



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, 2020

NAIC GROUP CODE 000

NAIC COMPANY CODE 58181

EMPLOYER ID NUMBER 04-1885430

THE SUPREME COUNCIL OF THE ROYAL ARCANUM

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COMMONWEALTH OF MASSACHUSETTS
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May 18, 2022

The Honorable Gary D. Anderson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
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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

THE SUPREME COUNCIL OF THE ROYAL ARCANUM

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

SCOPE OF EXAMINATION

The Supreme Council of the Royal Arcanum (“Order”) was last examined as of December 31, 2017, 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, 2018, through December 31, 2020, 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 current and prospective risks of the Order by obtaining information about the Order, including corporate governance, identifying and assessing inherent risks within the Order, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities of the Order 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 Order’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 Order.

The Order is audited annually by Moody, Famiglietti & Andronico, LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Order’s financial statements for calendar years 2018 through 2020. 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

There were no significant findings during the previous examination and there are no significant findings related to the current examination.

HISTORY

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 the U.S. business from ACA Assurance ("ACA"), except for pre-need policies. ACA 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. 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.

In December of 2015, the Order merged with the Association of the Sons of Poland (“SOP”), of Carlstadt, New Jersey with an effective date of January 1, 2016. The SOP transferred assets of \$4,359,000 and liabilities of \$3,436,000; this added approximately \$920,000 to the Order’s surplus. It also added 3,297 certificates and 2,341 members to the Order. The merger was approved by both the Division and the New Jersey Insurance Department.

MANAGEMENT AND CONTROL

Supreme Council Minutes

The minutes of meetings of the Order 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 2018 Biennial meeting of the Order. Due to the COVID-19 Pandemic a Supreme Council Session was not held in 2020 or 2021.

Constitution and General Laws

The Constitution and Laws of the Order were reviewed. During the exam period there were no changes to the Constitution.

Supreme Council

The Constitution provides that the Order 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 Order, 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, 2020, the surviving Past Supreme Regents were:

Joyce A. Crawford
James E. O’Neill
Cynthia A. Macon
August Magnotta

Herbert J. Snyder
William J. Wire
Carol A. Zavitz
Peter D. Ferrara

Carl J. Krzystofczyk
Errica Conforto
Deborah Young

At December 31, 2020, those members of the Order who served as Life Members of the Supreme Council were Joseph R. Macon, Genevieve A. Macon, August Magnotta, Paul D’Emilio, Herbert Snyder, Kenneth Kolek, William Wire and Louise Reynolds.

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 Order 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, 2020, were as follows:

<u>Name of Member</u>	<u>Title</u>
Maria Bettina DiBartolo	Acting Supreme Regent and Supreme Vice Regent
Nicole Covelli	Supreme Orator
Errica Conforto	Sitting Past Supreme Regent
Peter D. Ferrara	Supreme Secretary
James E. O'Neill	Chairman, Elective Member
Cynthia A. Macon	Elective Member
Janice S. Brazas	Elective Member
Carl J. Krzystofczyk	Elective Member

Officers

The elective Officers of the Order 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.

Due to COVID 19 there was no Supreme Council Session in 2020. The Executive Committee voted in April 2020 that all Supreme Council Officers shall remain in effect until the next regularly scheduled election in 2022.

The Supreme Council of the Royal Arcanum

At December 31, 2020, in addition to the four Elective Members of the Executive Committee named above, the Officers of the Order are:

<u>Name of Officer</u>	<u>Title</u>
Maria Bettina DiBartolo*	Acting Supreme Regent and Supreme Vice Regent
	Supreme Vice Regent
Nicole Covelli	Supreme Orator
Errica Conforto	Sitting Past Supreme Regent
Peter D. Ferrara	Supreme Secretary
Kenneth J. Koleck	Supreme Secretary Emeritus
John D. Crisanti	Supreme Treasurer
Joseph R. Macon	Supreme Auditor
Evelyn Magarban	Supreme Chaplain
David W. Covelli	Supreme Guide
Robert A. Galdon, Jr.	Supreme Warden
Mark Hefner	Supreme Sentry

* Deborah Young served as Supreme Regent from 2018 to April 2020. In April 2020 she left office and Maria Bettina DiBartolo became Acting Supreme Regent.

