



2020

Annual Report

A message from Pete McPartland

2020 was a year of constant change due to COVID-19. At Sentry, we continued to build our culture of innovation, as we overcame challenges with creativity and resilience.

This Annual Report illustrates how we stepped up to meet the challenges, while still achieving our business expectations.

From a financial standpoint, Sentry is—in many ways—stronger than we were before the pandemic. We continued to see positive results during the 2020 fiscal year. Our earned premiums grew by \$27 million to \$3.1 billion. We earned \$385 million in pre-tax operating income and grew our surplus by 9 percent to \$6.5 billion.

We're proud to have achieved these solid results, despite the unprecedented environment the business insurance industry has faced. Staying true to who we are, we looked to our customers as our north star, and worked to help continue providing them with the protection they rely on. At the same time, we coped with the reality of nuclear verdicts and the rising cost of bodily injury claims, which remain a concern throughout the industry.

We balanced these pressures by maintaining a diverse business portfolio, strengthening our relationships with independent agents, and anticipating industry trends. We also continue to be ahead of the curve in embracing innovation that helps develop and utilize industry-leading technology to provide our customers a better overall experience—an integral part of our success in 2020.

Despite the upheaval of the past year, we realized many accomplishments. I'm pleased to say AM Best recognized Sentry with an A+ rating for the 29th straight year*. Forbes also named us as one of Wisconsin's best employers. Thanks to our focus on giving back to the community, Deloitte awarded Sentry the 2020 Distinguished Performer Community award.

Of course, we couldn't achieve this success without our associates. Even as many faced the challenges of a remote working environment, their continued dedication to service is behind our successful business results in 2020.

I hope you enjoy learning more about our company.



Pete McPartland
Chairman of the Board, President, and CEO

Basis of financial statements

The following consolidated financial statements of Sentry Insurance a Mutual Company (Sentry), its subsidiaries, and affiliates were prepared in conformity with statutory accounting practices, prescribed or permitted by the insurance departments of the states in which Sentry and its consolidated insurance subsidiaries and affiliates are domiciled.

These charts show comparative financial highlights from the past 20+ years.



Todd Schroeder
Chief Financial Officer and President Life & Annuities

Financial highlights (unaudited)

(Millions)	2020	2015	2010	2005	2000
December 31					
Total assets	\$ 21,631.5	\$ 14,730.8	\$ 11,013.4	\$ 9,354.7	\$ 6,499.4
Policyholders' surplus	6,540.3	4,440.5	3,379.3	2,505.6	1,887.7
Years ended December 31					
Premiums earned	3,136.3	2,449.6	1,961.1	1,986.9	1,393.2
Income before net realized gains (losses) and income taxes	384.9	333.1	206.6	245.5	114.0

Consolidated statutory balance sheets (unaudited)

December 31	2020	2019
(Millions)		
Assets		
Cash and investments		
Bonds	\$ 10,601.3	\$ 10,079.2
Common stocks	1,681.2	1,421.3
Company occupied properties	156.1	164.8
Policy loans	10.3	10.7
Cash and short-term investments	169.5	76.7
Partnerships	1,414.1	1,281.5
Other	21.4	15.8
Total cash and investments	14,053.9	13,050.0
Receivables		
Insurance premiums and reinsurance	973.6	929.2
Interest and dividends	100.7	99.2
Other	1.8	1.7
EDP equipment and operating software	6.3	8.5
Other assets	107.3	91.2
Net deferred tax asset	-	34.5
Separate account assets	6,387.9	5,538.3
Total assets	\$ 21,631.5	\$ 19,752.6

Consolidated statutory balance sheets (unaudited)

December 31	2020	2019
(Millions)		
Liabilities		
Property and casualty losses and loss expenses	\$ 3,833.6	\$ 3,624.0
Life and other future policy benefits	2,480.6	2,419.4
Accident and health unpaid claims and claim expenses	71.4	76.7
Unearned premiums	1,218.5	1,118.6
Other policyholder funds	14.1	11.1
Accounts payable and accrued expenses	959.0	858.2
Federal income tax payable	30.6	8.6
Net deferred tax liability	14.0	-
Other liabilities	82.8	97.5
Separate account liabilities	6,386.6	5,537.3
Total liabilities	15,091.2	13,751.4
Policyholders' surplus		
Unassigned surplus	6,540.3	6,001.2
Total policyholders' surplus	6,540.3	6,001.2
Total liabilities and policyholders' surplus	\$ 21,631.5	\$ 19,752.6

Consolidated statutory statements of operations and changes in policyholders' surplus (unaudited)

Years ended December 31 (Millions)	2020	2019
Revenues		
Premiums earned	\$ 3,136.3	\$ 3,108.9
Net investment income	518.4	541.0
Total revenues	3,654.7	3,649.9
Expenses		
Insurance claims and policyholders' benefits	2,491.7	2,535.7
Operating expenses	778.1	711.7
Total expenses	3,269.8	3,247.4
Income before net realized gains (losses)	384.9	402.5
Net realized losses, net of tax	(116.4)	(14.7)
Income from operations before income tax	268.5	387.8
Income tax expenses	66.7	63.5
Net income	201.8	324.3
Policyholders' surplus		
Balance January 1	6,001.2	5,450.0
Net income	201.8	324.3
Change in net unrealized capital gains and losses	253.5	245.8
Change in nonadmitted assets	31.3	36.7
Change in deferred income tax	24.4	21.6
Post-retirement benefit plans and other surplus changes	28.1	(77.2)
Change in policyholders' surplus	539.1	551.2
Balance December 31	\$ 6,540.3	\$ 6,001.2

Consolidated statutory statements of cash flow (unaudited)

Years ended December 31 (Millions)	2020	2019
Operating activities		
Net premiums received	\$ 3,250.1	\$ 3,138.1
Net investment income received	539.3	564.1
Claims and policy benefits paid	(2,006.9)	(2,061.8)
Operating expenses paid	(969.2)	(881.9)
Income tax paid	(47.4)	(50.3)
Net cash provided by operating activities	765.9	708.2
Investing activities		
Proceeds from investments sold, matured, or repaid:		
Bonds	1,287.9	1,180.8
Stocks	1,149.9	578.6
Partnerships	86.4	144.2
Other	-	0.4
Cost of investments acquired:		
Bonds	(1,841.0)	(1,869.5)
Stocks	(1,169.3)	(489.8)
Partnerships	(176.0)	(192.2)
Other	(7.6)	(23.9)
Net cash utilized in investing activities	(669.7)	(671.4)
Other cash applied	(3.4)	(23.4)
Change in cash and short-term investments	92.8	13.4
Balance January 1	76.7	63.3
Balance December 31	\$ 169.5	\$ 76.7
Non-cash transactions		
Exchanges of bonds	\$ 120.5	\$ 74.7
Exchanges of stocks	\$ 15.9	\$ 27.4
Bonds acquired in acquisition	\$ 8.2	-
Asset transfer to subsidiary	\$ 5.1	\$ 53.5
Exchanges of partnerships	\$ 4.9	-

Note 1 Principles of consolidation and basis of presentation

Principles of consolidation

The consolidated statutory financial statements of the Sentry Group include the accounts of Sentry Insurance a Mutual Company (SIAMCO) and its wholly owned insurance subsidiaries including Sentry Lloyds of Texas (SLOT); Middlesex Insurance Company (MDX), which owns Patriot General Insurance Company (PG); Dairyland Insurance Company (DIC); Dairyland National Insurance Company (DNIC); Sentry Casualty Company (SCC); Sentry Select Insurance Company (SSIC); Viking Insurance Company of Wisconsin (VICW), which owns Peak Property and Casualty Insurance Corporation (Peak); Point Insurance Company (PIC); Dairyland American Insurance Company (DAIC); Parker Centennial Assurance Company (PCAC); and Sentry Life Insurance Company (SLIC), which owns Sentry Life Insurance Company of New York (SLONY). SIAMCO shares common management with Dairyland County Mutual Insurance Company of Texas (DCM) and Florists' Mutual Insurance Company (FMIC), which owns Florists' Insurance Company (FIC). These entities are collectively referred to as the "Company." Additionally, FMIC and FIC are collectively referred to as "Florists."

The property and casualty companies, which include SIAMCO, SLOT, MDX, PG, DIC, DNIC, SCC, SSIC, VICW, Peak, PIC, DAIC, DCM, FMIC, and FIC write consumer and business insurance through various distribution channels primarily throughout the United States. SLIC, SLONY, and PCAC write life and health insurance, with such business consisting primarily of individual life insurance, individual annuities, and group annuities (401(k) and retirement products).

SIAMCO is the lead company in a reinsurance pooling agreement with certain of its property and casualty insurance subsidiaries and affiliates. As part of the acquisition of PIC and DAIC, further described in Note 3, this agreement was amended to include PIC and DAIC effective November 1, 2020. Under this agreement, the participating property and casualty subsidiaries and affiliates cede all their net underwriting business to SIAMCO and then assume a percentage of the total net pool from SIAMCO. Activity and balances under this agreement are eliminated in consolidation.

Annual approval to file the Company's consolidated audited statutory financial statements, which include life and health insurance subsidiaries, in lieu of separate audited financial statements for SIAMCO and its property and casualty insurance subsidiaries and affiliates is obtained from the Commissioners of the insurance departments of the states of domicile for these entities. Approval is granted based upon each property and casualty insurer's participation in the reinsurance pooling arrangement.

All other material intercompany accounts and transactions have been eliminated in consolidation.

Basis of presentation

SIAMCO and its insurance company subsidiaries and affiliates are required to prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual (AP&P Manual)* subject to any deviations prescribed or permitted by the Commissioners in each insurer's domiciliary state. Prescribed statutory accounting practices are those practices that are incorporated directly or by reference in state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state.

The Commissioners of the states in which SIAMCO and its insurance company subsidiaries and affiliates are domiciled have the right to permit other specific practices that may deviate from prescribed practices. The Company does not have any prescribed or permitted practices as of December 31, 2020.

Note 1 Principles of consolidation and basis of presentation (continued)

Use of estimates

The preparation of financial statements in accordance with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated statutory financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The most significant estimates include those used in determining the liability for property and casualty losses and loss expenses, other-than-temporary impairment losses on invested assets, pensions and other post-employment benefits, and accruals related to federal income taxes. Although variability is inherent in these estimates, the recorded amounts reflect management's best estimates based on facts and circumstances.

The Company, like many other insurers, is subject to a number of risks, many of which are outside of management's control. Management strives, however, to manage those risks while optimizing results. While not all inclusive, below is a list and discussion of the more significant business risks that the Company is subject to in its everyday operations:

Market Risk: The risk that the Company is exposed to fluctuations in the fair market value of securities. The Company attempts to mitigate this risk through the active management of a diversified portfolio of securities.

Significant business concentrations risk: The risk that the Company has a material concentration of risk in a single unaffiliated entity, group, or geographic location. The Company believes it does not have a concentration of financial instruments in a single investee, industry, or geographic location. Also, the Company does not have a concentration of business transactions with a particular customer, lender, distribution source, market, or geographic area in which business is conducted that makes the Company overly vulnerable to a single event that could cause a severe impact on the Company's financial position.

Risk and uncertainty related to COVID-19: In March 2020, the World Health Organization declared the outbreak of a novel strain of coronavirus (COVID-19) as a global pandemic, which continues to spread throughout the United States. The Company has adjusted certain aspects of its operations to protect its employees and customers while still meeting customers' needs for vital services. The Company will continue to monitor the situation closely and it will implement further measures if necessary. In light of the uncertainty as to the length or severity of this pandemic, the Company can not reasonably estimate the full impact on its operations and financial statements at this time.

During the year ended December 31, 2020, subsequent to the onset of the COVID-19 pandemic, the Company recorded \$43.3 million in premium refunds/reductions that were not required by the policy terms. The Company recorded these refunds/reductions adjustments as a reduction of written premium and earned premium where appropriate.

Note 2 Summary of significant statutory accounting policies

Investments

Investment securities are valued in accordance with the NAIC as follows: Bonds are generally stated at amortized cost using the interest method, except bonds that are defined by the NAIC as non-investment grade, which are stated at the lower of amortized cost or fair value. Under U.S. generally accepted accounting principles (GAAP), bonds are categorized based on positive intent as “trading securities” (reported at fair value, with changes in fair value reported in net income), “available for sale” securities (reported at fair value, with changes in fair value reported in equity), or “held to maturity” securities (reported at amortized cost).

Common stocks are stated at fair value as required by NAIC and GAAP. Unrealized common stock investment gains and losses, net of deferred taxes, are credited or charged directly to unassigned policyholders’ surplus. Under GAAP, unrealized common stock gains and losses are reported in net income.

Partnerships include private equity, hedge funds, emerging markets, and real estate investments that take the form of limited partnerships or limited liability companies. Partnerships are carried at the Company’s equity in the value of the underlying net assets of the investment determined in accordance with GAAP. Distributions received from these investments are recorded as net investment income and undistributed earnings or losses, net of deferred taxes are recorded as unrealized capital gains or losses and credited or charged directly to unassigned policyholders’ surplus. Under GAAP, an entity’s share of undistributed earnings and losses of an investee qualifying under the equity method of accounting is recognized in net income.

