

EXAMINATION REPORT OF  
WESTERN FRATERNAL LIFE ASSOCIATION  
CEDAR RAPIDS, IOWA  
AS OF DECEMBER 31, 2018

Cedar Rapids, Iowa  
March 25, 2020

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 Association Examination has been made of the records, business affairs and financial condition of

WESTERN FRATERNAL LIFE ASSOCIATION

CEDAR RAPIDS, IOWA

AS OF DECEMBER 31, 2018

at its Home office, 1900 First Avenue Northeast, Cedar Rapids, Iowa.

INTRODUCTION

Western Fraternal Life Association, hereinafter referred to as the "Association", was previously examined as of December 31, 2013. The examination reported herein was conducted solely by Iowa Insurance Division examiners.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2014 to the close of business on December 31, 2018, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition.

## HISTORY

The Association was incorporated in 1897 as the Supreme Lodge of the Western Bohemian Fraternal Association. The Association commenced business on July 4, 1897. In 1938, the name of the Association was changed to Western Bohemian Fraternal Association. The present name of the Association was adopted in 1971 by an amendment to the Articles of Incorporation.

As of October 1, 1991, the corporate existence of the Association was extended to a period of fifty years from the date of filing the Articles, by adoption of Articles of Re-Incorporation.

## AFFILIATED COMPANIES

The Association owns 100 percent of the outstanding common stock of Western Fraternal Life Wealth Management, Inc. which was incorporated in October, 1996. The Agency was inactive during the examination period.

## MANAGEMENT AND CONTROL

### MEMBERSHIP

The Bylaws state that a member is "a person of insurance age 16 or more years whose application has been accepted and approved and to whom there has been issued a Certificate of membership and insurance or annuity which is in force or who is receiving a settlement agreement benefit by reason of such insurance or annuity; provided that this does not include holders of Certificates which have been placed on extended insurance."

### NATIONAL CONVENTION

The Articles of Incorporation state that the supreme legislative or governing body shall be the National Convention. The delegates to the National Convention are composed of lodge delegates and delegates-at-large. Each lodge in good standing is entitled to one delegate for every 100 members, or a majority of that number, which it has for the month preceding the meeting in which the delegates are elected, but each lodge shall be entitled to at least one delegate. Each lodge will be granted one additional delegate if that additional delegate is age 40 or under at the time of election. Delegates-at-large are comprised of the directors and officers of the Association and members of the Pre-Convention Committee. The at-large delegates are considered delegates from the lodge of which that delegate is a member in addition to the delegates elected by the lodge.

The National Convention meets in a regular session once each four calendar years in any state in which it has lodges. The National Convention shall elect a Board of Directors to conduct the business of the Association between meetings of the National Convention. A quorum shall consist of a majority of the qualified and registered delegates with each delegate entitled to one vote. No proxy votes are permitted. There was a convention held in Green Bay, Wisconsin in 2019.

### BOARD OF DIRECTORS

The Bylaws provide that the Association shall have a Board of eight members consisting of the President and the seven directors elected from the seven districts.

The Bylaws state that the Board shall meet four times yearly and may hold special meetings at the call of at least six directors. A quorum for the transaction of business is a majority of Directors.

Elected members serving as directors at December 31, 2018 were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
District 1 Terry L. Hynek Wilber, Nebraska	Owner Wilber Meat Market	2019
District 2 Brenda L. Vrieze Holman, Wisconsin	Finance and Operations Kaplan Inc.	2019
District 3 Donald R. Krall Cedar Rapids, Iowa	Owner Krall Plumbing	2019
District 4 Duane J. Jirik New Prague, Minnesota	Deputy Sheriff	2019
District 5 Mary K. Bradley Chicago, Illinois	Executive Director Chicago Public Schools	2019
District 6 Bonita C. Fillmore Klamath Falls, Oregon	Retired	2019
District 7 Ross E Sestak Prague, Oklahoma	Sestak Farm Owner/Operator	2019
Craig A. Van Dyke Cedar Rapids, Iowa	President Western Fraternal Life Association	2019

#### COMMITTEES

The Bylaws provide that the Board can form any committee that it deems necessary to have such authority as the Board may delegate. Each committee shall be comprised of three or more directors. The Association has the following committees:

#### Audit Committee

The Audit Committee is established to discharge the Board's responsibilities relating to the integrity of the financial statements of Western Fraternal Life and its system of internal controls, its management of and compliance with legal and regulatory requirements, the independence and performance of its internal auditors, the qualifications, independence and performance of its independent auditors, and the retention and termination of its independent auditors, including the approval of fees and other terms of their engagement, and the approval of non-audit relationships with the independent auditors.

