

Report of the Examination of
Catholic Financial Life
Milwaukee, Wisconsin
As of December 31, 2020

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October 18, 2021

Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

CATHOLIC FINANCIAL LIFE
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Catholic Financial Life (CFL or the society) was conducted in 2016 as of December 31, 2015. The current examination covered the intervening period ending December 31, 2020, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurer to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the society 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, annual statement instructions, and Wisconsin laws and regulations. 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 at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the society's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the society to satisfy the recommendations and comments made in the previous examination report.

The society is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of aggregate life and annuity reserves, aggregate accident and health reserves, refunds to members, asset adequacy analysis, and deferred life insurance premiums. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The society was organized in 1885 as the Catholic Knights of Wisconsin, under the Wisconsin laws applicable to fraternal benefit societies. In 1958, the society broadened its fraternal mission and business scope beyond the state of Wisconsin and changed its name to Catholic Knights Insurance Society. In 2000, the society's name was changed to Catholic Knights.

On April 1, 2010, the society completed a statutory merger with Catholic Family Life Insurance (CFLI), a Wisconsin fraternal benefit society. The merger agreement provided that Catholic Knights is the surviving corporation, accepting full responsibility for all of the existing CFLI benefit certificates. The merger agreement also provided that current CFLI certificate holders at the date of the merger would have the same rights as the Catholic Knights certificate holders going forward. CFLI's assets, liabilities, and unassigned surplus funds were merged into Catholic Knights, with all operations needed to service CFLI members becoming the responsibility of Catholic Knights. The merger was approved by the governing bodies of both organizations and by this office. As a result of the merger, the society changed its name to Catholic Financial Life, the name presently used.

On June 27, 2017, CFL completed a merger with Degree of Honor Protective Association (DOH), a Minnesota domiciled fraternal benefit society. The merger agreement provided that CFL was the surviving corporation accepting full responsibility for all existing benefit certificates. The merger agreement also provided that the current DOH certificate holders at the date of the merger would have the same rights as CFL's certificate going forward. During the merger, DOH's assets, liabilities and unassigned surplus funds were merged with CFL, and all operations needed to service the members and benefit certificates became the responsibility of CFL. The merger was approved by the governing bodies of both organizations and by this office, as well as the Minnesota Department of Commerce.

The society is a nonprofit, nonstock fraternal membership organization. Ownership and control of the society is held and exercised by society members who are over the age of 16. The purpose of Catholic Financial Life, as stated in the society's articles of incorporation, is to exist solely for the benefit of the members of the society and their beneficiaries, for the conduct of fraternal activities that provide to society members social, religious, benevolent, and intellectual improvement; to engage in the insurance business and other reasonable incidental businesses; and to engage in any lawful socially

beneficial nonbusiness activity as determined by the board of directors. Society fraternal activities are conducted through voluntary participation of the members through a representative governmental body that consists of 193 fraternal chapters in 24 states.

In 2020, the society collected direct premium in the following states:

Wisconsin	\$36,248,094	53.7%
Mississippi	5,106,335	7.6
Illinois	5,026,728	7.4
Minnesota	3,903,211	5.8
North Dakota	1,781,553	2.6
All others	<u>15,449,398</u>	<u>22.9</u>
Total	<u>\$67,515,319</u>	<u>100.0%</u>

The society is licensed in 34 states. The major products marketed by the society include individual life and individual annuity products. Individual life business consists of whole life (both traditional and interest sensitive), limited pay life, single premium life, term insurance, and universal life. Individual annuities consist of flexible premium deferred annuity products, single premium deferred annuity products, and immediate annuities. The major products are marketed through a career agency distribution system and several brokers. In total, there are approximately 69 active producers including full-time and part-time agents and field managers.

The following chart is a summary of the premium income reported by the society in 2020.

The growth of the society is discussed in the “Financial Data” section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Whole life	\$24,660,709	\$ 0	\$2,671,569	\$21,989,140
Term Life	9,366,127	(10,776)	4,528,467	4,826,884
Universal life	7,101,901		770,113	6,331,788
Universal life with secondary guarantees	4,219,817		658,186	3,561,631
Fixed Annuities	22,759,342			22,759,342
Immediate annuities	758,265			758,265
Disability	43,624			43,624
Other health	<u>9,576</u>	<u>(10,776)</u>	<u> </u>	<u>9,576</u>
Total All Lines	<u>\$68,919,361</u>	<u>\$(10,776)</u>	<u>\$8,628,335</u>	<u>\$60,280,250</u>

III. MANAGEMENT AND CONTROL

Membership

In prior years, the society membership was open to any individual who is included in at least one of the following categories: (a) a Catholic, in accordance with eligibility rules as determined by the board of directors; (b) a spouse, child, or grandchild of a Catholic, (c) an employee of the society or its subsidiaries or affiliates, (d) an employee of a Catholic institution, or (e) an individual who otherwise qualifies for membership as determined by the board of directors.

Effective March 2, 2021, Article IV of the society's articles of incorporation was amended to include as members any individual who meets the Catholic Affiliation Requirement, and any other qualification requirement that the Board of Directors may establish, and who has had his or her membership application accepted. A member is not required to be a policyholder of the society's insurance or annuity products.

Members who are at least 18 years old have the following rights and benefits:

1. To have the opportunity to benefit from the insurance, financial and investment products and services produced by the Society and its subsidiaries;
2. To participate in the social, intellectual, educational, charitable, benevolent, moral, fraternal, patriotic, and religious activities of the Society and its local entities as defined in the bylaws ("Local Entities"); and
3. To vote for the Board of Directors and to vote and participate in Local Entity affairs.

The Board of Directors may grant additional benefits and rights to various members based on the extent of their contribution to carrying out the purposes of the society.