Company-occupied properties and other real estate investments held for the production of income are stated at cost less accumulated depreciation. Real estate held for sale is carried at the lower of depreciated cost or fair value. Policy loans are carried at the aggregate of unpaid principal balances plus the accrued interest and are not in excess of the cash surrender value of the related policies. Short-term investments (primarily treasury bills and commercial paper with maturities less than one year) are carried at amortized cost, which approximates fair value.

As prescribed by the NAIC, an Asset Valuation Reserve (AVR) is maintained for life insurance company investments. The AVR mitigates fluctuations in the values of invested assets including bonds, common stocks, and other invested assets. Changes in the AVR are included in policyholders’ surplus. An AVR is not allowed for GAAP purposes.

Realized capital gains and losses on life insurance company bonds attributable to interest rate changes are deferred in the Interest Maintenance Reserve (IMR) net of tax. The IMR adjusts the impact of realized gains and losses on policyholders’ surplus by deferring realized gains and losses and amortizing them into investment income over the approximate remaining lives of the investments sold. An IMR is not allowed for GAAP purposes.

Realized gains and losses are determined on the specific-identification method and are presented in the accompanying consolidated statutory statements of operations net of federal income tax, after adjustments for the IMR. Realized investment gains and losses also include valuation adjustments for impairment of bonds, common stocks, Company-occupied properties and other real estate investments, and partnerships with a decline in value that management considers to be other-than-temporary. In determining whether impairments are other-than-temporary, the Company considers the size and duration of the excess of carrying value over fair value for common stocks and partnerships and the likelihood and expected timing of a recovery in value. For bonds, the credit quality of the issuer is also considered. For Company-occupied properties and other real estate investments, the excess of carrying value over an independent third-party assessment of fair value is considered. When it is determined that an investment is other-than-temporarily-impaired (OTTI), the Company writes the carrying value down to the fair value and recognizes a realized loss. For loan-backed and structured securities, the determination of OTTI is measured based on an estimate of the noninterest loss, which is recognized in operations. Such impairments result in the establishment of a new cost basis for these assets for book purposes.

Investment income is recorded when earned. Income on loan-backed and structured securities is recognized using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment income earned on the securities is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the securities.

Note 2 Summary of significant statutory accounting policies (continued)

Goodwill is calculated as the excess of the aggregate purchase price over the statutory capital and surplus of acquired subsidiaries. Goodwill, in aggregate, is limited to 10 percent of the acquiring entity’s capital stock and surplus as shown in its most recently filed statement adjusted to exclude any net positive goodwill, EDP equipment, and net deferred tax assets. The remainder is reflected as a nonadmitted asset through a charge to surplus. Goodwill is amortized on a straight-line basis over ten years with a corresponding charge to surplus. Under GAAP, goodwill is not subject to the 10 percent threshold and is not amortized, but subject to periodic impairment testing.

Separate accounts

The life insurance subsidiaries issue group annuity contracts that include the option of placing deposits received in connection with these contracts in separate accounts. Life insurance subsidiaries have also issued variable annuity contracts and variable universal life contracts that required deposits to be placed in separate accounts. Sales of both products had ceased by the end of 2004. A separate account is an accounting entity segregated as a discrete operation within an insurance company. Separate account assets, consisting primarily of mutual funds, are reported at fair value and include the Company’s interest in the separate accounts (seed money). Liabilities relating to contract holders are generally recorded at amounts equal to assets, but a contra-liability is recorded to adjust separate account liabilities to amounts computed using applicable statutory reserving tables. Separate account premium deposits, benefit expenses, and contract fee income for investment management and policy administration are reflected by the Company in the accompanying consolidated statutory statements of operations. Investment income and realized and unrealized capital gains and losses of the separate account assets accrue directly to contract holders and, therefore, are not included in the Company’s consolidated statutory statements of operations. The Company’s seed money investment, including appreciation or depreciation, is reflected in policyholders’ surplus through recognition of surplus in the separate accounts.

Nonadmitted assets

For statutory accounting purposes, certain assets designated as “nonadmitted” (principally deferred income tax assets, prepaid pension deposits, prepaid expenses, certain receivables, and depreciated cost of application software, aircraft, and office furniture and equipment) have been excluded from the consolidated statutory balance sheets and charged to policyholders’ surplus. GAAP would recognize such assets at the lower of depreciated cost or net realizable value. Nonadmitted assets were \$213.1 million and \$244.4 million at December 31, 2020 and 2019, respectively.

Company-occupied properties

Buildings are depreciated on a straight-line basis over estimated useful lives ranging from 20 to 50 years. Leasehold improvements are depreciated on a straight-line basis over the remaining term of the lease or estimated useful life, whichever is shorter.

EDP equipment and software

Electronic data processing equipment and capitalized software are depreciated on a straight-line basis over three to five years, depending on the class of property.

Property and casualty losses and loss expenses

The liabilities for losses are based upon management’s best estimates of losses reported and losses incurred but not reported (IBNR), relating to direct and assumed premiums written; losses assumed from joint underwriting associations and assigned risk pools; and losses ceded to reinsurers. The liabilities for loss expenses are established by estimating future expenses to be incurred in the settlement of claims provided for in the liabilities for losses. Estimates of losses and loss expenses, net of salvage and subrogation, are continually reviewed. Changes to the estimates are reported without discounting in the current accounting periods. In establishing the liabilities for unpaid claims and claim adjustment expenses for asbestos-related illnesses and toxic waste cleanup, management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims when sufficient information has been developed to indicate the involvement of a specific insurance policy, and management can reasonably estimate the Company’s liability. In addition, liabilities have been established to cover additional exposures on both known and unasserted claims. These liabilities for losses and loss expenses are intended to represent the Company’s ultimate liability for these items. Estimation of ultimate liabilities for these claims is usually difficult due to outstanding issues such as the verification of coverage, definition of an occurrence, determination of ultimate damages, and allocation of such damages to financially responsible parties. Therefore, any estimation of these liabilities is subject to significantly greater than normal variation and uncertainty.

Note 2 Summary of significant statutory accounting policies (continued)

Policy benefits

Liabilities for traditional life and limited-payment life contracts are computed using methods, mortality and morbidity tables, and interest rates that conform to the valuation laws of the states of Wisconsin and New York. The liabilities are primarily calculated on a modified reserve basis. The effect of using a modified reserve basis partially offsets the effect of immediately expensing acquisition costs by providing a policy benefit reserve increase in the first policy year that is less than the reserve increase in renewal years. Future policy benefits for life policies and contracts were primarily determined using the Commissioner's Reserve Valuation Method (CRVM) with interest rates ranging from zero to 6.00 percent. Additional statutory premium deficiency reserves are established when the valuation of net premium exceeds the gross premium.

Future policy benefits for annuity contracts, primarily for individual and group deferred annuities, were primarily determined using the Commissioner's Annuity Reserve Valuation Method (CARVM) with interest rates ranging from 1.50 percent to 11.25 percent. Reserves are established using the larger of the benefit amount calculated using CARVM or the cash surrender value.

Future accident and health group reserves consist predominantly of long-term disability reserves representing the present value of amounts not yet due calculated using standard disability tables and various interest rates.

Reserves for universal life-type, annuity, and deposit-type contracts are based on the contract account balance if future benefit payments in excess of the account balance are not guaranteed, or on the present value of future payments when such payments are guaranteed.

Under GAAP, traditional life reserves would be computed using mortality, withdrawal, interest rate, and expense assumptions that are based on Company experience, including a provision for adverse deviation. Reserves for universal life-type and investment contracts would generally be based on the contract account value.

Revenue recognition

Property and casualty premiums written are recognized as earned ratably over the respective terms of the policy. Unearned premiums represent the portion of the premiums written that relate to the unexpired policy period, net of deductions for premiums ceded to reinsurers. All property and casualty written premium is recognized on the effective date of the policy. Certain commercial property and casualty policies are retrospectively rated; premiums under such policies are based upon the insureds' loss experience and are accrued as written premium. Premiums for annuity contracts are recognized when received. Premiums for traditional life insurance policies and limited payment contracts are recognized as income on the policy anniversary date. Amounts collected on policies that do not subject the Company to any risks arising from policyholder mortality or morbidity (deposit-type contracts), such as supplementary contracts without life contingencies, are recorded as increases to policyholder account balances. Revenues for these policies consist of net investment income and policy charges. Under GAAP, revenue on contracts without significant mortality or longevity risk (investment contracts) would be accounted for similar to deposit-contracts.

If unearned premiums and any future installment premiums on existing property and casualty and accident and health policies are determined to be insufficient to cover anticipated losses, loss adjustment expenses, and maintenance costs, a premium deficiency reserve is established. The Company anticipates investment income as a factor in the premium deficiency calculation.

Policy fees (fees tied to the issuance of coverage) and refundable installment fees are also recognized as written premium. Refundable policy fees are recognized as earned ratably over the respective terms of the policy. Non-refundable policy fees are recognized as earned immediately.

Acquisition costs

Costs directly related to the acquisition of insurance premiums, such as commissions and premium tax, are charged to operations as incurred. Under GAAP, certain acquisition costs would be capitalized and amortized over the policy period or expected life of the contract.

Note 2 Summary of significant statutory accounting policies (continued)

Policy dividends

Provisions for dividends payable to policyholders are made when declared. Under GAAP, dividends for life insurance policies would be anticipated and may be considered as a planned contractual benefit when computing the value of future policy benefits. GAAP also requires that dividends for property and casualty policies be accrued as earned.

Pension plan and other postretirement benefits

SIAMCO has defined benefit pension plans, which cover eligible employees. SIAMCO also provides certain healthcare, dental, and life insurance benefits to retired employees and their dependents. Effective January 1, 2010, employees hired January 1, 2010, and after are not eligible to participate in either the defined pension plans or the postretirement healthcare and dental benefit plans.

The Company is required to recognize the funded status of the plans on its consolidated statutory balance sheets. When there is an excess of fair value of plan assets over benefit obligations, an asset is recorded and subsequently nonadmitted through a charge to surplus. Under GAAP, no charge to surplus is required. When benefit obligations exceed the fair value of plan assets, a liability is recorded on the Company's consolidated statutory balance sheets. Any amounts recorded in unassigned surplus are subsequently recognized as net periodic benefit cost. Actuarial gains and losses that arise in future periods and are not recognized as net periodic benefit cost in those periods will be recognized as increases or decreases to unassigned surplus, net of tax, as they arise. Actuarial gains and losses recognized in unassigned surplus are adjusted as they are subsequently recognized as a component of net periodic benefit cost.

Reinsurance

Reinsurance premiums, commission expense reimbursements, and reserves related to reinsured business ceded are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums and losses ceded have been reported as reductions of premiums earned and insurance claims in the accompanying consolidated statements of operations. Under GAAP, ceded unearned premium and ceded loss and loss adjustment expense reserves would be classified as assets, instead of as a reduction of the related liability.

Reinsurance premiums, commissions, and reserves related to reinsured business assumed are accounted for on a basis consistent with that used if the policies had been directly issued.

Federal income tax

SIAMCO files a consolidated federal income tax return with its subsidiaries. The method of allocation between the companies is subject to a written income tax allocation agreement, approved by the board of directors. Allocation is based upon separate return calculations with current credit for net losses. Federal income tax is based on taxable income currently payable.

FMIC files a consolidated federal income tax return with its subsidiaries. The method of allocation between the companies is subject to a written income tax allocation agreement, approved by the board of directors. Allocation is based upon separate return calculations with current credit for net losses. Federal income tax is based on taxable income currently payable.

In accordance with guidance specified in the NAIC's *AP&P Manual*, the Company utilizes a balance sheet approach of accounting for federal income taxes. Under this method, deferred tax assets, net of any nonadmitted portion and statutory valuation allowance, and deferred tax liabilities are recognized for the future tax consequences attributable to differences between the statutory financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates on which those temporary differences are expected to be recovered or settled. The change in deferred taxes is charged or credited directly to surplus. GAAP accounting requires these changes to be recorded through the income statement. The admissibility of net deferred tax assets recorded is subject to various limitations set forth in the NAIC's *AP&P Manual*.

Comparability

The discussion above highlights the significant differences between statutory accounting practices followed by the Company and GAAP. The aggregate effect of the foregoing variances from GAAP has not been determined but is presumed to be material.

Note 2 Summary of significant statutory accounting policies (continued)

New accounting pronouncements

Statement of Statutory Accounting Principles (SSAP) No. 2R, *Cash, Cash Equivalents, Drafts, and Short-Term Investments*, was revised in 2020 to permit cash liquidity pools to be reported as cash equivalents when domiciliary regulator approval is received and all of the following criteria are met: members or participants in the pool are limited to affiliated entities as defined in SSAP No. 25, investments held by the pool are limited to non-affiliated investments, the pool permits each participant to withdraw contributions to the pool at any time, ownership in the pool is proportional to cash contributed, all affiliates' interests in the pool are of the same class, with equal rights, preferences, and privileges, the liability of the participant's debts and obligations of the pool are limited to the amount contributed, and no participant shall be obligated to contribute money to the pool for any reason other than to participate in the pool's investments. These revisions had no financial statement impact as the Company previously had obtained a permitted practice from The Office of the Commissioner of Insurance of the State of Wisconsin, the Illinois Department of Insurance, and the Texas Department of Insurance to present interest in the Sentry Liquid Asset Partnership (SLAP), which owned several short-term securities and cash equivalents, as cash and short-term investments.

