



**THE 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, 2008

N.A.I.C. GROUP CODE 000

N.A.I.C. SOCIETY CODE 58181

EMPLOYER ID NUMBER 04-1885430

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Status of Findings from the Prior Examination	3
History	3
General	3
Growth of the Order	5
Management	5
Biennial Meeting	5
Supreme Council	5
Executive Committee	6
Committees	7
Officers	8
Conflict of Interest Procedure	8
Corporate Records	9
Constitution, Rules, and General Laws	9
Disaster Recovery and Business Continuity	9
Minutes of Meetings	9
Affiliated Companies	9
Organization Chart	9
Transactions and Agreements with Subsidiaries and Affiliates	10
Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance	10
Fidelity Bonds and Other Insurance	10
Pension and Insurance Plans	10
Statutory Deposits	11
Territory and Plan of Operation	11
Insurance Products and Related Practices	12
Insurance Products	12
Refunds to Members	12
Claim Settlement Practices	12
Reinsurance	12
Ceded Reinsurance	12
Accounts and Records	13
Financial Statements	13
Statement of Assets, Liabilities, Surplus & Other Funds	14
Summary of Operations	16
Reconciliation of Capital and Surplus	17
Notes to Financial Statements	18
Comments and Recommendations	19
Acknowledgement	20



COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

1000 Washington Street, Suite 810 • Boston, MA 02118-6200

(617) 521-7794 • FAX (617) 521-7771

TTY/TDD (617) 521-7490

<http://www.mass.gov/doi>

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

BARBARA ANTHONY
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

March 29, 2010

The Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee, NAIC
Commissioner of Insurance
The Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
Post Office Box 1157
Richmond, Virginia 23218

The Honorable Paulette J. Thabault
Secretary, Northeastern Zone, NAIC
Commissioner of Insurance
The State of Vermont
Department of Banking, Insurance,
Securities, & Health Care Administration
89 Main Street
Montpelier, Vermont 05602-3101

The Honorable Joseph G. Murphy
Commissioner of Insurance
The Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Honorable Commissioners:

Pursuant to your instructions and in accordance with Massachusetts General Law ("MGL"), 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, 2005, by the Massachusetts Division of Insurance (“Division”). The current association plan examination also was conducted by the Division and it covers the period from January 1, 2006, through December 31, 2008, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

The examination was conducted in accordance with standards and procedures established by the Financial Condition (E) Committee of the National Association of Insurance Commissioners (“NAIC”) and prescribed by the current NAIC Financial Condition Examiners Handbook, the examination standards of the Division, and Massachusetts General Laws. The principal focus of the examination was activity for the period ended December 31, 2008; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

In addition to a review of the financial condition of the Order, the examination included a review of the Order’s business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees’ pension and benefits plans, disaster recovery plan, treatment of policyholders, and other pertinent matters to provide reasonable assurance that the Order was in compliance with applicable laws, rules, and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk, and examination efforts were directed accordingly.

The Order is audited annually by Vision Financial Group CPAs, LLP (“Vision”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Order’s financial statements for the calendar years 2006 through 2008. Review and use of Vision’s workpapers were made to the extent deemed appropriate and effective.

The Order uses the services of CPS Actuaries, an independent consulting actuarial firm, to determine the Order’s reserves and to prepare and issue annually a Statement of Actuarial Opinion.

An evaluation of the adequacy and effectiveness of controls over information systems was done by the Division staff to determine the level of reliance to be placed on summary information generated by the data processing systems.

For a summary of findings contained within this Report, refer to the Comments and Recommendations Section on Page 19 of this Report.

Status of Findings from the Prior Examination

This examination included a review to verify the current status of exception conditions commented upon in the Report of Examination as of December 31, 2005. The Report of the Examination as of December 31, 2005, noted the following exception conditions:

1. It was recommended that the minutes of the Executive Committee record the Committee's action when it votes in accordance with the Order's Constitution to approve a change to the date of the Supreme Council biennial session.
2. It was recommended that the Order observe more closely its compliance with investment limitations specified in Section 40 of MGL Chapter 176.
3. It was recommended that the Order increase its fidelity bond coverage to at least the suggested minimum amount of NAIC guidelines.
4. It was recommended that due to the extent of its resources in Canadian operations, the Order discontinue its practice of making a single line adjustment for amassed foreign exchange rates in its annual statements and comply with NAIC SSAP #23 by reporting all amounts in its annual statements in United States dollars only.
5. It was recommended that the Order develop, document, and test a formal written policy for disaster recovery and business continuity.

