



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
WORKMEN'S BENEFIT FUND OF THE UNITED STATES OF AMERICA

CONDITION:

DECEMBER 31, 2012

DATE OF REPORT:

FEBRUARY 28, 2014

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EXAMINER:

SHARON REYNOLDS

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
New York, New York 10004

Sir:

In accordance with instructions contained in Appointment No. 30993, dated June 12, 2013, 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 399 Conklin Street, Farmingdale, New York, 11735.

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 violation contained in this report is summarized below.

- The Department recommends that the Society continue to use the reserving methodology as agreed upon with the Department. The revised reserve methodology resulted in total additional reserves as of December 31, 2013 in the amount of \$500,000.
- The Society violated Section 53-1.4(b) of Department Regulation No. 74 by failing to file with its annual statement to this Department a certificate of compliance executed by an authorized officer of the insurer. This violation appeared in the two prior reports on examination. (See item 6C of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2012. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2012 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, 2012 to determine whether the Society's 2012 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
- Officers' and employees' welfare and pension plans
- Territory and plan of operation
- Market conduct activities
- Growth of 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 the violations and comment 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 SOCIETY

A. History

The Society was incorporated in 1884 and licensed to do an insurance business in February 1899. The Society was originally incorporated as Workmen's Sick and Death Benefit Fund of the United States of America; the present name was adopted in 1939.

In 2001, the Free Sons of Israel, a fraternal benefit society domiciled in New York, merged into the Society.

In 2004, the Workmen's Circle, a fraternal benefit society domiciled in New York, merged into the Society.

B. Management

The Society's by-laws provide that the board of directors shall be comprised of four National Officers and nine National Directors. National Officers are elected for a period of four years at the National Convention held during the period of June through September once every four years. National Directors are elected for a period of four years at the National Convention. As of December 31, 2012, the board of directors consisted of 13 members. Meetings of the board are held quarterly.

The 13 board members and their principal business affiliation, as of December 31, 2012, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Joseph Arnold Villa Park, IL	National Vice President Workmen's Benefit Fund of the USA	1980
George Boehm* Chicago, IL	Retired Self-employed auto repair	1992
Charles Borg Wellington, FL	National President Workmen's Benefit Fund of the USA	1984
Patricia Casey* Bellerose Terrace, NY	Agent Hughes Associates, Inc.	2000

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Richard Cecchi West Babylon, NY	National Treasurer Workmen's Benefit Fund of the USA	1996
Barbara Fechner- Hendrickson* Orland Park, IL	School Teacher Brookfield La Grange Park School	2008
Charles Grossman Great Neck, NY	National Secretary and Chief Executive Officer Workmen's Benefit Fund of the USA	1979
William Groth* Upper Montclair, NJ	Retired Ambulance firm	1996
Robert Kestenbaum* North Bellmore, NY	Director of Family Services Woodlawn Cemetery	2004
Arlene Kyler* Oceanside, NY	President Take My Card, Inc.	2007
Philip Mark* East Meadow, NY	Chairman, Chemistry Department Nassau Community College	2000
Albert Mlodynia Commack, NY	Operations Manager Workmen's Benefit Fund of the USA	1980
Dieter Polednik* Union, NJ	Retired, Former President Biertuempfel-Ostertag Agency	1987

* 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, 2012:

<u>Name</u>	<u>Title</u>
Charles Borg	National President
Charles Grossman*	National Secretary and Chief Executive Officer
Richard Cecchi	National Treasurer
Joseph Arnold	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 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 13 states. In 2012, 95% of life premiums were received from New York (67%), Florida (18%), New Jersey (5%) and Illinois (5%). In 2012, 95% of annuity considerations were received from New York (62%) and Florida (33%). Certificates are written on a participating basis.

The Society markets single pay life, life paid up until age 80, juvenile term life to age 18, final expense life, guaranteed issue life and single and flexible deferred annuities.

In 2009, the Society's board of directors decided to restructure its life lines of insurance marketed by placing more emphasis on low face amount coverage, which is the Society's predominant marketplace. The Society is no longer marketing any interest sensitive universal life plans or term plans, with the exception of juvenile term to age 18, final expense and guaranteed issue. The Society no longer sells whole life policies but instead markets life paid-up at age 80 policies.

The Society's accident and health insurance is a closed block of business that is in runoff. The number of individuals covered under the Society's accident and health certificates is declining as the covered individuals are reaching the maximum coverage age specified in the certificates.

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

D. Reinsurance

As of December 31, 2012, the Society had reinsurance treaties in effect with five companies, of which three were authorized or accredited. The Society's life, accident and health 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 \$25,000. The total face amount of life insurance ceded as of December 31, 2012, was \$21,224,558, which represents 15% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$241,579 was supported by letters of credit.