SSAP No. 16R, *Electronic Data Processing Equipment and Software*, revisions became effective January 1, 2020. These revisions allow the capitalization of implementation costs from a cloud hosting service contract and also clarified accounting for cloud hosting arrangements that are not service contracts. These revisions had no financial statement impact.

SSAP No. 22R, *Leases*, was substantively revised in 2019 with an effective date of January 1, 2020. The revisions update the accounting guidance for leases, including leveraged leases and sale-leaseback transactions. These revisions had no financial statement impact.

SSAP No. 53, *Property Casualty Contracts—Premiums*, was revised in 2020 clarifying guidance on fee service charges on installment premium should be narrowly applied. As a result, net premiums earned include \$27.9 million of policy fees for the year ended December 31, 2020. Policy fees of \$26.6 million were included within operating expenses for the year ended December 31, 2019. In accordance with SSAP No. 3, *Accounting Changes and Corrections of Errors*, the following are the financial statement impacts of this change in accounting principle:

December 31, 2020	Amounts under previous method		As reported	Impact
(Millions)				
Total assets	\$ 21,631.5	\$ 21,631.5		-
Total Liabilities	15,091.2	15,091.2		-
Premiums earned	3,108.4	3,136.3		27.9
Operating expenses	750.2	778.1		(27.9)
Net income	201.8	201.8		-
Total policyholders' surplus	\$ 6,540.3	\$ 6,540.3		-

Accounting standards not yet adopted

Changes to SSAP No. 68, *Business Combinations and Goodwill*, will be effective for the year-ended December 31, 2021 financial statements. The revisions update disclosure requirements for goodwill.

Changes to SSAP No. 26R, *Bonds*, will be effective January 1, 2021. The revisions clarify existing guidance that all prepayment penalty and acceleration fees for when a bond is liquidated prior to its scheduled maturity date, including those from tendered bonds, shall follow the guidance in SSAP No. 26R. These revisions will not have a material financial statement impact.

Note 3 Investments

Bonds

The carrying value, gross unrealized gains and losses, and estimated fair value of bonds as of December 31, 2020 and 2019 are as follows:

December 31, 2020	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
(Millions)				
U.S. government and government agencies	\$ 1,124.9	\$ 97.3	-	\$ 1,222.2
All other governments	47.5	2.0	-	49.5
States, territories, and possessions	63.9	7.0	-	70.9
Political subdivisions of states, territories, and possessions	501.9	48.0	-	549.9
Special revenue and special assessment	2,574.4	228.0	0.8	2,801.6
Industrial and miscellaneous	6,288.7	803.1	1.5	7,090.3
Total	\$ 10,601.3	\$ 1,185.4	\$ 2.3	\$ 11,784.4

December 31, 2019	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
(Millions)				
U.S. government and government agencies	\$ 1,303.6	\$ 50.6	\$ 0.8	\$ 1,353.4
All other governments	57.5	0.4	0.2	57.7
States, territories, and possessions	58.4	2.6	0.4	60.6
Political subdivisions of states, territories, and possessions	432.9	33.5	0.1	466.3
Special revenue and special assessment	2,214.5	124.4	2.6	2,336.3
Industrial and miscellaneous	6,012.3	455.3	2.5	6,465.1
Total	\$ 10,079.2	\$ 666.8	\$ 6.6	\$ 10,739.4

Included within the above tables are \$1,583.0 million and \$1,776.5 million of loan-backed and structured securities as of December 31, 2020 and 2019, respectively. Of this total, \$360.1 million at December 31, 2020 and \$348.1 million at December 31, 2019 were issued through or guaranteed by various U.S. government agencies. There was \$725.5 million and \$843.1 million with government guarantees reflected within the U.S. government line above at December 31, 2020 and 2019, respectively. The remainder of the securities are reflected in the industrial and miscellaneous lines.

The carrying value and estimated fair value of bonds and short-term investments as of December 31, 2020, by contractual maturity, are shown on the next page. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties. As most loan-backed and structured securities provide for periodic payments throughout their lives, they are listed separately.

Note 3 Investments (continued)

December 31, 2020 (Millions)	Carrying value	Estimated fair value
Due in one year or less	\$ 564.4	\$ 569.5
Due after one year through five years	2,974.6	3,198.7
Due after five years through ten years	3,099.4	3,455.9
Due after ten years	2,665.0	3,131.7
Subtotal	9,303.4	10,355.8
Loan-backed and structured securities	1,583.0	1,713.7
Total	\$10,886.4	\$12,069.5

The Company occasionally sells, redeems, or otherwise disposes of securities as a result of a callable feature (including make-whole call provisions). These liquidations may provide for a prepayment penalty or acceleration fee, which is reported as investment income when received. During 2020 and 2019, respectively, there were disposals of securities called reflecting 265 and 216 unique CUSIP numbers (the CUSIP number is assigned by the Committee on Uniform Securities Identification Procedures to uniquely identify the company or issuer and the type of security). The aggregate amount of investment income generated from prepayment penalties and/or acceleration fees was \$4.2 million and \$1.8 million for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020, the Company held seven securities that were self-assigned a 5GI designation, indicating the securities meet the qualifications of a 5GI designation, but have not been certified by the Securities Valuations Office (SVO). Total book adjusted carrying value of the seven securities was \$11.1 million and total fair value was \$13.0 million as of December 31, 2020. The Company held four 5GI securities with a total book adjusted carrying value of \$9.8 million and a total fair value of \$11.8 million as of December 31, 2019.

There are no securities purchased prior to January 1, 1994, where historical cash flows are not available. Prepayment assumptions for single-class and multi-class mortgage and asset-backed securities were obtained from data pricing services. The Company uses data pricing services, broker quotes, and the Capital Markets & Investment Analysis Office of the NAIC to determine fair value. The Company has no negative yield situations requiring a change from the retrospective to prospective methodology.

Gross gains and losses realized from the disposition of bonds, which are reflected in the accompanying consolidated statutory financial statements, are as follows:

Years ended December 31 (Millions)	2020	2019
Bond sales:		
Proceeds	\$ 262.4	\$ 385.6
Gross gains	8.9	3.8
Gross losses	0.5	0.9
Other bond dispositions:		
Proceeds	\$ 1,146.0	\$ 869.9
Gross gains	13.3	5.5
Gross losses	3.8	1.7

Note 3 Investments (continued)

Common stocks

The cost of common stocks, which includes unmanaged index exchange traded funds, was \$938.3 million and \$891.1 million as of December 31, 2020 and 2019, respectively. On or before December 31, 2020, the Company sold \$21.0 million of common stock investments and reacquired them within 30 days at a cost of \$26.0 million.

Cash and Cash Equivalents

The Company's interest in SLAP was \$261.5 million and \$172.0 million at December 31, 2020 and 2019, respectively. In both years the entire investment was made up of cash equivalents.

Partnerships

Partnerships include investments in limited partnerships and limited liability companies at a cost of \$1,031.4 million and \$1,013.6 million as of December 31, 2020 and 2019, respectively.

Partnerships are carried at the Company's equity in value of the underlying net assets of the investment determined in accordance with GAAP. These investments generally reflect a reporting lag of 120 days or less, dependent upon the receipt of the reporting entity's financial information.

The carrying values of partnerships are as follows:

December 31, 2020 (Millions)	Carrying value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Private equity (a)	\$ 973.8	\$ 447.9	-	-
Hedge fund (b)	126.2	-	Annually	30-90 days
Real estate (c)	314.1	263.9	-	-
Total	\$ 1,414.1	\$ 711.8		

December 31, 2019 (Millions)	Carrying value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Private equity (a)	\$ 849.3	\$ 434.7	-	-
Hedge fund (b)	108.5	-	Annually	30-90 days
Real estate (c)	323.7	225.0	-	-
Total	\$ 1,281.5	\$ 659.7		

(a) This category includes investments in private equity partnerships that invest primarily in venture companies, growth equity, leveraged buyouts, mezzanine debt, distressed turnaround situations, and fund of private equity funds. These investments are usually not redeemable. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets held by the partnerships. The life of these partnerships typically ranges from 10 to 15 years.

(b) This category includes investments in hedge funds that invest in long and short common stocks, corporate bonds, government bonds, treasuries, commodities, currencies, derivatives and privately owned assets. Hedge fund managers have the ability to shift investments from value to growth strategies, from small to large capitalization common stocks, and from a net long position to a net short position.

(c) This category includes investments in real estate and real asset partnerships. Investments have primarily been in U.S. commercial real estate. These investments are usually not redeemable. Distributions from each fund are received as the underlying assets are liquidated. The life of these partnerships typically ranges from 8 to 12 years.

Note 3 Investments (continued)

Unrealized gains and losses

Gross unrealized gains and losses related to investments in bonds, common stocks, partnerships, and other invested assets are as follows:

Years ended December 31 (Millions)	2020		2019	
	Balance sheet	Surplus change	Balance sheet	Surplus change
Unrealized gains	\$ 1,202.8	\$ 313.7	\$ 889.1	\$ 287.0
Unrealized losses	(16.2)	7.3	(23.5)	24.1
Net investment unrealized gains (losses)	\$ 1,186.6	321.0	\$ 865.6	311.1
Deferred tax benefit (expense)		(67.4)		(65.3)
Goodwill amortization		(0.1)		-
Change in net unrealized capital gains and losses		\$ 253.5		\$ 245.8

Investment income

Sources of net investment income for 2020 and 2019 are as follows:

Years ended December 31 (Millions)	2020	2019
Interest:		
Bonds	\$ 389.0	\$ 380.3
Short-term investments	1.1	2.9
Other interest	0.4	0.4
Dividends:		
Common stocks	26.5	25.2
Real estate	26.7	25.8
Contract loans	0.7	0.8
Partnerships	120.9	151.2
Amortization of IMR	1.4	1.5
Gross investment income	566.7	588.1
Investment expense	(38.0)	(36.5)
Interest expense	(2.9)	(3.7)
Depreciation on real estate	(7.4)	(6.9)
Net investment income	\$ 518.4	\$ 541.0

As of December 31, 2020 and 2019, investments carried at \$373.0 million and \$333.9 million, respectively, were on deposit with various governmental agencies as required by law. This represents 1.7 percent of the Company's total admitted assets as of December 31, 2020 and 2019. The Company's cash and invested assets include \$368.2 million in collateral received from insureds to secure estimated future obligations to the Company. This represents 1.7 percent of the Company's total admitted assets as of December 31, 2020. The Company has recorded an equivalent liability to recognize the future obligation to return collateral, which represents 2.4 percent of total liabilities as of December 31, 2020.

Note 3 Investments (continued)

Realized investment gains and losses for the years ended December 31, 2020 and 2019, are as follows:

Years ended December 31 (Millions)	2020			2019		
	Realized gains	Realized losses	Net realized gains (losses)	Realized gains	Realized losses	Net realized gains (losses)
Bonds	\$ 22.2	\$ 43.4	\$ (21.2)	\$ 9.3	\$ 5.6	\$ 3.7
Common stock	134.6	111.5	23.1	71.6	39.2	32.4
Real estate	-	39.8	(39.8)	-	-	-
Partnerships	-	70.7	(70.7)	2.6	50.5	(47.9)
Other	0.2	0.5	(0.3)	-	0.3	(0.3)
	\$ 157.0	\$ 265.9	(108.9)	\$ 83.5	\$ 95.6	(12.1)
IMR losses			(4.8)			(1.8)
Less: Taxes on realized gains and losses			(2.7)			(0.8)
Net realized gains (losses), net of tax			\$ (116.4)			\$ (14.7)

The Company realized net losses of \$187.3 million and \$48.6 million in 2020 and 2019, respectively, related to other-than-temporary impairments of bonds, common stocks, partnerships, and income producing real estate, and a net gain of \$0.1 million and \$1.1 million in 2020 and 2019, respectively, on called securities.

The Company realized no net losses in 2020 and 2019 related to other-than-temporary impairments of loan-backed securities.

Note 3 Investments (continued)

Impairment analysis

The following tables show the fair value and unrealized losses for bonds and common stocks, as of December 31, 2020 and 2019, respectively. The data is aggregated by investment category and length of time that individual securities have been in a continuous position where cost or amortized cost exceeds fair value.

