



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
SUPREME COUNCIL OF THE ROYAL ARCANUM

Boston, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 000

NAIC COMPANY CODE 58181

EMPLOYER ID NUMBER 04-1885430

SUPREME COUNCIL OF THE ROYAL ARCANUM

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COMMONWEALTH OF MASSACHUSETTS
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May 25, 2016

The Honorable Daniel R. Judson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
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Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 176, Section 44, an examination has been made of the financial condition and affairs of

SUPREME COUNCIL OF THE ROYAL ARCANUM

at its home office located at 61 Batterymarch Street, Boston, Massachusetts 02110. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Supreme Council of the Royal Arcanum ("Order") was last examined as of December 31, 2011 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the three-year period from January 1, 2012 through December 31, 2014, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

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, as mentioned in the Massachusetts General Laws, Chapter 176, Section 44, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Order is audited annually by Vision Financial Group CPA's LLP ("CPA"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Order's financial statements for the calendar years 2012 through 2014. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

The Order is not in compliance with Massachusetts General Law "(M.G.L)" Chapter 176, Section 40, which limits the investment in stocks to 25% of the surplus. Refer to the section Summary of Recommendations for more details.

HISTORY

General

The Order was founded June 23, 1877, and incorporated under the laws of the Commonwealth of Massachusetts on November 5, 1877, as a fraternal benefit society with the power to make and to amend its own Constitutional Rules and General Laws for the government of the whole Order.

The Order exists as a non-sectarian, non-political, fraternal benefit society in the United States of America and Canada. Current qualifications for admission to membership in the Royal Arcanum are: an applicant must be a person of good moral character, a believer in a Supreme Being and attainment of the age of eighteen years.

On January 21, 2000, the Royal Arcanum Insurance Agency, Inc. ("Agency") was incorporated under the laws of the Commonwealth of Massachusetts as a for-profit entity. This wholly-owned subsidiary of the Order was established to provide members access to additional insurance products not otherwise available within the Order and to generate commissions on the business placed with certain insurance companies. As of the date of this examination, there has been no activity in the Agency.

On April 14, 2004, the Royal Arcanum Scholarship Fund, Inc. ("Fund") was incorporated under the laws of the Commonwealth of Massachusetts to award scholarships and grants to provide educational assistance to students pursuing college or university degrees. This not-for-profit corporation was organized as a private foundation exclusively for charitable, literary, scientific, religious, or educational purposes provided for under Section 501(c) (3) of the Internal Revenue Code, and it does not contemplate pecuniary gain or profit, incidental or otherwise. Monies in the Fund are provided by the Order, charitable donations, and unclaimed property from the Order.

On December 28, 2005, the Association of Lithuanian Workers ("ALW"), a fraternal benefit society based in New York, merged with and into the Order which became the surviving entity. The merger was approved by both the Division and the New York Insurance Department.

On October 29, 2008, the Office of the Superintendent of Financial Institutions in Canada officially approved the transaction between the Order and the Ukrainian Fraternal Association ("UFA"); a fraternal benefit society domiciled in Pennsylvania, whereby the Order would take over UFA's Canadian operations on 830 policies with insurance coverage totaling approximately \$2.15 million. On December 1, 2008, the Order received \$856,000 from UFA for this business.

On May 14, 2009, the Order acquired all of the US business from ACA Assurance, except for pre-need policies. ACA Assurance was domiciled in New Hampshire and the Order received \$22,420,793 for 7,448 life insurance certificates, 3,114 Accident and Health certificates and 872 annuities. On July 27, 2011 the Order acquired the pre need business of ACA Assurance. They acquired 5,658 pre-need policies with a face value of \$15,096,000. The Order received \$11,864,368 in cash, a \$50,000 mortgage and a \$5,000 CD on deposit with the State of South Carolina.

Supreme Council of the Royal Arcanum

In December of 2015, the Order merged with the Sons of Poland, of Carlstadt New Jersey with an effective date of January 1, 2016. The merger was approved by both the Division and the New Jersey Insurance Department. Refer to the Subsequent Events section for more detail.

Refund to Members

Certificate holders are entitled to share in the distribution of surplus, if any, as determined by the Order annually. Any share of such surplus is distributed as refunds. Refunds to members for the past three years as reported in the Order's Annual Statement are shown below:

<u>2012</u>	<u>2013</u>	<u>2014</u>
\$178,867	\$178,083	\$179,560

MANAGEMENT AND CONTROL

Supreme Council Minutes

The minutes of meetings of the Supreme Council and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Order's Constitution and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at the Biennial meeting of the Supreme Council.

