

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

ASSOCIATION OF LITHUANIAN WORKERS

AS OF

DECEMBER 31, 2000

DATE OF REPORT:

SEPTEMBER 21, 2001

EXAMINER:

DENNIS G. BENSEN

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

September 21, 2001

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir

In accordance with instructions contained in Appointment No. 21755, dated August 1, 2001 and annexed hereto, an examination has been made into the condition and affairs of the Association of Lithuanian Workers, hereinafter referred to as "the Society," at its home office located at 11 King Street, Suite 204, Middletown, NY 10940.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Society's financial condition as presented in its financial statements contained in the December 31, 2000 filed annual statement. (See item 5 of this report)

The examiner's review of the Society's market conduct activities did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Society. (See item 6 of this report)

The Society did not file abandoned property reports in accordance with Section 701 of the New York Abandoned Property Law for any of the years under examination. (See item 7 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1997. This examination covers the period from January 1, 1998 through December 31, 2000. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2000 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2000 to determine whether the Society's 2000 filed annual statement fairly presents its financial condition. The examiner reviewed the Society's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

- Society history
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Market conduct activities
- Growth of Society
- Business in force by states
- Mortality and loss experience
- Accounts and records
- Financial statements

The examiner reviewed the corrective actions taken by the Society with respect to violations and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 8 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF SOCIETY

A. History

The Society was incorporated under the laws of the State of New York, received its preliminary certificate of authority to complete its organization as a fraternal benefit society, and commenced business on October 14, 1930. On July 24, 1931, the Society received a final certificate of authority. On December 6, 1937, the Supreme Lodge of Lithuanians of America, Pittsburgh, Pennsylvania merged into the Society through reinsurance.

B. Management

The Society's constitution provides that its legislative power shall be vested in the biennial convention of representatives composed of delegates elected from the subordinate lodges and the 15 member general executive board. Delegates are elected by a majority vote of the lodge members. The biennial convention delegates its authority and rights to the general executive board to govern between conventions.

The Society's constitution provides that the general executive board shall be comprised of not less than 15 directors, including the officers of the Society. Members of the general executive board are elected for a period of two years by a direct vote of the members of the Society. Meetings of the general executive board are held semi-annually. As of December 31, 2000, the general executive board consisted of 15 members.

The 15 general executive board members and their principal business affiliation, as of December 31, 2000, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Aldona Anderson Waterford, NY	Second Vice President Association of Lithuanian Workers	1994
Edward Baranauskas* Schenectady, NY	Retired	1994
Paul Bell* Pittsburgh, PA	Fireman Pittsburgh Fire Department	2000

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Ruth Bell Monroe, NY	Treasurer Association of Lithuanian Workers	1970
Janice Brazas Brownstown, MI	Secretary Association of Lithuanian Workers	1990
John A. Geralt Roseville, MI	Medical Examiner Association of Lithuanian Workers	1994
Mark Hefner* Livonia, MI	Senior Programmer Analyst Gale Group Corporation	2000
Volga Jankel* Westmont, IL	Retired	1992
Adana Katinas* Floral Park, NY	Retired	2000
Floyd Lewandowski* Wheeling, IL	District Sales Specialist Pitney Bowes	2000
Bertha Rye Redford, MI	Third Vice President Association of Lithuanian Workers	1986
Thomas Slimak Imperial, PA	President Association of Lithuanian Workers	1990
Mildred Stensler* Lakehurst, NJ	Retired	1990
Diana Witkus* Kingston, NY	Retired	2000
Amelia Yuskovic Middletown, NY	First Vice President Association of Lithuanian Workers	1966

* Not affiliated with the Society

Mr. Edward Baranauskas resigned in June of 2001. This vacancy will be filled at the Society's next regularly scheduled membership meeting which is held bi-annually.

The examiner's review of the minutes of the meetings of the general executive board and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Society as of December 31, 2000:

<u>Name</u>	<u>Title</u>
Thomas Slimak	President
Amelia Yuskovic	First Vice President
Aldona Anderson	Second Vice President
Bertha Rye	Third Vice President
Janice Brazas*	Secretary
Ruth Bell	Treasurer
John A. Geralt	Medical Examiner

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

C. Territory and Plan of Operation

The Society is authorized to write life and disability insurance as defined in paragraphs 1 and 3 of Section 1113(a) of the New York Insurance Law. The Society functions under a lodge system as defined by Section 4501 of the New York Insurance Law.