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
December 31, 2020 (Millions)						
U.S. government and government agencies	\$ 1.1	-	-	-	\$ 1.1	-
All other governments	2.0	-	-	-	2.0	-
Political subdivisions of states, territories, and possessions	0.7	-	1.3	-	2.0	-
Special revenue and special assessment	32.7	0.7	9.9	0.1	42.6	0.8
Industrial and miscellaneous	87.7	1.3	9.9	0.2	97.6	1.5
Subtotal, bonds	124.2	2.0	21.1	0.3	145.3	2.3
Common stocks	27.8	1.2	-	-	27.8	1.2
Total	\$ 152.0	\$ 3.2	\$ 21.1	\$ 0.3	\$ 173.1	\$ 3.5

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
December 31, 2019 (Millions)						
U.S. government and government agencies	\$ 53.9	\$ 0.7	\$ 15.2	\$ 0.1	\$ 69.1	\$ 0.8
All other governments	14.1	0.1	10.7	0.1	24.8	0.2
States, territories, and possessions	9.6	0.4	-	-	9.6	0.4
Political subdivisions of states, territories, and possessions	19.4	0.1	1.3	-	20.7	0.1
Special revenue and special assessment	212.1	2.3	30.7	0.3	242.8	2.6
Industrial and miscellaneous	186.8	1.9	35.2	0.6	222.0	2.5
Subtotal, bonds	495.9	5.5	93.1	1.1	589.0	6.6
Common stocks	42.9	2.7	-	-	42.9	2.7
Total	\$ 538.8	\$ 8.2	\$ 93.1	\$ 1.1	\$ 631.9	\$ 9.3

Note 3 Investments (continued)

The following tables show the fair value and unrealized losses for loan-backed securities, as of December 31, 2020 and 2019, respectively. The data is aggregated by investment category and length of time that individual securities have been in a continuous position where cost or amortized cost exceeds fair value.

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
December 31, 2020 (Millions)						
Special revenue - MBS/ABS	\$ 6.6	\$ 0.1	\$ 6.7	-	\$ 13.3	\$ 0.1
Industrial and miscellaneous - MBS/ABS	3.9	-	-	-	3.9	-
Total	\$ 10.5	\$ 0.1	\$ 6.7	-	\$ 17.2	\$ 0.1

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
December 31, 2019 (Millions)						
U.S. government and government agencies - MBS/ABS (a)	\$ 42.9	\$ 0.4	\$ 5.8	-	\$ 48.7	\$ 0.4
Special revenue - MBS/ABS	23.9	0.5	23.2	0.2	47.1	0.7
Industrial and miscellaneous - MBS/ABS	59.3	0.5	5.8	-	65.1	0.5
Total	\$ 126.1	\$ 1.4	\$ 34.8	\$ 0.2	\$ 160.9	\$ 1.6

(a) Mortgage-backed securities (MBS) and asset-backed securities (ABS).

The majority of the unrealized losses of the Company's investments were caused by bonds being purchased in a lower interest rate environment relative to the interest rate environment at December 31, 2020. Because the Company has the ability and intent to hold these investments until maturity, the Company does not consider investments with such losses to be other-than-temporarily impaired at December 31, 2020. There were no loan-backed securities held at December 31, 2020 or 2019, which were previously other-than-temporarily impaired.

The Company's evaluation of other-than-temporary impairment of a particular security includes management making assumptions and estimates about the future earnings potential and operations of the issuer. Management considers such factors when evaluating whether a decline in fair value is other than temporary: (1) the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; (2) the recoverability of principal and interest; (3) the duration and extent to which the fair value has been less than cost for equity securities or amortized cost for bonds; (4) the financial condition of the issuer along with future prospects, including relevant industry conditions and trends and rating agency implications; and (5) the specific reasons that a security is in a significant unrealized loss position, including market conditions, which could affect access to liquidity.

Note 3 Investments (continued)

Total unrealized losses on securities that were in a continuous unrealized loss position for twelve months or more are comprised of 7 bonds and no common stocks and 32 bonds and no common stocks at December 31, 2020 and 2019, respectively. Total unrealized losses on securities that were in a continuous unrealized loss position for twelve months or fewer are comprised of 37 bonds and 20 common stocks and 143 bonds and 24 common stocks at December 31, 2020 and 2019, respectively.

The Company does not have a material concentration of subprime investments.

Company-occupied properties

The following table summarizes Company-occupied properties used primarily in insurance operations:

December 31 (Millions)	2020	2019
Buildings	\$ 258.6	\$ 258.5
Land and improvements	14.9	18.8
Total cost	273.5	277.3
Accumulated depreciation	(117.4)	(112.5)
Carrying value	\$ 156.1	\$ 164.8

Depreciation expense for Company-occupied properties was \$4.9 million and \$6.7 million in 2020 and 2019, respectively.

Net investment income includes rental income of \$26.7 million and \$25.8 million in 2020 and 2019, respectively, for occupancy by the Company of its own buildings. A similar charge is included in operating expenses for both years.

Company-owned life insurance

The Company is the owner and beneficiary of life insurance policies included in other assets at their cash surrender values pursuant to SSAP No. 21, *Other Admitted Assets*. At December 31, 2020, the cash surrender value in an investment vehicle is \$25.4 million and is allocated into the following categories: 79% equity, 7% fixed income, and 14% cash and short-term investments.

Acquisitions

On November 1, 2020 SIAMCO acquired 100 percent of the outstanding common stock of Southern Fire & Casualty Company and Unigard Insurance Company, as clean shell companies, for \$18.5 million. Prior to acquisition, Unigard Insurance Company and Southern Fire & Casualty Company entered into a loss portfolio transfer and quota share reinsurance agreement with QBE Insurance Corporation (the seller) to reinsure 100% of liabilities incurred prior to the acquisition. In addition, Unigard Insurance Company and Southern Fire & Casualty Company entered into an Administrative Services Agreement with QBE Insurance Corporation to provide services with respect to the administration of the pre-acquisition liabilities. Southern Fire & Casualty Company and Unigard Insurance Company were subsequently renamed to Point Insurance Company (PIC) and Dairyland American Insurance Company (DAIC), respectively.

The acquisitions have been accounted for as a statutory purchase and, accordingly, the operating results have been included in the Companies' consolidated statutory-basis financial statements since the date of acquisition. Unamortized goodwill is reported as a component of other assets on the balance sheet. The purchase price of PIC was \$6.8 million. The excess of the aggregate purchase price over the statutory capital and surplus of PIC of \$2.2 million has been recorded as goodwill and is being amortized to unrealized gains (losses) on investments over 10 years on a straight-line basis. Goodwill amortization of \$37 thousand was recorded in 2020 related to the PIC purchase. The purchase price of DAIC was \$11.8 million. The excess of the aggregate purchase price over the statutory capital and surplus of DAIC of \$4.7 million has been recorded as goodwill and is being amortized to unrealized gains (losses) on investments over 10 years on a straight-line basis. Goodwill amortization of \$78 thousand was recorded in 2020 related to the DAIC purchase.

Note 4 Disclosures about fair value of financial instruments

Statutory accounting principles define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Certain financial instruments and all nonfinancial instruments are excluded from statutory fair value disclosure requirements. Therefore, the aggregate fair value amounts presented below do not represent the underlying fair value of the Company.

The following methods and assumptions were used to estimate the fair value of each class of significant financial instruments for which it is practicable to estimate that value:

For cash and short-term investments, insurance premiums and reinsurance receivables, interest and dividends receivables, and accounts payable and accrued expenses, the carrying amount approximates fair value due to their short-term nature. Policy loans are an integral part of the underlying life insurance contracts and have no stated maturity dates; therefore, no reasonable estimate of fair value can be made. Interest rates range from 5 to 8 percent.

For bonds, the estimated fair value is generally based on quotes provided by data pricing services, brokers, and the Capital Markets and Investment Analysis Office of the NAIC. The fair values of common stocks are based on quotes provided by data pricing services and market values from the Capital Markets and Investment Analysis Office of the NAIC. The fair value of assets held in separate accounts and the related liabilities are based on underlying market prices.

The estimated fair values of the Company's financial instruments are as follows:

December 31 (Millions)	2020		2019	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets:				
Bonds	\$ 10,601.3	\$ 11,784.4	\$ 10,079.2	\$ 10,739.4
Common stocks	1,681.1	1,681.1	1,421.3	1,421.3
Short-term investments	285.1	285.1	193.0	193.0
Assets held in separate accounts	6,387.9	6,387.9	5,538.3	5,538.3
Liabilities:				
Liabilities held in separate accounts	6,386.6	6,386.6	5,537.3	5,537.3

Included in various investment-related line items in the consolidated statutory financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired or, for certain bonds, when carried at the lower of cost or fair value.

The fair value of an asset is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses a market approach and maximizes the use of observable inputs and minimizes the use of unobservable inputs.

When quoted prices in active markets are not available, the Company uses the income approach to estimate the fair value of its financial instruments. The income approach involves using discounted cash flow and other standard valuation methodologies. The inputs in applying these market standard valuation methodologies include, but are not limited to, interest rates, benchmark yields, bid/ask spreads, dealer quotes, liquidity, term to maturity, estimated future cash flows, credit risk and default projections, collateral performance, deal and tranche attributes, and general market data.

Note 4 Disclosures about fair value of financial instruments (continued)

For disclosure purposes, based on a hierarchy defined by SSAP No. 100, *Fair Value*, the Company categorizes its financial instruments into a hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives highest priority to quotes in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety.

The Company categorizes financial assets and liabilities as follows:

Level 1 – Management’s valuations are based on unadjusted quoted prices in active markets for identical, unrestricted assets. Since valuations are based on quoted prices that are readily available in an active market, valuation of these assets does not involve any meaningful degree of judgment. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 financial assets and liabilities generally include common stocks and U.S. government debt securities, where management’s valuations are based on quoted market prices.

Level 2 – Management’s valuations are based on quoted market prices where such markets are not deemed to be sufficiently active. In such circumstances, additional valuations metrics will be used, which involve direct or indirect observable market inputs. Level 2 financial assets and liabilities generally include debt securities other than debt issued by the U.S. government. Independent pricing services constitute a significant input in management’s determination of the fair value of these types of bonds. In developing such quotes, dealers will use the terms of the security and market-based inputs. Terms of the security include coupon, maturity date, and any special provision that may enable the investor to redeem the security prior to its maturity date. Market-based inputs include the level of interest rates applicable to comparable securities in the market and current credit ratings of the security. A small segment of Level 2 securities is priced internally using matrix pricing, broker quotes, and benchmark and spread analysis.

Level 3 – Management’s valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Valuations under Level 3 generally involve a significant degree of judgment on the part of management.

Note 4 Disclosures about fair value of financial instruments (continued)

The following tables present the fair value hierarchy levels for the Company’s assets and liabilities:

December 31, 2020	Level 1	Level 2	Level 3	Total
(Millions)				
Financial assets:				
Bonds	\$ 160.7	\$ 11,623.7	\$ -	\$11,784.4
Common stocks	1,678.3	2.8	-	1,681.1
Short-term investments	285.1	-	-	285.1
Assets held in separate accounts	-	6,387.9	-	6,387.9
Total financial assets	\$2,124.1	\$ 18,014.4	-	\$20,138.5
Liabilities:				
Liabilities held in separate accounts	\$ -	\$ 6,386.6	\$ -	\$ 6,386.6

December 31, 2019	Level 1	Level 2	Level 3	Total
(Millions)				
Financial assets:				
Bonds	\$ 175.0	\$ 10,564.4	\$ -	\$10,739.4
Common stocks	1,418.8	2.5	-	1,421.3
Short-term investments	193.0	-	-	193.0
Assets held in separate accounts	-	5,538.3	-	5,538.3
Total financial assets	\$1,786.8	\$ 16,105.2	-	\$17,892.0
Liabilities:				
Liabilities held in separate accounts	\$ -	\$ 5,537.3	\$ -	\$ 5,537.3

The Company had no changes in fair value of assets utilizing Level 3 inputs for the years ended December 31, 2020 and 2019.

Note 5 EDP equipment and software, furniture and equipment, and leases and leasehold improvements

Depreciation expense for EDP equipment and operating software was \$6.1 million and \$7.4 million in 2020 and 2019, respectively. Depreciation expense for nonoperating system software was \$0.2 million and \$0.3 million in 2020 and 2019, respectively. The gross cost for EDP equipment and operating software was \$112.6 million and \$109.7 million as of December 31, 2020 and 2019, respectively. Related accumulated depreciation was \$106.3 million and \$101.2 million as of December 31, 2020 and 2019, respectively.

Depreciation expense for furniture and equipment was \$4.9 million and \$4.3 million in 2020 and 2019, respectively. Amortization expense for leasehold improvements was \$0.4 million in 2020 and \$0.3 million in 2019. The net admitted assets for furniture and equipment and leases and leasehold improvements were zero at December 31, 2020 and 2019.

The Company leases office equipment, vehicles, and office space under various lease agreements that expire through August 2029. External rental expenses in 2020 and 2019 were \$11.3 million and \$11.2 million, respectively.

At December 31, 2020, the minimum aggregate rental commitments for noncancelable office space leases totaled \$31.2 million through 2029. Minimum aggregate rental commitments for noncancelable office space leases for the next succeeding five years are as follows:

Years ended December 31	Rental commitment
(Millions)	
2021	\$ 7.6
2022	6.9
2023	5.1
2024	3.4
2025	2.7
Thereafter	5.5

The Company has 15 major leased office locations. These leases can be renewed for between five-year and ten-year increments. The lease agreements have immaterial escalation clauses. The Company has no lease commitments for vacated properties. The Company is not involved in any material sales-leaseback transactions and leasing is not a significant part of the Company's business activities.

