

EXAMINATION REPORT OF  
UNITED BENEFIT SOCIETY, INC.  
DES MOINES, IOWA  
AS OF DECEMBER 31, 2017

Des Moines, Iowa  
December 28, 2018

HONORABLE DOUG OMMEN  
Commissioner of Insurance  
State of Iowa  
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

UNITED BENEFIT SOCIETY, INC.

CLIVE, IOWA

AS OF DECEMBER 31, 2017

The examination was conducted at the Home Office located at 8230 Hickman Road, Clive, Iowa. The report thereof, containing applicable comments, explanations and financial data is presented herein.

#### SCOPE OF EXAMINATION

United Benefit Society, Inc., hereinafter referred to as the Society or United Benefit, was last examined by the Iowa Insurance Division as of December 31, 2012. This examination covers the intervening period from January 1, 2013 to the close of business on December 31, 2017, including any material transactions and/or events occurring and noted subsequent to the examination period. The examination reported herein was conducted by examiners of the Insurance Division of Iowa.

A general review and survey was made of the Society's operation and manner in which its business had been conducted during the exam period. A detailed audit was not made of all transactions, but accounting practices and records were examined and tested to the extent deemed essential.

#### HISTORY

The Society was organized in 1951 as a benevolent association. It was incorporated in 1967 under the Iowa Corporation Act, Chapter 496A, Code of Iowa, with perpetual existence. On January 4, 1993, the United Benefit Society, Inc. Employee Stock Ownership Plan, purchased the outstanding common stock of the Society. With the 1993 purchase, the Society came under common ownership/control with another benevolent, Mid-West Benefit, Inc. and with an Iowa licensed benevolent, Family Benefit Society.

The Society and its affiliate, Mid-West Benefit, Inc. periodically acquired members through various acquisitions. Effective January 2009, Mid-West and United Benefit Society, Inc. (United) entered into a merger agreement to transfer all 3,920 memberships in Mid-West to United and also assigned to United all of its rights. The total transaction amount for the merger of Mid-West into United was \$180,000. Expense assessment funds were used periodically to make payments under the agreement. A review of the United general ledger for the years 2013 through 2016 showed that these payments were included in the

salaries, director fees, and medical reimbursement line of the Annual Statement. The remaining liability was paid off in January 2016.

In October 2016, the remaining 700 members of Family Benefit Society was transferred and merged into United. In 2017, the remaining life benefits balance of \$2,302.13 was also transferred to United.

#### MANAGEMENT AND CONTROL

The authorized capital stock of the Society is \$100,000 with 1,000 shares of \$100 par value common stock. There are seventy shares issued without capital paid up held by the United Benefit Society, Inc. Employee Stock Ownership Plan. The stock is voted by the current trustee, Sally E. Thielking.

The Bylaws stipulate that the annual meeting of the stockholders shall be held at the principal place of business in Clive, Iowa on the third Tuesday in February at 8:00 p.m. for the purpose of electing directors and for the transaction of such other business as may come before the meeting.

Special meetings may be called by the President, by the Board of Directors or by the holders of not less than one-tenth of all shares entitled to vote at the meeting. A majority of shareholders in person or by proxy constitutes a quorum.

#### BOARD OF DIRECTORS

The business and affairs of the Society shall be managed by a Board of Directors consisting of not less than three nor more than nine as fixed by the stockholders at each annual meeting or special meeting called for that purpose.

A director is elected for a term of one year. In case of vacancies, the majority of the remaining directors shall fill such vacancies until the next regular or special meeting of the shareholders. Directors and officers need not be shareholders of the Society.

Directors duly elected at the annual stockholders meeting held February 21, 2017 and serving as of December 31, 2017 were as follows:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Armin F. Thielking	West Des Moines, Iowa	January 2018
John W. Thielking	Des Moines, Iowa	January 2018
Paul M. Thielking	Des Moines, Iowa	January 2018

#### OFFICERS

The annually elected officers of the Society shall be a President, a Vice President, a Treasurer, a Secretary and such other officers as may be elected by the Board of Directors.

