

STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
WORKMEN'S BENEFIT FUND OF THE UNITED STATES OF AMERICA
AS OF
DECEMBER 31, 2000

DATE OF REPORT:

JUNE 27, 2001

EXAMINER:

JOHN LETOURNEAU

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

June 27, 2001

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

Sir:

In accordance with instructions contained in Appointment No. 21667, dated January 10, 2001 and annexed hereto, an examination has been made into the condition and affairs of the Workmen's Benefit Fund of the United States of America, hereinafter referred to as "the Society," at its home office located at 99 North Broadway, Hicksville, New York 11801.

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 affect 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 Society's admitted assets decreased by \$3.4 million (9.3%) for the period under examination. This was due primarily to the large amount of surrender benefits paid on the Society's individual annuity line of business. (See item 4 of this report).

The Society's investment profile has changed since the previous examination. As of December 31, 1997, the market value of the Society's bonds exceeded the statement value by \$773,894. As of December 31, 2000, the statement value exceeded market value by \$2,214,147. As of December 31, 1997, 65.9% of the Society's bonds received the highest rating (i.e., rated "1") from the Securities Valuation Office ("SVO") but as of December 31, 2000, only 46.3% of the Society's bonds received the highest rating. The non-admitted assets relating to bonds increased from \$20,587, as of December 31, 1997, to \$448,242, as of December 31, 2000, due to the default of several bonds. The deterioration in the Society's bond portfolio was partially the result of the Society's decision to purchase SVO "2" rated bonds instead of "1" rated bonds in 1998 and 1999. (See item 4 of this report).

The examiner's review of the Company'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 Company. (See item 6 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
- Fidelity bond and other insurance
- Officers' and employees' welfare and pension plans
- Territory and plan of operation
- Market conduct activities
- Growth of the Society
- Business in force by states
- Mortality and loss experience
- Reinsurance
- Accounts and records
- Financial statements

The examiner reviewed the corrective actions taken by the Society with respect to violations, recommendations and/or comments contained in the prior report on examination. The results of the examiner's review are contained in item 7 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 THE SOCIETY

A. History

The Workmen's Benefit Fund of the United States of America was organized on October 19, 1884 as the Workmen's Sick and Death Benefit Fund of the United States of America. The Society adopted its present name in 1939.

B. Management

The National Executive Board is comprised of 15 members. The board met five times each in 1998 and 1999 and four times in 2000.

The 15 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>
Joseph F. Arnold Vila Park, IL	Vending Routeperson Marriott Corp.	1980
George Boehm Chicago, IL	President Boehm Enterprises	1992
Charles J. Borg Wellington, FL	President Borg Intergroup, Ltd.	1984
Patricia Casey Bellerose Terrace, NY	Agent Hughes Associates, Inc.	2000
Richard Cecchi West Babylon, NY	National Treasurer and Deputy Executive Officer Workmen's Benefit Fund	1996
Charles L. Grossman Great Neck, NY	National Secretary and Chief Executive Officer Workmen's Benefit Fund	1979
William Groth Upper Montclair, NJ	Retired	1996

<u>Name and Residence</u>	<u>Business Affiliation</u>	<u>Year First Elected</u>
Charles F. Hughes Garden City, NY	National Vice President Workmen's Benefit Fund President (Insurance) Hughes Associates, Inc.	1972
Philip H. Mark East Meadow, NY	Chairman, Chemistry Department Nassau Community College	2000
Albert J. Mlodynia Commack, NY	EDP Manager Workmen's Benefit Fund	1980
Dieter Polednik Park Slope, NJ	President (Insurance) Biertuempfel-Osterag Agency	1987
Heinz F. Richter Montvale, NJ	Retired	1984
Michele Rickter Park Ridge, NY	Agent (Insurance) John Z. Sebastian Insurance	1998
Anni Rott Flushing, NY	Retired	1996
John Z. Sebastian Park Ridge, IL	President Workmen's Benefit Fund	1972

The examiner's review of the minutes of the meetings of the board of directors 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>
John Z. Sebastian	National President
Charles L. Grosssman*	National Secretary and Chief Executive Officer
Richard Cecchi	National Treasurer
Charles F. Hughes	National Vice President

* 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 insurance, annuities and accident and health insurance in accordance with Sections 4501 and 4505 of the New York Insurance Law. The Society is licensed in 15 states.

