598,520,219	89,009,474	631,788,387	90,076,686
Loan-Backed Securities	258,213	809	186,467,623	23,738,623	186,725,836	23,739,432
Total Bonds with Unrealized Losses	<u>\$ 40,139,001</u>	<u>\$ 1,574,444</u>	<u>\$ 855,054,878</u>	<u>\$ 124,612,978</u>	<u>\$ 895,193,879</u>	<u>\$ 126,187,422</u>

Equity securities with unrealized losses based on estimated market values as of December 31, 2024, are shown below:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Common Stocks	\$ 10,499,728	\$ 295,351	\$ 6,811,452	\$ 734,557	\$ 17,311,180	\$ 1,029,908
Total Common Stocks with Unrealized Losses	<u>\$ 10,499,728</u>	<u>\$ 295,351</u>	<u>\$ 6,811,452</u>	<u>\$ 734,557</u>	<u>\$ 17,311,180</u>	<u>\$ 1,029,908</u>

Equity securities with unrealized losses based on estimated market values as of December 31, 2023, are shown below:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Common Stocks	\$ 6,858,405	\$ 163,073	\$ 6,092,160	\$ 674,672	\$ 12,950,565	\$ 837,745
Total Common Stocks with Unrealized Losses	<u>\$ 6,858,405</u>	<u>\$ 163,073</u>	<u>\$ 6,092,160</u>	<u>\$ 674,672</u>	<u>\$ 12,950,565</u>	<u>\$ 837,745</u>

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The components of net realized capital gains (losses), as of December 31, are as follows:

	<u>2024</u>	<u>2023</u>
Gains on Disposals	\$ 4,688,837	\$ 3,703,658
Losses on Disposals	(10,125,374)	(9,673,018)
OTTI	-	(93,933)
Transfers to IMR	6,531,523	5,932,532
Total	1,094,986	(130,761)
Tax Expense	1,026,532	1,192,846
Net Realized Capital Gains	<u>\$ 2,121,518</u>	<u>\$ 1,062,085</u>

Bonds and Certificate of Deposit are submitted for purposes of statutory deposit with various State Insurance Departments. These assets as reported at admitted value at December 31, 2024 and 2023, respectively, as shown below:

<u>State of Record</u>	<u>2024</u>		<u>2023</u>	
	<u>Bonds</u>	<u>Certificate of Deposit</u>	<u>Bonds</u>	<u>Certificate of Deposit</u>
Georgia	\$ -	\$ 35,000	\$ -	\$ 35,000
Illinois	1,669,789	-	1,685,593	-
Nevada	200,336	-	200,336	-
North Carolina	618,169	-	600,018	-
Virginia	407,763	-	411,866	-
Total Deposits	<u>\$ 2,896,057</u>	<u>\$ 35,000</u>	<u>\$ 2,897,813</u>	<u>\$ 35,000</u>

Mortgage Loans

The Company invests in mortgage loans collateralized by commercial property. The Company's mortgage loan portfolio consists of loans made on properties located in 37 states. The minimum and maximum lending rates for mortgage loans during 2024 was 3.88 percent and 7.06 percent. The minimum and maximum lending rates for mortgage loans during 2023 was 3.88 percent and 7.06 percent. In 2024 and 2023, the Company's maximum percentage of any one loan to the value of security at the time the loan was originated, exclusive of insured, guaranteed, or purchase money mortgages, was 100 percent. In 2024 and 2023, the Company's minimum percentage of any one loan to the value of security at the time the loan was originated, exclusive of insured, guaranteed, or purchase money mortgages was 16 percent and 17 percent, respectively. The Company has not included taxes, assessments, or other amounts advanced in mortgage loans at December 31, 2024 or 2023. The Company had one mortgage with interest more than 180 days past due and no OTTI recognized as realized loss as of December 31, 2024. An OTTI of \$93,933 was recognized as a realized loss on mortgage loans in 2023 for this loan. There were no gains or losses from the disposal of mortgage loans in 2024 or 2023. There were no mortgage loans derecognized as a result of foreclosure during 2024 or 2023.