Constitution and General Laws

The Constitution and Laws of the Order were reviewed. There were no changes to the Constitution or Laws of the Order since the prior examination.

Supreme Council

The Constitution provides that the Supreme Council shall be composed of its elective Officers, representatives from the Grand Council, Past Supreme Regents, Life Members of the Executive Committee, and members who have served thirty or more years in the Supreme Council, provided that they remain in good standing in their Subordinate Council and provided further that no member who is a full-time paid representative of the Field, Promotion, or Council Service Department shall be eligible for membership in such Supreme Council.

At December 31, 2014, the surviving Past Supreme Regents were:

Edward A. Vicinanza	James E. O'Neill	William J. Wire
Joyce A. Crawford	Cynthia A. Macon	Carol A. Zavitz
Robert H. Law III	August Magnotta	Peter D. Ferrara
Donald G. Foley	Hebert J. Snyder	

Supreme Council of the Royal Arcanum

At December 31, 2014, those members of the Order who served as Life Members of the Supreme Council were Joseph R. Macon, Joseph J. Radecki, Sr., Donald G. Foley, Robert H. Law III, Genevieve A. Macon and Edward A. Vicinanza.

Executive Committee

The Supreme Regent, Supreme Vice Regent, Supreme Orator, Sitting Past Supreme Regent, Supreme Secretary, the elective members to be selected from any of the members who compose the Supreme Council and Life Members of the Executive Committee, shall constitute a standing committee to be known as the Executive Committee. Such Executive Committee shall elect from its membership a Chairman who shall appoint all sub-committees and is an ex-officio member thereof and shall appoint a member of the Order to act as Recording Secretary thereof.

Members of the Executive Committee of the Order as of December 31, 2014 were as follows:

<u>Name of Member</u>	<u>Title</u>
Carl J. Krzystofczyk	Supreme Regent
Errica Conforto	Supreme Vice Regent
Deborah L. Young	Supreme Orator
Peter D. Ferrara	Sitting Past Supreme Regent
Kenneth J. Kolek	Supreme Secretary
James E. O'Neill	Chairman, Elective Member
Cynthia A. Macon	Elective Member
Janice S. Brazas	Elective Member
Thomas J. Bayliss	Elective Member

Officers

The elective Officers of the Supreme Council are Supreme Regent, Supreme Vice Regent, Supreme Orator, Sitting Past Supreme Regent, Supreme Secretary, Supreme Treasurer, Supreme Auditor, who is also Chairman of the Committee on Finance, Supreme Chaplain, Supreme Guide, Supreme Warden, Supreme Sentry, four elective members of the Executive Committee, three members of the Committee on Laws, two additional members of the Committee on Finance, four Supreme Trustees, four members of the Committee on Juniors, and four members of the Committee on Appeals. Officers are elected to serve for a term of two years or until their respective successors are elected or installed.

At December 31, 2014, in addition to the four Elective Members of the Executive Committee named above, the Officers of the Order are:

Supreme Council of the Royal Arcanum

<u>Name of Officer</u>	<u>Title</u>
Carl J. Krzystofczyk	Supreme Regent
Errica Conforto	Supreme Vice Regent
Deborah L. Young	Supreme Orator
Peter D. Ferrara	Sitting Past Supreme Regent
Kenneth J. Kolek	Supreme Secretary
John D. Crisanti	Supreme Treasurer
Joseph R. Macon	Supreme Auditor
Richard Macon	Supreme Chaplain
David W. Covelli	Supreme Guide
Robert A. Galdon, Jr.	Supreme Warden
Louise Reynolds	Supreme Sentry

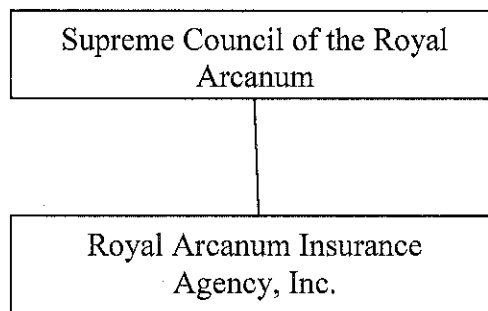
Affiliated Companies

The Order is the sole owner of an insurance agency, Royal Arcanum Insurance Agency, Inc., which was incorporated in January 2000 as a for profit entity.

