



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES  
FINANCIAL CONDITION REPORT ON EXAMINATION  
OF THE  
UNITED STATES BRANCH  
OF  
THE INDEPENDENT ORDER OF FORESTERS

CONDITION:

DECEMBER 31, 2017

DATE OF REPORT:

MAY 31, 2019

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EXAMINER:

PETER BLISS, CFE

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Linda A. Lacewell  
Acting Superintendent

June 3, 2019

Honorable Linda A. Lacewell  
Acting Superintendent of Financial Services  
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31797, dated July 18, 2018, and annexed hereto, an examination has been made into the condition and affairs of the United States Branch of The Independent Order of Foresters, hereinafter referred to as “the Society,” at its home office located at 789 Don Mills Road, Toronto, Ontario M3C 1T9 Canada.

Wherever “Department” appears in this report, it refers to the New York State Department of Financial Services.

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

## 1. EXECUTIVE SUMMARY

The material comment and recommendation contained in this report are summarized below.

- At this juncture, the certificate of reserve valuation is being held and is not expected to be issued until the Department's concerns are resolved. (See item 7 of this report.)
- The Department recommends that the Society continue to reduce expenses and provide quarterly reports to the Department so that progress in managing their expense overrun may be monitored. (See item 7 of this report.)

## 2. SCOPE OF EXAMINATION

The examination of the Society was a full-scope examination as defined in the NAIC *Financial Condition Examiners Handbook, 2018 Edition* (the “Handbook”). The examination covers the three-year period from January 1, 2015, to December 31, 2017. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2017, but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

The examination was conducted on a risk-focused basis in accordance with the provisions of the Handbook published by the National Association of Insurance Commissioners (“NAIC”). The Handbook guidance provides for the establishment of an examination plan based on the examiner’s assessment of risk in the insurer’s operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management’s compliance with New York statutes and Department guidelines, Statutory Accounting Principles as adopted by the Department, and annual statement instructions.

Information about the Society’s organizational structure, business approach and control environment were utilized to develop the examination approach. The Society’s risks and management activities were evaluated incorporating the NAIC’s nine branded risk categories.

These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The Society was audited annually, for the years 2015 through 2017, by the accounting firm of KPMG, LLP (“KPMG”). The Society received an unqualified opinion in all years. Certain audit work papers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Society has an internal audit department, which provides assurance that the organization’s risk management, governance and internal control processes are operating effectively. Where applicable, internal audit work papers and reports were reviewed, and portions were relied upon for this examination.

The examiner reviewed the corrective actions taken by the Society with respect to the financial condition recommendation contained in the prior report on examination. The result of the examiner’s review is 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.

## 2. DESCRIPTION OF COMPANY

### A. History

The Society's origin traces back to a reincorporation under the name of the Right Worthy High Court of the Independent Order of Foresters, in Ontario Canada in 1881.

The Society was reincorporated in 1889 as a federal corporation by an act of the Canadian Parliament and has continued to be a federal corporation under Canadian law. In 1890, the Society received a license from the State of New York to conduct business in the United States as an alien fraternal benefit society. In 1913, the Society's name was changed to The Independent Order of Foresters. Since 1926, the following societies have been merged into the U.S. Branch:

| <u>Year</u> | <u>Organization Name</u>   |
|-------------|--|
| 1926        | The Ancient Order of the United Workmen of Ontario               |
| 1926        | The United States Branch of the Canadian Home Circles            |
| 1931        | Royal Templars of Temperance, 1931 Modern Brotherhood of America |
| 1952        | Catholic Mutual Benefit Organization                             |
| 1971        | The Royal Clan Order of Scottish Clans                           |
| 1971        | The Canadian Business of Modern Woodmen of America               |
| 1992        | Canadian Foresters Life Insurance U.S. Branch                    |

On January 19, 2011, the Society acquired First Investors Consolidated Corporation ("FICC"), which wholly owned First Investors Life Insurance Company ("FILIC"), a domestic stock life insurer, and collectively known as First Investors.

On September 21, 2015, FICC changed its name to Foresters Financial Holding Company, Inc. ("FFHC"), and FILIC changed its name to Foresters Life Insurance and Annuity Company ("FLIAC"). The Foresters family of companies are known collectively by one brand—Foresters Financial. The Society operates FLIAC as a standalone entity in its U.S. Division.