The Board of Directors shall establish rules and regulations for the conduct of all matters relating to members under the age of 18. Such members shall receive such benefits of membership as determined by the Board of Directors.

Growth of Membership

Year	Members
2020	130,688
2019	134,706
2018	139,555

Year	Members
2017	143,887*
2016	108,073
2015	109,905

*Note: Degree of Honor merged into CFL in 2017, which primarily caused the significant increase in membership.

Board of Directors

In prior years, the supreme governing body of the society was the Triennial Council. Effective March 2, 2021, the society amended its articles of incorporation and made the Board of Directors as the supreme governing body of the society. The Board of Directors shall have the power to make and adopt bylaws and policies for the governance and management of the society. The Triennial Council was dissolved.

Effective April 26, 2021, the society amended its bylaws stating that the society’s elected board of directors shall not be fewer than nine nor more than 12 members. By January 1 of the election year, the Board shall set the number, within that range, of the society’s directors to be elected by the members. Subject to the confirmation of the Board, the President shall appoint two directors, only one of whom may be an officer or employee of the society. Each appointed director shall be a Catholic adult member with expertise in the business of the society who owns or participates in a financial service or product as determined by the Board. Elected directors shall serve a term of three years from the first day of January following their election and shall serve until their successors are elected and qualified. Appointed directors shall serve for one year and may be reappointed. No elected director may serve more than three consecutive three-year terms or nine consecutive years. If a director is elected or appointed to a partial term, that partial term does not count as part of this consecutive-year sequence. A break in service of at least three years restarts the term-limit period.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Director Since
Sandra T. Dempsey Milwaukee, WI	Hispanic Marketing Consultant Weigel Broadcasting	2017
Coral M. Grout Winchendon, MA	Retired	2019

Name and Residence	Principal Occupation	Director Since
Joseph G. Kopinski Greenfield, WI	Secretary/Special Asst. to CEO WE Energies/Employees Mutual Benefit Association	2017
Archbishop Jerome E. ListECKI ** Milwaukee, WI	Archbishop of Milwaukee	2011
Allan G. Lorge Cedarburg, WI	Retired	2016
Jay C. Mack Pewaukee, WI	President Town Bank	2012
Lisa A. Mick Fond du Lac, WI	Grounds Supervisor University of Wisconsin Oshkosh	2016
Susan M. Obermiller Green Bay, WI	Information Security Program Manager Bellin Health	2016
Kari Niedfeldt-Thomas *** New Brighton, MN	Management Consultant Chief Executive for Corporate Purpose	2020
David Singer Kenosha, WI	Investment & Financial Advisor Bethel Fisher Co.	2013
Michael Stivorik Pewaukee, WI	Retired	2013
Jeffrey B. Tilley *** Franklin, WI	Retired	2019
John T. Borgen * Richfield, WI	President of CFL	N/A
Kristen L. Mueller Greenfield, WI	Secretary & VP HR of CFL	N/A
William R. O'Toole ** Pleasant Prairie, WI	CEO of CFL	N/A

Note:

- * This indicates that the individual is a new member of the Board in 2021.
- ** This indicates non-voting and non-elected members.
- *** This indicates appointed directors.

All elected Board of Directors positions will expire on December 31, 2021. Appointed positions, except for the Principal Officers and the Spiritual Director, are for one-year terms and will expire

on December 31, 2021. Ms. Niedfeldt-Thomas and Mr. Tilley were both appointed to a one-year term that expires on December 31, 2021.

Officers of the Society

The officers serving at the time of this examination are as follows:

Name	Office
William R. O'Toole	Chief Executive Officer
John T. Borgen	President
Kari R. Diestelhorst	Chief Financial Officer
Rogelio Cabral	VP Sales
Linda M. Hanson	VP Actuary
Jeffrey R. Piotrowski	Chief Operating Officer
Kristen L. Mueller	Secretary & VP Human Resources
Kerry E. Riemer	Controller
Sara Walker	VP-Investments

As of January 1, 2021, Mr. O'Toole was no longer the President. However, he retained his position as Chief Executive Officer. Mr. Borgen became the President on January 1, 2021.

Committees of the Board

The society's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

Risk & Governance Committee

Susan M. Obermiller, Chair
Coral M. Grout
Lisa A. Mick
David Singer
Jeffrey B. Tilley
William R. O'Toole
Kristen L. Mueller

Compensation Committee

Jay C. Mack, Chair
Sandra T. Dempsey
Joseph G. Kopinski
Michael Stivorc
William R. O'Toole
Kristen L. Mueller

Selection Committee

Joseph G. Kopinski, Chair
David Singer
William R. O'Toole

Audit, Finance and Investment Committee

Allan G. Lorge, Chair
Coral M. Grout
Jay C. Mack
Susan M. Obermiller
Jeffrey B. Tilley

