

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

ASSOCIATION OF LITHUANIAN WORKERS

AS OF

DECEMBER 31, 2003

DATE OF REPORT:

JANUARY 11, 2005

EXAMINER:

BRIAN GLAAB

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

January 11, 2005

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

Sir:

In accordance with instructions contained in Appointment No. 22262, dated September 29, 2004 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, New York 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

As of the date of this report, the Society was pursuing merger alternatives with other fraternal benefit societies. (See item 3 of this report)

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, 2003 filed annual statement. (See item 5 of this report)

The Society has reported increasing losses during the examination period due to the level of fraternal and general expenses relative to income. Fraternal and general expenses exceeded total income in 2003. (See item 4 of this report)

The Society violated Section 1411(a) of the New York Insurance Law by failing to have its board of directors, or a committee thereof, approve its investments. (See item 3 of this report)

The Society violated Section 4502(c)(6) of the New York Insurance Law by having less than five directors who are residents of New York State and by not having a majority of directors who are residents of this state or of adjoining states. (See item 3 of this report)

The Society violated Section 1404(a)(2)(B) of the New York Insurance Law by investing in one institution more than 5% of the admitted assets reported in the Society's last filed annual statement. (See item 4 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 violated Section 701.1 of the New York Abandoned Property Law by failing to file with the State Comptroller abandoned property reports for each of the years under examination. This is a repeat comment from the prior report on examination. (See item 7 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2003. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2003 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, 2003 to determine whether the Society's 2003 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 the violation and recommendation contained in the prior report on examination. The results of the examiner's review are contained in item 10 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.

As of the date of this report, the Society was pursuing merger alternatives with other fraternal benefit societies. The Society has reported its progress in this area to the Department.

The examiner recommends that the Society continue to communicate, with the Department, its progress in implementing a merger.

B. Management

The Society's by-laws provide that the General Executive Board shall be comprised of not less than nine members. Members of the General Executive Board are elected for a period of two years. As of December 31, 2003, the board of directors consisted of 8 members. Meetings of the board are held semi-annually.

The eight board members and their principal business affiliation, as of December 31, 2003, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Paul Bell* Pittsburgh, PA	Fireman Pittsburgh Fire Department	2000
Janice Brazas Brownstown, MI	Secretary Association of Lithuanian Workers	1990
Mark Hefner* Livonia, MI	Senior Programmer Analyst Thomas-Gale	2000
Ronald Kozel* Carnegie, PA	Retired	2002
Floyd Lewandowski Wheeling, IL	Treasurer Association of Lithuanian Workers	2000
Bertha Rye* Redford, MI	Retired	1986
Thomas Slimak McKees Rock, PA	President Association of Lithuanian Workers	1990
Amelia Yuskovic Middletown, NY	Vice President Association of Lithuanian Workers	1966

* Not affiliated with the Society

Ruth Bell, who was not affiliated with the Society, passed away on November 26, 2003 and her position was not filled until the next board meeting held in 2004.

In May, 2004, Nancy Hamilton, Keith Kazan and Patricia Wozny were elected to replace Ruth Bell, Paul Bell and Ronald Kozel as board members. Nancy Hamilton and Keith Kazan are not affiliated with the Society.

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

The Society failed to maintain minutes of the meetings for the following board committees: Nominating Committee; Ballot Committee; Committee on By-Laws and Appeals; Scholarship Committee; and Investment Committee. The Society provided the Election Committee minutes indicating that the Election Committee examined and calculated the election

ballots. The Society's Constitution, By-Laws and Amendments prescribe this as a function of the Ballot Committee.

The examiner recommends that the Society record and maintain all board committee minutes to substantiate that such committees are complying with its Constitution, By-Laws and Amendments.

In addition, the examiner recommends that each committee perform the duties prescribed by the Society's Constitution, By-Laws and Amendments.

Section 1411(a) of the New York Insurance Law states, in part:

"No domestic insurer shall make any loan or investment . . . unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting."