The current examination noted that since the time of the prior Report, the Order has addressed all of the above-cited items but was still in the process of bringing its portfolio of investments in line with the limitations of statute as cited.

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 Constitution, 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 in the Dominion of Canada. As qualification for admission to membership in the Royal Arcanum, an applicant must be a person of good moral character, a believer in a Supreme Being, and over the age of sixteen years; however, beginning in 2009, the minimum age for membership is attainment of the age of eighteen years.

The objectives of the Order are:

- (1) to unite fraternally all eligible persons of sound bodily health and good moral standing who are socially acceptable and between sixteen and sixty-nine years of age in the Adult Department and from birth to fifteen years of age in the Junior Department (effective 2009, these ages have been changed to between eighteen and eighty-five years of age in the Adult Department and from birth to seventeen years of age in the Junior Department);
- (2) to give moral and material aid in its power to its members and those dependent upon them;

- (3) to educate the members socially, morally, and intellectually, and to assist the families of deceased members;
- (4) to establish funds for the payment of disability, old age and death benefits, of educational loans, and of annuities;
- (5) to establish, support, and maintain charitable institutions; and
- (6) to provide juvenile protection for children and to issue certificates of insurance thereon from birth to sixteen years of age (effective in 2009, these ages are from birth through seventeen years of age).

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 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 from the Order, charitable donations, and unclaimed property from 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.

During 2008, the Order was involved in negotiations with ACA Assurance ("ACA"), a fraternal benefit society domiciled in the State of New Hampshire, whereby the Order would assume certain life, disability, and annuity business of ACA which was estimated to be in excess of \$22.0 million, covering approximately 13,000 members. On September 8, 2008, the Superior Court of New Hampshire placed ACA in rehabilitation. In the first quarter of 2009, Order successfully assumed such business.

SUPREME COUNCIL OF THE ROYAL ARCANUM

Growth of the Order

The growth of the Order from the years 2005 through 2008 is indicated in the following schedule which was prepared from information in the Order's Annual Statements:

Year	Admitted Assets	Total Liabilities	Unassigned Funds	Insurance In Force	Number of Life Certificates
2008	\$ 60,000,355	\$ 49,351,570	\$ 10,648,785	\$ 217,841,000	15,497
2007	67,056,582	51,607,266	15,449,316	215,706,000	15,114
2006	66,665,460	52,166,873	14,498,587	215,703,000	15,335
2005	63,379,491	50,026,408	13,353,083	205,889,000	15,499

MANAGEMENT

Biennial Meeting

The Constitution and Laws of the Order stipulate that the Supreme Council shall meet biennially in even numbered years on the first Tuesday following the first Monday in September at such place as may be selected by the Executive Committee; however, the Executive Committee is authorized to call by a two-thirds affirmative vote of its membership a regular meeting of the Supreme Council in any odd numbered year, provided that such meeting shall be held in some state, province, or territory wherein a Grand Council or Subordinate Council is established, or as otherwise provided by Massachusetts laws, and provided that if the Executive Committee deems it expedient to change the time for holding a Supreme Council meeting, the Executive Committee or majority of the Executive Committee may select another time.

Two meetings of the Supreme Council were held in the examination period; the ninety-eighth Session of the Supreme Council was held in August of 2006 in Florida and the ninety-ninth Session of the Supreme Council was held in August of 2008 in Illinois.

Per the Order's Constitution and Laws, one-third of the entire membership of the Supreme Council shall constitute a quorum, but less than one-third may adjourn to meet at a future specified time. Minutes of the meetings document that a quorum was obtained at each of the biennial sessions. Supreme Council decisions on all appeals taken to it from Grand Councils and Subordinate Councils by such Councils or by members of the Order shall be final.

Supreme Council

The Constitution provides that the Supreme Council shall be composed of its elective officers, representatives from Grand Councils, 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 Departments shall be eligible for membership in such Supreme Council.