An age analysis of mortgage loans is shown below:

<u>Recorded Investment</u>	<u>2024</u>		<u>2023</u>	
	<u>Commercial</u>		<u>All Other</u>	
Current	\$ 115,153,198	\$ 113,908,126		
180+ days past due	146,313	215,220		
	<u>115,299,511</u>	<u>114,123,346</u>		

Securities Lending

The Company lends securities to agreed upon borrowers through an agreement with its custodian. The Company requires initial collateral from the borrower in an amount no less than 102 percent of the fair value of domestic securities and no less than 105 percent of the fair value of foreign

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securities loaned at the outset of the contract. All collateral so received is held either in the physical custody of the custodian or for the account of the custodian by their agent or a central bank. The offsetting collateral liability is included in Payable for Securities Lending. At December 31, 2024 and 2023, respectively, the amount of securities loaned was \$49,160,154 and \$38,064,429, and the related collateral was \$37,351,526 and \$39,044,671. At December 31, 2024 collateral assets valued at \$4,437,290 had maturity dates beyond one year.

The aggregate amount of cash collateral received as of December 31, 2024 and 2023 is shown below by maturity date:

Maturity Date	2024 Fair Value	2023 Fair Value
Open	\$ 12,621,544	\$ 22,799,530
30 Days or Less	8,520,188	2,303,839
31 to 60 Days	2,414,299	2,084,242
61 to 90 Days	5,984,066	3,837,163
Greater Than 90 Days	7,375,796	7,500,961
Total Bond Collateral Received	36,915,894	38,525,735
Total Equity Collateral Received	435,632	518,936
Total Collateral Received	\$ 37,351,526	\$ 39,044,671

The Company participates in a liquid asset portfolio. At December 31, 2024 and 2023, the aggregate value of the reported reinvested collateral was \$38,440,488 and \$39,628,722 and the related fair value was \$37,264,933 and \$38,941,237, respectively.

As of December 31, 2024 and 2023, the Company has \$54,327,802 and \$41,515,796, respectively, in gross restricted assets related to securities lending agreements. This amount represents collateral that has been accepted from the borrower.

5. Fair Value Measurement

Statutory Accounting Practices establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level one measurements) and the lowest priority to unobservable inputs (level three measurements). The three levels of the fair value hierarchy under statutory accounting are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Company has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

The fair values of the Level 2 securities are obtained from independent pricing services or from the Company's investment manager and are determined using quoted market prices from an orderly market at the reporting date for those or similar investments.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the Company's financial instruments that are reported at fair value within the statutory balance sheet as of December 31, 2024:

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Description	2024			
	Level 1	Level 2	Level 3	Total
Common Stocks	\$ 42,934,448	\$ -	\$ 548,450	\$ 43,482,898
Cash Equivalents	10,919,819	-	-	10,919,819

The following table sets forth by level, within the fair value hierarchy, the Company's financial instruments that are reported at fair value within the statutory balance sheet as of December 31, 2023:

Description	2023			
	Level 1	Level 2	Level 3	Total
Common Stocks	\$ 35,313,270	\$ -	\$ 585,761	\$ 35,899,031
Cash Equivalents	10,193,740	-	-	10,193,740

The Level 3 asset held at December 31, 2024 was purchased for \$587,316. As of December 31, 2024 the asset showed a cumulative loss of \$38,866, bringing the value to \$548,450. The Company does not have any liabilities measured at fair value at December 31, 2024 and 2023.

The aggregate fair value of all financial instruments as of December 31, 2024, is shown below.

	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Bonds	\$ 1,287,170,506	\$ 1,430,859,822	\$ 2,794,039	\$ 1,284,376,467	\$ -	\$ -
Preferred Stocks	1,512,404	1,500,000	-	1,512,404	-	-
Common Stocks	43,482,898	43,482,898	42,934,448	-	548,450	-
Mortgage Loans	115,299,511	115,299,511	-	-	-	115,299,511
Cash Equivalents	10,884,819	10,884,819	10,884,819	-	-	-

The aggregate fair value of all financial instruments as of December 31, 2023, is shown below:

	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Bonds	\$ 1,312,988,295	\$ 1,417,582,172	\$ 2,748,414	\$ 1,310,239,881	\$ -	\$ -
Common Stocks	35,899,031	35,899,031	35,313,270	-	585,761	-
Mortgage Loans	114,123,346	114,123,346	-	-	-	114,123,346
Cash Equivalents	10,193,740	10,193,740	10,193,740	-	-	-

It was not practicable to determine fair value of these mortgage loans because a quoted market price was not available and the cost of obtaining independent appraisals would be excessive. As of December 31, 2024 and 2023, the carrying value of the mortgage loans was \$115,299,511 and \$114,123,346, respectively.