The Society does not assume any reinsurance.

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>2009</u>	December 31, <u>2012</u>	<u>Increase</u>
Admitted assets	<u>\$34,308,026</u>	<u>\$34,941,377</u>	<u>\$633,351</u>
Liabilities	<u>\$33,816,463</u>	<u>\$34,417,987</u>	<u>\$601,524</u>
Unassigned funds (surplus)	<u>491,563</u>	<u>523,390</u>	<u>31,827</u>
Total surplus	<u>\$ 491,563</u>	<u>\$ 523,390</u>	<u>\$ 31,827</u>
 Total liabilities and surplus	 <u>\$34,308,026</u>	 <u>\$34,941,377</u>	 <u>\$633,351</u>

The Society's invested assets as of December 31, 2012, were mainly comprised of bonds (93.5%). The majority (90%) of the Society's bond portfolio, as of December 31, 2012, was comprised of investment grade obligations.

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Ordinary:			
Life insurance	\$ 336,238	\$ 303,038	\$ 375,844
Individual annuities	(50,690)	(67,980)	108,286
Supplementary contracts	<u>(43,435)</u>	<u>(40,284)</u>	<u>(51,294)</u>
Total ordinary	<u>\$ 242,113</u>	<u>\$ 194,774</u>	<u>\$ 432,836</u>
Accident and health:			
Total accident and health	<u>\$ (79,672)</u>	<u>\$ (88,875)</u>	<u>\$(105,840)</u>
Fraternal operation	<u>\$(248,685)</u>	<u>\$(250,059)</u>	<u>\$(253,622)</u>
Total	<u>\$ (86,244)</u>	<u>\$(144,160)</u>	<u>\$ 73,374</u>

The increased gain in the individual annuity line business between 2011 and 2012 was due to the fact that the Society lowered the interest rate on their annuities leading to an increase in the interest rate spread income.

The increased losses in the accident and health line of business during the examination period are primarily due to the fact that the line is in run-off.

Fraternal expenses are expenses paid entirely by the Society for member benefits and fraternal activities.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2012, as contained in the Society's 2012 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, 2012 filed annual statement.

A. ASSETS, LIABILITIES AND SURPLUS AS OF DECEMBER 31, 2012

Admitted Assets

Bonds	\$ 32,127,104
Stocks:	
Preferred stocks	43,987
Common stocks	479,376
Mortgage loans on real estate:	
First liens	194,906
Cash, cash equivalents and short term investments	385,364
Contract loans	1,118,792
Property tax refund	10,000
Investment income due and accrued	567,293
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	4,950
Security deposits	9,605
 Total admitted assets	 \$ 34,941,377

Liabilities and Surplus

Aggregate reserve for life policies and contracts	\$31,486,230
Aggregate reserve for accident and health contracts	141,500
Liability for deposit-type contracts	1,011,072
Contract claims:	
Life	606,436
Accident and health	4,000
Premiums and annuity considerations for life and accident and health contracts received in advance	15,778
Interest maintenance reserve	698,005
General expenses due or accrued	42,904
Taxes, licenses and fees due or accrued, excluding federal income taxes	23,361
Amounts withheld or retained by Society as agent or trustee	48,905
Amounts held for fieldworkers' account, including fieldworkers' credit balances	118
Asset valuation reserve	<u>339,678</u>
Total liabilities	<u>\$34,417,987</u>
Unassigned funds (surplus)	\$ <u>523,390</u>
Total Surplus	\$ <u>523,390</u>
Total liabilities and surplus	<u>\$34,941,377</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Premiums and considerations	\$1,816,603	\$2,673,575	\$1,367,262
Investment income	1,834,171	2,024,841	2,027,505
Membership and sundry	<u>623</u>	<u>5,629</u>	<u>526</u>
 Total income	 <u>\$3,651,397</u>	 <u>\$4,704,045</u>	 <u>\$3,395,293</u>
 Benefit payments	 \$2,575,863	 \$3,482,691	 \$2,066,139
Increase in reserves	84,476	125,310	64,695
General expenses and taxes	1,077,900	1,240,675	1,191,914
Increase in loading on deferred and uncollected premium	<u>(599)</u>	<u>(472)</u>	<u>(829)</u>
 Total deductions	 <u>\$3,737,640</u>	 <u>\$4,848,204</u>	 <u>\$3,321,919</u>
 Net gain (loss) from operations before net realized capital gains	 \$ (86,243)	 \$ (144,159)	 \$ 73,374
 Net realized capital gains (losses)	 <u>21,772</u>	 <u>877</u>	 <u>3,488</u>
 Net income	 <u>\$ (64,471)</u>	 <u>\$ (143,282)</u>	 <u>\$ 76,862</u>