SUPREME COUNCIL OF THE ROYAL ARCANUM

At December 31, 2008, the surviving Past Supreme Regents were:

Harold Joseph Hepford *	Robert Herman Law, III	Cynthia Ann Macon
Edward Anthony Vicinanza	Donald Gerard Foley	August Magnotta
Joyce Audrey Crawford	James Edward O'Neill	Herbert J. Snyder

* Due to ill health, Mr. Hepford no longer participates actively in the Order.

At December 31, 2008, those members of the Order who served as Life Members of the Supreme Council were James B. Kilsheimer, III, Joseph R. Macon, and Joseph J. Radecki, Sr.; however, Mr. Kilsheimer passed away in November 2009.

Executive Committee

The Order has an Executive Committee which functions analogously to a board of directors or a board of trustees. Per the Order's Constitution, the Executive Committee, in the absence of specific direction of the Supreme Council and its laws and when the Supreme Council is not in session, shall direct the policy of the Order and it shall have the powers of directors as applicable to fraternal benefit societies under Massachusetts law. 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. The 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.

At December 31, 2008, the nine (9) actively serving members of the Executive Committee, with their business or professional affiliations and residential addresses, were the following:

<u>Name of Director</u>	<u>Business Affiliation</u>	<u>Residence</u>
Kenneth Joseph Kolek Chairman of the Committee	Supreme Secretary; Business Executive, Retired, Lieutenant Colonel, Retired, U.S. Army	Pawtucket, Rhode Island
William James Wire	Supreme Regent; Administrator, Retired, Union Health and Pension Fund	Norridge, Illinois
Carol Ann Zavitz *	Supreme Vice Regent; Supervisor, Retired, A & P Food Stores	Windsor, Ontario
Peter Ferrara *	Supreme Orator; Senior Systems Analyst, Retired, Conrail	Philadelphia, Pennsylvania
Rev. Dr. Herbert J. Snyder	Sitting Past Supreme Regent; Ordained Pastor, United Methodist Church	Philadelphia, Pennsylvania
James Edward O'Neill	Elective Member of Executive Committee; Supervisor, Retired, International Business Machines	San Jose, California

SUPREME COUNCIL OF THE ROYAL ARCANUM

<u>Name of Director</u>	<u>Business Affiliation</u>	<u>Residence</u>
Donald Gerard Foley	Elective Member of Executive Committee; Insurance Executive, Retired	Lake Worth, Florida
Cynthia Ann Macon	Elective Member of Executive Committee; Medical Laboratory Technician	Bayonne, New Jersey
Rosella Hannah Berger *	Elective Member of Executive Committee; School Teacher, Retired	West Orange, New Jersey

* Newly elected to the Executive Committee since the prior examination.

Chairman and Supreme Secretary Kenneth Kolek also serves as a Director and an Officer of the Agency as well as a Director and Officer of the Fund.

Committees

Management of the Order is achieved through the Constitution and Laws of the Order which define the establishment, powers, and duties of five standing committees and which allow numerous other special committees or sub-committees as may be required. At December 31, 2008, the standing committees of the Order with their respective membership were:

<u>COMMITTEE</u>	<u>MEMBERSHIP</u>
Executive Committee:	noted above
Committee on Laws:	Paul F. D'Emilio James B. Kilsheimer, III Antal Basa, Jr.
Committee of Finance:	Joseph R. Macon Albert Sausto Ralph Ferrara
Committee on Appeals:	Harold E. Estes Ethel Reitsema B. Joe Merrill Janice Brazas
Committee on Juniors:	Donald E. Ferry, Jr. Genevieve A. Macon Edwin Calain Errica Conforto

Among its many duties and powers, the Executive Committee may act on behalf of the Order in the negotiations, purchasing, holding, or sales of securities for investment, and it may direct the execution and delivery of all necessary instruments by and through a sub-committee from its own members authorized for that purpose - such sub-committee is the "Committee on

SUPREME COUNCIL OF THE ROYAL ARCANUM

Investments”. At December 31, 2008, the Committee on Investments was composed of Chairman of the Executive Committee and Supreme Secretary Kenneth Kolek, Supreme Regent William Wire, and Executive Committee Elective Member Donald Foley.

Additionally, four elective officers are designated “Supreme Trustees” who individually or collectively perform duties as may be assigned to them by the Supreme Council or the Executive Committee. At December 31, 2008, the Supreme Trustees were Gilles Bedard, Louis Brill, Carl Krzystofczyk, and Diane Calain.