The type of security included within each hierarchy in the above tables is as follows:

Level 1 Measurements

Bonds: Comprised of actively traded U.S. Treasury notes.
 Common Stock: Comprised of actively traded exchange listed mutual funds and common stocks.
 Cash Equivalents: Comprised of money market securities.

Level 2 Measurements

Bonds: Comprised of U.S. Government, municipal, and corporate securities.
 Preferred Stocks: Comprised of actively traded, exchange-listed redeemable preferred stock and is recorded at amortized cost.

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Level 3 Measurements

Common Stock: Comprised of industrial and miscellaneous unaffiliated other common stock.

6. Annuity Actuarial Reserves and Deposit Liabilities by Withdrawal Characteristics

Annuity actuarial reserves and deposit liabilities, by withdrawal characteristics, as of December 31 are as follows:

	Individual Annuities			
	2024		2023	
	General Account	Percent of Total	General Account	Percent of Total
Subject to Discretionary Withdrawal:				
With Market Value Adjustment	\$ 108,391,341	42.6%	\$ 115,576,308	41.8%
At Book Value Less Current Surrender Charge of 5% or More	3,587,184	1.4%	5,113,328	1.8%
At Fair Value	160,046	0.1%	166,025	0.1%
Total With Market Value Adjustment or at Fair Value	112,138,571	44.1%	120,855,661	43.7%
At Book Value Without Adjustment	136,502,151	53.7%	150,368,214	54.3%
Not Subject to Discretionary Withdrawal	5,479,354	2.2%	5,513,615	2.0%
Total Gross	254,120,076	100.0%	276,737,490	100.0%
Reinsurance Ceded	(40,012)		(41,506)	
Total Net	\$ 254,080,064		\$ 276,695,984	
	Group Annuities			
	2024		2023	
	General Account	Percent of Total	General Account	Percent of Total
Subject to Discretionary Withdrawal:				
With Market Value Adjustment	\$ -	0.0%	\$ -	0.0%
At Book Value Less Current Surrender Charge of 5% or More	6,943,066	16.2%	6,812,448	15.6%
At Fair Value	-	0.0%	-	0.0%
Total With Market Value Adjustment or at Fair Value	6,943,066	16.2%	6,812,448	15.6%
At Book Value Without Adjustment	5,125,160	12.0%	4,806,731	11.0%
Not Subject to Discretionary Withdrawal	30,760,014	71.8%	32,057,245	73.4%
Total Gross	42,828,240	100.0%	43,676,424	100.0%
Reinsurance Ceded	-		-	
Total Net	\$ 42,828,240		\$ 43,676,424	
	Deposit-Type Contracts			
	2024		2023	
	General Account	Percent of Total	General Account	Percent of Total
Subject to Discretionary Withdrawal:				
With Market Value Adjustment	\$ -	0.0%	\$ -	0.0%
At Book Value Less Current Surrender Charge of 5% or More	-	0.0%	-	0.0%
At Fair Value	-	0.0%	-	0.0%
Total With Market Value Adjustment or at Fair Value	-	0.0%	-	0.0%
At Book Value Without Adjustment	15,029,402	26.5%	16,227,140	30.0%
Not Subject to Discretionary Withdrawal	41,696,149	73.5%	37,806,941	70.0%
Total Gross	56,725,551	100.0%	54,034,081	100.0%
Reinsurance Ceded	-		-	
Total Net	\$ 56,725,551		\$ 54,034,081	

In 2024 and 2023, the Company reported \$41,696,150 and \$37,806,941, respectively, in the annuity actuarial reserves and deposit liabilities related to the deposit administration contracts for the Farmers Automobile Insurance Association Retirement Plan and Post-Retirement Plan of which the Company is a participant.