The minutes of the General Executive Board do not indicate that it approved any of the Society's investments. In addition, as previously mentioned there are no Investment Committee minutes. As a result, there is no evidence to indicate that the board, or a committee thereof, approved the Society's investments.

The Society violated Section 1411(a) of the New York Insurance Law by failing to have its board of directors, or a committee thereof, approve its investments.

Section 4502(c) of the New York Insurance Law states, in part:

". . . The proposed charter shall contain the following . . .
(6) . . . a provision that at all times a majority of the directors shall be citizens and residents of this state or of adjoining states, and not less than five thereof shall be residents of this state . . ."

As of December 31, 2003, there was only one director who was a resident of New York State, and two directors who were residents of the State of Pennsylvania. The remaining directors reside in the States of Michigan and Illinois.

The Society violated Section 4502(c)(6) of the New York Insurance Law by having less than five directors who are residents of New York State and by not having a majority of directors who are residents of this state or of adjoining states.

The examiner recommends that the Society amend its Constitution, By-Laws and Amendments to include the provision required by Section 4502(c)(6) of the New York Insurance Law.

The following is a listing of the principal officers of the Society as of December 31, 2003:

<u>Name</u>	<u>Title</u>
Thomas Slimak	President
Amelia Yuskovic	Vice President
Janice Brazas*	Secretary
Floyd Lewandowski	Treasurer

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

In May, 2004, Janice Brazas replaced Thomas Slimak as President and Patricia Wozny replaced Janice Brazas as Secretary.

C. Territory and Plan of Operation

The Society is authorized to write life insurance 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 2003, 92% of life premiums were received from New York (34.0%), Pennsylvania (27.2%), Illinois (16.9%) and Michigan (13.7%). Policies are written on a participating basis.

The Society solicits insurance business solely through its membership and therefore has no agents under contract.

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 (decline) during the period under review:

	December 31, <u>2000</u>	December 31, <u>2003</u>	Increase (Decrease)
Admitted assets	\$ <u>872,059</u>	\$ <u>782,181</u>	\$ <u>(89,878)</u>
Liabilities	\$581,012	\$607,985	\$ 26,973
Surplus	<u>291,047</u>	<u>174,196</u>	<u>(116,851)</u>
Total liabilities and surplus	\$ <u>872,059</u>	\$ <u>782,181</u>	\$ <u>(89,878)</u>

The Society's invested assets as of December 31, 2003 were mainly comprised of bonds (62.2%) and cash (37.8%). As of December 31, 2000, the Society was more heavily invested in bonds (bonds (87.4%) and cash (12.6%)). The Society reallocated its asset mix during the examination period in order to be more liquid.

The Society's entire bond portfolio, as of December 31, 2003, was comprised of investment grade obligations.

Section 1404(a)(2)(B) of the New York Insurance Law states, in part:

“No investment in or loan upon the obligations of any institution . . . made pursuant to the provisions of this paragraph shall exceed five per centum of the admitted assets of such insurer as shown by its last statement on file with the superintendent.”

The Society reported admitted assets in the amount of \$814,472 as of December 31, 2002. The Society invested in GMAC SMARTNOTES in an aggregate amount of \$75,000 as of December 31, 2003. This amount is approximately 9.2% of the Society's admitted assets as of December 31, 2002.

The Society violated Section 1404(a)(2)(B) of the New York Insurance Law by investing in one institution more than 5% of the admitted assets reported in the Society's last filed annual statement.

Department Circular Letter No. 2 (1977) states, in part:

“. . . The revised custodian affidavits (Attachments B, C, D and E) do not specifically prescribe the obligation of the custodian to the insurance company in regard to lost, misplaced, stolen, damaged or otherwise destroyed securities, but provide that the responsibility for the safekeeping of such securities shall be specifically set forth in the agreements between the respective custodian and insurance company...it is the obligation of the management of an insurer to require that the respective custodian agreements provide for such a standard of responsibility on the part of the custodian . . .”