Officers

The elective officers of the Supreme Council are Supreme Regent, Supreme Vice-Regent, Supreme Orator, Sitting Past Supreme Regent, Supreme Auditor who also is Chairman of the Committee on Finance, Supreme Secretary, Supreme Treasurer, 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, 2008, in addition to the four Elective Members of the Executive Committee named above, Officers of the Order were:

<u>Name of Official:</u>	<u>Title:</u>
William J. Wire	Supreme Regent
Carol A. Zavitz	Supreme Vice-Regent
Peter Ferrara	Supreme Orator
Herbert J. Snyder	Sitting Past Supreme Regent
Kenneth J. Kolek	Supreme Secretary
John D. Crisanti	Supreme Treasurer
Joseph R. Macon	Supreme Auditor
Donald E. Ferry, Sr.	Supreme Chaplain
David Covelli	Supreme Guide
Robert A. Galdon, Jr.	Supreme Warden
Louise Reynolds	Supreme Sentry
James B. Kilsheimer, III	Senior Counsel
Paul F. D’Emilio	General Counsel

Conflict of Interest Procedure

In support of its answer to Question 16 of Part 1 - Common Interrogatories of its 2008 Annual Statement, the Order does have an established procedure for the reporting of any material interest or affiliation on the part of any officer or director or responsible employee which is in or is likely to conflict with his/her official duties. Annually each officer, director, and responsible employee

SUPREME COUNCIL OF THE ROYAL ARCANUM

is required to complete a questionnaire disclosing any material conflict of interests. The completed questionnaires were reviewed and no discrepancies were noted.

CORPORATE RECORDS

Constitution, Rules, and General Laws

The Constitution and Laws of the Order were read. Only one change was made since the prior examination and it was properly approved.

Disaster Recovery and Business Continuity

The bylaws of the Order were read and were found to contain specific provision for the succession of directors and officers in event of an emergency.

Minutes of Meetings

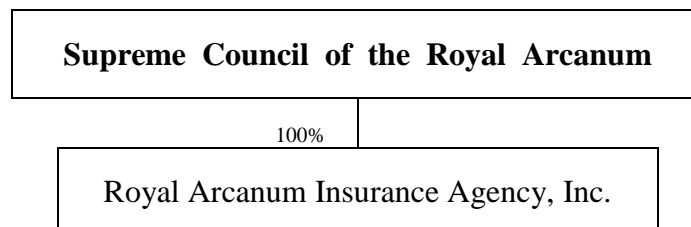
The minutes of meetings of the Executive Committee and of other Committees for the period under examination were read and they indicated that meetings were held in accordance with the Order's Constitution and the Laws of the Commonwealth of Massachusetts. Activities of the various Committees were ratified at meetings of the Executive Committee.

AFFILIATED COMPANIES

The Order is the sole owner of an insurance agency, Royal Arcanum Insurance Agency, Inc., which was incorporated in January of 2000 as a for-profit entity. In addition, the Order subsidizes Royal Arcanum Scholarship Fund, Inc., a not-for-profit foundation incorporated in April of 2004, with a board of directors currently composed of Supreme Regent William Wire, Supreme Secretary Kenneth Kolek, and Supreme Treasurer John Crisanti.

Organization Chart

The corporate organization of which the Order was the uppermost controlling entity at December 31, 2008, is represented as follows:



Transactions and Agreements with Subsidiaries and Affiliates

There are no agreements and there have not been any transactions between the Order and its subsidiary. The Order, which no longer directly awards scholarships or grants, has reported contributing regularly to an affiliated entity, the Royal Arcanum Scholarship Fund, Inc. In the examination period such contributions to this private foundation were reported as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Contribution	\$40,000		
Section 479	27,160	\$42,578	\$20,550
Donation			651
Total	<u>\$67,160</u>	<u>\$42,578</u>	<u>\$21,201</u>

Amounts listed above as Section 479 refer to amounts of claims closed under Section 479 of the Order's Constitution whereby the proceeds of a claim revert to the Order if any person entitled to claim the proceeds of a benefit certificate fails, for a period of 4.5 years, to complete and file the necessary forms that would enable the Order to make payment of the claim. In this regard, the Order does not remit such unclaimed funds to the Office of the Treasurer of the Commonwealth of Massachusetts because the Order asserts that as a charitable organization formed under MGL Chapter 176, it is exempt from MGL Chapter 200A. A similarly chartered organization already has made a request to the Treasurer's Office to determine the applicability of the escheat statutes of Massachusetts to fraternal benefit societies.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

In 2008, the Order acquired and took over the Canadian operations of the Ukrainian Fraternal Association on 830 policies with insurance coverage totaling approximately \$2.15 million and received \$856,000 for this business. Somewhat similarly in 2009, the Order also assumed certain life, disability, and annuity business of ACA Assurance after such fraternal benefit society was placed in rehabilitation; this business was estimated to be in excess of \$22.0 million, covering approximately 13,000 members.