Note 6 Reserves for losses and loss adjustment expenses

Property and casualty and accident and health reserves

Activity in the liability for losses and loss expenses relating to property and casualty and accident and health reserves is as follows:

Years ended December 31	2020	2019
(Millions)		
Reserves for losses and loss expenses at beginning of year	\$ 4,324.5	\$ 4,072.2
Less reinsurance recoverable on unpaid losses	623.8	607.2
Net reserves for losses and loss expenses at beginning of year	3,700.7	3,465.0
Provision for losses and loss expenses for claims incurred:		
Current year	1,924.9	1,902.8
Prior years	(164.8)	(161.7)
Total incurred losses and loss expenses	1,760.1	1,741.1
Payments for losses and loss expenses on claims incurred:		
Current year	715.9	714.3
Prior years	839.9	791.1
Total paid losses and loss expenses	1,555.8	1,505.4
Net reserves for losses and loss expenses at end of year	3,905.0	3,700.7
Plus reinsurance recoverable on unpaid losses	664.4	623.8
Reserves for losses and loss expenses at end of year	\$ 4,569.4	\$ 4,324.5

Favorable development on prior year incurred losses and loss expenses reflects ongoing analysis of recent loss trends and reevaluation based on information known for individual claims. This favorable development was driven by lower-than-anticipated losses across multiple lines of business with the primary drivers being workers' compensation, auto physical damage, and special property. To the extent this favorable development is attributable to loss sensitive contracts, premiums were adjusted accordingly.

Loss reserves reported in the above table are presented net of anticipated salvage and subrogation recoveries totaling \$68.3 million and \$56.6 million as of December 31, 2020 and 2019, respectively.

Note 6 Reserves for losses and loss adjustment expenses (continued)

High deductible policies

Loss reserves reported in the above table are also presented net of reserve credits. These reserve credits relate to deductibles receivable from policyholders on certain policies considered “high deductible” policies. Unlike traditional insurance policies, the Company generally pays losses under the deductible limit on high deductible policies and then collects these amounts from the policyholder. For purposes of this disclosure, high deductible policies are defined as policies with a deductible of \$100 thousand or higher. All deductibles receivable from a policyholder with at least one high deductible policy are included in this disclosure. Balances for high deductible policies are as follows:

December 31, 2020 (Millions)	Gross (of high deductible) loss reserves	Reserve credit for high deductibles	Billed recoverables on paid claims	Total high deductibles and billed recoverables
Workers' compensation	\$ 1,826.0	\$ 678.0	\$ 25.3	\$ 703.3
All other lines	244.4	69.4	3.9	73.3

December 31, 2019 (Millions)	Gross (of high deductible) loss reserves	Reserve credit for high deductibles	Billed recoverables on paid claims	Total high deductibles and billed recoverables
Workers' compensation	\$ 1,788.9	\$ 701.1	\$ 28.1	\$ 729.2
All other lines	238.3	72.7	2.8	75.5

Note 6 Reserves for losses and loss adjustment expenses (continued)

To minimize credit risk, the Company continually monitors the condition of these receivables, and in certain situations requires collateral in the form of letters of credit, cash deposits, trusts, or bonds. Collateral in the form of cash deposits is reflected on the consolidated statutory balance sheets within cash and investments while all other collateral is excluded. The Company held collateral on these policies in the amounts of \$574.7 million and \$581.1 million as of December 31, 2020 and 2019, respectively; \$232.6 million and \$224.2 million was in the form of cash deposits, while \$342.1 million and \$356.9 million was in the form of letters of credit, trusts, or bonds. Total unsecured amounts of \$201.9 million and \$223.6 million represented 26.0 percent and 27.8 percent of the total high deductible amounts related to unpaid claims and recoverables on paid claims as of December 31, 2020 and 2019, respectively.

Of the billed and recoverable amounts on paid claims under these policies, \$2.1 million and \$6.4 million were over 90 days past due as of December 31, 2020 and 2019, respectively. Overdue deductible recoverables in excess of collateral specifically held and identifiable on a per-policy basis is reported as a non-admitted asset; as of December 31, 2020 and 2019, there were no amounts nonadmitted due to either aging or collateral.

The deductible amounts for the highest ten unsecured high deductible policies at December 31, 2020 and 2019, are listed below. Each individual counterparty may not be consistent between years.

As of December 31 (Millions)	2020	2019
Counterparty 1	\$ 17.9	\$ 17.0
Counterparty 2	10.2	9.1
Counterparty 3	6.0	8.7
Counterparty 4	5.8	4.3
Counterparty 5	3.7	4.3
Counterparty 6	3.6	3.8
Counterparty 7	3.4	3.5
Counterparty 8	3.4	3.3
Counterparty 9	3.1	3.1
Counterparty 10	3.1	3.1

Note 6 Reserves for losses and loss adjustment expenses (continued)

Asbestos and environmental claims

The Company has certain exposures for asbestos and environmental claims arising from the sale of product and general liability insurance and reinsurance. The Company estimates the full impact of the asbestos and environmental exposure by establishing full case reserves on all known losses and computing incurred but not reported losses based on previous experience. Activity related to these reserves is as follows:

Asbestos losses: direct

Years ended December 31	2020	2019
(Millions)		
Reserves for asbestos claims at beginning of year	\$ 156.9	\$ 149.5
Incurred losses and loss expenses	11.5	20.5
Paid losses and loss expenses	(34.6)	(13.1)
Reserves for asbestos claims at end of year	\$ 133.8	\$ 156.9

Asbestos losses: assumed reinsurance

Years ended December 31	2020	2019
(Millions)		
Reserves for asbestos claims at beginning of year	\$ 48.5	\$ 52.0
Incurred losses and loss expenses	2.0	2.4
Paid losses and loss expenses	(2.5)	(5.9)
Reserves for asbestos claims at end of year	\$ 48.0	\$ 48.5

Asbestos losses: net of reinsurance

Years ended December 31	2020	2019
(Millions)		
Reserves for asbestos claims at beginning of year	\$ 168.3	\$ 174.4
Incurred losses and loss expenses	10.0	7.8
Paid losses and loss expenses	(33.6)	(13.9)
Reserves for asbestos claims at end of year	\$ 144.7	\$ 168.3

Note 6 Reserves for losses and loss adjustment expenses (continued)

Environmental losses: direct

Years ended December 31	2020	2019
(Millions)		
Reserves for environmental claims at beginning of year	\$ 78.2	\$ 82.6
Incurred losses and loss expenses	4.5	(1.0)
Paid losses and loss expenses	(10.4)	(3.4)
Reserves for environmental claims at end of year	\$ 72.3	\$ 78.2

Environmental losses: assumed reinsurance

Years ended December 31	2020	2019
(Millions)		
Reserves for environmental claims at beginning of year	\$ 6.4	\$ 6.7
Incurred losses and loss expenses	-	1.1
Paid losses and loss expenses	(0.3)	(1.4)
Reserves for environmental claims at end of year	\$ 6.1	\$ 6.4

Environmental losses: net of reinsurance

Years ended December 31	2020	2019
(Millions)		
Reserves for environmental claims at beginning of year	\$ 82.8	\$ 86.4
Incurred losses and loss expenses	(0.2)	0.2
Paid losses and loss expenses	(7.8)	(3.8)
Reserves for environmental claims at end of year	\$ 74.8	\$ 82.8

Note 7 Life and other future policy benefits

Future policy benefits for life and annuities at December 31, 2020 and 2019, are as follows:

December 31	2020	2019
(Millions)		
Life		
Life insurance	\$ 215.8	\$ 216.7
Accidental death and disability benefits	5.3	5.6
Miscellaneous reserves	12.4	13.5
Future policy benefits – life	233.5	235.8
Annuities		
Aggregate reserves for annuity contracts	2,164.5	2,099.2
Structured settlements	76.9	79.3
Liabilities for premium and other deposit funds	2.5	2.4
Future policy benefits – annuities	2,243.9	2,180.9
Total future policy benefits – life and annuities	2,477.4	2,416.7
Policy and contract claims – life and annuities	3.2	2.7
Total life and other future policy benefits	\$ 2,480.6	\$ 2,419.4

Note 7 Life and other future policy benefits (continued)

The withdrawal characteristics of all annuity reserves and deposit liabilities at December 31, 2020 and 2019, are as follows:

Individual annuities

December 31, 2020	General account	Separate account nonguaranteed	Total	% of total
(Millions)				
Subject to discretionary withdrawal:				
With market value adjustment	\$ -	\$ -	\$ -	-
At book value, less current surrender charge of 5% or more	0.3	-	0.3	0.3%
At fair value	-	28.9	28.9	31.9%
Total with adjustment or at market value	0.3	28.9	29.2	32.2%
At book value without adjustment (minimal or no charge or adjustment)	55.3	-	55.3	61.0%
Total subject to discretionary withdrawal	55.6	28.9	84.5	93.2%
Not subject to discretionary withdrawal	6.1	-	6.1	6.8%
Total (gross)	61.7	28.9	90.6	100.0%
Reinsurance ceded	-	-	-	
Total (net)	\$ 61.7	\$ 28.9	\$ 90.6	
Amount above with a surrender charge of 5% or more that will have minimal or no charge or adjustment for the first time within the following year	\$ 0.3	\$ -	\$ 0.3	

December 31, 2019	General account	Separate account nonguaranteed	Total	% of total
(Millions)				
Subject to discretionary withdrawal:				
With market value adjustment	\$ -	\$ -	\$ -	-
At book value, less current surrender charge of 5% or more	4.1	-	4.1	4.7%
At fair value	-	27.5	27.5	31.4%
Total with adjustment or at market value	4.1	27.5	31.6	36.1%
At book value without adjustment (minimal or no charge or adjustment)	48.6	-	48.6	55.5%
Total subject to discretionary withdrawal	52.7	27.5	80.2	91.6%
Not subject to discretionary withdrawal	7.4	-	7.4	8.4%
Total (gross)	60.1	27.5	87.6	100.0%
Reinsurance ceded	-	-	-	
Total (net)	\$ 60.1	\$ 27.5	\$ 87.6	
Amount above with a surrender charge of 5% or more that will have minimal or no charge or adjustment for the first time within the following year	\$ 2.0	\$ -	\$ 2.0	

Note 7 Life and other future policy benefits (continued)

Group annuities

December 31, 2020	General account	Separate account nonguaranteed	Total	% of total
(Millions)				
Subject to discretionary withdrawal:				
With market value adjustment	\$ 2,088.9	\$ -	\$ 2,088.9	24.6%
At book value, less current surrender charge of 5% or more	-	-	-	-
At fair value	-	6,320.8	6,320.8	74.4%
Total with adjustment or at market value	2,088.9	6,320.8	8,409.7	99.0%
At book value, without adjustment (minimal or no charge or adjustment)	5.9	-	5.9	0.1%
Total subject to discretionary withdrawal	2,094.8	6,320.8	8,415.6	99.1%
Not subject to discretionary withdrawal	84.9	-	84.9	0.9%
Total (gross)	2,179.7	6,320.8	8,500.5	100.0%
Reinsurance ceded	-	-	-	-
Total (net)	\$ 2,179.7	\$ 6,320.8	\$ 8,500.5	
Amount above with a surrender charge of 5% or more that will have minimal or no charge or adjustment for the first time within the following year				
	\$ -	\$ -	\$ -	

December 31, 2019	General account	Separate account nonguaranteed	Total	% of total
(Millions)				
Subject to discretionary withdrawal:				
With market value adjustment	\$ 2,025.5	\$ -	\$ 2,025.5	26.6%
At book value, less current surrender charge of 5% or more	-	-	-	-
At fair value	-	5,500.8	5,500.8	72.2%
Total with adjustment or at market value	2,025.5	5,500.8	7,526.3	98.8%
At book value, without adjustment (minimal or no charge or adjustment)	6.3	-	6.3	0.1%
Total subject to discretionary withdrawal	2,031.8	5,500.8	7,532.6	98.9%
Not subject to discretionary withdrawal	86.6	-	86.6	1.1%
Total (gross)	2,118.4	5,500.8	7,619.2	100.0%
Reinsurance ceded	-	-	-	-
Total (net)	\$ 2,118.4	\$ 5,500.8	\$ 7,619.2	
Amount above with a surrender charge of 5% or more that will have minimal or no charge or adjustment for the first time within the following year				
	\$ -	\$ -	\$ -	

Note 7 Life and other future policy benefits (continued)

Deposit-type contracts (no life contingencies)

December 31, 2020	General account	Separate account nonguaranteed	Total	% of total
(Millions)				
Subject to discretionary withdrawal:				
With market value adjustment	\$ -	\$ -	\$ -	-
At book value, less current surrender charge of 5% or more	-	-	-	-
At fair value	-	-	-	-
Total with adjustment or at market value	-	-	-	-
At book value, without adjustment (minimal or no charge or adjustment)	-	-	-	-
Total subject to discretionary withdrawal	-	-	-	-
Not subject to discretionary withdrawal	2.5	-	2.5	100.0%
Total (gross)	2.5	-	2.5	100.0%
Reinsurance ceded	-	-	-	-
Total (net)	\$ 2.5	\$ -	\$ 2.5	
Amount above with a surrender charge of 5% or more that will have minimal or no charge or adjustment for the first time within the following year				
	\$ -	\$ -	\$ -	