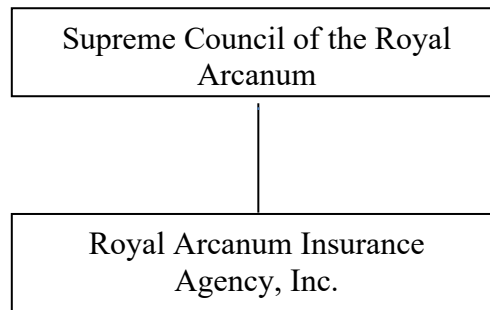
Affiliated Companies

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. No transactions have occurred since the inception of the agency.

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 Acting Supreme Regent Maria Bettina DiBartolo, Supreme Secretary Peter Ferrara and Supreme Treasurer John Crisanti.

Organization Chart

The corporate organization of which the Order was the uppermost controlling entity on December 31, 2020, is represented as follows:



Transactions and Agreements with Subsidiaries and Affiliates

There are no agreements between the Order and its subsidiary, 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 147 lodges, 4 of which are from the Association of Lithuanian Workers, 3 from the Ukrainian Fraternal Association, 6 from ACA Assurance and 2 from the Association of the Sons of Poland.

The Order is licensed in 30 states, the District of Columbia, and in the Canadian provinces of Ontario, Quebec, and Manitoba. The largest numbers of insurance risks are written in Massachusetts, New York, and California. The Order uses independent agents and members to sell life, pre-need, and annuities in these states. In 2021 they stopped writing pre-need and term life business. Medical supplement is currently sold in 10 states with plans to become licensed in additional states. The Order reported \$2.239 million in 2020 for direct premium written in Massachusetts.

Treatment of Members – Market Conduct

During the course of the examination, a general review was made of the manner in which the Order conducts its business practices and fulfills its contractual obligations to members and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination.

REINSURANCE

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:

- Automatic Reinsurance Agreement with North American (now Swiss Re). Covers Individual Life and Waiver of Premium Disability Insurance. Retention is \$35,000.
- Automatic Reinsurance Agreement with North American (now Swiss Re). Covers Individual Life and Waiver of Premium Disability Insurance on Term Life Insurance certificates. Retention \$35,000.
- Term 100 simplified issue with RGA. Retention is 25% up to a maximum of \$25,000 & Accidental Death coverage with \$0 Retention.
- In force policies issued between January 1, 1996 to December 31, 2006 with a retention of 50% with Optimum.
- Optimum Reinsurance provides coverage for Ordinary Life with retention of \$50,000.
- Optimum Reinsurance provides coverage for 10 yr. R&C Increasing Benefit Term with retention of 50%.
- RGA Reinsurance provides Accidental Death with retention of 0%.

Effective March 31, 2021, SCRA recaptured the policies ceded under the Automatic Reinsurance Agreements with North American (Swiss Re).

In 2020 the Order entered into an agreement with Mutual of Omaha to reinsure 95% of the medical supplement business. This percentage may be changed by the Order in the future based on their experience with the business.

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, 2020. The financial statements are the responsibility of the Order's management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2020

Statement of Income for the Year Ended December 31, 2020

Reconciliation of Capital and Surplus for Each Year in the Three-Year Period Ended December 31, 2020

Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2020

	Per Annual Statement
Assets	
Bonds	\$ 97,412,689
Preferred stocks	288,012
Common stocks	2,525,468
Real estate:	
Properties held for the production of income	136,561
Cash, cash equivalents and short-term investments	1,830,029
Contract loans	4,417,994
Subtotals, cash and invested assets	<u>106,610,753</u>
Investment income due and accrued	1,372,726
Premiums and considerations :	
Uncollected premiums and agents' balances	12,185
Electronic data processing equipment and software	24,786
Total assets	<u><u>\$ 108,020,450</u></u>

Statement of Assets, Liabilities, Capital and Surplus (Continued)
As of December 31, 2020