FIDELITY BONDS AND OTHER INSURANCE

The Order maintains fidelity coverage with an authorized Massachusetts insurer, consistent with Section 60 of MGL Chapter 175. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Order has further protected its interests and property by purchasing additional policies of insurance covering other insurable risks. Coverages were provided by insurers licensed in the Commonwealth of Massachusetts and were in force as of December 31, 2008.

PENSION AND INSURANCE PLANS

The Order offers various insurance plans including individual and family health, dental, and life coverages. Previously, the Order had paid 90% of the cost for health insurance and all of the cost for dental and life insurance; effective December 1, 2008, this percentage changed to 85%.

The Order sponsors the Royal Arcanum Employees Pension Plan, a non-contributory defined benefit pension plan which meets the requirements of the Internal Revenue Code and covers all full-time employees. Benefits under the Plan are provided by the Order's contributions to the Royal Arcanum Employee Pension Trust.

STATUTORY DEPOSITS

Statutory deposits of the Order as of December 31, 2008, were the following:

<u>Location</u>	<u>Type of Deposit</u>	<u>Book Value</u>	<u>Fair Value</u>
Canada	Bonds	\$10,121,383	\$11,436,762
North Carolina	Short-Term Investment	15,000	15,000
Total Deposits		\$10,136,383	\$11,451,762

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 210 lodges, 17 of which are in Canada. At the time of the prior examination, the Order consisted of 209 lodges.

The Order is licensed to transact business in the following twenty-four jurisdictions in the United States of America:

Arizona	Georgia	Missouri	Oregon
California	Illinois	Nebraska	Pennsylvania
Colorado	Maine	New Jersey	Rhode Island
Connecticut	Maryland	New York	Virginia
District of Columbia	Massachusetts	North Carolina	Washington
Florida	Michigan	Ohio	Wisconsin

The Order also is licensed to transact business in the Canadian provinces of Ontario and Quebec.

In 2009, the Order expanded its territory and became licensed to transact business in the State of New Hampshire, the State of South Carolina, and the Province of Manitoba.

INSURANCE PRODUCTS AND RELATED PRACTICES

Insurance Products

The Order offers a portfolio of traditional life insurance and annuity products to its members. In the period under examination, certificates of insurance for life plans were being offered up to a maximum of \$1,000,000 protection on any one life, although the Order's maximum retention net of reinsurance was \$100,000 per risk; additionally, accidental death benefits, waiver of assessments coverage, and a guaranteed insurability option rider were available. Further, in 2008, the Order began offering pre-need funeral/burial expense policies in association with the Catholic Holy Family Society, a fraternal benefit organization based in Illinois. The Order also has a small amount of accident and health business in force.

Refunds to Members

Certificateholders are entitled to share in the distribution of surplus, if any, as may be determined by the Order annually; any such share of surplus is distributed as refunds to members which in concept are similar to dividends to policyholders in mutual insurance companies. For the period of examination, the Order reported the following amounts as refunds to members:

<u>2 0 0 6</u>	<u>2 0 0 7</u>	<u>2 0 0 8</u>
\$609,352	\$587,201	\$90,208

Claims Settlement Practices

Procedures performed in conjunction with claim testing indicated that the Order appeared to investigate and to settle claims on a timely and equitable basis.

REINSURANCE

The Order has a limited program of reinsurance. In the ordinary course of business, it does not assume any reinsurance on an on-going basis.

Ceded Reinsurance

The Order participated in several reinsurance agreements with Swiss Re Life Health, Inc., ceding coverage to such non-affiliated reinsurer that limited, to some extent, its direct exposure to its net retention of \$100,000 per risk. If the reinsurance company is unable to fulfill its obligations under the reinsurance arrangements, primary liability to certificateholders and claimants for incurred benefits would remain the obligation of the Order.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires and through a review of work performed by the Order's independent certified public accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of controls in the IT systems environment. It is noted that subsequent to the date of examination, the Order was making significant enhancements and revisions to its existing information technology systems.