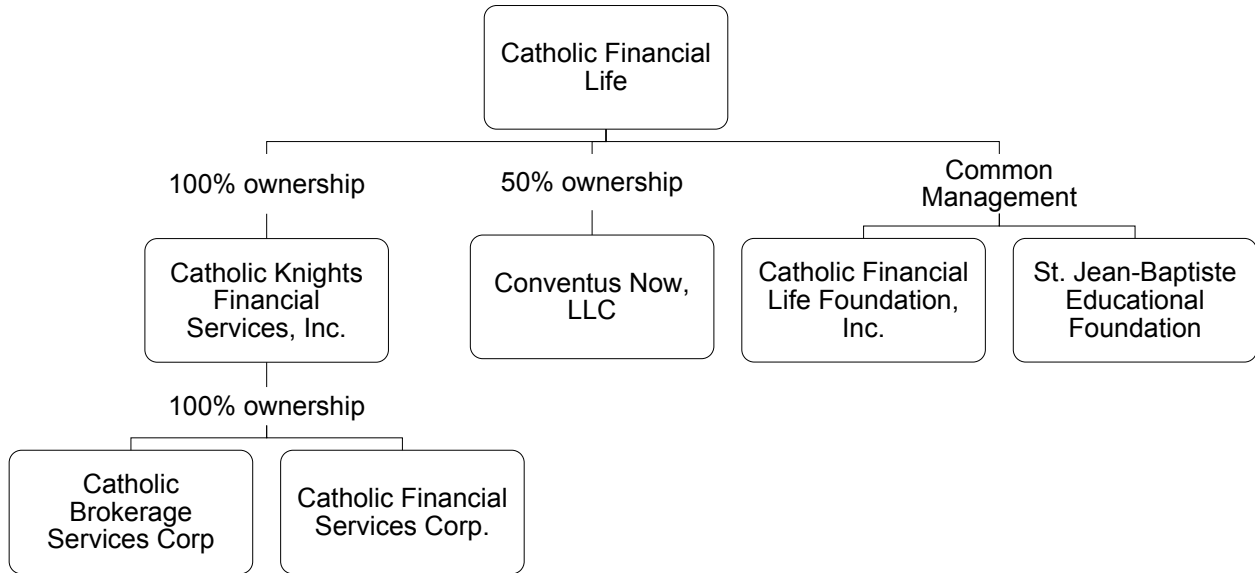
Membership Committee

David Singer, Chair
Sandra T. Dempsey
Joseph G. Kopinski
Lisa A. Mick
Kari Niedfeldt-Thomas

IV. AFFILIATED COMPANIES

Catholic Financial Life is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of CFL follows the organizational chart.

**Organizational Chart
As of December 31, 2020**



Catholic Knights Financial Services, Inc.

Catholic Knights Financial Services, Inc. (CKFSI) was incorporated on June 1, 1994, as a Wisconsin-domiciled stock corporation with 100% of its outstanding shares issued to and continuously held by CFL. CKFSI exists as a non-operating subsidiary of the society and serves as the administrative holding company for the society's operating subsidiaries.

As of December 31, 2020, the audited consolidated financial statements of CKFSI reported assets of \$647,016, liabilities of \$12,167, and shareholders' equity of \$634,849. Operations for 2020 produced net income of \$54,981. CKFSI is valued at \$672,577 in CFL's investment schedule. The difference of \$37,728 is the noncontrolling equity portion.

Conventus Now, LLC

Conventus Now, LLC (Conventus) was established in 2019 as a joint venture between CFL and a Minnesota-based Catholic United Financial (CUF). CUF is a non-affiliated Minnesota domiciled fraternal benefit society. The joint venture is focused on the development of a new policy administration system that allows both CFL and CUF to leverage their respected resources with a new technology partner and provide shared service for IT, claims, member services, etc.

CFL made capital contributions of \$1,057,051 to the joint venture in 2020. The joint venture was reported as a non-admitted Schedule BA asset in CFL's annual statement, with total book adjusted carrying value of \$1,225,175 as of December 31, 2020.

As of December 31, 2020, the unaudited financial statements of Conventus reported assets of \$3,273,777, liabilities of \$1,124,366, and shareholders' equity of \$2,149,410. Operations for 2020 produced a net loss of \$841,887. Conventus shareholders' equity consisted of \$1,225,174 capital contribution from CFL and \$924,236 capital contribution from CUF.

Catholic Financial Life Foundation, Inc.

Catholic Knights Foundation, Inc. (Foundation) was formed on March 31, 2006, as a nonstock corporation under Chapter 181 of the Wisconsin Statutes. The corporation was organized to operate exclusively for charitable, educational, and religious purposes only.

In 2010, Catholic Family Life Insurance (CFLI) merged with Catholic Knights (now CFL). Prior to the merger, CFLI had also established a charitable foundation, the Catholic Family Life Education Fund. During 2010, the assets of Catholic Knights Foundation, Inc. and Catholic Family Life Education Fund merged into one foundation and the name was changed to Catholic Financial Life Foundation, Inc., which is now the current name of the Foundation.

Employees of CFL maintain and govern the Foundation's operations, and CFL and the Foundation share common facilities. CFL does not report any investment in the Foundation in its financial statements and transactions between the two organizations do not exceed one-half of 1% of the society's admitted assets.

As of December 31, 2020, the unaudited financial statements of the Foundation reported assets of \$2,373,075, zero liabilities, and shareholders' equity of \$2,373,075. Operations for 2020 produced a net loss of \$116,690.

St. Jean-Baptiste Educational Foundation

St. Jean-Baptiste Educational Foundation (SJBEF) was created under a Declaration of Trust Agreement on June 1, 1974, by and between the Union Saint-Jean-Baptiste (USJB), a fraternal benefit society incorporated in the State of Rhode Island, and Providence Plantations.

In 1991, USJB merged with Catholic Family Life Insurance of Milwaukee, Wisconsin (CFLI), which was later merged with Catholic Knights (now CFL) in 2010. CFL being the surviving party became the donor of the foundation and assumed all the responsibilities, obligations, and rights that the donor would have as set forth in the Declaration of Trust.

SJBEF is domiciled in Rhode Island and operates in the greater New England area. SJBEF focuses on educational assistance, assistance for seminarians, and French language. Both Catholic Financial Life Foundation and St. Jean-Baptiste Educational Foundation provide annual reports to CFL and are accountable to the board of directors of CFL. Each has a distinct board of directors as well.

CFL and SJBEF share common management, but the day-to-day operations are not conducted by the employees of CFL. CFL does not report investment in SJBEF in its financial statements.