The members of the Audit Committee as of December 31, 2018 was as follows:

Don Krall, Chairperson  
Bonita Fillmore, Secretary  
Mary Bradley  
Ross Sestak

Finance and Investment Committee

The Finance and Investment Committee is established to discharge the duties of the Board of Directors in reviewing Western Fraternal Life's investment policies, strategies, transactions and performance, and in overseeing its capital and financial resources.

The members of the Finance and Investment Committee as of December 31, 2018 was as follows:

Mary Bradley, Chairperson  
Brenda Vrieze, Secretary  
Duane Jirik  
Craig Van Dyke

Personnel and Executive Committee

The Personnel and Executive Committee is established to discharge the duties of the Board of Directors in evaluating and determining the compensation for the President and approving the overall compensation structure for senior management of Western Fraternal Life. In addition, the Committee will provide leadership regarding succession plans and recruiting for the President and senior management and oversight on matters concerning management performance, employee compensation and benefits and human resources policies.

The members of the Personnel and Executive Committee as of December 31, 2018 was as follows:

Duane Jirik, Chairperson  
Terry Hynek, Secretary  
Don Krall  
Ross Sestak  
Craig Van Dyke \*non-Voting

Fraternal Committee

The Fraternal Committee is established to discharge the duties of the Board of Directors relating to Lodges and charitable and benevolent activities of Western Fraternal Life.

The members of the Fraternal Committee as of December 31, 2018 was as follows:

Brenda Vrieze, Chairperson  
Bonita Fillmore, Secretary  
Terry Hynek  
Don Krall  
Craig Van Dyke

OFFICERS

The Bylaws provide that the principal officers of the Association shall be the President, Secretary, and Treasurer and such other vice presidents, assistant secretaries, or assistant treasurers as recommended by the President and approved by the Board. The President shall be nominated by the Board and elected by the Convention for a four-year term. Other principal officers of the Association shall be appointed by the President and approved by the Board.

The officers serving as of December 31, 2018 were:

<u>Name</u>	<u>Title</u>
Craig Alan Van Dyke	President
Ann Day Freeman	Senior Vice President and Chief Underwriter
Donald Michael Nieland	Vice President IT and Secretary
Jack Howard Minder Jr.	Vice President and Treasurer
Kevin Lee Simpson	Vice President Sales and Marketing

The salaries of these officers are shown in Exhibit A to be found immediately following the signature page of this report.

#### CONFLICT OF INTEREST

The Association has an established procedure for the annual disclosure on the part of directors, officers, responsible employees, and members of their immediate family to the Board of Directors of any material interest or affiliation, which is in conflict with, or is likely to be in conflict with, the official duties of such person. No conflicts were noted.

#### CORPORATE RECORDS

The Articles of Incorporation and Bylaws were amended during the National Convention in 2015 to allow electronic communication for Board and Committee meetings and set a deadline of April 1 of the Convention year to propose Bylaw changes and set a deadline of March 1 of the Convention year for Candidates for the Board to provide all required information regarding their qualifications.

The convention is the supreme governing body of the fraternal. The Board of Directors reports to the convention and is elected by the convention. The President reports to the Board of Directors and staff report to the President.

The recorded minutes of the National Convention and the meetings of the Board of Directors and all committee minutes held during the period of this examination were read and noted.

The Insurance Division's Examination Report as of December 31, 2013 was read and approved at the Board of Directors' meeting held on May 8, 2015.

#### FIDELITY BONDS AND OTHER INSURANCE

The Association is adequately protected by a Financial Institution Bond in the amount of \$2,000,000 for any single loss. Other Association interests were also adequately protected by appropriate policies of insurance.

#### EMPLOYEES' AND AGENTS' WELFARE

The Association provides qualified employees with a group term life and long-term disability income insurance on a non-contributory basis and group health insurance on a contributory basis.

The Association has a deferred compensation plan to all non-commissioned employees. The Association allows the employee to defer up to 100% of their salary subject to IRS limitations, the Association will match the first 10% the employee defers.

STATUTORY DEPOSIT

At December 31, 2018, the Association had securities on deposit with the Iowa Insurance Division in excess of minimum statutory requirements. The Custodial Agreement for the regular security holdings account had been approved by the Iowa Insurance Division in 2004.

REINSURANCE

Excess writings over desired retention for the 10, 20, and 30 Year Term products are ceded automatically under a coinsurance treaty with Reinsurance Group of America. Cessions are automatic up to four times the Company's retention with a minimum cession of \$5,000. Amounts in excess of the limits for automatic cessions may be ceded on a facultative basis.