### B. Management

The Society's constitution as amended on June 24, 2017, provides that the board of directors shall be comprised of the International Fraternal President and 13 officers elected by the International Assembly, one of whom is designated the International Fraternal Vice President. Every four years the International Assembly meets to elect the board of directors and perform other general business. If a Board member dies, resigns, or becomes unable to continue in office, the

other board members may elect any voting member of the Society to fill the vacancy. The new Board member will remain in office until the next regular meeting of the International Assembly. As of December 31, 2017, the board of directors consisted of 14 members. Meetings of the board are held at least quarterly.

The 14 board members and their principal business affiliation, as of December 31, 2017, were as follows:

| <u>Name and Residence</u>                 | <u>Principal Business Affiliation</u>   | <u>Year First Elected</u> |
|---|---|---------------------------|
| Sonia A. Baxendale<br>Toronto, ON         | Co Interim President and Chief Executive Officer<br>United States Branch of The Independent Order of<br>Foresters | 2012                      |
| Katherine A. Bardswick*<br>Burlington, ON | Retired Executive<br>The Co-operators Group, Ltd.   | 2017                      |
| James R. Boyle*<br>Hingham, MA            | Retired Executive<br>John Hancock and Financial Services  | 2017                      |
| James M. Bowden*<br>Rowlett, TX           | Owner<br>JiNiN-Co Enterprise, LLC   | 2009                      |
| Michael C. Edge*<br>Caerphilly, UK        | Self Employed<br>Vehicle Distribution Sub-contracting   | 2017                      |
| Daniel J. Fortin*<br>Pickering, ON        | Retired Executive<br>IBM Canada   | 2017                      |
| Richard P. Hennick*<br>Yukon, OK          | Retired Service Technical Manager<br>Opti-Net, Inc.   | 2017                      |
| Robert E. Lamoureux*<br>Toronto, ON       | Retired Auditor<br>PricewaterhouseCoopers, LLP  | 2009                      |
| Frank N.C. Lochan*<br>Oakville, ON        | Retired Executive<br>Brookfield Asset Management, Inc.  | 2009                      |
| Martha E. Marcon*<br>Glendale, CA         | Retired Accountant<br>KPMG, LLP (California)  | 2009                      |
| Michael P. Stramaglia<br>Toronto, ON      | Co Interim President and Chief Executive Officer<br>United States Branch of The Independent Order of<br>Foresters | 2012                      |

| <u>Name and Residence</u>             | <u>Principal Business Affiliation</u>                         | <u>Year First Elected</u> |
|---------------------------------------|---|---------------------------|
| Christopher J. Stranahan*<br>Stow, OH | Owner of Retail Shop<br>Nature's Flight Ltd.                  | 2009                      |
| Wendy A. Watson*<br>Boston, MA        | Retired Executive<br>State Street Corporation                 | 2013                      |
| Robert W. Wight<br>Georgetown, ON     | Retired Maintenance Mechanic<br>Owens-Illinois, Inc. (Canada) | 2017                      |

\*Not affiliated with the Society

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, 2017:

| <u>Name</u>           | <u>Title</u>   |
|-----------------------|--|
| Sonia A. Baxendale    | Co-Interim President and Chief Executive Officer   |
| Michael P. Stramaglia | Co-Interim President and Chief Executive Officer   |
| Suanne M. Nielsen     | Senior Vice-President, Global Chief Administration Officer and<br>Executive Secretary      |
| Jon S. McDonald       | Vice President, Controller and Executive Treasurer   |
| Paul D. Reaburn       | Executive Vice President and Chief Financial Officer                                       |
| Cheryl K. Neal        | Senior Vice-President, Global Chief Strategy Marketing and<br>Innovation                   |
| Patricia Colavita     | Vice President and Chief Internal Auditor  |
| Mehul Kapadia         | Chief Information Officer, Vice-President of IT and Business<br>Transformation             |
| Knut A. Olson         | Senior Vice President and President, North American Life Insurance<br>and Annuity Division |
| Valerie L. Howes*     | Assistant Vice President, Special Investigations Unit and Consumer<br>Complaints           |

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

In January 2018, James R. Boyle replaced Co-Interim Presidents and Chief Executive Officers Sonia A. Baxendale and Michael P. Stramaglia as President and Chief Executive Officer.