Officers duly elected at the Board of Directors meeting held on February 21, 2017 and serving as of December 31, 2017 were as follows:

<u>Name</u>	<u>Title</u>
Armin F. Thielking	President
John W. Thielking	Vice President
Paul M. Thielking	Secretary-Treasurer

Exhibit A discloses the compensation paid to officers and can be found immediately after the signature page of this report.

#### CORPORATE RECORDS

The meeting minutes of the stockholders and the Board of Directors were read and noted.

The Articles of Incorporation and Bylaws were not amended during this examination period.

The meeting minutes of the Board of Directors were silent with regards to the examination report dated December 31, 2012.

#### STOCK PURCHASE AGREEMENT

The Society entered into a stock purchase agreement with its ESOP, effective, January 4, 1993. All of the outstanding capital stock of the Society was purchased from June Hess, Elinor Gunderson and William Gunderson for a sum of \$900,000. This purchase involved the assets of the Association including all membership lists, applications, ledger cards and other incidents of ownership of the Society.

#### FIDELITY BOND AND OTHER INSURANCE

The Society does not have a fidelity bond. The commercial general liability policy provides coverage for employer's liability, contents, medical expense and business liability. The coverage is placed with an authorized insurer.

#### EMPLOYEES' WELFARE

The Board of Directors adopted a Medical Reimbursement Plan on January 31, 1996. According to the Plan, the effective date was January 1, 1993 to reimburse medical expenses for any employee who has attained the age of 21 years before the beginning of the Plan year and whose customary employment is for more than ten hours per week. In addition, the Plan shall include any former employee who is being paid on a consultant basis.

Expense assessment funds were used in making total contributions for years 2013, 2014, 2015, 2016 and 2017, which were \$14,797, \$15,073, \$8,779, \$23,064 and \$17,176 respectively.

#### EMPLOYEE STOCK OWNERSHIP PLAN

On January 1, 1993 the Society adopted an Employee Stock Ownership Plan. The Plan may be used to transfer the ownership of stock in the Society, including the stock of principal owners in the Society, to the employees (through the Employee Stock Ownership Trust); and to provide participants with beneficial ownership of Society stock, without requiring any cash outlay, any reduction in pay or other personal investment on the part of the participants.

The Plan stipulates that the Society's Board of Directors shall determine employer contributions. Contributions or dividends, taken from expense funds collected are paid to the Trust, with Board of Directors' approval. No contributions were made during the years under examination.

PLAN OF OPERATION

MEMBERSHIP

The Society operates a benevolent association composed of groups of members who make voluntary contributions for distribution to the beneficiary of the deceased member of that group. The Bylaws limit the number per group to not more than 1,250 members per group.

Any group that falls below fifty percent of its established size shall be merged into another existing group in the Society, and any funds of the depleted membership group shall become funds of the group into which it is merged.

Three new members were added in 2017. The number of members in each group were as follows:

<u>Group</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 (M)</u>	<u>2017</u>
I	1,001	**			
II	*				
VIII	833	921	***		
120A	903	919	1,026	1,046	925
120B	893	922	984	1,033	895
120C	865	910	962	1,027	919
Firemen	832	873	858	846	778
A	1,014	945	986	1,041	866
<b>TOTAL</b>	<b>6,341</b>	<b>5,490</b>	<b>4,816</b>	<b>4,993</b>	<b>4,383</b>
* Transferred 929 members from Unit II to I, VII, 120A, 120B, 120C, and A					
** Transferred 920 members from Unit I to Units VIII, 120A, 120B, 120C, and A					
*** Transferred 813 members from Unit VIII to Units 120A, 120B, 120C, and A					
(M) Merged 700 members from FBS to Units 120A, 120B, 120C, and A					

Prior to 1993, the Bylaws provided for paid up memberships when contributions equaled the maximum benefit. As of December 31, 2017, the Society recognized three paid-up memberships. One from United Benefit and two from Family Benefit; with one of the paid up Family Benefit memberships consisting of two individuals. It is the current practice to continue assessments perpetually regardless of the grand total of death benefit assessments paid to date by a member.