Excess writings over desired retention for Universal Life/Value Life products are ceded automatically under a yearly renewable term reinsurance treaty with Optimum Re Insurance Company. Cessions are automatic up to four times the Company's retention with a minimum cession of \$5,000. Amounts in excess of the limits for automatic cessions may be ceded on a facultative basis.

Excess writings over desired retention for whole life and single premium whole life products are ceded automatically under a yearly renewable term reinsurance treaty with RGA and Opt Re using a surname alphabetic division A-L and M-Z. Cessions are automatic up to four times the Company's retention with a minimum cession of \$5,000. Amounts in excess of the limits for automatic cessions may be ceded to either reinsurer on a facultative basis.

Current retention:

<u>Ages</u>	<u>Standard - Table 4</u>	<u>Table 5 - 8</u>
0-70	\$100,000	\$75,000
71-75	50,000	25,000
76-80	25,000	25,000
81-85	10,000	None

All of the reinsurance agreements contain acceptable insolvency clauses.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in the following jurisdictions at December 31, 2018:

California	Michigan	Oklahoma
Colorado	Minnesota	Oregon
Illinois	Montana	South Dakota
Iowa	Nebraska	Texas
Kansas	North Dakota	Washington
Louisiana	Ohio	Wisconsin

### GROWTH OF COMPANY

The following historical financial data, taken from annual statements for the years indicated, reflects the growth of the Company: (000's)

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Investment Income</u>
2014	\$282,275	\$23,271	\$17,366	\$14,914	\$12,433
2015	287,885	23,869	15,167	15,884	12,323
2016	295,326	23,993	16,353	13,983	12,733
2017	298,022	24,263	16,939	21,016	12,306
2018	301,910	23,660	15,506	17,769	12,272

### ACCOUNTS AND RECORDS

Trial balances of the Company's general ledgers were taken for each year under examination and were found to be in agreement with the office copies of the filed annual statements for those years.

Tests were made of general ledger postings for selected periods and accounts. These tests included the tracing of summary postings to subsidiary records of original entry. The records in the Company's policy master file and claim system were sampled and tested by comparing data contained in supporting documents to data contained in the computer records.

During the course of the examination no statutory violations or material differences with the amounts reflected in the financial statements, as presented in the annual statement at December 31, 2018, were identified.

### SUBSEQUENT EVENTS

The Bylaws were amended during the 2019 Convention to establish guidelines for the pre-Convention meeting and to provide clarification for payment for one or more beneficiaries that may be deceased.

The Association and National Mutual Benefit (NMB) announced their intent to consolidate as equals. The Board of Directors from both NMB and the Association have approved the consolidation of the two companies in January 2020. The Association's delegates will vote on the proposed consolidation in May of 2020. A two thirds majority of the 180 delegates that cast votes is required for approval. On May 28, 2020, the Association announced its members had approved a consolidation with National Mutual Benefit. The consolidation will be effective January 1, 2021.

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is significant uncertainty as to the impact the pandemic will have on the economy, insurance industry and the Company. In addition, this uncertainty has contributed to extreme volatility in the financial markets. As such, the Department will continue to monitor COVID-19 developments.



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 following financial statements are based on the statutory financial statements filed by the Association with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2018.

ASSETS

	<u>Ledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$277,962,835	\$	\$277,962,835
Common Stocks	665,409	5,000	660,409
Mortgage loans on real estate - First liens	8,162,773		8,162,773
Real Estate:			
Properties occupied by the Association	1,001,328		1,001,328
Cash	339,051		339,051
Short-term investments	3,790,924		3,790,924
Contract loans	5,225,055		5,225,055
Other invested assets	1,766,564		1,766,564
Receivables for securities	90,454		90,454
Investment income due and accrued	2,767,001		2,767,001
Uncollected premiums and agents balance in the course of collection	36,647		36,647
Amounts recoverable from reinsurers	93,759		93,759
Electronic data processing equipment and software	12,874		12,874
Furniture and equipment	9,961	9,961	0
	<u>\$301,924,635</u>	<u>\$ 14,961</u>	<u>\$301,909,674</u>
Total Assets			