In September 2018, Alvin Sharma joined the Society as the Global Chief Financial Officer to eventually replace Paul D. Reaburn as Chief Financial Officer. Mr. Reaburn provided transitional assistance to his replacement until his resignation in December 2018.

### 3. TERRITORY AND PLAN OF OPERATIONS

The Society is authorized to write life insurance, annuities, and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Society is licensed to transact business in all 50 states and the District of Columbia. In 2017, 30.6% of life premiums were received from Florida (8.9%), California (8.3%), Texas (8.0%), and Georgia (5.4%); 47.7 of annuity considerations were received from Michigan (27.9%) and Arizona (19.8%); and 21.9% of accident and health premiums were received from Arizona (11.6%) and Florida (10.3%). 5.4% of life premiums, 1.4% of annuity considerations, 0.04% of accident and health premiums, and 7.2% of deposit type funds were received from New York. Certificates are written on a participating basis.

#### A. Statutory and Special Deposits

As of December 31, 2017, the Society had \$1,000,000 (par value) of United States Treasury Bonds on deposit with the State of New York, its port of entry state, for the benefit of all policyholders, claimants and creditors of the Society. An additional \$900,000 (par value), which was reported in Schedule E of the 2017 filed annual statement, was being held for the states of Florida, New Hampshire, and North Carolina.

#### B. Direct Operations

The Independent Order of Foresters (“Foresters”) operates under three business segments by Country: the U.S. Division, the Canadian Division, and the U.K. Division. The Society is under the U.S. Division and focuses on sales to the middle-income market with a range of life insurance products, including whole life, universal life, and term life. All products have been marketed through independent marketing organizations. The Society’s percentage of business production was attributable to the following organizations:

|  |     |
|--|-----|
| National Marketing Organizations (“NMOs”)        | 34% |
| National Agents Alliance (“NAA”)                 | 32% |
| Broker General Agencies (“BGA”)                  | 21% |
| First Investor Consolidated Corporation (“FICC”) | 13% |

The principal lines of business sold during the examination period were participating and non-participating life products. Life products offered include whole life, term life, and universal

life. Significant sales of the “Plan Right” final expense product were noted during the examination period. This product offers three versions of the death benefits: level, graded or modified. Coverage amounts range from \$2,000 to \$35,000. Accidental death benefit riders were available only on the level death benefit version.

The U.S. Division continues to focus on enhancing its product portfolio by diversifying products and distribution channels.

During the current examination period, the number of independent agents appointed with the Society was 30,323 for 2015, 40,130 for 2016, and 54,572 for 2017. Included in these numbers were New York appointed agents of 855 in 2015, 1181 in 2016, and 1684 in 2017.

### C. Reinsurance

As of December 31, 2017, the Society had reinsurance treaties in effect with five companies, of which two were authorized or accredited. The Society’s life business is reinsured on a coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$1,000,000. The total face amount of life insurance ceded as of December 31, 2017, was \$15,344,511,379, which represents 42% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$293,578,624, was supported by trust agreements, funds withheld, and other miscellaneous balances.

Effective January 4, 2016, the Society entered into an agreement with FNL Insurance Company Ltd. (“FNL”), a Hawaii-domiciled unauthorized captive insurer and a subsidiary of Wells Fargo and Company. Under the terms of the agreement, certain universal life insurance, term life insurance, and yearly renewable term life policies and riders are reinsured. The Society’s retention under the agreement is \$500,000, except for a \$250,000 retention on certain universal life products. The reinsurance arrangement also resulted in a surplus relief (increase) of \$145.6 million in 2016.

The Society did not assume any insurance business during the examination period.

#### 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,<br><u>2014</u> | December 31,<br><u>2017</u> | <u>Increase</u>      |
|---------------------------------------|-----------------------------|-----------------------------|----------------------|
| Admitted assets                       | <u>\$2,911,783,932</u>      | <u>\$3,257,306,160</u>      | <u>\$345,522,228</u> |
| Liabilities                           | <u>\$2,805,341,987</u>      | <u>\$3,087,692,517</u>      | <u>\$282,350,530</u> |
| Reserve for future fraternal benefits | \$ 11,000,000               | \$ 11,000,000               | \$ 0                 |
| Special reserve re: Arkansas          | 300,000                     | 300,000                     | 0                    |
| Unassigned funds (surplus)            | <u>95,141,945</u>           | <u>158,313,643</u>          | <u>\$ 63,171,698</u> |
| Total surplus                         | <u>\$ 106,441,945</u>       | <u>\$ 169,613,643</u>       | <u>\$ 63,171,698</u> |
| Total liabilities and surplus         | <u>\$2,911,783,932</u>      | <u>\$3,257,306,160</u>      | <u>\$345,522,228</u> |