The Society does not have a formal agreement with the custodian of its securities.

The examiner recommends that the Society enter into a formal custodial agreement with its custodian for custodial services provided on behalf of the Society.

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Ordinary:			
Life insurance	\$(16,439)	\$(32,666)	\$(39,639)
Accident and health	<u> 326</u>	<u> 17</u>	<u> 578</u>
Total insurance	\$(<u>16,113</u>)	\$(<u>32,649</u>)	\$(<u>39,061</u>)
Fraternal	\$ (<u>8,497</u>)	\$(<u>11,631</u>)	\$ (<u>8,482</u>)
Total	\$(<u>24,610</u>)	\$(<u>44,280</u>)	\$(<u>47,543</u>)

The Society has reported increasing losses during the examination period due to the level of fraternal and general expenses relative to income. Fraternal and general expenses exceeded total income in 2003.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2003, as contained in the Society's 2003 filed annual statement, a condensed summary of operations and a reconciliation of the capital and 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, 2003 filed annual statement.

A. ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2003

Admitted Assets

Bonds	\$479,749
Cash and short term investments	291,703
Contract loans	354
Investment income due and accrued	9,255
Premiums and considerations:	
Uncollected premiums	<u>1,120</u>
 Total admitted assets	 <u>\$782,181</u>

Liabilities, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$590,646
Aggregate reserve for accident and health policies	3,644
Policy and contract claims:	
Life	8,850
Accident and health	200
Premiums and annuity considerations for life and accident and health policies and contracts received in advance	100
Policy and contract liabilities:	
Interest maintenance reserve	1,394
General expenses due or accrued	2,800
Amounts withheld or retained by society as agent or trustee	(62)
Miscellaneous liabilities:	
Asset valuation reserve	<u>413</u>
 Total liabilities	 <u>\$607,985</u>
 Unassigned funds (surplus)	 <u>\$174,196</u>
 Total liabilities and surplus	 <u>\$782,181</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Premiums and considerations	\$ 38,099	\$ 35,181	\$ 32,606
Investment income	47,628	41,658	32,944
Miscellaneous income	<u>1,185</u>	<u>325</u>	<u>935</u>
 Total income	 \$ <u>86,912</u>	 \$ <u>77,164</u>	 \$ <u>66,485</u>
Benefit payments	\$36,402	\$ 44,662	\$ 37,897
Increase in reserves	5,957	3,190	8,367
General expenses and taxes	69,250	73,952	67,624
Increase in loading on deferred and uncollected premium	<u>(85)</u>	<u>(360)</u>	<u>140</u>
 Total deductions	 \$ <u>111,524</u>	 \$ <u>121,444</u>	 \$ <u>114,028</u>
 Net income (loss)	 \$ <u>(24,612)</u>	 \$ <u>(44,280)</u>	 \$ <u>(47,543)</u>

C. SURPLUS ACCOUNT

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Surplus, December 31, prior year	\$ <u>291,044</u>	\$ <u>266,432</u>	\$ <u>221,977</u>
Net income (loss)	\$ (24,612)	\$ (44,280)	\$ (47,543)
Change in asset valuation reserve	0	(175)	(238)
 Net change in surplus	 \$ <u>(24,612)</u>	 \$ <u>(44,455)</u>	 \$ <u>(47,781)</u>
 Surplus, December 31, current year	 \$ <u>266,432</u>	 \$ <u>221,977</u>	 \$ <u>174,196</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 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. 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 failed to file abandoned property reports with the state comptroller for each of the years under review. This is a repeat comment from the prior report on examination.

The Society is again in violation of Section 701.1 of the New York Abandoned Property Law by failing to file with the State Comptroller abandoned property reports for each of the years under examination.

8. ANNUAL STATEMENT REPORTING

The examiner’s review of the Society’s cash accounts revealed that the Society has a money market account with Orange County Trust.