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life certificates and contracts	\$264,849,305
Liability for deposit-type contracts	6,774,761
Contract claims - Life	1,060,000
Provision for refunds payable in following calendar year not yet apportioned	700,000
Premiums and annuity considerations received in advance	766,817
Interest Maintenance Reserve	957,320
Commissions to fieldworkers due or accrued	41,000
General expenses due or accrued	199,000
Taxes, licenses and fees due or accrued	65,100
Amounts withheld or retained by Society as agent or trustee	525,337
Remittances and items not allocated	104,220
Asset valuation reserve	1,558,618
Reinsurance premiums payable	25,378
Abandoned funds	122,993
Reserve for National Convention	171,384
Reserve for Insurance Department exam	115,697
Accounts payable	142,290
Post Retirement Benefit Reserve	69,959
	<u>\$278,249,179</u>
Total Liabilities	
Unassigned funds (surplus)	23,660,495
Total Capital and Surplus	<u>\$ 23,660,495</u>
Total Liabilities, Capital and Surplus	<u>\$301,909,674</u>

SUMMARY OF OPERATIONS

Premiums and annuity considerations	\$15,506,116
Considerations for supplementary contracts with life contingencies	491,405
Net investment income	12,271,694
Amortization of Interest Maintenance Reserve	221,770
Charges and fees for deposit-type contracts	15,746
Aggregate write-ins for miscellaneous income	<u>6,219</u>
Total	<u>\$28,512,950</u>
Death benefits	\$ 5,510,089
Matured endowments	95,362
Annuity benefits	4,039,982
Disability benefits including premiums waived	34,407
Surrender benefits and withdrawals for life contracts	8,088,900
Interest and adjustments on contract or deposit-type contracts funds	213,021
Payments on supplementary contracts with life contingencies	427,107
Increase in aggregate reserve for life contracts	<u>4,261,588</u>
Total	<u>\$22,670,456</u>
Commissions on premiums, annuity considerations and deposit-type funds	1,209,397
General insurance expenses and fraternal expenses	4,187,515
Insurance taxes, licenses and fees	193,467
Increase in loading on deferred and uncollected premiums	2,703
Conversion costs	<u>6,305</u>
Total	<u>\$28,269,843</u>
Net gain from operations before refunds to members	\$ 243,107
Refunds to members	<u>652,894</u>
Net gain from operations after refunds to members and before realized capital gains or (losses)	\$ (409,787)
Net realized capital gains (losses)	<u>(10,239)</u>
Net income	<u>\$ (420,026)</u>

SURPLUS ACCOUNT

Surplus, December 31, 2017	<u>\$24,263,438</u>
Net income from operations	\$ (420,026)
Change in net unrealized capital gains (losses) less capital gains tax	(91,663)
Change in non-admitted assets	9,016
Change in asset valuation reserve	(61,637)
Post retirement benefit reserve change	(34,963)
Prior year deposit fund liability adjustment	<u>(3,670)</u>
Net change in surplus for the year	<u>\$ (602,943)</u>
Surplus, December 31, 2018	<u>\$23,660,495</u>

CASH FLOW

CASH FROM OPERATIONS

Premiums collected net of reinsurance	\$ 15,970,493
Net investment income	13,065,246
Miscellaneous income	21,965
Total	<u>\$ 29,057,704</u>
Benefit and loss related payments	18,260,154
Commissions, expenses paid and aggregate write-ins for deductions	5,605,880
Dividends paid to policyholders	697,894
Total	<u>\$ 24,563,928</u>
Net cash from operations	<u>\$ 4,493,776</u>

CASH FROM INVESTMENTS

Proceeds from investments sold, matured or repaid:	
Bonds	\$ 26,100,223
Mortgage loans	306,580
Miscellaneous proceeds	54,446
Total investment proceeds	<u>\$ 26,461,249</u>
Cost of investments acquired:	
Bonds	\$ 27,806,155
Stocks	199,898
Mortgage loans	3,186,246
Real estate	9,388
Total investments acquired	<u>\$ 31,201,687</u>
Net increase in contract loans and premium notes	<u>(92,491)</u>
Net cash from investments	<u>\$ ( 4,647,947)</u>

CASH FROM FINANCING AND MISCELLANEOUS SOURCES

Net deposits on deposit-type contracts and other insurance liabilities	\$ (252,563)
Other cash provided	178,083
Net cash from financing and miscellaneous sources	<u>\$ (74,480)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$ ( 228,651)
Cash, cash equivalents and short-term investments:	
Beginning of year	4,358,626
End of year	<u>\$ 4,129,975</u>

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Association and the Third Party Administrator during the course of this examination is hereby acknowledged.

In addition to the undersigned, Jean Yohnke, examiner for the Iowa Insurance Division, IT Specialist from INS Services, Inc., and actuarial specialists from Insurance Strategies Consulting, L.L.C., participated in the examination and preparation of this report.

Respectfully submitted,

/s/ Jeffrey S. Payne  
Jeffrey S. Payne, CFE  
Insurance Specialist  
Iowa Insurance Division