The \$345.5 million increase in admitted assets during the examination period resulted from the acquisition of bonds and stocks of \$309.6 million and \$41.5 million, respectively, which was driven by strong new business sales of \$214.3 million cumulative first year premiums over the 3-year period, and strong persistency of the Society's in force blocks of business, and the subsequently required increase in assets supporting the growth in reserves.

The \$282.4 million increase in liabilities during the examination period was driven by FNL reinsurance agreement, which resulted in a of \$130.2 million increase in reserves in 2016. The increases in new business also resulted in a \$55.2 million increase in reserves on life contracts due to continued new business sales and a \$44.7 million increase in the interest maintenance reserves.

The \$63.2 million increase in surplus during the examination period was largely due to the FNL reinsurance agreement executed in 2016 that resulted in a surplus relief (increase) of a \$145.6 million, offset by the cumulative net loss of \$78.5 million over the 3-year period.

The trustee assets of a licensed alien insurer entered through this state are required to be continuously kept in this state. The following table indicates the Society's financial growth (decline) as shown in the trustee statements during the period under review:

|                                       | December 31,<br><u>2014</u> | December 31,<br><u>2017</u> | Increase<br>(Decrease) |
|---------------------------------------|-----------------------------|-----------------------------|------------------------|
| Trustee assets                        | \$2,620,728,178             | \$2,870,575,437             | \$249,847,269          |
| Deposit with the State of New York    | 1,046,629                   | 1,010,858                   | (35,771)               |
| Accrued interest                      | <u>4,868</u>                | <u>4,869</u>                | <u>1</u>               |
| Total trustee assets                  | <u>\$2,621,779,675</u>      | <u>\$2,871,591,164</u>      | <u>\$249,811,489</u>   |
| Liabilities                           | \$2,805,341,987             | \$3,087,692,517             | \$282,350,530          |
| Deductions from liabilities           | <u>238,529,602</u>          | <u>291,929,765</u>          | <u>53,400,163</u>      |
| Net liabilities                       | \$2,566,812,385             | \$2,795,762,752             | \$228,950,367          |
| Trustee surplus                       | <u>54,967,290</u>           | <u>75,828,412</u>           | <u>20,861,122</u>      |
| Total liabilities and trustee surplus | <u>\$2,621,779,675</u>      | <u>\$2,871,591,164</u>      | <u>\$249,811,489</u>   |

The Society has maintained the required trustee surplus, during the period under examination, as required by Section 4503(c) of the New York Insurance Law.

The Society's invested assets as of December 31, 2017, were mainly comprised of bonds (89.3%), stocks (4.5%), and contract loans (3.6%). The majority (99.0%) of the Society's bond portfolio, as of December 31, 2017, was comprised of investment grade obligations.

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

|                           | <u>2015</u>             | <u>2016</u>             | <u>2017</u>             |
|---------------------------|-------------------------|-------------------------|-------------------------|
| Ordinary:                 |                         |                         |                         |
| Life insurance            | \$(24,991,724)          | \$(46,042,244)          | \$(80,581,923)          |
| Individual annuities      | (1,969,259)             | 3,149,400               | 519,363                 |
| Supplementary contracts   | <u>243,216</u>          | <u>(1,478,977)</u>      | <u>(758,710)</u>        |
| Total ordinary            | \$( <u>26,717,767</u> ) | \$( <u>44,371,821</u> ) | \$( <u>80,821,270</u> ) |
| Accident and health:      |                         |                         |                         |
| Other                     | \$ <u>(926,039)</u>     | \$ <u>(251,354)</u>     | \$ <u>769,824</u>       |
| Total accident and health | \$ <u>(926,039)</u>     | \$ <u>(251,354)</u>     | \$ <u>769,824</u>       |
| All other lines           | \$ <u>22,635,835</u>    | \$ <u>24,568,913</u>    | \$ <u>24,390,775</u>    |
| Total insurance           | \$ <u>(5,007,971)</u>   | \$ <u>(20,054,262)</u>  | \$ <u>(55,660,671)</u>  |
| Fraternal benefits        | \$ <u>543,113</u>       | \$ <u>(2,020,647)</u>   | \$ <u>(9,335,869)</u>   |
| Total                     | \$ <u>(4,464,858)</u>   | \$ <u>(22,074,909)</u>  | \$ <u>(64,996,540)</u>  |