As of December 31, 2020, the unaudited financial statements of SJBEF reported assets of \$2,362,979, zero liabilities, and shareholders' equity of \$2,362,979. Operations for 2020 produced net income of \$45,583.

Catholic Brokerage Services Corp.

Catholic Brokerage Services Corp. (CBS) was incorporated on November 11, 1994, as a Wisconsin stock corporation. All the issued and outstanding capital stock of CBS is issued to and held by CKFSI. CBS is an insurance brokerage company and provides to the society the capability to market through society advisors certain indemnity insurance products written by commercial carriers in business lines that are not written by the society. Brokered insurance products include accident and health insurance, disability income, and long-term care coverage insurance. The society screens the brokered

insurance policies and underwriters in an attempt to ensure that members are provided with good insurance products issued by reliable insurers.

As of December 31, 2020, the audited financial statements of CBSC reported assets of \$389,492, liabilities of \$1,925, and shareholders' equity of \$387,567. Operations for 2020 produced net income of \$52,596.

Catholic Financial Services Corp

Catholic Financial Services Corp (CFSC) was incorporated on June 1, 1994, as a stock corporation in Wisconsin, with 100% of its outstanding shares issued to and held by CKFSI until November 1998. At that time, CFSC issued additional shares of its common stock to two other Catholic fraternal benefit societies. In 2001, additional shares of CFSC were issued to a fourth fraternal benefit society. One of the Catholic fraternal benefit societies with shares in CFSC was Catholic Knights of America (CKA). CKA merged with Catholic Knights (now named CFL) on July 1, 2005. At that point, CKA's shares were also merged with Catholic Knights' shares.

CFSC was registered as a broker/dealer with the Financial Industry Regulatory Authority (FINRA) and was licensed in 48 states to sell mutual funds, 529 College Savings Plans, and Variable Life and Annuity products. CFSC was an inactive corporation from the time of its formation in 1994 through 1998, at which time it initiated operations for its brokerage business. CFSC provided the society with the capability to market various nontraditional investments and services through the society's securities-licensed advisors, including mutual fund products, and variable tax-shelter annuity policies, which are not written by the society. Investments and services marketed through CFSC provided society members additional elements of overall financial planning that supplemented the life insurance and annuity products written on a direct basis by CFL.

In 2012, CFSC ceased operations but has not been dissolved to date. CFSC reported no assets, liabilities, or equity as of December 31, 2020. Likewise, CFL has not reported investments in CFSC in the annual statement as of December 31, 2020.

Agreements with Affiliates

Catholic Financial Life has a Resource Sharing Agreement with CKFSI effective December 28, 2007. According to the agreement, CFL will provide administrative services to CKFSI and the use of

equipment and facilities. CKFSI will pay CFL on a quarterly basis an amount that will reasonably reimburse CFL for the costs of providing employees, equipment, and facilities to CFKSI. The employees provided shall remain as CFL employees for purposes of compensation, employee benefits and tax and other laws and regulations governing employees. The amount agreed at the date of the execution of the contract was \$850 and was subject to review annually by CFL. Additionally, CFKSI will pay monthly to CFL an amount that will reasonably reimburse CFL for the direct costs in providing materials and services to CKFSI, such as printing, postage, office supplies, etc. In 2020, CKFSI paid to CFL a total of \$850 for the services provided.

Subsequent to the formation of Conventus Now as a joint venture, CFL signed a Resource Sharing Agreement with Conventus effective January 1, 2020. According to the agreement, CFL will provide Conventus Now with the services of CFL employees upon request and reasonably allow Conventus Now to carry out its responsibilities. CFL employees provided to Conventus Now shall remain as CFL employees for purposes of compensation, employee benefits and tax, and other laws and regulations governing employees. Employees of CFL who are made available to Conventus Now shall perform services for Conventus Now solely under the direction and supervision of Conventus Now. See the "Summary of Current Examination Results" for further discussion.

CFL has a Resource Sharing Agreement with CBS effective December 28, 2007. According to the agreement, CFL will provide CBS with the services of CFL employees and the use of CFL equipment and facilities to the extent reasonably necessary to allow CBS to carry out its responsibilities as an insurance brokerage operation. CFL employees will remain solely as CFL employees for purposes of compensation, employee benefits and tax, and other laws and regulations governing employees. CBS will pay CFL on a quarterly basis an amount that will reasonably reimburse CFL for its cost in providing such employees, equipment, and facilities. The agreed amount at the date of the execution of the contract was \$21,600 and was subject to review annually by CFL. CFL may change the annual reimbursement amount to the extent necessary to better reflect resources consumed by CBS. Additionally, CBS will pay CFL each month an amount that will reasonably reimburse CFL for its direct costs in providing materials and services to CBS, such as printing, postage, office supplies, etc. In 2020, CBS paid CFL a total of \$9,000 for the services provided.

V. REINSURANCE

The society's reinsurance portfolio and strategy at the time of the examination are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Ceding Contracts

The society maintains reinsurance contracts that cede excess and catastrophic coverages on the society's direct written business. Some of the society's reinsurance treaties have existed for more than 25 years.

The society ceded its new business to the following reinsurers:

1. Swiss Re Life & Health America, Inc. (Swiss Re)

Effective July 1, 2010, the society reinsured with Swiss Re its Level10, Level20, Level30 year Term policies and Term Riders, Waiver of Premium Riders, and Accelerated Death Benefit Riders (Living Needs Rider). The contract is automatic and facultative coinsurance. For all plans and benefits not specifically covered under this contract, Swiss Re reinsures the excess risk only, specifically automatic yearly renewable term on Whole Life contracts, and facultative yearly renewable term on all other contracts. This contract was amended effective August 11, 2019, to replace the 2016 Level10, Level20, and Level30 year Term Plans for new reinsurance business. The existing in-force reinsurance business will remain in full force and in effect under the terms of the reinsurance agreement. Rates and terms for the 2019 Level10, Level20, and Level30 year Term Plans were added to specify the rates and terms for the 2019 term plans.