December 31, 2019	General account	Separate account nonguaranteed	Total	% of total
(Millions)				
Subject to discretionary withdrawal:				
With market value adjustment	\$ -	\$ -	\$ -	-
At book value, less current surrender charge of 5% or more	-	-	-	-
At fair value	-	-	-	-
Total with adjustment or at market value	-	-	-	-
At book value, without adjustment (minimal or no charge or adjustment)	-	-	-	-
Total subject to discretionary withdrawal	-	-	-	-
Not subject to discretionary withdrawal	2.4	-	2.4	100.0%
Total (gross)	2.4	-	2.4	100.0%
Reinsurance ceded	-	-	-	-
Total (net)	\$ 2.4	\$ -	\$ 2.4	
Amount above with a surrender charge of 5% or more that will have minimal or no charge or adjustment for the first time within the following year				
	\$ -	\$ -	\$ -	

Note 7 Life and other future policy benefits (continued)

The withdrawal characteristics of life actuarial reserves at December 31, 2020 and 2019 are as follows:

December 31, 2020 (Millions)	General account			Separate account - nonguaranteed		
	Account value	Cash value	Reserve	Account value	Cash value	Reserve
Subject to discretionary withdrawal, surrender values, or policy loans						
Term Policies with cash value	\$ 0.9	\$ 1.0	\$ 1.5	\$ -	\$ -	\$ -
Universal life	76.8	78.2	79.7	-	-	-
Other permanent cash value life insurance	87.6	87.6	109.9	-	-	-
Variable universal life	-	-	-	8.6	8.6	8.4
Not subject to discretionary withdrawal or no cash values						
Term Policies with cash value	XXX	XXX	50.2	XXX	XXX	-
Accidental death benefits	XXX	XXX	-	XXX	XXX	-
Disability – active lives	XXX	XXX	0.2	XXX	XXX	-
Disability – disabled lives	XXX	XXX	5.5	XXX	XXX	-
Miscellaneous reserves	XXX	XXX	24.4	XXX	XXX	-
Total (gross)	165.3	166.8	271.4	8.6	8.6	8.4
Reinsurance ceded	-	-	37.9	-	-	-
Total (net)	\$ 165.3	\$ 166.8	\$ 233.5	\$ 8.6	\$ 8.6	\$ 8.4

December 31, 2019 (Millions)	General account			Separate account - nonguaranteed		
	Account value	Cash value	Reserve	Account value	Cash value	Reserve
Subject to discretionary withdrawal, surrender values, or policy loans						
Term Policies with cash value	\$ 0.8	\$ 0.8	\$ 1.4	\$ -	\$ -	\$ -
Universal life	80.2	81.4	83.0	-	-	-
Other permanent cash value life insurance	85.7	85.7	107.4	-	-	-
Variable universal life	-	-	-	8.2	8.2	8.0
Not subject to discretionary withdrawal or no cash values						
Term Policies with cash value	XXX	XXX	48.8	XXX	XXX	-
Accidental death benefits	XXX	XXX	-	XXX	XXX	-
Disability – active lives	XXX	XXX	0.2	XXX	XXX	-
Disability – disabled lives	XXX	XXX	5.8	XXX	XXX	-
Miscellaneous reserves	XXX	XXX	25.4	XXX	XXX	-
Total (gross)	166.7	167.9	272.0	8.2	8.2	8.0
Reinsurance ceded	-	-	36.2	-	-	-
Total (net)	\$ 166.7	\$ 167.9	\$ 235.8	\$ 8.2	\$ 8.2	\$ 8.0

Note 7 Life and other future policy benefits (continued)

The below tables reconciles the withdrawal characteristics of all life, annuity reserves, and deposit liabilities to specific Annual Statement schedules as of December 31, 2020.

(Millions)		Life	Annuities	Total
Life & accident & health annual statement	Balance sheet caption			
Exhibit 5, life insurance, total (net)	Life and other future policy benefits	\$ 215.8	\$ -	\$ 215.8
Exhibit 5, disability – active lives, total (net)	Life and other future policy benefits	0.2	-	0.2
Exhibit 5, disability – disabled lives, total (net)	Life and other future policy benefits	5.1	-	5.1
Exhibit 5, miscellaneous reserves, total (net)	Life and other future policy benefits	12.4	0.7	13.1
Exhibit 5, annuities, total (net)	Life and other future policy benefits	-	2,240.5	2,240.5
Exhibit 5, supplementary contracts with life contingencies, total (net)	Life and other future policy benefits	-	0.2	0.2
Exhibit 7, deposit-type contracts, line 14, column 1	Life and other future policy benefits	-	2.5	2.5
Exhibit 8, contract claims, line 4.4, columns 3 and 7	Life and other future policy benefits	3.2	-	3.2
Subtotal		236.7	2,243.9	2,480.6
Separate accounts annual statement	Balance sheet caption			
Exhibit 3, line 0199999, column 2	Separate account liabilities	8.4	-	8.4
Exhibit 3, line 0299999, column 2	Separate account liabilities	-	6,349.7	6,349.7
Subtotal		8.4	6,349.7	6,358.1
Combined total		\$ 245.1	\$ 8,593.6	\$ 8,838.7

Note 8 Separate accounts

The life insurance subsidiaries utilize separate accounts to record and account for assets and liabilities for employee benefit plans, variable annuities, and variable universal life product lines.

All separate account assets are considered legally insulated from the general account except for the Company's interest in the separate accounts (seed money). The legal insulation of the separate account assets prevents such assets from being generally available to satisfy claims resulting from the general accounts. All separate account assets are registered with the U.S. Securities and Exchange Commission (SEC). As of December 31, 2020 and 2019, the life companies' separate account statements included legally insulated assets of \$6.4 billion and \$5.5 billion, respectively.

Activity and liabilities (primarily reserves) in the life insurance subsidiaries' separate accounts are as follows:

Years ended December 31	2020	2019
(Millions)		
Premiums, considerations, or deposits	\$ 1,734.7	\$ 1,551.8
Liabilities:		
Reserves carried at fair value	\$ 6,358.1	\$ 5,536.3
Non-policy liabilities	28.5	1.0
Total liabilities	\$ 6,386.6	\$ 5,537.3
Liabilities by withdrawal characteristics:		
Subject to discretionary withdrawal:		
With market value adjustment	\$ -	\$ -
At book value without market value adjustment and with current surrender charge of 5% or more	-	-
At fair value	6,358.1	5,536.3
At book value without market value adjustment and with current surrender charge less than 5%	-	-
Total reserves subject to discretionary withdrawal	6,358.1	5,536.3
Non-policy liabilities	28.5	1.0
Total liabilities	\$ 6,386.6	\$ 5,537.3
Reserves for asset default risk in lieu of AVR	\$ -	\$ -

Insurance claims and policyholders' benefits as reported on the consolidated statements of operations include amounts transferred to (from) separate accounts. These transfers reported in the life companies' separate accounts statements are as follows:

Years ended December 31	2020	2019
(Millions)		
Transfers to separate accounts	\$ 1,734.7	\$ 1,551.8
Transfers from separate accounts	(1,777.8)	(1,434.0)
Net transfers as reported in the separate accounts statements	(43.1)	117.8
Other	(0.1)	-
Net transfers as reported in the statements of operations	\$ (43.2)	\$ 117.8

Note 9 Reinsurance

The Company cedes insurance to other insurers under various contracts, which cover individual risks or entire classes of business. There are no significant concentrations with any one reinsurer. Although the ceding of insurance does not discharge the Company from its primary liability to policyholders in the event any reinsurer might be unable to meet the obligations assumed under the reinsurance agreements, it is the practice of insurers to reduce their balances for amounts ceded. Amounts deducted in the accompanying consolidated statutory financial statements for reinsurance ceded to other insurers are as follows:

Years ended December 31	2020	2019
(Millions)		
Insurance premiums and deposits ceded	\$ 177.8	\$ 165.4
Insurance benefits ceded	123.0	143.4

December 31	2020	2019
(Millions)		
Liabilities for losses and loss expenses ceded	\$ 702.4	\$ 660.0
Unearned premiums ceded	43.1	40.7

The Company is not currently participating in voluntary assumed reinsurance programs, but assumed case reserves remain outstanding. Business is also assumed from mandatory pools, primarily the National Council of Compensation Insurance (NCCI) workers' compensation pool.

The Company did not include the supplemental reinsurance disclosures required by paragraphs 78 through 84 of SSAP No. 61R, *Life Deposit-Type and Accident and Health Reinsurance* as it does not have any reinsurance contracts which limit the reinsurer's assumption of significant risks.

Note 10 Benefit plans

Qualified pension plan

SIAMCO sponsors a qualified noncontributory defined benefit pension plan (the Plan) covering all employees hired before January 1, 2010. SIAMCO made accrual entries based on actuarially determined amounts.

The following provides a reconciliation of benefit obligations, plan assets, and funded status related to the Plan.

December 31	2020	2019
(Millions)		
Benefit obligation at beginning of year	\$ 1,603.4	\$ 1,392.7
Service cost	22.3	19.2
Interest cost	50.0	56.9
Liability loss	196.8	208.7
Benefits paid	(75.9)	(74.1)
Benefit obligation at end of year	\$ 1,796.6	\$ 1,603.4

December 31	2020	2019
(Millions)		
Fair value of assets at beginning of year	\$ 1,610.3	\$ 1,433.1
Actual investment return on assets	252.1	251.3
Benefits paid	(75.9)	(74.1)
Fair value of assets at end of year	\$ 1,786.5	\$ 1,610.3

The shortfall of plan assets over benefit obligations was \$10.1 million as of December 31, 2020. The excess of plan assets over benefit obligations was \$6.9 million as of December 31, 2019.

Years ended December 31	2020	2019
(Millions)		
Service cost	\$ 22.3	\$ 19.2
Interest cost	50.0	56.9
Actual investment return on assets	(252.1)	(251.3)
Difference between expected and actual return on assets	185.4	188.5
Total net periodic pension cost	\$ 5.6	\$ 13.3

The accumulated benefit obligation for all participants was \$1,705.4 million and \$1,529.2 million as of December 31, 2020 and 2019, respectively.

Note 10 Benefit plans (continued)

The following table provides a reconciliation of amounts in unassigned surplus that have not been recognized as components of net periodic pension cost:

December 31	2020	2019
(Millions)		
Items not yet recognized as a component of net periodic pension cost at beginning of year	\$ 159.2	\$ 139.0
Net loss arising during the period	11.4	20.2
Items not yet recognized as a component of net periodic pension cost at end of year	\$ 170.6	\$ 159.2

At December 31, 2020, there was \$170.6 million of net recognized losses in unassigned surplus that have not yet been recognized as components of net periodic pension cost. The net loss arising during 2020 resulted primarily from a decrease in discount rate, offset by asset gain. The net loss in 2019 resulted from a decrease in discount rate, offset by asset gain.

The table below presents the fair value hierarchy for the balances of the assets of the Plan measured at fair value. Fair value of Level 1 assets is based on unadjusted quoted prices for identical assets in active markets that are accessible to SIAMCO. Fair value of Level 2 assets is based on quoted prices other than those included within Level 1 that are observable for the asset, either directly or indirectly. Fair value of Level 3 assets is estimated by SIAMCO using one or more significant unobservable inputs.

December 31, 2020	Level 1	Level 2	Level 3	Total
(Millions)				
Pooled separate accounts	\$ -	\$ 1,625.8	\$ -	\$ 1,625.8
Deposit fund	-	160.7	-	160.7
Total investments at fair value	\$ -	\$ 1,786.5	\$ -	\$ 1,786.5

December 31, 2019	Level 1	Level 2	Level 3	Total
(Millions)				
Pooled separate accounts	\$ -	\$ 1,333.5	\$ -	\$ 1,333.5
Deposit fund	-	276.8	-	276.8
Total investments at fair value	\$ -	\$ 1,610.3	\$ -	\$ 1,610.3

The Plan assets are invested primarily in common stocks and corporate debt through a group annuity contract with SLIC that allows SIAMCO contributions to be allocated to the pooled separate accounts or the Deposit Fund at the discretion of SIAMCO. SIAMCO's allocation of investments is as follows:

	2020	2019	Target allocation
Debt securities	81%	84%	55-90%
Equity securities	19%	16%	10-45%
Total	100%	100%	

Note 10 Benefit plans (continued)

The investment objectives are designed to (1) provide a long-term investment return that meets the actuarial assumption; (2) maximize investment returns commensurate with appropriate levels of risk; and (3) invest funds in a manner consistent with ERISA's fiduciary standards. Assets are allocated to provide adequate liquidity for Plan disbursements and managed such that all retirement benefit payments are met as they become due. The group annuity contract is valued at fair value at December 31, 2020 and 2019, as follows:

The pooled separate accounts represent ownership of units of participation (Units), rather than ownership of specific assets. The value of the pooled separate accounts is determined by aggregating the value of all the Units held by the Plan. The value of a Unit is the total value of the pooled separate accounts investments plus other assets less liabilities divided by the number of Units outstanding. The underlying investments in the pooled separate accounts are valued at fair value, which is generally determined by the quoted market prices of the underlying investments.

The Deposit Fund represents contributions made under the contract, plus contractually established interest, less funds used to pay benefits and administrative expenses of the Plan.