The significant increase in ordinary life insurance net loss in 2016 was primarily due to increased commissions on first year premiums, an overall increase in expenditures during the year driven by consulting costs, and continued reserve increases from strong new business sales.

The significant increase in ordinary life insurance net loss in 2017 was due to the overall increase in premiums that resulted in significant new business strain leading to increased reserves. Other factors that contributed to the 2017 loss were higher incurred claims and increased commissions and underwriting costs driven by the positive sales trend. General expenses were also higher due to increased salaries and a one-time executive severances and consulting fees.

The gain in individual annuities in 2016, when compared with 2015, was primarily due to lower annuity benefits during the year and the refinement of assumptions on annuities that resulted in increased reserves in 2015. The decrease in 2017 was caused by a reduction in sales and an increase in annuity benefits during the year.

The significant loss from operations for fraternal benefits in 2016 as compared to 2015 is due to lower investment income of \$1.0 million due to lower yields on government and corporate

bonds, and a smaller release in the provision for fraternal benefits approved in the amount of \$2.7 million compared to a release of \$4.5 million in 2015. The 2015 release was mainly due to updating the number of residents in the Havens, a senior living facility.

The losses in fraternal benefits during the examination period were due to a \$3.5 million increase in general insurance and fraternal expenses that resulted from an updated allocation methodology reflecting increased costs for staff time spent maintaining the fraternal programs. In 2017, the provision for fraternal benefits increased by \$1.0 million, compared with a \$2.7 million release in 2016. This increase was due to an increase in the number of residents in the Havens.

The fraternal operations fund the Society's member benefits and volunteer events, and the main source of revenue for fraternal operations is investment income.

## 5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, and capital and surplus as of December 31, 2017, as contained in the Society's 2017 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, 2017, filed annual statement.

### A. Independent Accountants

The firm of KPMG was retained by the Society to audit its combined statutory basis statements of financial position as of December 31 of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the years then ended.

KPMG concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Society at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

### B. Net Admitted Assets

|  |                            |
|--|----------------------------|
| Bonds  | \$2,797,667,546            |
| Common stocks  | 114,102,995                |
| Mortgage loans on real estate: First liens   | 221,248                    |
| Cash, cash equivalents and short-term investments  | 63,150,965                 |
| Contract loans   | 140,851,473                |
| Other invested assets  | 18,488,001                 |
| Investment income due and accrued  | 29,794,775                 |
| Premiums and considerations:   |                            |
| Uncollected premiums and agents' balances in the course of collection                    | 12,003                     |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 87,098,980                 |
| Amounts recoverable from reinsurers  | 5,918,174                  |
| <br>Total admitted assets  | <br><u>\$3,257,306,160</u> |

### C. Liabilities, Surplus and Other Funds

|  |                            |
|--|----------------------------|
| Aggregate reserve for life contracts   | \$2,464,558,989            |
| Aggregate reserve for accident and health contracts  | 6,808,693                  |
| Liability for deposit-type contracts   | 15,253,334                 |
| Contract claims:   |                            |
| Life   | 82,704,729                 |
| Accident and health  | 1,897                      |
| Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts: |                            |
| Dividends apportioned for payment  | 25,203,404                 |
| Premiums and annuity considerations for life and accident and health contracts received in advance         | 1,024,681                  |
| Contract liabilities not included elsewhere:   |                            |
| Interest maintenance reserve   | 248,945,389                |
| Commissions to fieldworkers due or accrued   | 1,937,678                  |
| General expenses due or accrued  | 6,360,696                  |
| Amounts withheld or retained by Society as agent or trustee  | 386,810                    |
| Remittances and items not allocated  | 8,247,157                  |
| Liability for benefits for employees and fieldworkers if not included above                                | 6,509,480                  |
| Miscellaneous liabilities:   |                            |
| Asset valuation reserve  | 27,207,410                 |
| Funds held under reinsurance treaties with unauthorized reinsurers   | 150,131,916                |
| Payable for securities   | 2,976,421                  |
| Interbranch payables   | 16,189,115                 |
| Reserve for fraternal benefits approved  | 12,271,785                 |
| Miscellaneous liabilities:   | 7,555,879                  |
| Benevolent fund  | 1,757,980                  |
| Other liability reinsurance  | 1,427,074                  |
| Interest on certificate claims   | 232,000                    |
| <br>Total liabilities  | <br><u>\$3,087,692,517</u> |
| <br>Reserve for future fraternal benefits  | <br>\$ 11,000,000          |
| Special reserve re: Arkansas   | 300,000                    |
| Unassigned funds (surplus)   | <u>158,313,643</u>         |
| <br>Total capital and surplus  | <br>\$ <u>169,613,643</u>  |
| <br>Total liabilities, surplus and other funds   | <br><u>\$3,257,306,160</u> |