Effective July 1, 2010, the society reinsured with Swiss Re its Whole Life contracts on an automatic yearly renewable term 100% of the excess over the society's retention of \$225,000 for age 60 and below, and \$100,000 for age 61 and above. Under this contract, the society also reinsured its Universal Life contracts on a facultative basis only.

Effective April 1, 2016, the society reinsured with Swiss Re its Guaranteed Issue Whole Life (GIWL) Final Expense policies 80% on a First Dollar Quota Share basis or 100% of the total reinsured business up to \$25,000 of all issue ages and risk classifications. Swiss Re will automatically accept 80% of each policy, not to exceed \$25,000 per life basis. If CFL has filled its

maximum retention of 20% per policy, Swiss Re will automatically accept 100% up to \$25,000 per policy of all issue ages and risk classifications. The in force and applied limit for any one life is \$1,250,000.

Effective January 1, 2021, the society reinsured with Swiss Re its Value Life, Whole Life, 20 Pay Whole Life contracts subject to accelerated underwriting. The contract is automatic, self-administered, yearly renewable term reinsurance of 50% first dollar quota share reinsurance, subject to change on new issues after the treaty has been in force for three years. The company will retain 50% of each policy insured on and after the effective date, not to exceed its retention limits of \$225,000 for ages below 45 and \$100,000 for ages 46 to 85. If the company is already on the risk for its retention under previously issued policies, the reinsurer will automatically accept reinsurance for newly issued policies, not to exceed \$900,000 for ages below 45, \$400,000 for ages 46 to 80, and \$50,000 for ages 81 to 85.

2. Optimum Re Insurance Company (Optimum Re)

Effective January 1, 2010, the society reinsured with Optimum Re its bulk Accidental Death and Dismemberment (ADB) rider coverage on Catholic Family Business. It is automatically renewed annually. The reinsurer provides protection on the liability only caused by ADB benefits included in life policies and/or an ADB benefit rider attached to life policies. Reinsurer will accept automatically ADB risks not exceeding five units on any one life, provided that, to the best of ceding company's knowledge, the total amount of ADB issued and applied for on any one life does not exceed 10 units.

Effective August 1, 2010, the society reinsured with Optimum Re its Lifetime Universal Life, Limited Pay Universal Life, and UltimateFlex Universal Life plans. The contract is automatic and facultative yearly renewable term. The maximum amount of reinsurance Optimum Re will accept on a YRT basis under this agreement is \$4,000,000 per life. The automatic reinsurance under this agreement is the lesser of the company's liability under the policy or conditional receipt, whichever applies, minus retention and all amounts currently retained by the society on the life insured under other policies. Retention limits are as follows:

Issue Age	Std – Table 4	Tables 5 – 6	Tables 7 – 13	Tables 14 - 16
0 – 60	\$225,000	\$225,000	\$100,000	\$50,000
61 – 80	\$100,000	\$100,000	\$50,000	\$50,000
81 – 85	\$100,000	\$0	\$0	\$0

Optimum Re's maximum liability is \$300,000 under automatic reinsurance and \$4,000,000 under facultative reinsurance. For all other Universal Life plans, Optimum reinsures on a facultative basis only. All cases not eligible for automatic coverage may be submitted to Optimum Re facultatively.

3. Lloyd's Syndicate

Effective January 1, 2020, Lloyd's Syndicate reinsures the society's Individual Life benefits on a catastrophe excess of loss coverage. The maximum of any one life is \$250,000, with retention of \$510,000 per catastrophic accident occurrence. The indemnity limit is \$3,000,000 per catastrophic accident occurrence and \$6,000,000 annual maximum limit. The warranted minimum number of lives is three or more insured lives. The contract is renegotiated annually.

The society has acquired business through mergers and acquisitions with other fraternal. Prior to 2005, most of the society's reinsurance was with Swiss Re and Lincoln National & Reinsurers Marketing (Lincoln National). Effective July 1, 2005, the society merged with Catholic Knights of America (Catholic Knights), which resulted in reinsurance with Generali, Munich American Reassurance Company (Munich), and Optimum Re. Catholic Knights of America was in runoff. In 2010, Catholic Knights merged with Catholic Family Life Insurance to form Catholic Financial Life. In 2017, CFL merged with Degree of Honor which resulted to reinsurance with RGA Reinsurance Company and Optimum Re on the acquired business. Degree of Honor was in runoff.

ADB is no longer sold by the society, but there are reinsurance agreements for in force ADB business. Effective January 1, 2010, the society reinsured with Optimum Re its bulk Accidental Death and Dismemberment (ADB) rider coverage on Catholic Family Business. It is automatically renewed annually. The reinsurer provides protection on the liability only caused by ADB benefits included in life policies and/or an ADB benefit rider attached to life policies. Reinsurer will accept automatically ADB

risks not exceeding five units on any one life, provided that, to the best of ceding company's knowledge, the total amount of ADB issued and applied for on any one life does not exceed 10 units. Effective February 1, 2010, the society reinsured with SCOR Global Life USA Reinsurance Company (f/k/a Generali USA Life Reassurance Company) its bulk ADB rider coverage on Catholic Knights Business. The original contract was effective January 1, 2005, under the name of Generali as reinsurer. Generali reinsures 100% of the ADB Liabilities arising from any accidental death benefits under the covered policies issued by the society during and after the period the agreement is in force. The maximum age of accidental death benefit coverage with respect to a particular insured is through age 69 and the maximum accidental death risk liabilities automatically covered is \$300,000 on any one life. This agreement is renegotiated annually.