In 2000, 92% of life premiums were received from New York (63%), Illinois (14%), New Jersey (6%), Florida (6%), California (2%), and Pennsylvania (1%). Policies are written on a participating basis.

The Society's agency operations are conducted on a general agency basis.

D. Reinsurance

As of December 31, 2000, the Society had reinsurance treaties in effect with three companies, all of which were authorized in New York. The Society's life and health policies are reinsured on a coinsurance and/or yearly renewable term basis. Reinsurance is provided on an automatic and/or facultative basis.

The maximum retention limit for individual life contracts is \$50,000. The total face amount of life insurance ceded as of December 31, 2000, was \$33,988,000 which represents 28% of the total face amount of life insurance in force.

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:

	December 31, <u>1997</u>	December 31, <u>2000</u>	Increase (Decrease)
Admitted assets	<u>\$36,538,844</u>	<u>\$33,132,591</u>	<u>\$(3,406,253)</u>
Liabilities	\$34,015,451	\$30,285,177	\$(3,730,274)
Unassigned funds (surplus)	<u>2,523,393</u>	<u>2,847,414</u>	<u>324,021</u>
Total liabilities, and unassigned funds	<u>\$36,538,844</u>	<u>\$33,132,591</u>	<u>\$(3,406,253)</u>

The Society's admitted assets decreased by \$3.4 million (9.3%) while its unassigned funds (surplus) increased by \$324,000 (12.8%). The primary reason for the decrease in assets during the examination period was a decrease in annuity reserves; from \$10.9 million as of December 31, 1997 to \$8.1 million as of December 31, 2000, due to the large amount of surrender benefits paid on the Society's individual annuity line of business, and a decrease in refund accumulations of \$478,049 during the examination period.

The Society's invested assets as of December 31, 2000, were mainly comprised of bonds (77%), mortgage loans (7.8%), real estate (6.8%), and certificate loans (4.7%).

The Society decreased its investments in stocks (primarily preferred stocks) from 9% to 1.9% and increased its investment in bonds from 67% to 77% from the prior examination.

The majority (84.8%) of the Society's bond portfolio, as of December 31, 2000, was comprised of investment grade obligations. The Society's investment profile has changed since the previous examination. As of December 31, 1997, the market value of the Society's bonds exceeded the statement value by \$773,894. As of December 31, 2000, the statement value exceeded market value by \$2,214,147. As of December 31, 1997, 65.9% of the Society's bonds

received the highest rating (i.e., rated “1”) from the Securities Valuation Office (“SVO”) but as of December 31, 2000, only 46.3% of the Society’s bonds received the highest rating. The non-admitted assets relating to bonds increased from \$20,587, as of December 31, 1997, to \$448,242, as of December 31, 2000, due to the default of several bonds. The deterioration in the Society’s bond portfolio was partially the result of the Society’s purchase of SVO “2” (i.e., high quality) rated bonds instead of “1” (i.e., highest quality) rated bonds in 1998 and 1999.

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	\$ 366,944	\$ 327,326	\$ 508,575
Individual annuities	53,228	86,228	69,452
Supplementary contracts	<u>30,309</u>	<u>102,250</u>	<u>26,056</u>
Total ordinary	\$ <u>450,481</u>	\$ <u>515,804</u>	\$ <u>604,083</u>
Accident and health:			
Other	\$ <u>(65,461)</u>	\$ <u>(77,663)</u>	\$ <u>(90,139)</u>
Total insurance	\$ <u>385,020</u>	\$ <u>438,141</u>	\$ <u>513,944</u>
Fraternal operations	\$ <u>(320,183)</u>	\$ <u>(311,587)</u>	\$ <u>(322,247)</u>
Total	\$ <u>64,837</u>	\$ <u>126,554</u>	\$ <u>191,697</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 AND SURPLUS AS OF DECEMBER 31, 2000

Admitted Assets

Bonds	\$24,828,203
Stocks:	
Preferred stocks	610,237
Common stocks	14,565
Mortgage loans:	
First liens	2,476,067
Other than first liens	51,248
Real estate	
Properties occupied by the Society	2,251,060
Certificate loans and liens	1,510,512
Cash and short term investments	490,130
Fraternal fund	743
Amounts recoverable from reinsurers	47,098
EDP equipment	266,332
Life insurance premiums and annuity considerations	
deferred and uncollected on in force business	13,457
Accident and health premiums due and unpaid	586
Investment income due and accrued	<u>572,353</u>
 Total admitted assets	 <u>\$33,132,591</u>