In addition, the Order subsidizes Royal Arcanum Scholarship Fund, Inc., a not-for-profit foundation incorporated on November 15, 2004. The board is composed of the Supreme Regent Carol Krzystofczyk, Supreme Secretary Kenneth Kolek and Supreme Treasurer John Crisanti.

Organizational Chart

The corporate organization of which the Order was the uppermost controlling entity at December 31, 2014 is represented as follows:



Transactions and Agreements with Subsidiaries and Affiliates

There are no agreements between the Order and its subsidy, Royal Arcanum Insurance Agency, Inc. Nor are there any agreements between the Order and Royal Arcanum Scholarship Fund, Inc.

TERRITORY AND PLAN OF OPERATION

The Order operates as a fraternal benefit society on the lodge system with a representative form of government. Presently, there are 141 lodges, 17 of which are from the Association of Lithuanian Workers, 3 from the Ukrainian Fraternal Association and 15 from ACA Assurance. As of December 31, 2011, lodges totaled 146 and as of December 31, 2008, there were 210.

The Order is licensed in 25 states, the District of Columbia, and has limited licenses in 3 states. They are also licensed in the Canadian provinces of Ontario, Quebec and Manitoba. The largest numbers of insurance risks are written in Massachusetts, New York and Connecticut. The Order uses independent agents and members to sell life, accident and health, pre need and annuities in these states. The Order reported \$3.4 million in 2014 for direct premium written in Massachusetts.

Treatment of Policyholders – Market Conduct

Procedures performed in conjunction with the claims test work indicated that the Order investigates and settles claims on a timely and equitable basis.

REINSURANCE

Assumed Reinsurance

The pre need business that was acquired from ACA Assurance in 2011 was treated as reinsurance assumed, but as of 2014 it was absorbed by the Order's reserve.

Ceded Reinsurance

The Order participates in several reinsurance agreements with Swiss Re; there is a net retention of \$100,000. As a result of the acquisition of ACA the Order took over their reinsurance agreements. The following is a brief summary of the ACA reinsurance agreements.

Reinsurer	Business Covered	Retention
Swiss Re	Individual Life and Waiver of Premium Disability	\$35,000
Swiss Re	Individual Life and Waiver of Premium Disability on Form 53 and Form 53-R1	\$100,000
RGA	Term 100 simplified issue	25% up to a maximum of \$25,000
Optimum	In-force policies issued between January 1, 1996 to December 31, 2006	50%
RGA	Accidental Death	0%
Optimum	Ordinary Life	\$50,000
Optimum	10 yr R&C Increasing Benefit Term	50%

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Order with the Division and present the financial condition of the Order for the period ending December 31, 2014. The financial statements are the responsibility of management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2014

Statement of Income for the Year Ended December 31, 2014

Reconciliation of Capital and Surplus for Each Year in the Three-Year Period Ended December 31, 2014

Supreme Council of the Royal Arcanum

Statement of Assets, Liabilities, Surplus and Other Funds As of December 31, 2014

	Per Annual Statement
ASSETS	
Bonds	\$ 91,503,849
Preferred stocks	1,432,490
Common stock	5,534,224
Mortgage loans - First liens	27,264
Real estate- Properties held for production of Income	171,877
Cash, cash equivalents and short-term investments	1,254,469
Contract loans	4,353,739
Subtotals, cash and invested assets	<u>104,277,912</u>
Investment income due and accrued	1,402,531
Uncollected premiums and agents' balances	6,000
Electronic data processing equipment	<u>35,707</u>
Total Assets	<u><u>\$ 105,722,150</u></u>

Supreme Council of the Royal Arcanum

Statement of Assets, Liabilities, Surplus and Other Funds (Continued) As of December 31, 2014

	Per Annual Statement
LIABILITIES	
Aggregate reserve for life contracts	\$ 87,680,959
Aggregate reserve for accident and health contracts	135,740
Liability for deposit-type contracts	1,968,999
Contract claims Life	214,830
Provisions for refunds payable in following calendar year-estimated amounts: Not yet apportioned	175,000
Premiums and annuity considerations for life and accident and health contracts received in advance	108,004
Interest Maintenance Reserve	238,618
General expenses due and accrued	8,790
Taxes, licenses and fees	91
Asset valuation reserve	1,180,068
Aggregate write-ins	293,188
Total Liabilities	<u>92,004,287</u>
Unassigned funds (surplus)	<u>13,717,863</u>
Surplus as regards policyholders	<u>13,717,863</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$ 105,722,150</u></u>