BENEFIT ASSESSMENTS

Members of the Society contribute \$1.00 per death. Section 191 Iowa Administrative Code 8.5 (2), stipulates that the benefit portion of the assessment shall not exceed the maximum benefit payable, as stated per the certificate of membership, by more than twenty percent. The maximum benefit payable for all groups of the Society is \$1,000.

ENROLLMENT AND EXPENSE FEES

Enrollment fees may be charged for new members not to exceed \$8.00. If two or more family members enroll at the same time the fee is \$6.00 per person.

Section 191 IAC 8.5(3), permits the assessment of an expense fee added as a separate item to each benefit assessment provided, the expense portion of any assessment represents actual costs directly related to the collection and payment of the certificate benefit. Each individual within a group is assessed \$.35 per death as an expense fee. The total expenses paid during 2017 were \$129,724.

Expense fees paid by the active Firemen group is only \$.25 due the savings in postage; however this practice is not reflected in the Amended Bylaws.

BENEFIT RESERVE FUND

The amount collected in excess of the \$1,000 death benefit is credited to a reserve fund for the benefit of that group. The Bylaws require records to be kept disclosing the reserve funds of each group and the total reserve funds of all groups. The directors may invest funds in approved securities. Investment income earned on the benefit reserves for the years 2013, 2014, 2015, 2016 and 2017 were \$1,719, \$1,173, \$1,147, \$838 and \$818, respectively.

The following data is as reflected in the Society's Annual Statements for the exam period:

<u>Year</u>	<u>Membership at Year End</u>	<u>Benefit Assessments</u>	<u>Member Deaths</u>	<u>Benefits Paid</u>	<u>Enrollment Fees and Expense Fees Collected</u>	<u>Benefit Reserve Funds</u>
2013	6,341	566,825	636	545,732	196,573	294,561
2014	5,490	462,788	524	434,680	160,531	322,624
2015	4,816	379,636	441	456,023	131,522	246,238
2016(M)	4,993	338,749	366	361,245	115,796	223,743
2017	4,383	378,170	375	359,188	129,724	242,726

ACCOUNTS AND RECORDS

The 2017 trial balance was reconciled to the Society's annual statement.

In accordance with IAC 191-8.12, each benevolent association must maintain a set of books and records, in accordance with normally accepted accounting procedures, to be used in supplying requested annual statement information each year to the Insurance Commissioner. Review was made of the Society's books and records and the filed financial statements for the five years under examination. Certain operations information was not consistently related in the annual statement filings. Some issues of concern follow:

- During the exam period, specifically the period between 2013 through 2016, the statements did not include a significant liability for borrowed money related to the purchase of memberships in 1992 and 1999. The liability was not apportioned to the groups the purchased members were placed into, nor any specific group. The 2017 statement is presented accurately in that the liability has been paid off.

- The number of paid-up memberships reported in the General Interrogatories of the 2017 Annual Statement was not accurate when compared to supporting detail which found three paid-up memberships. One United member and two former Family Benefit memberships (covering three individuals). The two paid-up memberships for former Family Benefit members are not placed into groups for the purpose of determining assessments. The one United member belongs to Group A and pays expense fees. Other years encompassed in the examination period were not reviewed relative to this detail.
- Reserve funds - surplus, is presented as a zero balance in aggregate although the Society does maintain funds for the benefit of members. As the Society transfers members, benefits reserve funds are not allocated into the members' new groups resulting in groups with no members maintaining balances (both positive and negative). This practice results in the zero balance in aggregate.

There were three new applicants in 2017. It was found that one member overpaid \$6.00 in enrollment fees but had a balance owed of \$110.70 at the time of cancellation. Another member was found to have underpaid \$3.00 in enrollment fees.

The remaining 700 members of Family Benefit Society were merged into United in October of 2016. A plan of reorganization was not filed for prior approval from the Iowa Insurance Commissioner as required by the Society's Bylaws.