C. SURPLUS ACCOUNT

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Surplus, December 31, prior year	\$ <u>491,563</u>	\$ <u>670,431</u>	\$ <u>520,195</u>
Net income	\$ (64,471)	\$ (143,282)	\$ 76,862
Change in net unrealized capital gains (losses)	85,422	(25,007)	51,518
Change in non-admitted assets and related items	8,759	(48)	70
Change in reserve valuation basis	250,000	0	(100,000)
Change in asset valuation reserve	(89,521)	20,320	(16,858)
Fraternal fund	<u>(11,320)</u>	<u>(2,219)</u>	<u>(8,397)</u>
Net change in capital and surplus for the year	\$ <u>178,868</u>	\$ <u>(150,236)</u>	\$ <u>3,195</u>
Surplus, December 31, current year	\$ <u>670,431</u>	\$ <u>520,195</u>	\$ <u>523,390</u>

D. RESERVES

The Department conducted a review of reserves as of December 31, 2012. During this review, the Department found that greater conservatism is needed in the assumptions and methodology used for asset adequacy analysis. In response, the Society refined its reserve methodology and committed to strengthen reserves in a manner consistent with the Department's industry guidance relating to Regulation No. 126.

The Department recommends that the Society continue to use the reserving methodology as agreed upon with the Department. The revised reserve methodology resulted in total additional reserves as of December 31, 2013 in the amount of \$500,000.

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.

Section 53-1.4(b) of Department Regulation No. 74 states:

“Each insurer shall file with its annual statement to this Department a certificate of compliance executed by an authorized officer of the insurer wherein it is stated that to the best of such officer's knowledge, the preliminary information forms, policy benefit summaries, and sales illustrations disseminated by the insurer during the preceding statement year complied or were made to comply in all respects with the provisions of this Part.”

The Society did not file certificates of compliance, executed by an authorized officer, as required by Section 53-1.4(b) of Department Regulation No. 74 during the years under examination.

The Society violated Section 53-1.4(b) of Department Regulation No. 74 by failing to file with its annual statement to this Department a certificate of compliance executed by an authorized officer of the insurer. This violation appeared in the two prior reports on examination.

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 1301(a)(13)(A) of the New York Insurance Law by failing to amortize EDP equipment and operating system software over the lesser of its useful life or three years and non-operating system software over the lesser of its useful life or five years</p> <p>The Society wrote-off the EDP equipment and operating system software.</p>
B	<p>The Society is required to write-off the entire remaining admitted asset for EDP equipment and software immediately. In the future, the Society is required to follow the depreciation methods cited in Section 1301(a)(13)(A) of the New York Insurance Law for any purchase of EDP equipment or software.</p> <p>The Society wrote-off the EDP equipment and operating system software.</p>
C	<p>The Society violated Subsection 53-3.7 of Department Regulation No. 74 by illustrating universal life policies that were not supported by an illustration actuary's certification or self-support testing.</p> <p>The Society stopped selling universal life policies effective December 31, 2008.</p>
D	<p>The Society violated paragraph 53-3.6(d) of Department Regulation No. 74 by failing to include a notification of adverse change on the annual reports provided to certificate holders. This violation appeared in the prior report on examination.</p> <p>The Society has incorporated the notice required by the Department in its annual report to certificate holders.</p>
E	<p>The Society violated Section 53-1.4(b) of Department Regulation No. 74 by failing to file with its annual statement to this Department a certificate of compliance executed by an authorized officer of the insurer. This violation appeared in the prior report on examination.</p> <p>The Society failed to take corrective action in response to this prior report violation. (See item 6C of this report)</p>

8. SUMMARY AND CONCLUSIONS

Following is the comment and violation contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Department recommends that the Society continue to use the reserving methodology as agreed upon with the Department. The revised reserve methodology resulted in total additional reserves as of December 31, 2013 in the amount of \$500,000.	12
B	The Society violated Section 53-1.4(b) of Department Regulation No. 74 by failing to file with its annual statement to this Department a certificate of compliance executed by an authorized officer of the insurer. This violation appeared in the two prior reports on examination.	14

APPOINTMENT NO. 30993

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, 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:

SHARON REYNOLDS

as a proper person to examine the affairs of the

WORKMEN'S BENEFIT FUND OF THE UNITED STATES OF AMERICA

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

SOCIETY

with such other information as she 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 12th day of June, 2013

*BENJAMIN M. LAWSKY
Superintendent of Financial Services*

By:



***MICHAEL MAFFEI
ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU***