Liabilities, Surplus and Other Funds

Aggregate reserve for life certificates and contracts	\$27,622,037
Aggregate reserve for accident and health certificates	108,347
Supplementary contracts without life contingencies	240,028
Policy and contract claims:	
Life	118,640
Accident and health	2,010
Refund accumulations	1,349,849
Premiums and annuity considerations received in advance	4,748
Interest maintenance reserve	238,361
Commissions to fieldworkers due or accrued	3,467
General expenses due or accrued	85,601
Taxes, licenses and fees due or accrued	23,333
Amounts withheld or retained by Society as agent or trustee	56,629
Amounts held for fieldworkers account	3,551
Remittances and items not allocated	2,440
Liability for benefits for employees and fieldworkers	219,722
Asset valuation reserve	<u>206,414</u>
 Total liabilities	 <u>\$30,285,177</u>
 Unassigned funds (surplus)	 <u>\$ 2,847,414</u>
 Total liabilities and surplus	 <u>\$33,132,591</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Premiums and considerations	\$2,411,072	\$1,577,525	\$1,343,588
Investment income	2,475,218	2,457,552	2,329,465
Miscellaneous income	<u>2,565</u>	<u>1,404</u>	<u>827</u>
Total income	<u>\$4,888,855</u>	<u>\$4,036,481</u>	<u>\$3,673,880</u>
Benefit payments	\$3,941,326	\$3,394,961	\$3,689,159
Increase in reserves	(637,444)	(989,923)	(1,687,284)
Commissions	143,229	99,386	113,606
General expenses, taxes, and fraternal expenses	<u>1,376,907</u>	<u>1,405,496</u>	<u>1,366,704</u>
Total deductions	<u>\$4,824,018</u>	<u>\$3,909,920</u>	<u>\$3,482,185</u>
Net gain from operations before net realized capital gains	\$ 64,837	\$ 126,561	\$ 191,695
Net realized capital gains and losses	<u>83,348</u>	<u>25,691</u>	<u>1,933</u>
Net income	<u>\$ 148,185</u>	<u>\$ 152,252</u>	<u>\$ 193,628</u>

C. SURPLUS ACCOUNT

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Surplus, December 31, prior year	<u>\$2,523,393</u>	<u>\$2,713,763</u>	<u>\$2,831,912</u>
Net income	\$ 148,185	\$ 152,252	\$ 193,628
Change in net unrealized capital gains or (losses)	37,405	2,790	(444,965)
Change in nonadmitted assets and related items	30	(17,464)	17,736
Change in asset valuation reserve	36,092	(61,737)	276,397
Fraternal fund	(31,342)	(38,010)	(27,294)
Real estate tax refund	<u>0</u>	<u>80,318</u>	<u>0</u>
Net change in surplus	<u>\$ 190,370</u>	<u>\$ 118,149</u>	<u>\$ 15,502</u>
Surplus, December 31, current year	<u>\$2,713,763</u>	<u>\$2,831,912</u>	<u>\$2,847,414</u>

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Society's market conduct activities affecting policyholders, 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 advertising files and the sales activities of the agency force 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.

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

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and comment 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 Society violated Section 219.4(a)(1) and (3) of Department Regulation No. 34-A for use of a brochure that has the potential to mislead current and prospective certificate holders as to the true financial condition of the Society.</p> <p>The Society stopped the distribution of the Standard Analytical brochure.</p>
B	<p>The Society violated Section 216.4(e) of Department Regulation No. 64 by failing to maintain a central log for all complaint activity.</p> <p>A central log was established and maintained retroactively starting January 1, 1998 to monitor all complaints.</p>
C	<p>The Society violated Section 4501(l) of the New York Insurance Law for issuing an immediate annuity in excess of the \$15,000 limit prescribed by the insurance law.</p> <p>The Society has discontinued issuing immediate annuities that violate the New York Insurance Law.</p>
D	<p>The Society had not yet established a mortgage loan underwriting policy for loans issued, in compliance with the June 26, 1996 agreement with the Department.</p> <p>A mortgage loan underwriting policy was established.</p>

APPOINTMENT NO. 21667

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, NEIL D. LEVIN, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

JOHN LETOURNEAU

as a proper person to examine into the affairs of the

WORKMEN'S BENEFIT FUND OF THE U.S.A.

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 10th day of January, 2001



NEIL D. LEVIN
Superintendent of Insurance


by GREGORY V. SERIO
First Deputy Superintendent