The Society was comprised of five units at the end of 2017. All of those units were below 1,000 members each. The viability of these units and the ability to continue payment of the full \$1,000 death benefit has now become a serious concern. Additionally, such operational practice is not in the best interests of the members. It was observed the Society continues to accept members.

Iowa Code section 512A.6 provides that all benevolent associations maintain an account for current operating expenses as a condition of operation. However during 2017, there were two instances where death benefit funds were used to pay expenses and subsequently repaid. This appears to violate section 512A.6.

Section 191 IAC 8.6 states, in part, the following: "Any moneys remaining after the payment of a benefit by the Association, except the expense contribution and any reasonable corporate dividends or undivided profits, shall be maintained as a reserve fund to be used only for the benefit of the members of the specific group or unit from which it was collected." As demonstrated by the following schedule, the Society has not moved the funds after a group has closed and transferred members to the remaining groups so the Examiner is unable to determine if benefit reserves can be accurately segregated according to the members to which they belong.

<u>Group</u>	<u>Membership at Year End</u>	<u>Benefit Assessments</u>	<u>Investment Income Received</u>	<u>Benefits Paid</u>	<u>Enrollment Fees and Expense Fees Collected</u>	<u>Benefits Reserve Funds</u>
I*						57,272
II*						(61)
III*						24,142
IV*						49,505
V*						7,520
VI*						(30,447)
VIII*						18,456
EP*						(32,784)
HH*						(33,415)
LDN*						(3,591)
ANTH*						11,010
Cass*						(38,118)
120A	925	85,245	90	81,761	29,378	20,667
120B	895	86,549	172	78,815	29,815	40,964
120C	919	86,883	106	78,565	29,955	25,659
Firemen	778	9,508		9,000	2,727	332
A	866	109,985	450	111,047	37,849	104,611
WBBA*						16,888
C*						(3,056)
D*						209
One*						6,239
Safeguard*						(2,181)
40*						4,208
50*						(1,303)
Total	4,383	378,170	818	359,188	129,724	242,726

\*Group has closed as of December 31, 2017 and any remaining members were transferred to the remaining groups.

#### SUBSEQUENT EVENTS

During 2018, Unit 120C was merged into the remaining Society units. As of November 2018, the current membership counts were as follows: 1,027 in Unit A, 1,040 in Unit 120A, 1,073 in Unit 120B, and 789 in the Firemen Unit (235 non-active and 554 active).

The Firemen group has been below the 1,000 members the entirety of the exam period. During 2018, benefit reserve funds from closed units were used to supplement benefit payments for deaths in the Firemen unit due to their benefit



reserve fund being depleted. The Firemen unit is the only unit that has not had any members transferred from other units and therefore would not be entitled to any reserve funds from the closed units. This is a violation of IAC 191-8.6.

F I N A N C I A L S T A T E M E N T S  
A N D C O M M E N T S T H E R E O N

Note: The financial Statements contained herein reflect only the transactions of the year ended December 31, 2017, and the assets and liabilities as of that date. Schedules may not add or tie precisely due to rounding.

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

ASSETS

Bank Deposits	\$ 242,725
Benefit contributions due from Members	<u>10,318</u>
Total	<u>\$ 253,043</u>

LIABILITIES, CAPITAL AND SURPLUS

Life Benefits due members but unpaid	\$ 242,725
Life benefit contributions due from members but not collected	<u>10,318</u>
Total Liabilities	<u>\$ 253,043</u>
Reserve funds - surplus	<u>\$ 0</u>
Total liabilities and reserve funds	<u>\$ 253,043</u>