This fund was not listed with the National Association of Insurance Commissioners’ Securities Valuation Office as a fund that qualified to be treated and reported as cash. This asset is considered an equity-type (stock) mutual fund and the amount should have been reported as common stock in the Society’s annual statements.

The examiner recommends that the Society report equity-type (stock) mutual funds as stock in future annual statements.

9. SURETY BONDS AND OTHER INSURANCE COVERAGE

Article IV, Section 12(e) of the Society's Constitution, By-Laws and Amendments states:

“The General Executive Board shall be the custodian of all property of the Association and shall determine the terms and amounts of surety bonds to be furnished for the President, the Secretary and Treasurer of the Association. These surety bonds must be issued by a legally incorporated surety or bonding company and the expenses for the issuance of such bonds shall be paid by the Association.”

The Society does not have surety bonds for its President, Secretary and Treasurer as required by the Society's Constitution, By-Laws and Amendments.

The examiner recommends that the Society comply with its Constitution, By-Laws and Amendments and obtain surety bonds for the benefit of the President, the Secretary and the Treasurer of the Society.

In addition, the Society does not have any insurance to protect its home office from damage that may be caused by fire, theft, or other hazards that may be detrimental to the Society.

The examiner recommends that the Society obtain insurance to adequately cover its home office located in Middletown, New York.

10. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violation and recommendation 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 the Society put in place procedures to correctly identify and report lapses and expirees, on a timely basis, in accordance with its constitution and by-laws.</p> <p>The Society has established procedures to ensure it identifies and reports lapses and expires on a timely basis.</p>
B	<p>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.</p> <p>The Society failed to file abandoned property reports with the State Comptroller during the examination period.</p>

11. SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comment contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner recommends that the Society continue to communicate, with the Department, its progress in implementing a merger.	4
B	The examiner recommends that the Society record and maintain all committee minutes to substantiate that such committees are complying with its Constitution, By-Laws and Amendments.	5 – 6
C	The examiner recommends that each committee perform the duties prescribed by the Society’s Constitution, By-Laws and Amendments.	5 – 6
D	The Society violated Section 1411(a) of the New York Insurance Law by failing to have its board of directors, or a committee thereof, approve its investments.	6
E	The Society violated Section 4502(c)(6) of the New York Insurance Law by having less than five directors who are residents of New York State and by not having a majority of directors who are residents of this state or of adjoining states.	6
F	The examiner recommends that the Society amend its Constitution, By-Laws and Amendments to include the provision required by Section 4502(c)(6) of the New York Insurance Law.	6
G	The Society violated Section 1404(a)(2)(B) of the New York Insurance Law by investing in one institution more than 5% of the admitted assets reported in the Society’s last filed annual statement.	8 – 9
H	The examiner recommends that the Society enter into a formal custodial agreement with its custodian for custodial services provided on behalf of the Society.	9
I	The Society has reported increasing losses during the examination period due to the level of fraternal and general expenses relative to income. Fraternal and general expenses exceeded total income in 2003.	9

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
J	The Society violated Section 701.1 of the New York Abandoned Property Law by failing to file abandoned property reports with the State Comptroller for each of the years under examination. This is a repeat comment from the prior report on examination.	13
K	The examiner recommends that the Society report equity-type (stock) mutual funds as stock in future annual statements.	13
L	The examiner recommends that the Society comply with its Constitution, By-Laws and Amendments and obtain surety bonds for the benefit of the President, the Secretary and the Treasurer of the Society.	14
M	The examiner recommends that the Society obtain insurance to adequately cover its home office located in Middletown, New York.	14

Respectfully submitted,

/s/

Brian Glaab
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

BRIAN GLAAB, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

/s/

Brian Glaab

Subscribed and sworn to before me

this _____ day of _____

APPOINTMENT NO. 22262

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:

BRIAN GLAAB

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 29th day of September, 2004



GREGORY V. SERIO

Superintendent of Insurance

[Handwritten Signature]
Superintendent