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7. Analysis of Life Actuarial Reserves by Withdrawal Characteristics

Life actuarial reserves, by withdrawal characteristics, as of December 31, 2024 are as follows:

	2024		
	General Account		
	Account Value	Cash Value	Reserve
Subject to Discretionary Withdrawal, Surrender Values, or Policy Loans:			
Universal Life	\$ 267,581,794	\$ 236,416,704	\$ 246,183,140
Universal Life with Secondary Guarantees	83,421,371	81,478,717	103,195,121
Other Permanent Cash Value Life Insurance	437,516,965	437,516,965	562,631,267
Miscellaneous Reserves	-	-	3,441,392
Not Subject to Discretionary Withdrawal or No Cash Values:			
Term Policies Without Cash Value	-	-	198,261,847
Accidental Death Benefits	-	-	88,925
Disability - Active Lives	-	-	1,855,238
Disability - Disabled Lives	-	-	292,589
Miscellaneous Reserves	-	-	11,251,025
Total Gross	<u>788,520,130</u>	<u>755,412,386</u>	<u>1,127,200,544</u>
Reinsurance Ceded	-	-	21,156,206
Total Net	<u>\$ 788,520,130</u>	<u>\$ 755,412,386</u>	<u>\$ 1,106,044,338</u>

Life actuarial reserves, by withdrawal characteristics, as of December 31, 2023 are as follows:

	2023		
	General Account		
	Account Value	Cash Value	Reserve
Subject to Discretionary Withdrawal, Surrender Values, or Policy Loans:			
Universal Life	\$ 246,731,227	\$ 216,875,566	\$ 226,438,542
Universal Life with Secondary Guarantees	94,925,757	92,519,244	113,781,440
Other Permanent Cash Value Life Insurance	408,101,221	408,101,221	529,328,327
Miscellaneous Reserves	-	-	3,373,049
Not Subject to Discretionary Withdrawal or No Cash Values:			
Term Policies Without Cash Value	-	-	192,651,703
Accidental Death Benefits	-	-	87,406
Disability - Active Lives	-	-	1,752,869
Disability - Disabled Lives	-	-	455,987
Miscellaneous Reserves	-	-	14,375,696
Total Gross	<u>749,758,205</u>	<u>717,496,031</u>	<u>1,082,245,019</u>
Reinsurance Ceded	-	-	20,642,540
Total Net	<u>\$ 749,758,205</u>	<u>\$ 717,496,031</u>	<u>\$ 1,061,602,479</u>

Not included in the above table are Credit Life reserves of \$5,901,087 and \$14,869,543 as of December 31, 2024, and 2023, respectively.

8. Life and Health Reserves

A. Life Contracts and Deposit-Type Contracts

The Company waives deduction of deferred fractional premiums upon death of an insured and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves. Policies subject to an extra premium because the insured is placed in a special rating class are valued as follows:

Premium-Paying Policies

Extra premiums are charged for all substandard lives plus the gross premium for the insured's age. Mean reserves are determined by computing the regular mean reserve for the plan at the insured's age holding in addition one-half (1/2) of the extra premium charge for the year.

Paid-Up Policies

For whole life policies that are known to have been based on a substandard mortality table, the reserves are based on the same substandard table. As of December 31, 2024 and 2023, the Company had \$1,411,160,978 and \$1,307,084,560, respectively, insurance in force for which the gross premiums are less than the net premiums according to the standard valuation set by the State of Illinois. Deficiency reserves to cover the difference between gross and net premiums totaled \$8,791,329 and \$7,929,448 and at December 31, 2024 and 2023, respectively. The insurance amount does not include insurance on policies for which deficiency reserves are either exempted or calculated to be zero on a seriatim basis.

Tabular interest, tabular less actual reserve released, and tabular cost have been determined by formulas used in accordance with the Statutory Accounting Practices. Tabular interest on deposit funds not involving life contingencies are computed based on the interest rate actually credited to the funds using interest rates as approved by the Board of Directors.