CONSOLIDATED INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2016	\$ <u>223,743</u>
<u>INCOME</u>	
Life benefit contributions	\$ 377,352
Expense fees collected	129,724
Interest collected	<u>818</u>
Total income	\$ <u>507,894</u>
Total assets and income	\$ <u>731,637</u>
<u>DISBURSEMENTS</u>	
Life benefits paid members	\$ 359,187
Salaries	71,500
Medical reimbursements	17,176
Director fees	0
Postage & telephone	15,318
Rent & utilities	12,062
Payroll taxes	5,623
Bank charges	3,152
Insurance, licenses & dues	785
Supplies & Misc	<u>4,108</u>
Total disbursements	\$ <u>488,911</u>
Balance - Ledger assets, December 31, 2017	\$ <u>242,725</u>

UNIT 120A STATEMENT OF ASSETS AND LIABILITIES

ASSETS

Bank Deposits	\$ 20,667
Benefit contributions due from Members	<u>1,928</u>
Total	<u>\$ 22,595</u>

LIABILITIES, CAPITAL AND SURPLUS

Life Benefits due members but unpaid	\$ 20,667
Life benefit contributions due from members but not collected	<u>1,928</u>
Total Liabilities	<u>\$ 22,595</u>
Reserve funds - surplus	<u>\$ 0</u>
Total liabilities and reserve funds	<u>\$ 22,595</u>

UNIT 120A INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2016	\$ <u>17,183</u>
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INCOME

Life benefit contributions	\$ 85,155
Expense fees collected	29,378
Interest collected	<u>90</u>
Total income	\$ <u>114,623</u>
Total assets and income	\$ <u>131,806</u>

DISBURSEMENTS

Life benefits paid members	\$ 81,761
Expense fees paid*	<u>25,945</u>
Total disbursements	\$ <u>107,706</u>

Balance - Ledger assets, December 31, 2017	\$ <u>20,667</u>
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\*note: Expense fees paid were allocated evenly amongst the active units instead of proportionally based on the expense fees collected and therefore the calculation to rollforward ledger assets from 2016 to 2017 will not be correct; however the balance of ledger assets for December 31, 2017 is presented correctly.

UNIT 120B STATEMENT OF ASSETS AND LIABILITIES

ASSETS

Bank Deposits	\$ 40,964
Benefit contributions due from Members	<u>3,338</u>
Total	<u>\$ 44,302</u>

LIABILITIES, CAPITAL AND SURPLUS

Life Benefits due members but unpaid	\$ 40,964
Life benefit contributions due from members but not collected	<u>3,338</u>
Total Liabilities	<u>\$ 44,302</u>
Reserve funds - surplus	<u>\$ 0</u>
Total liabilities and reserve funds	<u>\$ 44,302</u>

UNIT 120B INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2016	\$ <u>33,230</u>
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INCOME

Life benefit contributions	\$ 86,377
Expense fees collected	29,815
Interest collected	<u>172</u>
Total income	\$ <u>116,364</u>
Total assets and income	\$ <u>149,594</u>

DISBURSEMENTS

Life benefits paid members	\$ 78,815
Expense fees paid*	<u>25,945</u>
Total disbursements	\$ <u>104,760</u>

Balance - Ledger assets, December 31, 2017	\$ <u>40,964</u>
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\*note: Expense fees paid were allocated evenly amongst the active units instead of proportionally based on the expense fees collected and therefore the calculation to rollforward ledger assets from 2016 to 2017 will not be correct; however the balance of ledger assets for December 31, 2017 is presented correctly.



UNIT 120C STATEMENT OF ASSETS AND LIABILITIES

ASSETS

Bank Deposits	\$ 25,659
Benefit contributions due from Members	<u>2,759</u>
Total	<u>\$ 28,417</u>

LIABILITIES, CAPITAL AND SURPLUS

Life Benefits due members but unpaid	\$ 25,659
Life benefit contributions due from members but not collected	<u>2,759</u>
Total Liabilities	<u>\$ 28,417</u>
Reserve funds - surplus	<u>\$ 0</u>
Total liabilities and reserve funds	<u>\$ 28,417</u>

UNIT 120C INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2016	\$ <u>17,340</u>
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INCOME

Life benefit contributions	\$ 86,776
Expense fees collected	29,955
Interest collected	<u>106</u>
Total income	\$ <u>116,837</u>
Total assets and income	\$ <u>134,177</u>

DISBURSEMENTS

Life benefits paid members	\$ 78,565
Expense fees paid*	<u>25,945</u>
Total disbursements	\$ <u>104,510</u>

Balance - Ledger assets, December 31, 2017	\$ <u>25,659</u>
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\*note: Expense fees paid were allocated evenly amongst the active units instead of proportionally based on the expense fees collected and therefore the calculation to rollforward ledger assets from 2016 to 2017 will not be correct; however the balance of ledger assets for December 31, 2017 is presented correctly.