D. Condensed Summary of Operations

|   | <u>2015</u>          | <u>2016</u>           | <u>2017</u>           |
|---|----------------------|-----------------------|-----------------------|
| Premiums and considerations                                 | \$402,755,570        | \$113,856,446         | \$434,393,362         |
| Investment income   | 127,238,445          | 130,723,608           | 132,206,338           |
| Commissions and reserve adjustments<br>on reinsurance ceded | 10,095,501           | 10,712,090            | 13,003,888            |
| Miscellaneous income  | <u>(294,310)</u>     | <u>17,088,446</u>     | <u>11,639,594</u>     |
| Total income  | <u>\$539,795,206</u> | <u>\$272,380,590</u>  | <u>\$591,243,182</u>  |
| Benefit payments  | \$251,082,770        | \$225,280,793         | \$247,317,266         |
| Increase in reserves  | 84,537,832           | (168,959,192)         | 142,562,714           |
| Commissions   | 105,729,497          | 121,721,472           | 134,053,998           |
| General expenses and taxes                                  | 85,546,024           | 95,191,568            | 107,552,359           |
| Decrease in reserves for fraternal benefits<br>approved     | <u>(4,488,742)</u>   | <u>(2,686,258)</u>    | <u>1,007,140</u>      |
| Total deductions  | <u>\$522,407,381</u> | <u>\$270,548,774</u>  | <u>\$632,493,477</u>  |
| Net gain (loss)   | \$ 17,387,825        | \$ 1,831,816          | \$ (41,250,295)       |
| Refunds to members  | 21,852,681           | 23,906,725            | 23,746,245            |
| Net realized capital gains (losses)                         | <u>5,663,527</u>     | <u>4,481,811</u>      | <u>2,877,294</u>      |
| Net income  | <u>\$ 1,198,671</u>  | <u>\$(17,593,098)</u> | <u>\$(62,119,246)</u> |

The significant decrease in premiums and considerations in 2016, when compared with 2015 and 2017, was primarily due to the initial recognition of ceded premiums of \$250 million relating to the FNL reinsurance agreement.

The significant fluctuation in miscellaneous income was affected by the experience refunds from the FNL reinsurance agreement. The experience refunds in 2016 and 2017 were \$17.2 million and \$11.6 million, respectively.

The significant change in reserves in 2016, when compared with 2015 and 2017, was primarily due to the initial recognition of reserve credits relating to the FNL reinsurance agreement. Another factor that contributed to the change in 2017 was the higher sales driven by the launch of the “Your Term” product, which increased reserves.