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B. Liability for Health Claim Reserves

Activity in the claim reserves is summarized as follows:

	2024	2023
Balance at January 1	\$ 7,995,862	\$ 7,815,441
Less Reinsurance Recoverables	-	43,078
Net Balance at January 1	<u>7,995,862</u>	<u>7,772,363</u>
Incurred Related to:		
Current Year	41,208,565	38,638,886
Prior Years	(1,915,138)	(859,901)
Total Incurred	<u>39,293,427</u>	<u>37,778,985</u>
Paid Related to:		
Current Year	34,784,134	32,651,044
Prior Years	5,045,499	4,904,442
Total Paid	<u>39,829,633</u>	<u>37,555,486</u>
Net Balance at December 31	7,459,656	7,995,862
Plus Reinsurance Recoverables	-	-
Balance at December 31	<u>\$ 7,459,656</u>	<u>\$ 7,995,862</u>

Health claim reserves of \$1,855,020 and \$3,304,392 and health contract claims of \$5,604,636 and \$4,691,470 as of December 31, 2024 and 2023, respectively, are included in the previous table and their respective liabilities in the balance sheet.

As a result of actual claim payments varying from previous estimates of insured events and subsequent reserve changes, the provision for claim benefits decreased by \$1,915,138 and \$859,901 in 2024 and 2023, respectively.

C. Premium and Annuity Considerations Deferred

Deferred life insurance premiums and annuity considerations as of December 31 are as follows:

	2024		2023	
	Gross	Net of Loading	Gross	Net of Loading
Ordinary New Business	\$ 1,725,180	\$ 633,453	\$ 1,977,138	\$ 745,867
Ordinary Renewal	17,767,966	25,800,681	17,252,794	25,399,637
Group Life	644,100	449,540	615,632	445,966
Total	<u>\$ 20,137,246</u>	<u>\$ 26,883,674</u>	<u>\$ 19,845,564</u>	<u>\$ 26,591,470</u>

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9. Federal Income Taxes

The Company is taxed as a life insurance company on the basis of combined net investment income, capital gains, and underwriting income. Federal income tax expense differs from the amount obtained by applying the federal income tax rate of 21 percent to pretax income for the years ended December 31, 2024 and 2023, respectively, due to the following:

	2024	2023	Change
Computed Expected Federal Income Tax Expense	\$ 2,334,959	\$ 476,198	\$ 1,858,761
Increase (Decrease) in Taxes Resulting from:			
Statutory Reserves Versus Tax Reserves	827,065	981,609	(154,544)
Amortization of IMR	(54,062)	(346,187)	292,125
Deferred Acquisition Costs	1,361,506	1,078,711	282,795
Defined Benefit and Post-Retirement	(738)	(47,072)	46,334
Prior Year Over Accrual	(107,092)	(1,513)	(105,579)
Net Operating Loss Carryforward	-	(396,186)	396,186
All Others	264,539	(343,036)	607,575
Federal Income Tax Expense	4,626,177	1,402,524	3,223,653
Tax on Capital Losses	(1,026,532)	(1,192,846)	166,314
Taxes Incurred	<u>\$ 3,599,645</u>	<u>\$ 209,678</u>	<u>\$ 3,389,967</u>

The components of the net deferred tax asset as of December 31, 2024 and 2023, are as follows:

	2024		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 26,385,469	\$ 27,458	\$ 26,412,927
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	26,385,469	27,458	26,412,927
Deferred Tax Assets Non-Admitted	12,844,358	-	12,844,358
Subtotal Net Admitted Deferred Tax Asset	13,541,111	27,458	13,568,569
Deferred Tax Liabilities	2,588,709	3,591,930	6,180,639
Net Admitted Deferred Tax Assets	<u>\$ 10,952,402</u>	<u>\$ (3,564,472)</u>	<u>\$ 7,387,930</u>
	2023		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 25,304,699	\$ 27,458	\$ 25,332,157
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	25,304,699	27,458	25,332,157
Deferred Tax Assets Non-Admitted	12,339,369	-	12,339,369
Subtotal Net Admitted Deferred Tax Asset	12,965,330	27,458	12,992,788
Deferred Tax Liabilities	2,808,678	2,713,350	5,522,028
Net Admitted Deferred Tax Assets	<u>\$ 10,156,652</u>	<u>\$ (2,685,892)</u>	<u>\$ 7,470,760</u>
	Change		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 1,080,770	\$ -	\$ 1,080,770
Statutory Valuation Allowance	-	-	-
Adjusted Gross Deferred Tax Assets	1,080,770	-	1,080,770
Deferred Tax Assets Non-Admitted	504,989	-	504,989
Subtotal Net Admitted Deferred Tax Asset	575,781	-	575,781
Deferred Tax Liabilities	(219,969)	878,580	658,611
Net Admitted Deferred Tax Assets	<u>\$ 795,750</u>	<u>\$ (878,580)</u>	<u>\$ (82,830)</u>

NOTES TO FINANCIAL STATEMENTS

STATUTORY BASIS

The net admitted deferred tax asset was determined using the guidance related to admissibility provided in the following paragraphs of NAIC Statement of *Statutory Accounting Principles No. 101 (SSAP 101)*.