Assuming Contracts

CFL previously had assumed reinsurance with National Slovak Society, effective January 1, 2004, but that was recaptured on July 1, 2020. CFL currently has assumed reinsurance with First Catholic Slovak Ladies Association (Slovak, f/k/a Polish Women's Association) effective March 1, 2003. The agreement was terminated for new business effective March 31, 2011. There are only three policies in force, totaling \$300,000 of premiums in force as of December 31, 2020.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the society as reported to the Commissioner of Insurance in the December 31, 2020, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the society, NAIC Insurance Regulatory Information System (IRIS) ratio results during the period under examination, and the compulsory and security surplus calculation.

**Catholic Financial Life
Assets
As of December 31, 2020**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$1,553,204,523	\$	\$1,553,204,523
Stocks:			
Preferred stocks	961,534		961,534
Common stocks	2,089,798		2,089,798
Mortgage loans on real estate:			
First liens	34,710,884		34,710,884
Real estate:			
Held for production of income	5,324,935		5,324,935
Cash, cash equivalents, and short-term investments	26,127,004		26,127,004
Contract loans	26,355,198		26,355,198
Other invested assets	15,324,786	1,225,175	14,099,611
Investment income due and accrued	17,706,401		17,706,401
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	386,183		386,183
Reinsurance:			
Amounts recoverable from reinsurers	1,971,450		1,971,450
Other amounts receivable under reinsurance contracts	16,626		16,626
Electronic data processing equipment and software	1,585,101	1,320,804	264,297
Furniture and equipment, including health care delivery assets	350,931	350,931	
Receivable from parent, subsidiaries and affiliates	226,021	226,021	
Write-ins for other than invested assets:			
Prepaid expenses	72,933	72,933	
Amounts due from agents	247,969	247,969	
Bills receivable	7,442	7,442	
Security deposits	10,371		10,371
	<u>1,553,204,523</u>	<u>1,225,175</u>	<u>1,553,204,523</u>
Total Assets	<u>\$1,686,680,090</u>	<u>\$3,451,275</u>	<u>\$1,683,228,815</u>

**Catholic Financial Life
Liabilities, Surplus, and Other Funds
As of December 31, 2020**

Aggregate reserve for life contracts	\$1,463,914,544
Aggregate reserve for accident and health contracts	272,730
Liability for deposit-type contracts	60,840,950
Contract claims:	
Life	10,228,325
Accident and health	263,699
Provision for policyholders' dividends, refunds to members, and coupons payable in the following calendar year:	
Apportioned for payment	1,597,301
Premiums and annuity considerations received in advance	2,222,579
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	608,276
Interest maintenance reserve	10,162,599
Commissions to agents due or accrued	188,899
General expenses due or accrued	2,145,661
Taxes, licenses, and fees due or accrued, excluding federal income taxes	304,306
Unearned investment income	292
Amounts withheld or retained by reporting entity as agent or trustee	267,467
Amounts held for agents' account, including agents' credit balances	42,640
Remittances and items not allocated	78,530
Miscellaneous liabilities:	
Asset valuation reserve	10,511,464
Payable to parent, subsidiaries and affiliates	11
Write-ins for liabilities:	
Pension liability	3,236,958
Non-qualified deferred compensation	947,712
Uncashed drafts and checks pending escheatment	1,233,297
Orphan benefits reserve	<u>32,953</u>
Total Liabilities	1,569,101,193
Unassigned funds (surplus)	<u>\$ 114,127,622</u>
Total Capital and Surplus	<u>114,127,622</u>
Total Liabilities, Capital and Surplus	<u>\$1,683,228,815</u>

**Catholic Financial Life
Summary of Operations
For the Year 2020**

Premiums and annuity considerations for life and accident and health contracts	b 60,280,250
Considerations for supplementary contracts with life contingencies	1,510,667
Net investment income	68,857,646
Amortization of interest maintenance reserve	2,946,943
Commissions and expense allowances on reinsurance ceded	1,279,223
Miscellaneous income:	
Write-ins for miscellaneous income:	
Miscellaneous revenues	2,513
Member donations	<u>9,309</u>
Total income items	<u>134,886,551</u>
Death benefits	\$ 36,670,352
Matured endowments	714,006
Annuity benefits	24,554,684
Disability benefits and benefits under accident and health contracts	434,625
Surrender benefits and withdrawals for life contracts	38,648,663
Interest and adjustments on contract or deposit-type contract funds	2,402,689
Payments on supplementary contracts with life contingencies	5,519,432
Increase in aggregate reserves for life and accident and health contracts	<u>(4,312,957)</u>
Subtotal	104,631,494
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	3,332,458
General insurance expenses and fraternal expenses	15,382,620
Insurance taxes, licenses, and fees excluding federal income taxes	<u>757,173</u>
Total deductions	<u>124,103,745</u>
Net gain (loss) from operations before dividends to policyholders, refunds to members, and federal income taxes	10,782,806
Refunds to members	<u>1,457,694</u>
Net gain (loss) from operations after refunds to members and before realized capital gains or (losses)	9,325,112
Net realized capital gains or (losses)	<u>4,628,270</u>
Net Income (Loss)	<u>\$ 13,953,382</u>