The assumptions used in the calculations for SIAMCO's pension plans are as follows:

Weighted average assumptions used to determine net periodic pension cost:	2020	2019
Measurement date	December 31	December 31
Discount rate	3.20%	4.20%
Long-term rate of return on plan assets	4.25%	4.50%
Rate of compensation increase	2-17%	1-20%
Interest crediting rates	-	-

Weighted average assumptions used to determine benefit obligations:	2020	2019
Measurement date	December 31	December 31
Discount rate	2.37%	3.20%
Rate of compensation increase	2-17%	1-20%
Interest crediting rates	-	-

At December 31, 2020, SIAMCO utilized the Mercer Yield Curve to discount anticipated cash flows, which reflects the yields at each duration of a portfolio of high-quality, fixed income debt securities that would produce cash flows sufficient in timing and amount to pay projected future benefits. At December 31, 2019, the FTSE Pension Liability Index was utilized.

In selecting the expected long-term rate of return on assets, SIAMCO considered the average rate of earnings expected on the classes of funds invested or to be invested to provide for the benefits of these plans. This included considering the targeted asset allocation for the year and the expected returns likely to be earned over the next 20 years.

Note 10 Benefit plans (continued)

Benefit payments, which reflect future service, are expected to be paid in the following fiscal years:

December 31	Estimated future pension benefits
(Millions)	
2021	\$ 76.2
2022	76.7
2023	77.4
2024	77.9
2025	78.9
Years 2026-2030	403.6

Nonqualified pension plans

SIAMCO sponsors nonqualified pension plans. The benefit obligation at December 31, 2020 and 2019, was \$92.9 million and \$84.3 million, respectively. The net periodic pension cost was \$5.5 million and \$4.8 million in 2020 and 2019, respectively. These plans are not funded.

Postretirement benefits other than pensions

In addition to pension benefits, SIAMCO provides certain healthcare, dental and vision insurance benefits (post-retirement benefits) for retired employees. SIAMCO employees hired before January 1, 2010, who are age 55 plus having 10 or more years of service, or at least age 65, may become eligible for these benefits. The measurement date for plan obligations is December 31, 2020 and 2019. This plan is not funded.

Life insurance benefits may be eligible for employees who retired prior to January 1, 2013. The life insurance benefit amount is the greater of \$3,000 or 10 percent of final benefits earnings base. Employees that retired after January 1, 2013 are not eligible for life insurance benefits.

A summary of obligations, assets and funded status as of December 31, 2020 and 2019, and components of net periodic post-retirement benefit cost for the years ended December 31, 2020 and 2019, are shown net of the subsidy effect provided for in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

The changes in the post-retirement benefit obligation are as follows:

December 31	2020	2019
(Millions)		
Benefit obligation at beginning of year	\$ 316.0	\$ 265.0
Service cost	4.9	4.4
Interest cost	9.4	10.7
Actuarial (gain) loss	(33.9)	47.7
Benefits paid	(11.6)	(11.8)
Benefit obligation at end of year	\$ 284.8	\$ 316.0

Note 10 Benefit plans (continued)

The components of net periodic postretirement benefit cost are as follows:

Years ended December 31	2020	2019
(Millions)		
Service cost	\$ 4.9	\$ 4.4
Interest cost	9.4	10.7
Amortization of actuarial gain (loss)	-	(0.5)
Net periodic postretirement benefit cost prior to amortization of nonvested prior service cost	14.3	14.6
Amortization of nonvested prior service cost	-	3.0
Total net periodic postretirement benefit cost	\$ 14.3	\$ 17.6

The components of the unfunded postretirement benefit obligation recorded in the consolidated statutory financial statements are as follows:

December 31	2020	2019
(Millions)		
Retirees	\$ 152.8	\$ 165.6
Eligible active participants	63.6	66.2
Not yet eligible participants	68.4	84.2
Recorded unfunded postretirement benefit obligation	\$ 284.8	\$ 316.0

Note 10 Benefit plans (continued)

The assumptions used in the calculation for post-retirement benefits other than pension are as follows:

Weighted average assumptions used to determine net periodic benefit cost:	2020	2019
Measurement date	December 31	December 31
Discount rate	3.05%	4.14%
Current healthcare cost trend rate	7.00%	8.00%
Healthcare cost trend rate graded to	5.50%	5.50%
Period healthcare cost trend rate is graded (years)	10	10

Weighted average assumptions used to determine benefit obligations:	2020	2019
Measurement date	December 31	December 31
Discount rate	2.27%	3.05%
Current healthcare cost trend rate	7.20%	7.00%
Healthcare cost trend rate graded to	5.40%	5.50%
Period healthcare cost trend rate is graded (years)	10	10

At December 31, 2020, SIAMCO utilized the Mercer Yield Curve to discount anticipated cash flows, which reflects the yields at each duration of a portfolio of high-quality, fixed income debt securities that would produce cash flows sufficient in timing and amount to pay projected future benefits. At December 31, 2019, the FTSE discount curve of spot rates was utilized.

Benefit payments, which reflect future service, are expected to be paid in the following fiscal years:

December 31	Gross estimated future benefits	Medicare D subsidy	Net estimated future benefits
(Millions)			
2021	15.6	\$ -	15.6
2022	16.1	-	16.1
2023	16.2	-	16.2
2024	16.0	-	16.0
2025	15.9	-	15.9
Years 2026–2030	73.2	-	73.2

Note 10 Benefit plans (continued)

Effective January 1, 2014, participating Medicare-eligible retirees and spouses have the option of either participating in the Sentry Group Plan that is eligible for the Retiree Drug Subsidy or receiving monthly subsidies to purchase individual Medicare coverage through an exchange. Beginning January 1, 2015, participating Medicare-eligible retirees and spouses were provided more choices to select an individual Medicare coverage through any carrier of their choice or through an established connector. Additionally, Sentry retirees that retired prior to the year 2000 have the option to continue to participate, along with their spouse, in the Sentry Group Plan. It is the Company's intent to transition retirees to the individual marketplace.

The following provides a reconciliation of amounts in unassigned surplus that have not been recognized as components of net periodic postretirement benefit cost as of December 31, 2020:

December 31	2020	2019
(Millions)		
Items not yet recognized as a component of net periodic post-retirement benefit cost at beginning of year	\$ 17.1	\$ (28.1)
Net prior service cost recognized during period	-	(3.0)
Net (gain) and loss arising during the period	(33.9)	47.7
Net gain recognized during period	-	0.5
Items not yet recognized as a component of net periodic postretirement benefit cost at end of year	\$ (16.8)	\$ 17.1

At December 31, 2020, there were \$16.8 million of net recognized gains in unassigned surplus that have not yet been recognized as components of net periodic post-retirement benefit cost. The gain arising during 2020 resulted from a decrease in post-65 health care trend and updated census data, offset by discount rate decreases. The loss arising during 2019 resulted from a decrease in discount rates.

Qualified 401(k) plan

SIAMCO participates in a qualified 401(k) plan. Employees who meet certain eligibility requirements may elect to participate in the 401(k) plan and defer up to 75 percent of their income on a combined pretax, Roth, and after-tax basis subject to certain Internal Revenue Service (IRS) limitations. Based on eligibility, SIAMCO matches 25 to 100 percent of employee contributions up to the first 8 percent of base salary and eligible bonuses deposited by the employee. SIAMCO may also make additional annual discretionary matching contributions based on operating profit. SIAMCO's total contributions to the 401(k) plan were \$25.7 million and \$22.6 million for 2020 and 2019, respectively. The 401(k) plan offers a guaranteed insurance contract written by SLIC as an investment option.

Note 11 Income tax

The provision for current federal income tax incurred as reported in the consolidated statutory financial statements is as follows:

Years ended December 31	2020	2019
(Millions)		
Federal income tax expense on operations	\$ 66.7	\$ 63.5
Federal income tax on net capital gains and losses	2.7	0.8
Current federal income tax expense incurred	\$ 69.4	\$ 64.3

Current federal income tax expense incurred is based upon a consolidated income tax provision for SIAMCO and its subsidiaries, FMIC and its subsidiaries, and Dairyland County Mutual. The provision for current federal income tax is different from that which would be obtained by applying the statutory federal income tax rate to pretax book income, which includes operations and realized gains and losses. The significant items causing this difference are as follows:

Year ended December 31	2020	Effective rate
(Millions)		
Current federal income tax expense computed at statutory rate	\$ 57.0	21.0 %
Nontaxable interest and dividends	(15.2)	(5.6)%
Credits for holding certain tax credit bonds	(4.6)	(1.7)%
Amortization of tax goodwill	(1.7)	(0.6)%
Nondeductible expenses	0.8	0.3 %
Prior year adjustment	(0.3)	(0.1)%
Other	(0.1)	- %
Total income tax expense	\$ 35.9	13.3 %

Reconciliation of total income tax expense:

Year ended December 31	2020	Effective rate
(Millions)		
Current federal income tax expense incurred	\$ 69.4	25.6 %
Change in net deferred income tax	(33.5)	(12.3)%
Total income tax expense	\$ 35.9	13.3 %

Note 11 Income tax (continued)

Year ended December 31	2019	Effective rate
(Millions)		
Current federal income tax expense computed at statutory rate	\$ 81.6	21.0 %
Nontaxable interest and dividends	(16.0)	(4.1) %
Unrecognized tax benefits	(7.1)	(1.8) %
Credits for holding certain tax credit bonds	(5.4)	(1.4) %
Amortization of tax goodwill	(2.0)	(0.5) %
Nondeductible expenses	1.7	0.4 %
Other	(2.1)	(0.5) %
Total income tax expense	\$ 50.7	13.1 %

Reconciliation of total income tax expense:

Year ended December 31	2019	Effective rate
(Millions)		
Current federal income tax expense incurred	\$ 64.3	16.5 %
Change in net deferred income tax	(13.6)	(3.4)%
Total income tax expense	\$ 50.7	13.1 %

The Company records federal deferred income tax assets and liabilities which reflect the financial statement impact of cumulative temporary differences between the tax and financial statement basis of assets and liabilities.

Note 11 Income tax (continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

December 31	2020	2019	Change
(Millions)			
Deferred tax assets			
Ordinary deferred tax assets			
Other nonadmitted assets	\$ 27.9	\$ 33.1	\$ (5.2)
Unpaid losses and LAE	81.7	78.3	3.4
Pension and postretirement benefits	46.5	49.9	(3.4)
Unearned premiums	51.5	47.2	4.3
Net operating loss carryforward	7.1	7.4	(0.3)
Other	50.4	48.6	1.8
Total ordinary deferred tax assets	265.1	264.5	0.6
Statutory valuation allowance	(4.0)	(5.8)	1.8
Nonadmitted ordinary deferred tax assets	(14.6)	(11.1)	(3.5)
Admitted ordinary deferred tax assets	246.5	247.6	(1.1)
Capital deferred tax assets			
Investments	37.3	28.9	8.4
Other	10.1	1.9	8.2
Total capital deferred tax assets	47.4	30.8	16.6
Nonadmitted capital deferred tax assets	(1.6)	(0.6)	(1.0)
Admitted capital deferred tax assets	45.8	30.2	15.6
Total admitted deferred tax assets	292.3	277.8	14.5
Deferred tax liabilities			
Ordinary deferred tax liabilities			
Investments	49.9	42.3	7.6
Tax reform reserve revaluation	10.6	12.7	(2.1)
Fixed assets	29.3	32.6	(3.3)
Other	3.2	3.2	-
Total ordinary deferred tax liabilities	93.0	90.8	2.2
Capital deferred tax liabilities			
Investments	211.9	151.2	60.7
Other	1.4	1.3	0.1
Total capital deferred tax liabilities	213.3	152.5	60.8
Total deferred tax liabilities	306.3	243.3	63.0
Net admitted deferred tax assets (liabilities)	\$ (14.0)	\$ 34.5	\$ (48.5)

Note 11 Income tax (continued)

Statutory accounting requires the reduction of deferred tax assets by a statutory valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the gross deferred tax assets will not be realized. Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. For SIAMCO and its subsidiaries, management's assessment is that it is more likely than not that gross deferred tax assets will be realized. FMIC and its subsidiaries have recorded a valuation allowance for 2020 and 2019 of \$4.0 million and \$5.8 million, respectively, to recognize only the portion of the deferred tax asset that in management's opinion is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income are reduced or increased.