Supreme Council of the Royal Arcanum

Statement of Income For the Year Ended December 31, 2014

	Per Annual Statement
Premiums and annuity considerations for life and accident and health contracts	\$ 6,991,327
Net Investment Income	5,139,778
Amortization of Interest Maintenance Reserve	112,139
Aggregate write-ins for miscellaneous income	250,000
Totals	<u>12,493,244</u>
Death benefits	3,900,648
Matured endowments	71,976
Annuity benefits	2,403,317
Disability benefits and benefits under accident and health contracts	1,650
Surrender benefits and withdrawals for life contracts	1,090,665
Interest and adjustments on contract or deposit-type contracts funds	64,388
Payments on supplementary contracts with life contingencies	13,797
Increase in aggregate reserve for life and accident and health contracts	<u>1,268,422</u>
Total	8,814,863
Commissions on premiums, annuity considerations and deposit-type contract funds	536,270
General insurance expenses and fraternal expenses	2,900,717
Insurance taxes, licenses and fees	134,989
Increase in loading on deferred and uncollected premiums	<u>(517)</u>
Total	<u>12,386,322</u>
Net gain from operations before refund to members	106,922
Refunds to members	<u>179,560</u>
Net gain from operations after refund to members and before realized capital gains	(72,638)
Net realized capital gains	<u>95,585</u>
Net Income	<u><u>\$ 22,947</u></u>

Supreme Council of the Royal Arcanum

Reconciliation of Capital and Surplus For Each Year in the Three-Year Period Ended December 31, 2014

	2014	2013	2012
Surplus as regards policyholders, December 31, prior year	\$ 14,356,971	\$ 14,226,304	\$ 14,458,681
Net income/(loss)	22,947	(141,310)	(244,841)
Change in net unrealized capital gains or (losses) less capital gains tax	44,699	1,188,778	266,088
Change in net unrealized foreign exchange capital gain(loss)	(919,473)	(873,653)	362,207
Change in non-admitted assets	19,533	(9,401)	(16,895)
Change in reserve on account of change in valuation basis	320,096	53,259	(537,013)
Change in asset valuation reserve	(129,353)	(88,986)	(60,546)
Aggregate write-ins for gains and losses in surplus	2,443	1,980	(1,377)
Change in surplus as regards policyholders for the year	<u>(639,108)</u>	<u>130,667</u>	<u>(232,377)</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 13,717,863</u>	<u>\$ 14,356,971</u>	<u>\$ 14,226,304</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE
EXAMINATION**

There have been no changes made to the financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Summary of Loss and Loss Adjustment Expenses Reserves ("Loss and LAE Reserves")

The Order's Actuarial Opinion is prepared by CPS Actuaries. CPS's report concluded that the Order's carried reserves make a reasonable provision for all unpaid loss obligations as of December 31, 2014. In the Statement of Actuarial Opinion, the appointed actuary concluded that, in his opinion, the amounts carried in the balance sheet on account of actuarial items for the Order:

- (i) are computed in accordance with presently accepted actuarial standards of practice and actuarial compliance guidelines that specifically relate to the opinion required under Section 95.8 of New York Insurance Department Regulation 126 and a Section 8 opinion under the Model Regulation (to the extent that the guidelines are not inconsistent with that section), consistently applied, and are fairly stated in accordance with sound actuarial principles,
- (ii) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions,
- (iii) meet the requirements of the insurance laws and regulations of the state of Massachusetts, and are at least as great as the minimum aggregate amounts required by the state of New York and by the state in which this statement is filed,
- (iv) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end, and
- (v) include provision for all actuarial reserves and related statement items which ought to be established.

SUBSEQUENT EVENTS

As of January 2016, Royal Arcanum merged with the Sons of Poland where Royal Arcanum will be the surviving company. This will add to the Order 3,421 certificates covering 2,531 members. The Order acquired all life business with a face amount of \$7,636,749. The Order will receive approximately \$994,046 of unassigned funds from Sons of Poland and potentially \$4,354,813 of assets for this business.

SUMMARY OF RECOMMENDATIONS


Massachusetts General Law Chapter 176, Section 40, states that a Society may invest in stocks up to 25% of the excess of admitted assets over liabilities. It was determined that the Order owns in excess of this amount.

The Order shall comply with M.G.L. Chapter 176, Section 40. This was a recommendation made in the 2005, 2008 and 2011 examination reports.

Supreme Council of the Royal Arcanum

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Order during the examination.



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