The Order uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2008 Annual Statement. No material exceptions were noted.

The books and records of the Order are audited annually by a firm of independent certified public accountants in accordance with 211 C.M.R. 23.00. Throughout the examination period, the Order was audited by Vision Financial Group CPAs, LLP.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the NAIC as of December 31, 2008:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2008

Summary of Operations for the Year Ended December 31, 2008

Reconciliation of Capital and Surplus for the Three-Year Period Ended December 31, 2008

SUPREME COUNCIL OF THE ROYAL ARCANUM

**Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2008**

Assets	Per Council	Examination Changes	Per Examination	Notes
Bonds	\$ 44,534,537	\$ 0	\$ 44,534,537	
Preferred stocks	4,050,715		4,050,715	(1)
Common stocks	5,280,860		5,280,860	(1)
Real estate: Properties held for production of income	287,936		287,936	
Cash, cash equivalents, and short-term investments	1,236,592		1,236,592	
Contract loans	3,917,192		3,917,192	
Subtotals, cash and invested assets	59,307,832	0	59,307,832	
Investment income due and accrued	692,523		692,523	
Electronic data processing equipment and software	-		-	
Aggregate write-in for other than invested assets:				
Educational loans	-		-	
Total Assets	<u>\$ 60,000,355</u>	<u>\$ 0</u>	<u>\$ 60,000,355</u>	

SUPREME COUNCIL OF THE ROYAL ARCANUM

**Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2008**

	Per Council	Examination Changes	Per Examination	Notes
Liabilities				
Aggregate reserve for life contracts	\$ 47,139,405	\$ 0	\$ 47,139,405	(2)
Aggregate reserve for accident and health contracts	2,915		2,915	(2)
Liability for deposit-type contracts	949,895		949,895	(2)
Contract claims: Life	168,165		168,165	(2)
Provision for refunds payable in 2009 - estimated amounts:				
Not yet apportioned	100,000		100,000	
Premiums and annuity considerations for life and				
accident and health contracts received in advance	103,056		103,056	
Interest maintenance reserve	515,884		515,884	
General expenses due or accrued	19,860		19,860	
Miscellaneous liability: Asset valuation reserve	24,546		24,546	
Aggregate write-ins for liabilities:				
Degree fees and dues	194,551		194,551	
Real estate - security deposit	31,517		31,517	
Commissions held on deposit	4,417		4,417	
Age 96 maturities	67,961		67,961	
ALW liabilities - scholarship fund	29,398		29,398	
 Total Liabilities	 49,351,570	 0	 49,351,570	
 Unassigned funds	 10,648,785		 10,648,785	
Surplus as regards policyholders	10,648,785	0	10,648,785	
 Total Liabilities, Capital, and Surplus	 \$ 60,000,355	 \$ 0	 \$ 60,000,355	

**Summary of Operations
for the Year Ended December 31, 2008**

	Per Council	Examination Changes	Per Examination	Notes
Premiums and annuity considerations for				
life and for accident and health contracts	\$ 3,164,096	\$ 0	\$ 3,164,096	
Net Investment Income	3,506,870		3,506,870	
Amortization of Interest Maintenance Reserve	84,942		84,942	
Write-in for miscellaneous income: Refund accumulation	48,385		48,385	
Totals	<u>6,804,293</u>	<u>0</u>	<u>6,804,293</u>	
Death benefits	1,089,405		1,089,405	
Matured endowments	133,348		133,348	
Annuity benefits	1,095,668		1,095,668	
Surrender benefits and withdrawals for life contracts	1,056,321		1,056,321	
Interest and adjustments on contract				
or deposit-type contract funds	39,230		39,230	
Payments on supplementary				
contracts with life contingencies	8,578		8,578	
Increase in aggregate reserves for life				
and accident and health contracts	633,387		633,387	
Sub-Totals	<u>4,055,937</u>	<u>0</u>	<u>4,055,937</u>	
Commissions on premiums, annuity considerations,				
and deposit-type contract funds	227,740		227,740	
General insurance expenses and fraternal expenses	2,224,201		2,224,201	
Insurance taxes, licenses, and fees	92,485		92,485	
Aggregate write-ins for deductions:				
Payment of refund accumulation	37,609		37,609	
Increase in reserve for refund accumulation	8,330		8,330	
Totals	<u>6,646,302</u>	<u>0</u>	<u>6,646,302</u>	
Net gain from operations before refunds to members	157,991		157,991	
Refunds to members	90,208		90,208	
Net gain from operations after refunds to members				
and before realized capital gains (losses)	67,783	0	67,783	
Net realized capital gains (losses) less capital gains tax	<u>(450,021)</u>		<u>(450,021)</u>	
Net Income	<u>\$ (382,238)</u>	<u>\$ 0</u>	<u>\$ (382,238)</u>	