The Society is licensed to transact business in seven states, namely Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, and Pennsylvania. In 2000, 91% of life premiums were received from the states of New York (29.0%), Pennsylvania (27.3%), Illinois (18.0%) and Michigan (16.6%). Certificates are written on a participating basis.

The Society solicits insurance business through its membership and therefore has no contracts with any agents.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Society during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Society's financial growth during the period under review:

	<u>December 31,</u> <u>1997</u>	<u>December 31,</u> <u>2000</u>	<u>(Decrease)</u>
Admitted assets	<u>\$971,967</u>	<u>\$872,059</u>	<u>\$(99,908)</u>
Liabilities	<u>\$606,318</u>	<u>\$581,012</u>	<u>\$(25,306)</u>
Surplus	<u>365,649</u>	<u>291,047</u>	<u>(74,602)</u>
Total surplus	<u>\$971,967</u>	<u>\$872,059</u>	<u>\$(99,908)</u>

The decrease in the Society's admitted assets was mainly due to the net losses experienced by the Society throughout the period under examination.

The Society's invested assets, as of December 31, 2000, were comprised of bonds (87.4%) and cash and short-term investments (12.6%). The Society's entire bond portfolio, as of December 31, 2000, was comprised of investment grade obligations.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Society's filed annual statements:

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Ordinary:			
Life insurance	<u>\$(17,618)</u>	<u>\$ (8,615)</u>	<u>\$(11,368)</u>
Accident and health	<u>5</u>	<u>(71)</u>	<u>5,437</u>
Total insurance	<u>\$(17,613)</u>	<u>\$ (8,686)</u>	<u>\$ (5,931)</u>
Fraternal	<u>\$(22,671)</u>	<u>\$ (7,837)</u>	<u>\$(12,111)</u>
Total	<u>\$(40,284)</u>	<u>\$(16,523)</u>	<u>\$(18,042)</u>

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds as of December 31, 2000, as contained in the Society's 2000 filed annual statement, a condensed summary of operations and a reconciliation of the surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Society's financial condition as presented in its financial statements contained in the December 31, 2000 filed annual statement.

A. ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2000

Admitted Assets

Bonds	\$746,697
Certificate loans and liens	717
Cash and short term investments	107,323
Life insurance premiums and annuity considerations deferred and uncollected on in force business	2,340
Investment income due and accrued	<u>14,982</u>
 Total admitted assets	 <u>\$872,059</u>

Liabilities and Surplus

Aggregate reserve for life policies and contracts	\$571,871
Aggregate reserve for accident and health policies	4,905
Certificate and contract claims:	
Life	3,250
Accident and health	200
Premiums and annuity considerations received in advance	425
Interest maintenance reserve	299
Amounts withheld or retained by society as agent or trustee	<u>62</u>
 Total liabilities	 <u>\$581,012</u>
 Unassigned funds (surplus)	 <u>\$291,047</u>
 Total liabilities, and surplus	 <u>\$872,059</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Premiums and considerations	\$ 49,663	\$ 39,753	\$ 33,631
Investment income	52,871	51,605	48,311
Miscellaneous income	<u>1,646</u>	<u>1,050</u>	<u>2,385</u>
Total income	<u>\$104,180</u>	<u>\$ 92,408</u>	<u>\$ 84,327</u>
Benefit payments	\$ 51,978	\$ 41,908	\$ 53,085
Increase in reserves	(3,862)	1,390	(19,588)
General expenses and taxes	96,253	65,598	68,477
Increase in loading and cost of collection	<u>95</u>	<u>35</u>	<u>395</u>
Total deductions	<u>\$144,464</u>	<u>\$108,931</u>	<u>\$102,369</u>
Net loss	<u>\$ (40,284)</u>	<u>\$ (16,523)</u>	<u>\$ (18,042)</u>

C. SURPLUS ACCOUNT

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Capital and surplus, December 31, prior year	<u>\$365,649</u>	<u>\$325,448</u>	<u>\$308,923</u>
Net loss	\$ (40,284)	\$ (16,523)	\$ (18,042)
Change in asset valuation reserve	89	(2)	163
Aggregate write ins for gains and losses in surplus	<u>(6)</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus	<u>\$ (40,201)</u>	<u>\$ (16,525)</u>	<u>\$ (17,879)</u>
Capital and surplus, December 31, current year	<u>\$325,448</u>	<u>\$308,923</u>	<u>\$291,044</u>

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Society's market conduct activities affecting certificateholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Society.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Society's sales activities including trade practices, solicitation and the replacement of insurance policies.