**Catholic Financial Life
Cash Flow
For the Year 2020**

Premiums collected net of reinsurance		\$ 61,744,017
Net investment income		71,797,586
Miscellaneous income		<u>1,147,956</u>
Total		134,689,559
Benefit- and loss-related payments	\$106,530,853	
Commissions, expenses paid, and aggregate write-ins for deductions	19,514,820	
Dividends paid to policyholders	<u>1,906,086</u>	
Total deductions		<u>127,951,759</u>
Net cash from operations		6,737,800
Proceeds from investments sold, matured, or repaid:		
Bonds	\$134,073,732	
Stocks	10,094,639	
Mortgage loans	5,952,818	
Other invested assets	433,893	
Net gains (losses) on cash, cash equivalents, and short-term investments	285,855	
Miscellaneous proceeds	<u>4,196</u>	
Total investment proceeds		150,845,133
Cost of investments acquired (long-term only):		
Bonds	142,420,498	
Stocks	2,397,752	
Mortgage loans	9,729,615	
Real estate	113,940	
Other invested assets	1,057,051	
Miscellaneous applications	<u>(1,608,551)</u>	
Total investments acquired		154,110,305
Net increase (or decrease) in contract loans and premium notes		<u>(969,252)</u>
Net cash from investments		(2,295,920)
Cash from financing and miscellaneous sources:		
Net deposits on deposit-type contracts and other insurance liabilities	1,806,430	
Other cash provided (applied)	<u>(984,814)</u>	
Net cash from financing and miscellaneous sources		<u>821,616</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		5,263,496
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>20,863,508</u>
End of year		<u>\$26,127,004</u>

**Catholic Financial Life
Compulsory and Security Surplus Calculation
December 31, 2020**

Assets		\$1,683,228,815
Less liabilities		<u>1,569,101,193</u>
Adjusted surplus		114,127,622
Annual premium:		
Individual life and health	\$34,827,206	
Factor	<u>15%</u>	
Total	5,224,081	
Greater of 7.5% of considerations or 2% of reserves for annuities and deposit administration funds	<u>14,416,605</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>19,640,686</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 94,486,936</u>
Adjusted surplus (from above)		\$ 114,127,622
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)		<u>27,300,553</u>
Security Surplus Excess (Deficit)		<u>\$ 86,827,069</u>

**Catholic Financial Life
Analysis of Surplus
For the Five-Year Period Ending December 31, 2020**

The following schedule details items affecting the society's surplus during the period under examination as reported by the society in its filed annual statements.

	2020	2019	2018	2017	2016
Capital and surplus, beginning of year	\$109,240,783	\$ 99,357,412	\$88,051,945	\$77,189,132	\$57,602,613
Net income	13,953,382	8,677,123	14,307,526	12,052,439	11,620,178
Change in net unrealized capital gains/losses	(6,846,991)	3,608,186	(1,767,074)	1,766,224	658,544
Change in nonadmitted assets and related items	(724,517)	7,870,940	(1,375,287)	(809,104)	(808,133)
Change in reserve on account of change in valuation bases		(226,767)	(498,475)		
Change in asset valuation reserve	1,310,097	(1,772,989)	376,327	(1,407,288)	(446,294)
Change in surplus notes				(1,000,000)	
Change in surplus as a result of reinsurance	(175,900)	(175,900)	(175,900)	(175,900)	(175,900)
Write-ins for gains and (losses) in surplus:					
Pension liability	(2,572,942)	666,088	432,675	452,306	2,334,061
Change in non-qualified pension plan	(56,290)	(43,931)	5,683	(15,860)	(1,258)
Net prepaid pension asset & liability		(8,719,379)			
Rounding				(4)	
Capital and Surplus, End of Year	<u>\$114,127,622</u>	<u>\$109,240,783</u>	<u>\$99,357,420</u>	<u>\$88,051,945</u>	<u>\$70,783,811</u>

**Catholic Financial Life
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2020**

The society's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

Ratio	2020	2019	2018	2017	2016
#1 Net change in capital & surplus*	4%	10%			
#2 Gross change in capital & surplus	4	10	13%	24%	23%
#3 Net income to total income	10	6	9	8	8
#4 Adequacy of investment income	132	138	140	139	151
#5 Non-admitted to admitted assets	0	0	1	1	1
#6 Total real estate & mortgage loans to cash & invested assets	2	2	2	2	3

Ratio	2020	2019	2018	2017	2016
#7 Total affiliated investments to capital & surplus	1	1	1	1	1
#8 Surplus relief	1	1	0	0	0
#9 Change in premium	-15*	1	1	6	9
#10 Change in product mix	1.2	0.5	1.1	9.2*	2.4
#11 Change in asset mix	0.1	0.1	0.1	0.2	0.1
#12 Change in reserving ratio	-13	1	-2	-11	0

* Ratio No. 1 was added for fraternal benefit societies in 2019.

The exceptional results for Ratios No. 9 and No. 10 were due to a significant decrease of 28% in annuities in 2020 and product shift from annuities to life business in 2017. Life insurance increased 36% while individual annuities decreased 20% in 2017.

Growth of Catholic Financial Life

Year	Admitted Assets	Liabilities	Capital and Surplus
2020	\$1,683,228,815	\$1,569,101,193	\$114,127,622
2019	1,678,942,715	1,569,701,932	109,240,791
2018	1,653,316,399	1,553,958,979	99,357,420
2017	1,641,577,299	1,553,525,352	88,051,945
2016	1,417,204,685	1,346,420,874	70,783,811
2015	1,378,099,759	1,320,497,146	57,602,613

Net Life Premiums, Annuity Considerations, and Deposits

Year	Life Insurance Premiums	Annuity Considerations	Deposit-type Contract Funds
2020	\$36,663,287	\$ 23,517,607	\$ 929,926
2019	38,743,210	32,476,258	443,519
2018	39,641,898	30,608,427	881,303
2017	40,388,620	29,181,585	646,305
2016	29,054,085	36,653,501	719,641
2015	28,631,844	31,341,683	1,160,829