The net deferred tax assets and deferred tax liabilities are comprised of the following components:

December 31	2020			2019			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
(Millions)									
Total gross deferred tax assets	\$ 265.1	\$ 47.4	\$ 312.5	\$ 264.5	\$ 30.8	\$ 295.3	\$ 0.6	\$ 16.6	\$ 17.2
Statutory valuation allowance adjustment	(4.0)	-	(4.0)	(5.8)	-	(5.8)	1.8	-	1.8
Adjusted gross deferred tax assets	261.1	47.4	308.5	258.7	30.8	289.5	2.4	16.6	19.0
Deferred tax assets nonadmitted	(14.6)	(1.6)	(16.2)	(11.1)	(0.6)	(11.7)	(3.5)	(1.0)	(4.5)
Subtotal: net admitted deferred tax asset	246.5	45.8	292.3	247.6	30.2	277.8	(1.1)	15.6	14.5
Deferred tax liabilities	93.0	213.3	306.3	90.8	152.5	243.3	2.2	60.8	63.0
Net admitted deferred tax assets (net deferred tax liability)	\$ 153.5	\$ (167.5)	\$ (14.0)	\$ 156.8	\$ (122.3)	\$ 34.5	\$ (3.3)	\$ (45.2)	\$ (48.5)

Note 11 Income tax (continued)

The amount of adjusted gross deferred tax assets admitted under each component of SSAP No. 101, *Income Taxes* is as follows:

December 31	2020			2019			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
(Millions)									
Federal income taxes paid in prior years recoverable through loss carrybacks	\$ 126.0	\$ 19.7	\$ 145.7	\$ 122.9	\$ 12.0	\$ 134.9	\$ 3.1	\$ 7.7	\$ 10.8
Adjusted gross deferred tax assets expected to be realized (excluding federal income taxes recoverable above) following the balance sheet date	31.6	3.5	35.1	34.7	4.0	38.7	(3.1)	(0.5)	(3.6)
Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	1,218.7	XXX	XXX	1,140.2	XXX	XXX	78.5
Adjusted gross deferred tax assets offset by gross deferred tax liabilities	88.9	22.6	111.5	90.0	14.2	104.2	(1.1)	8.4	7.3
Deferred tax assets admitted as a result of application of SSAP No. 101	\$ 246.5	\$ 45.8	\$ 292.3	\$ 247.6	\$ 30.2	\$ 277.8	\$ (1.1)	\$ 15.6	\$ 14.5

	2020	2019
Ratio percentage used to determine recovery period and threshold limitation	1,198%	1,208%
Amount of adjusted capital and surplus used to determine recovery period and limitation threshold above (millions)	\$6,491	\$5,958

The limitation threshold, ratio percentage, and adjusted capital and surplus are based on SIAMCO results only. The ratio limit for FMIC is 740% and 727% for 2020 and 2019, respectively. The ratio limit for Dairyland County Mutual is 35,650% and 23,959% for 2020 and 2019, respectively.

Note 11 Income tax (continued)

The Company has determined that the impact of tax planning strategies on the adjusted gross and net admitted deferred tax assets is as follows:

December 31	2020			2019			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
(Millions)									
Adjusted gross deferred tax assets (percent of total adjusted gross deferred tax assets)	1%	23%	4%	1%	23%	3%	-%	-%	1%
Net admitted adjusted gross deferred tax assets (percent of total net admitted adjusted gross deferred tax assets)	1%	23%	5%	1%	23%	3%	-%	-%	2%

The Company's tax planning strategies do not include the use of reinsurance.

The change in net deferred income tax is comprised of the following:

December 31	2020	2019	Change
(Millions)			
Gross deferred tax assets	\$ 308.5	\$ 289.5	\$ 19.0
Gross deferred tax liabilities	(306.3)	(243.3)	(63.0)
Net deferred tax asset	\$ 2.2	\$ 46.2	(44.0)
Tax effect of surplus items:			
Unrealized gains and losses			68.4
Change in deferred income tax			24.4
Pension and post-retirement benefits			4.9
Nonadmitted assets			5.2
Other			(1.0)
Change in net deferred income tax			\$ 33.5

The amount of federal income taxes incurred that are available for recoupment, by tax character, in the event of future net losses are:

(Millions)	2020	2019	2018
Capital	\$ 2.6	\$ 35.1	\$ 35.1
Ordinary	74.7	35.2	73.2
Total	\$ 77.3	\$ 70.3	\$ 108.3

Note 11 Income tax (continued)

As of December 31, 2020, SIAMCO and its subsidiaries have no net operating loss carryforwards, no capital loss carryforwards, and no alternative minimum tax credit carryforwards. As of December 31, 2020, Florists had \$33.8 million in net operating loss carryforwards that expire 2031 through 2036. SIAMCO and its subsidiaries incurred federal income tax of \$77.3 million and \$70.3 million for the tax years of 2020 and 2019, respectively. Under Federal Internal Revenue Code, revised with the Coronavirus Aid, Relief, and Economic Security (CARES) Act, ordinary losses can be carried back five years for both non-life and life companies while capital losses for both non-life and life companies can be carried back three years. Additionally, the Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Service Code for years ended December 31, 2020 or 2019. The Company does not have any tax loss contingencies for which it is reasonably possible that the total liability will significantly increase.

The Company's federal income tax returns are routinely audited by the IRS. Federal income tax returns of the Company have been examined by the IRS through 2015. In the opinion of management, settlement of tax assessments related to open years is not expected to have a material adverse impact on the Company's policyholders' surplus. Tax years 2016 through 2019 remain open for the Company.

The following entities participate in SIAMCO's consolidated federal income tax return allocation agreement and the filing of a consolidated federal income tax return:

Dairyland American Insurance Company	Sentry Casualty Company
Dairyland Insurance Company	Sentry Equity Services, Inc.
Dairyland National Insurance Company	Sentry Insurance a Mutual Company
Middlesex Insurance Company	Sentry Insurance Holding Company, Inc.
Parker Centennial Assurance Company	Sentry Life Insurance Company
Patriot General Insurance Company	Sentry Life Insurance Company of New York
Peak Property and Casualty Insurance Corporation	Sentry Select Insurance Company
Point Insurance Company	Viking Insurance Company of Wisconsin
Productivity Advantage, Inc.	WAULECO, Inc.
Sentry Aviation Services, Inc.	

Florists' Insurance Company and Florists' Insurance Service, Inc. participate in FMIC's consolidated federal income tax return allocation agreement and the filing of a consolidated federal income tax return.

The method of allocation between SIAMCO and its subsidiaries and FMIC and its subsidiaries is subject to written agreements, approved separately by SIAMCO's and FMIC's board of directors. Allocation under both agreements is based on separate return calculations with current credit for net losses. Intercompany tax balances between SIAMCO and its subsidiaries and FMIC and its subsidiaries are settled quarterly. Under both agreements, a final settlement is made within 90 days after filing the federal income tax return.

Note 12 Commitments, contingencies, related-party transactions, and subsequent events

SIAMCO and its property and casualty insurance subsidiaries and affiliates have purchased structured settlement annuities from nonaffiliated insurance companies in settlement of claims liabilities. The claimant is the payee under these annuities, but SIAMCO and its subsidiaries and affiliates are contingently liable if the nonaffiliated insurance companies cannot meet their obligations under the annuities. The estimated contingent liability was less than \$25 million as of December 31, 2020 and 2019.

As disclosed in Note 3, the Company had \$711.8 million and \$659.7 million of partnership commitments as of December 31, 2020 and 2019, respectively.

In the normal course of business, there are various legal actions and proceedings pending against the Company. In the opinion of management, the ultimate resolution of these matters will not have a material adverse impact on the Company's consolidated statutory financial statements.

Premiums receivable, totaling \$141.7 million and \$159.6 million as of December 31, 2020 and 2019, respectively, were accrued as written under certain commercial property and casualty retrospectively rated policies. To minimize credit risk, the Company continually monitors the financial condition of these commercial risks and in certain circumstances requires collateral in the form of letters of credit, cash deposits, trusts, or bonds. Approximately 100 percent and 49 percent of the receivable balances in 2020 and 2019, respectively, were collateralized by letters of credit, cash deposits, trusts, or bonds. Net written premiums for these contracts were \$72.8 million and \$106.4 million for the years ended December 31, 2020 and 2019, respectively. These represent 2.8 percent and 4.4 percent of total net written premiums in 2020 and 2019, respectively.

Allowances for uncollectable premium balances totaled \$38.8 million and \$39.7 million as of December 31, 2020 and 2019, respectively. Premiums receivable on other than retrospectively rated policies totaled \$803.8 million and \$752.2 million as of December 31, 2020 and 2019, respectively. Of those amounts, \$0.5 million and \$1.9 million were nonadmitted as of December 31, 2020 and 2019, respectively.

State guaranty funds can assess the Company for losses of insolvent or rehabilitated companies. Mandatory assessments may be partially recovered through a reduction in future premium tax or through policyholder surcharges in some states. The Company is also subject to mandatory assessments for second injury funds in those states where workers' compensation business is written. The Company records a liability that estimates the ultimate loss from these assessments. The liability for guaranty fund assessment was \$2.2 million and \$2.0 million as of December 31, 2020 and 2019, respectively.

Dividends paid to SIAMCO and FMIC from their insurance subsidiaries, respectively, may be limited by regulatory requirements.

On December 15, 2017, FMIC paid cash of \$4.0 million to Federal Home Loan Bank of Chicago (FHLB) to retire the note payable issued in 2015 and notified the FHLB of its intent to withdraw membership. Per FHLB policy, FMIC's membership can first be terminated five years after notification is received. FMIC holds \$22 thousand of FHLB Class B capital stock, of which none is available for redemption as of December 31, 2020. FMIC held \$22 thousand of FHLB Class B capital stock as of December 31, 2019; none was redeemed during 2020. FMIC's membership stock will be returned by the FHLB upon termination.

Management of the Company has determined that there is no justification for substantial doubt regarding the Company's ability to continue as a going concern.

The Company evaluated subsequent events through March 1, 2021, the date the accompanying consolidated statutory financial statements were available to be issued. Except for the matter described in the paragraph below, no significant subsequent events were identified.

Effective January 1, 2021 (the effective date), the Company reorganized its corporate structure (the reorganization). As part of the reorganization, the Company created Sentry Mutual Holding Company (SMHC), which owns 100% of Sentry Holdings, Inc. (SHI), an intermediate holding company created on the effective date. SHI owns 100% of Sentry Insurance Company, the stock insurer into which SIAMCO was converted. The Company does not expect the reorganization to have a material impact on the Company's consolidated financial statements.

Note 13 Reconciliation of property and casualty combined annual statement to accompanying consolidated statutory financial statements

The following is a reconciliation of the combined annual statement of Sentry Insurance a Mutual Company and its affiliated property and casualty Insurers (Combined P&C) to the consolidated statutory financial statements incorporated herein (consolidated):

At and for the year ended December 31, 2020	Combined P&C	Life and health	Eliminations and other	Consolidated
Total assets (billions)	\$ 12.7	\$ 9.3	\$ (0.4)	\$ 21.6
Surplus (billions)	6.5	0.4	(0.4)	6.5
Total revenues (billions)	2.9	0.9	(0.1)	3.7
Net income (millions)	194.7	23.6	(16.5)	201.8

At and for the year ended December 31, 2019	Combined P&C	Life and health	Eliminations and other	Consolidated
Total assets (billions)	\$ 11.8	\$ 8.4	\$ (0.4)	\$ 19.8
Surplus (billions)	6.0	0.4	(0.4)	6.0
Total revenues (billions)	2.8	0.9	(0.1)	3.6
Net income (millions)	309.4	36.4	(21.5)	324.3

Life and health includes the balances of SLIC, SLONY, and PCAC. Eliminations and other primarily relates to the elimination of SIAMCO's ownership of the life and health companies and intercompany dividends.

Board of Directors

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Chairman of the Board, President, and CEO
Sentry Insurance a Mutual Company

Graham W. Atkinson

Retired Chief Marketing and Customer Experience Officer
Walgreen Co.

David R. Casper

U.S. CEO
BMO Financial Group

Larry J. Goodman

Retired CEO—Rush University Medical Center and the Rush System
President Emeritus—Rush University

Richard M. Lynch

Chairman
J.H. Findorff & Son Inc.

Stephanie Pace Marshall

President Emerita
Illinois Mathematics and Science Academy

James D. Pearson

Retired President
Aurora Metals Division, L.L.C.

Peter J. Pestillo

Retired Chairman of the Board
Visteon Corporation

Jean H. Regan

President, CEO, and Chairman of the Board
TranzAct Technologies, Inc.

Sentry officers

Peter G. McPartland

Chairman of the Board,
President, and CEO

Peter G. Anhalt

President
Personal Lines

Michele M. Dufresne

Chief Claims Officer

James W. Frank

Chief Information Officer

John J. Hyland

President
Direct Writer

Kip J. Kobussen

Chief Legal and Compliance Officer

James E. McDonald

Chief Investment Officer

Scott A. Miller

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National Accounts, Regional Ins.,
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Todd M. Schroeder

Chief Financial Officer and
President Life & Annuities

Stephanie L. Smith

Chief Marketing and Brand Officer

James D. Stitzlein

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Michael J. Williams

Chief Actuary and Risk Officer

Linda Pells Calnan

Assistant Vice President
Alternative Investments

Michael K. Cloud

Assistant Vice President
Total Rewards

Jeffrey R. Cole

Assistant Vice President
National Accounts Products,
Pricing, and Underwriting

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Assistant Vice President
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Michael W. Dietry

Assistant Vice President
Personal Lines Products
and Services

Charlie J. Hoyord

Assistant Vice President
Commercial Lines IT

Timothy P. Kelly

Assistant Vice President
Commercial Lines Claims

Steven G. Knez

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Life & Annuities

Gregory W. Larson

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Shaun P. Sullivan

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Adam P. Williams

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Robert J. Yeiser

Assistant Vice President
Personal Lines Market
Development and Distribution

Raina M. Zanow

Assistant Vice President
Assistant General Counsel



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