Based upon the sample reviewed, no significant findings were noted.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

The Society reported six lapsed certificates in the "Exhibit of Life Insurance" in its 2000 annual statement. The examination disclosed that a number of these certificates had lapsed several years prior to being reported in the 2000 annual statement. The Society's charter and by-laws calls for a certificate to be lapsed in the month following two consecutive months of non-payment of dues.

The examiner recommends that the Society put in place procedures, in accordance with its constitution and by-laws, to identify and process lapses in accordance with the requirements of its charter and by-laws. This is a repeat recommendation from the prior report on examination. (See item 8D of this report)

7. ABANDONED PROPERTY

Section 701.1 of the New York Abandoned Property Law states, in part:

“On or before the first day of April in each year every life insurance corporation shall make a verified written report to the state comptroller . . . of all abandoned property . . . held or owing by it.”

The Society did not file any abandoned property reports for the period under examination. The examiner recommends that the Society file abandoned property reports with the state comptroller of New York in accordance with Section 701.1 of the New York Abandoned Property Law. This is a repeat recommendation from several prior reports on examination. (See item 8G of this report)

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in the prior report on examination and the subsequent actions taken by the Society in response to each citation:

<u>Item</u>	<u>Description</u>
A	<p>The examiner recommended that in the event of a vacancy on the general executive board the Society fill the vacancy in accordance with its by-laws.</p> <p>During the examination period there were no vacancies in the Society's general executive board.</p>
B	<p>The examiner recommended that the Society cease issuing certificates in states where it is not licensed and inform all states where such certificates were issued and delivered.</p> <p>During the current period under examination, the Society did not issue any certificates in states where it was not licensed to do business. The Society did not notify the states, as recommended in the prior examination, because it contends that it did not issue certificates in those states, but issued them in Michigan, a state, where it is licensed to do business.</p>
C	<p>The Society violated Section 3201(b) of the New York Insurance Law by using policy forms that had not been filed with and approved by the Superintendent.</p> <p>The Society had the policy forms in question approved.</p>
D	<p>The examiner recommended that the Society put a procedure in place to identify and report lapses and expirees, on a timely basis, in accordance with its by-laws.</p> <p>The Society did not establish procedures to identify lapses and expirees and still does not report them on a timely basis.</p>
E	<p>The Society violated Section 1411(a) of the New York Insurance Law by making investments that were not authorized or approved by the general executive board or a committee thereof.</p> <p>During the examination period all investments were approved by the general executive board of the Society.</p>

<u>Item</u>	<u>Description</u>
F	<p>The examiner recommended that the Society use more care in calculating accrued interest on bonds.</p> <p>During the examination period the Society correctly calculated all accrued interest on bonds.</p>
G	<p>The examiner recommended that the Society file abandoned property reports with the state comptroller of New York in accordance with Section 701 of the New York Abandoned Property Law.</p> <p>The Society did not file any abandoned property reports during the period under examination. (See item 7 of this report)</p>

9. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner again recommends that the Society put in place procedures to correctly identify and report lapses and expiries, on a timely basis, in accordance with its constitution and by-laws.	10
B	The Society violated Section 701.1 of the New York Abandoned Property Law when it failed to file with the state comptroller abandoned property reports for each of the years under examination.	11

APPOINTMENT NO. 21755

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

DENNIS BENSEN

as a proper person to examine into the affairs of the

ASSOCIATION OF LITHUANIAN WORKERS

and to make a report to me in writing of the condition of the said

SOCIETY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 1st day of August, 2001



GREGORY V. SERIO
Superintendent of Insurance

[Handwritten Signature]
Superintendent