E. Surplus Account

|   | <u>2015</u>           | <u>2016</u>            | <u>2017</u>            |
|---|-----------------------|------------------------|------------------------|
| Surplus, December 31, prior year                          | \$ <u>106,441,945</u> | \$ <u>134,576,720</u>  | \$ <u>244,699,232</u>  |
| Net income  | \$ <u>1,198,671</u>   | \$ <u>(17,593,098)</u> | \$ <u>(62,119,246)</u> |
| Change in net unrealized capital gains (losses)           | \$ <u>(7,294,257)</u> | \$ <u>(344,985)</u>    | \$ <u>(3,165,320)</u>  |
| Change in non-admitted assets                             | <u>(6,195,900)</u>    | <u>(1,786,469)</u>     | <u>(8,463,076)</u>     |
| Change in reserve on account of change in valuation basis | <u>0</u>              | (881,868)              | <u>0</u>               |
| Change in asset valuation reserve                         | 10,426,261            | (14,896,873)           | (1,337,947)            |
| Change in surplus as a result of reinsurance              | <u>0</u>              | <u>145,625,805</u>     | <u>0</u>               |
| Aggregate write ins for gains and losses in surplus:      |                       |                        |                        |
| Surplus contributions from parent                         | <u>30,000,000</u>     | <u>0</u>               | <u>0</u>               |
| Net change in surplus for the year                        | \$ <u>28,134,775</u>  | \$ <u>110,122,512</u>  | \$ <u>(75,085,589)</u> |
| Surplus, December 31, current year                        | \$ <u>134,578,720</u> | \$ <u>244,699,232</u>  | \$ <u>169,613,643</u>  |

## 7. RESERVES

The Department conducted a review of the Company's reserves as of December 31, 2017. The review included an examination of the asset adequacy analysis in accordance with 11 NYCRR 95 (Insurance Regulation 126). During the review potential concerns were raised with respect to the company's modeling of a reinsurance treaty within the asset adequacy testing.

At this juncture, the certificate of reserve valuation is being held and is not expected to be issued until the Department's concerns are resolved.

During the review, significant concerns were also noted with respect to excessive expenses causing net losses and rapidly decreasing surplus. The Society has been monitoring the expense overrun and providing the Department with a quarterly update. Although the expense overrun decreased over the examination period, there is still a large expense overrun.

The Department recommends that the Society continue to reduce expenses and provide quarterly reports to the Department so that progress in managing their expense overrun may be monitored.

## 8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the recommendation contained in the prior report on examination and the subsequent actions taken by the Society in response to the citation:

| <u>Item</u> | <u>Description</u>  |
|-------------|---|
| A           | <p>The examiner recommended that the Society continue to make efforts to reduce expenses and continue to provide quarterly reports to the Department so that progress in managing their expense overrun may be monitored.</p> <p>The examiner determined that the Society's management has complied with the recommended quarterly expense reporting and with the enacted initiatives to reduce expenses. However, the enacted initiatives have not been effective in reducing general expenses or commission expenses during the examination period.</p> |

9. SUMMARY AND CONCLUSIONS

Following are the comment and recommendation contained in this report:

| <u>Item</u> | <u>Description</u>  | <u>Page No(s).</u> |
|-------------|---|--------------------|
| A           | At this juncture, the certificate of reserve valuation is being held and is not expected to be issued until the Department's concerns are resolved.   | 18                 |
| B           | The Department recommends that the Society continue to reduce expenses and provide quarterly reports to the Department so that progress in managing their expense overrun may be monitored. | 18                 |

Respectfully submitted,



Peter Bliss, CFE  
INS Regulatory Insurance Services, Inc.

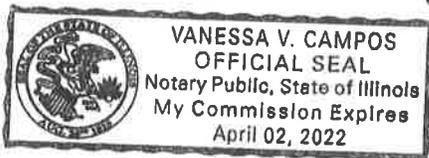
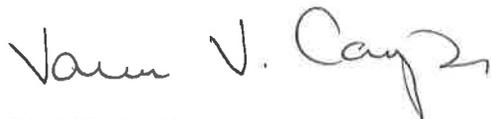
STATE OF NEW YORK     )  
  )SS:  
COUNTY OF NEW YORK    )

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



Peter Bliss

Subscribed and sworn to before me  
this 10 day of June



Respectfully submitted,

\_\_\_\_\_/s/  
Vincent Targia  
Principal Insurance Examiner

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

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

\_\_\_\_\_/s/  
Vincent Targia

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_

**APPOINTMENT NO. 31797**

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

I, **MARIA T. VULLO**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

**PETER BLISS**  
**(INS REGULATORY INSURANCE SERVICES, INC.)**

*as a proper person to examine the affairs of the*

**UNITED STATES BRANCH OF THE INDEPENDENT ORDER OF FORESTERS**

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

**SOCIETY**

*with such other information as he shall deem requisite.*

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

*this 18th day of July, 2018*

**MARIA T. VULLO**  
*Superintendent of Financial Services*

By:

*Mark McLeod*

**MARK MCLEOD**  
**DEPUTY CHIEF - LIFE BUREAU**