	Per Annual Statement
Liabilities	
Aggregate reserve for life contracts	\$ 92,577,262
Aggregate reserve for accident and health contracts	94,584
Liability for deposit type contracts	1,571,267
Contract claims: Life	559,000
Accident and Health	700
Provisions for refunds payable in following calendar year-estimated amounts:	
Not yet apportioned	120,000
Premiums received in advance	103,534
Contract liabilities not included elsewhere:	
Interest maintenance reserve	99,911
General expenses due or accrued	37,110
Miscellaneous liabilities :	
Asset valuation reserve	1,280,764
Aggregate write-ins for liabilities	
Degree fees and dues	278,458
Real estate-security deposit	35,983
Unpaid claims	21,945
Commissions held on deposit	(15,852)
Total liabilities	<u>96,764,666</u>
Unassigned funds (surplus)	<u>11,255,784</u>
Total capital and surplus	<u>11,255,784</u>
Total liabilities capital, and surplus	<u>\$ 108,020,450</u>

Statement of Income
For the Year Ended December 31, 2020

	Per Annual Statement
Premium and annuity considerations for life and accident and health contracts	\$ 6,093,795
Net investment income	4,883,053
Amortization of Interest Maintenance Reserve	98,480
Miscellaneous income:	
Aggregate write ins for miscellaneous income	
Forgiven PPP Loan	300,000
Totals	<u>11,375,328</u>
Death benefits	5,835,073
Matured endowments	126,793
Annuity benefits	2,110,381
Disability benefits and benefits under accident and health contracts	2,976
Surrender benefits	987,608
Interest and adjustments on contract or deposit-type contract funds	59,158
Payments on supplementary contracts with life contingencies	4,905
Increase in aggregate reserve for life and accident and health contracts	<u>(940,294)</u>
Totals	<u>8,186,600</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	695,461
General insurance expenses and fraternal expenses	2,658,181
Insurance taxes, licenses and fees	162,922
Increase in loading on deferred and uncollected premiums	<u>(102)</u>
Totals	<u>11,703,062</u>
Net gain (loss) from operations before refunds to members	(327,734)
Refunds to members	<u>115,534</u>
Net gain from operations after refunds to members and before realized capital gains (losses)	(443,268)
Net realized capital gains (losses)	<u>192,252</u>
Net income (loss)	<u>\$ (251,016)</u>

Reconciliation of Capital and Surplus
For Each Year in the Three Year Period Ended December 31, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Surplus as regards policyholders, December 31 prior year	\$ 12,138,440	\$ 11,622,137	\$ 12,418,848
Net loss	(251,016)	(750,115)	(45,424)
Change in net unrealized capital gains(losses)	(361,203)	1,495,508	(1,025,695)
Change in net unrealized foreign exchange capital gain (loss)	285,913	483,924	(707,115)
Change in nonadmitted assets	(468,478)	3,422	(14,598)
Change in reserve on account of change in valuation basis (increase) or decrease	(85,733)	(179,619)	339,451
Change in asset valuation reserve	(5,059)	(536,793)	667,699
Aggregate write-ins for gains and losses in surplus:			
Change in net unrealized foreign exchange liabilities	<u>2,920</u>	<u>(24)</u>	<u>(11,029)</u>
Net change in surplus for the year	<u>(882,656)</u>	<u>516,303</u>	<u>(796,711)</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 11,255,784</u>	<u>\$ 12,138,440</u>	<u>\$ 11,622,137</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes in the financial statements resulting from the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

Summary of Loss and Loss Adjustment Expenses Reserves (“Loss and LAE Reserves”)

The Order’s Actuarial Opinion is prepared by CPS Actuaries (“CPS”). In the Statement of Actuarial Opinion, the appointed actuary concluded that, in his opinion, the reserve and related actuarial items of the Order:

- a. are computed in accordance with presently accepted Actuarial Standards of Practice (ASOP) consistently applied and are fairly stated, in accordance with sound actuarial principles.
- b. are based on assumptions and methods that 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,
- c. 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 in which this Society is licensed, with the exception of the State of New York. A separate statement of actuarial opinion was submitted to the State of New York that complies with their requirements.
- d. are computed on the basis of assumptions and methods consistent with those used in computing the corresponding items in the annual statement of the preceding year-end.
- e. include provision for all actuarial reserves and related statement items that ought to be established.

The reserves and related actuarial items make adequate provision according to presently accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the Order.

SUBSEQUENT EVENTS

Products

Effective March 31, 2021, the pre-need product was discontinued. On December 31, 2021, the term life product was discontinued.

SIGNATURE PAGE

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

The assistance rendered by the following Division examiners participating in this examination is acknowledged.

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