	2024		
	Ordinary	Capital	Total
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	\$ -	\$ -	\$ -
11b. Expected to be Realized, After Application of Threshold Limitations	7,387,930	-	7,387,930
11c. Offset of Deferred Tax Liabilities	6,180,639	-	6,180,639
Total Admitted Deferred Tax Assets	<u>\$ 13,568,569</u>	<u>\$ -</u>	<u>\$ 13,568,569</u>
	2023		
	Ordinary	Capital	Total
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	\$ -	\$ -	\$ -
11b. Expected to be Realized, After Application of Threshold Limitations	7,470,760	-	7,470,760
11c. Offset of Deferred Tax Liabilities	5,522,028	-	5,522,028
Total Admitted Deferred Tax Assets	<u>\$ 12,992,788</u>	<u>\$ -</u>	<u>\$ 12,992,788</u>
	Change		
	Ordinary	Capital	Total
Admissible Under Paragraph:			
11a. Ability to Recover Taxes Paid in Prior Years	\$ -	\$ -	\$ -
11b. Expected to be Realized, After Application of Threshold Limitations	(82,830)	-	(82,830)
11c. Offset of Deferred Tax Liabilities	658,611	-	658,611
Total Admitted Deferred Tax Assets	<u>\$ 575,781</u>	<u>\$ -</u>	<u>\$ 575,781</u>

	2024	2023
Ratio Used to Determine Recovery Period and Threshold Limitation Amount Under Paragraph 11b	816%	757%
Amount of Adjusted Capital and Surplus Used to Determine Recovery Period and Threshold Limitation Under Paragraph 11b	\$146,527,235	\$130,193,648

NOTES TO FINANCIAL STATEMENTS

STATUTORY BASIS

The major components of current income taxes incurred and net deferred tax assets as of December 31, 2024 and 2023, are as follows:

	2024	2023	Change
Current Income Tax:			
Federal	\$ 3,678,213	\$ 237,326	\$ 3,440,887
Prior Year Under (Over) Accrual of Tax Reserves	<u>(78,568)</u>	<u>(27,648)</u>	<u>(50,920)</u>
Federal Income Tax Incurred	<u>\$ 3,599,645</u>	<u>\$ 209,678</u>	<u>\$ 3,389,967</u>
Deferred Tax Assets:			
Ordinary:			
Stat vs. Tax Reserves	\$ 9,608,636	\$ 9,198,016	\$ 410,620
DAC	12,900,652	11,539,148	1,361,504
Discounting of A&H Claim Reserves	67	62	5
Unearned Premium	122,190	249,277	(127,087)
Pension Accrual	-	148,885	(148,885)
Post-Retirement Accrual	1,516,803	1,724,073	(207,270)
Deferred Compensation	60,124	55,706	4,418
Directors Pension Liability	232,229	230,839	1,390
Non-Admitted Assets	1,897,219	2,091,120	(193,901)
Other	47,549	67,572	(20,022)
Total Ordinary Deferred Tax Assets	<u>26,385,469</u>	<u>25,304,699</u>	<u>1,080,772</u>
Statutory Valuation Allowance Adjustment	-	-	-
Non-Admitted	<u>12,844,358</u>	<u>12,339,369</u>	<u>504,989</u>
Admitted Ordinary Deferred Tax Assets	<u>13,541,111</u>	<u>12,965,330</u>	<u>575,783</u>
Capital:			
Other	27,458	27,458	-
Total Capital Deferred Tax Assets	<u>27,458</u>	<u>27,458</u>	<u>-</u>
Statutory Valuation Allowance Adjustment	-	-	-
Non-Admitted	-	-	-
Admitted Capital Deferred Tax Assets	<u>27,458</u>	<u>27,458</u>	<u>-</u>
Admitted Deferred Tax Assets	<u>\$ 13,568,569</u>	<u>\$ 12,992,788</u>	<u>\$ 575,781</u>
Deferred Tax Liabilities:			
Ordinary:			
Accrual of Discount	\$ 618,169	\$ 369,319	\$ 248,850
PIVOT & LiFT & PATH Depreciation	576,795	576,795	-
Pension Benefits	939,410	746,117	193,293
Tax Cuts and Jobs Act Reserve Adjustments	453,180	906,359	(453,179)
Other	1,155	210,088	(208,933)
Total Ordinary Deferred Tax Liabilities	<u>2,588,709</u>	<u>2,808,678</u>	<u>(219,969)</u>
Capital:			
Unrealized Gains Common Stock	\$ 3,591,930	\$ 2,713,350	\$ 878,580
Total Capital Deferred Tax Liabilities	<u>3,591,930</u>	<u>2,713,350</u>	<u>878,580</u>
Total Deferred Tax Liabilities	<u>\$ 6,180,639</u>	<u>\$ 5,522,028</u>	<u>\$ 658,611</u>
Net Deferred Tax Assets	<u>\$ 7,387,930</u>	<u>\$ 7,470,760</u>	<u>\$ (82,830)</u>