FIREMEN UNIT STATEMENT OF ASSETS AND LIABILITIES

ASSETS

Bank Deposits	\$ 332
Benefit contributions due from Members	<u>1,110</u>
Total	<u>\$ 1,442</u>

LIABILITIES, CAPITAL AND SURPLUS

Life Benefits due members but unpaid	\$ 332
Life benefit contributions due from members but not collected	<u>1,110</u>
Total Liabilities	<u>\$ 1,442</u>
Reserve funds - surplus	<u>\$ 0</u>
Total liabilities and reserve funds	<u>\$ 1,442</u>

FIREMEN UNIT INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2016 \$ (176)

INCOME

Life benefit contributions		\$	9,508
Expense fees collected			2,727
Interest collected			<u>0</u>
Total income			\$ <u>12,235</u>
Total assets and income			\$ <u>12,059</u>

DISBURSEMENTS

Life benefits paid members		\$	9,000
Expense fees paid*			<u>25,945</u>
Total disbursements			\$ <u>34,945</u>

Balance - Ledger assets, December 31, 2017 \$ 332

\*note: Expense fees paid were allocated evenly amongst the active units instead of proportionally based on the expense fees collected and therefore the calculation to rollforward ledger assets from 2016 to 2017 will not be correct; however the balance of ledger assets for December 31, 2017 is presented correctly.

UNIT A STATEMENT OF ASSETS AND LIABILITIES

ASSETS

Bank Deposits	\$ 104,611
Benefit contributions due from Members	<u>1,184</u>
Total	<u>\$ 105,795</u>

LIABILITIES, CAPITAL AND SURPLUS

Life Benefits due members but unpaid	\$ 104,611
Life benefit contributions due from members but not collected	<u>1,184</u>
Total Liabilities	<u>\$ 105,795</u>
Reserve funds - surplus	<u>\$ 0</u>
Total liabilities and reserve funds	<u>\$ 105,795</u>

UNIT A INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2016 \$ 105,673

INCOME

Life benefit contributions	\$ 109,535
Expense fees collected	37,849
Interest collected	<u>450</u>
Total income	\$ <u>147,834</u>
Total assets and income	\$ <u>253,507</u>

DISBURSEMENTS

Life benefits paid members	\$ 111,047
Expense fees paid*	<u>25,945</u>
Total disbursements	\$ <u>136,991</u>

Balance - Ledger assets, December 31, 2017 \$ 104,611

\*note: Expense fees paid were allocated evenly amongst the active units instead of proportionally based on the expense fees collected and therefore the calculation to rollforward ledger assets from 2016 to 2017 will not be correct; however the balance of ledger assets for December 31, 2017 is presented correctly.

CLOSED UNITS STATEMENT OF ASSETS AND LIABILITIES

ASSETS

Bank Deposits	\$ 50,493
Total	<u>\$ 50,493</u>

LIABILITIES, CAPITAL AND SURPLUS

Life Benefits due members but unpaid	\$ 50,493
Total Liabilities	<u>\$ 50,493</u>

Reserve funds - surplus	<u>\$ 0</u>
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Total liabilities and reserve funds	<u>\$ 50,493</u>
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CONCLUSION

The cooperation and assistance extended by the officers and employees of the Society during the course of the examination is hereby acknowledged.

Respectfully submitted,

\s\ Amanda Theisen  
Amanda Theisen, CFE  
Examiner Specialist  
Insurance Division  
State of Iowa