Life Insurance In Force (in thousands)

Year	In Force End of Year	Reinsurance Ceded	Net In Force
2020	\$ 5,614,136	\$ 2,567,289	\$ 3,046,847
2019	5,700,108	2,571,962	3,128,146
2018	5,699,293	2,529,938	3,169,355
2017	5,675,461	2,476,526	3,198,935
2016	5,100,637	2,317,483	2,783,154
2015	5,065,888	2,246,269	2,819,619

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2020	\$53,939	\$64,268	\$387	\$21,290	159.3%
2019	59,467	106,964	451	19,397	213.3
2018	68,754	141,894	503	26,357	245.5
2017	78,384	120,545	645	33,008	196.7
2016	87,450	34,492	713	31,570	76.3
2015	99,053	81,712	725	31,581	115.1

* Includes change in contract reserves

** Includes taxes, licenses, and fees

Assets increased 22%, liabilities increased 19%, and surplus increased 98% since 2015.

Significant increases were mostly due to favorable results of operation and partly due to the merger with Degree of Honor in 2017. Average net income is \$12 million a year over the last five years.

Premium revenues decreased about 15% in 2020 primarily due to the impacts of the COVID-19 pandemic on the main distribution channel, limited face-to-face interaction with the members resulting in a decrease in annual pay life sales. Additionally, the society maintained contractual limits on renewal annuity deposits to maintain target interest margins as well as lowering crediting rates on new annuity products, resulting in approximately \$9 million or 28% decrease in individual annuities.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The members' surplus reported by the society as of December 31, 2020, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the society are as follows:

1. Affiliated Companies—It is recommended that the society properly complete Schedule Y in accordance with the NAIC Annual Statement Instructions – Fraternal.

Action—Compliance.

2. Reinsurance—It is recommended that the company's reinsurance policy be amended to state that the obligations under the policy will survive in the event of insolvency without diminution, as required by s. 645.58 (1), Wis. Stat.

Action—Compliance.

3. Unclaimed Funds—It is recommended that the society properly file its unclaimed property in a timely fashion in accordance with ch. 177, Wis. Stat.

Action—Compliance.

4. Investments—It is recommended that the society follow the guidelines established in their Investment Policy.

Action—Compliance.

5. Investments—It is recommended that the board, or a subordinate committee thereof, review and approve purchases or sales of all investments in the future on at least a quarterly basis in accordance with s. 611.51 (6), Wis. Stat.

Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the society's operations is contained in the examination work papers.

Affiliated Transactions

The company disclosed in its 2020 Insurance Holding Company System Annual Registration Statement (Form B) that it executed a Resource Sharing Agreement with Conventus, effective January 1, 2020. However, there was no Form D filing submitted to OCI for non-disapproval prior to the execution of the agreement.

According to s. 617.21 (2), Wis. Stat. and s. Ins 40.04 (2), Wis. Adm. Code, all management agreements, service contracts, or cost-sharing agreements between a domestic insurer and an affiliate are deemed to be material and are subject to non-disapproval by OCI. The Resource Sharing Agreement between CFL and Conventus is in essence a cost sharing agreement and is therefore subject to non-disapproval by OCI. Agreements subject to disapproval are required to be filed with OCI at least 30 days before entering into the transaction.

It is recommended that prior to executing any affiliated agreement subject to the materiality standards outlined in s. 40.04 (2), Wis. Adm. Code, the company first obtain non-disapproval from OCI, in accordance with s. 617.21 (3), Wis. Stat. and s. Ins 40.04 (2), Wis. Adm. Code.

It should be noted that the company subsequently filed a Form D with OCI and the Resource Sharing Agreement between CFL and Conventus Now and was non-disapproved on September 14, 2021.

VIII. CONCLUSION

Catholic Financial Life is a fraternal society licensed as an insurer under ch. 614, Wis. Stat. The corporation was originally organized on January 21, 1885, as the Catholic Knights of Wisconsin, under Wisconsin laws applicable to fraternal benefit societies. On April 1, 2010, the society completed a statutory merger with Catholic Family Life Insurance, a Wisconsin fraternal benefit society, and changed to its current name.

As of December 31, 2020, the society reported total assets of approximately \$1.7 billion, liabilities of \$1.5 billion, and surplus of \$114.1 million. Surplus had increased 98% since 2015, primarily due to favorable results of operation over the last five years. Current year operation resulted to a net income of almost \$14 million.

Most of the society's business were life insurance and annuities, consisting of 65% Ordinary Life and 34% Individual Annuities. The remaining 1% was disability income and deposit-type contract funds. Premium revenues decreased about 15% in 2020 primarily due to the impacts of the COVID-19 pandemic and the society's limits on renewal annuity deposits to maintain target interest margins as well as to lower crediting sales on new annuity products. The COVID-19 pandemic has impacted the society's main distribution channel, limiting face-to-face interaction with its members resulting to lower sales in annuity and life products, as well as supplementary contracts with life contingency deposits.

The current examination resulted to one recommendation. All prior examination recommendations were determined to be in compliance.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 29 - Affiliated Transactions—It is recommended that prior to executing any affiliated agreement subject to the materiality standards outlined at s. 40.04 (2), Wis. Adm. Code, the company first obtain non-disapproval from OCI, in accordance with s. 617.21 (3), Wis. Stat. and s. Ins 40.04 (2), Wis. Adm. Code.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the society are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Thomas Hilger, CFE	Insurance Financial Examiner
Abdel-Aziz Kondoh	Insurance Financial Examiner
Eleanor Lu, CISA	IT Specialist
Terry Lorenz, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Angelita Romaker
Examiner-in-Charge