Federal income tax returns of the Company have been examined by the Internal Revenue Service for all years through 2001. In the opinion of management, the liability for federal income taxes is sufficient to cover computed taxes for the current and prior years that are currently payable. As of December 31, 2024, the Company has not identified any material loss contingencies arising from uncertain tax positions. The Company has no tax-planning strategies that had a material impact on adjusted gross and net admitted deferred tax assets.

The Company is considered a nonapplicable reporting entity under the Corporate Alternative Minimum Tax (CAMT) regulations, and therefore has not included any provision for CAMT.

10. Capital and Surplus and Dividends

The Company is required to maintain minimum surplus established by the Department of Insurance. The Company is also subject to Risk-Based Capital (RBC) requirements promulgated by the NAIC and adopted by the Department. The RBC standards establish minimum surplus requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk. At December 31, 2024, the Company's surplus exceeded the minimum levels required by the Department and RBC standards.

The Company's unassigned surplus was increased (reduced) by the following cumulative amounts at December 31, 2024 and 2023, respectively:

	<u>2024</u>	<u>2023</u>
Net Unrealized Capital Gains	\$ 17,141,241	\$ 12,957,527
Non-Admitted Assets	(21,878,737)	(22,297,085)
Asset Valuation Reserve	(25,012,579)	(21,771,395)

Non-cumulative dividends are paid quarterly as determined by the Board of Directors. The maximum amount of dividends which can be paid by a State of Illinois domiciled insurance company to shareholders without prior approval of the Director of Insurance is limited to the greater of 10 percent of statutory surplus or the net income of the company for the preceding year. Statutory surplus at December 31, 2024, was \$106,897,658. The maximum dividend payout which may be made without prior approval in 2025 is \$10,689,766.



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Pekin Insurance provides financial protection and peace of mind for our customers. We deliver innovation and excellence in our products and services. In all we do, we are dedicated to going *Beyond the expected.*[®]

OUR VISION

Our vision is to set the standard of excellence among insurance providers by being innovative, being financially strong, and exceeding customer expectations. We will attract and retain the very best employees and agents to help us achieve this goal.

Pekin Life Insurance Company, headquartered in Pekin, Illinois, became an integral member of the Pekin Insurance® group of companies in April 1965. Joining together with our property/casualty companies, The Farmers Automobile Insurance Association, Pekin Insurance Company, and Pekin Select Insurance Company, we are committed to providing quality insurance service to our policyholders spanning a 24-state marketing area. Our property/casualty products deliver coverage to protect homes, autos, businesses, and a wide range of other insurance needs. The Company's life and health products listed offer a diverse portfolio of coverages to help families and businesses achieve secure financial futures. Whether for property/casualty, life, annuities, or medicare supplement insurance, we are committed to going the extra mile to provide the products and services necessary for your peace of mind. Now, more than ever, it is important that policyholders have complete trust in their insurance company. Pekin Insurance...going *Beyond the expected*® to meet your insurance needs.

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