**Reconciliation of Capital and Surplus
for Each Year in the Three Year Period Ended December 31, 2008**

	<u>2 0 0 8</u>	<u>2 0 0 7</u>	<u>2 0 0 6</u>
Surplus, December 31, prior year	\$ 15,449,316	\$ 14,498,587	\$ 13,353,083
Net income from operations	(382,238)	(96,109)	(331,083)
Change in net unrealized capital gains or (losses)	(4,855,072)	(689,820)	1,746,395
Change in net unrealized foreign exchange capital gain (loss)	(2,718,400)	1,092,648	209,419
Change in non-admitted assets	12,608	27,646	47,896
Change in reserve on account of change in valuation basis (increase) or decrease	647,342	(150,652)	(581,957)
Change in asset valuation reserve	1,633,421	767,016	(529,046)
Aggregate write-ins for gains and losses in surplus:			
Change in net unrealized foreign exchange liabilities (gain) loss	5,808	-	-
Ukrainian Fraternal Association cash transfer	856,000	-	-
Release life and A&H reserve	-	-	583,880
Net change in surplus for the year	<u>(4,800,531)</u>	<u>950,729</u>	<u>1,145,504</u>
Surplus, December 31, current year	<u><u>\$ 10,648,785</u></u>	<u><u>\$ 15,449,316</u></u>	<u><u>\$ 14,498,587</u></u>

NOTES TO FINANCIAL STATEMENTS**NOTE 1:**

Preferred Stocks	\$4,050,715
Common Stocks	5,280,860

As of December 31, 2008, the Order held approximately \$9.33 million in stocks. This extent of investment in stocks appears to exceed the limitation set by Section 40 of MGL Chapter 176 which in essence allows a fraternal benefit society to invest in stocks no more than 25% of the excess of its admitted assets over liabilities. The prior Report of Examination had similar findings and recommended that the Order comply with this statute.

NOTE 2:

Aggregate Reserve for Life Contracts	\$47,139,405
Aggregate Reserve for Accident and Health Contracts	2,915
Liability for Deposit-Type Contracts	949,895
Contract Claims: Life	168,165

The Order uses the services of CPS Actuaries, an independent consulting actuarial firm, to determine its reserves and it appointed Allan Ferrone, FSA, MAAA, to prepare and to issue annually 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 identified above:

- i. are computed in accordance with presently accepted actuarial standards of practice and actuarial compliance guidelines which specifically relate to an asset adequacy opinion, 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 Massachusetts, and are at least as great as the minimum aggregate amounts required by Massachusetts,
 - 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.
-

COMMENTS AND RECOMMENDATIONS

**Investment
in Stocks**

The Order held approximately \$9.33 million in stocks as of December 31, 2008. This extent of investment in stocks appears to exceed the limitation set by Section 40 of MGL Chapter 176. The prior Report of Examination noted similar findings and recommended that the Order comply with this statute. In the course of this examination, the Order had sold off approximately \$1.0 million of its investment in stocks; however, a business plan projection for the Order did not indicate a significant divestiture of its investments in stocks. It is recommended that the Order continue in its efforts to bring its investment activity in line with the statute.

For Information Purposes Only

ACKNOWLEDGEMENT

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

The assistance rendered by the following Division examiners who participated in this examination is hereby acknowledged:

Steven Tsimtsos, AFE
Guangping Wei

Financial Examiner II
Financial Examiner II

Richard Looney, AFE, CIE
Examiner-in-Charge
Commonwealth of Massachusetts

Kenneth Brenner, CFE, CPA
Supervising Examiner
Commonwealth of Massachusetts