Report

of the

Examination of

Catholic Financial Life

Milwaukee, Wisconsin

As of December 31, 2015

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

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September 6, 2016

Honorable Theodore K. Nickel
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 2011 as of December 31, 2010. The current examination covered the intervening period ending December 31, 2015, and included a review of such 2016 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 insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles, 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 company'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 company to satisfy the recommendations and comments made in the previous examination report.

The company 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 with respect to the alternative or additional examination steps performed during the course of 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

Catholic Financial Life is a fraternal benefit society licensed as an insurer under ch. 614, Wis. Stat. The society was originally organized on January 21, 1885, as the Catholic Knights of Wisconsin, under 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 (referred to as the Catholic Family merger). 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.

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 183 local society chapters and a democratically elected supreme governing council. Membership is limited primarily to members of the Catholic religious faith and their immediate families.

In 2015, the company collected direct premium in the following states:

Wisconsin	$48,246,568	74.9%
Illinois	3,635,896	5.7
Minnesota	2,282,176	3.5
Iowa	1,287,315	2.0
All others	8,945,137	13.9
Total	$64,397,092	100.0%

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 a universal life product. Individual annuities consist of flexible premium deferred annuity products, single premium deferred annuity products, and immediate annuities.

The major products are marketed primarily through a career agency distribution system and a number of brokers. In total, there are approximately 73 active producers including full-time and part-time agents and field managers.

The following chart is a summary of premium income as reported by the company in 2015. The growth of the company 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	$26,128,485	$38,584	$5,244,118	$20,922,951
Universal life	8,120,225		468,364	7,651,861
Immediate annuities	1,739,096			1,739,096
Deferred annuities	29,602,586			29,602,586
Accident and health	92,177		(5,562)	97,739
Total All Lines	$65,682,569	$38,584	$5,706,920	$60,014,233

III. MANAGEMENT AND CONTROL

Membership

Society membership is 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. A member is an individual who meets the membership criteria 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 16 years old have the following rights and benefits:

1. The opportunity to participate in insurance, financial, and investment products and services produced by the society and its subsidiaries,
2. The right to participate in the social, intellectual, educational, charitable, benevolent, moral, fraternal, patriotic, and religious activities of the society,
3. The right to vote for delegates to the Triennial Council and to vote and participate in local chapter affairs including serving as a branch officer other than branch President, Vice-President, or Secretary/Treasurer, and
4. Additional benefits and rights as may be granted by the board of directors.

Growth of Membership

Year	**Members**
2015	109,905
2014	112,066
2013	114,633
2012	116,509
2011	118,863
2010	121,608

Triennial Council

The society's articles of incorporation provide that the supreme governing body of the society is the Triennial Council (Council). The Council has the power to make and adopt bylaws providing for the society's government and management. The regular meetings of the Council are convened on a triennial basis. The Council consists of the society's board of directors, President, Secretary/Treasurer, and of delegates elected to the Council by the members of the society's chapters.

The principal officers of the society that are appointed by the board are the President, the Secretary, and one or more other officers designated as principal. Special meetings of the Council may be called by the board of directors or by the filing of a written petition signed by 50% of the delegates of the preceding regular meeting of the Council.

Board of Directors

The board of directors consists of 15 members. The Triennial Council shall elect not fewer than 9 nor more than 12 voting directors, and the President shall appoint 2 additional voting directors. Elections are held every three years where each director is elected to a three-year term. Appointed director's terms are for one year and are renewable. Each of the appointed voting board members must be a Catholic member with expertise in the business of the society and who owns or participates in a financial service or product as determined by the board. The President shall appoint a nonvoting member of the board who shall be a priest, bishop, archbishop, or cardinal who serves as the Spiritual Director of the society.

The board members currently receive an annual retainer of $7,500 (paid quarterly) and an attendance fee of $1,375 for each board meeting attended.

Currently the board of directors consists of the following persons:

Name and Residence	**Principal Occupation**	**Term Expires**
Dennis Kabat New Holstein, WI	Plant Manager	2018
John Kenawell Ballwin, MO	Retired	2018
Archbishop Jerome Listecki * Milwaukee, WI	Archbishop	N/A
Allan Lorge Cedarburg, WI	Retired	2018
Jay Mack Pewaukee, WI	Bank President and CEO	2018
Lisa Mick Fond du Lac, WI	Supervisor	2018

Name and Residence	Principal Occupation	Term Expires
Patrick Murphy Milwaukee, WI	Adjunct Professor	2018
William O'Toole Pleasant Prairie, WI	President and CEO of CFL	N/A
Susan Obermiller Green Bay, WI	Information Security Program Manager	2018
Paul Pinsonnault Attleboro, MA	Retired	2018
Kristine Rappe Milwaukee, WI	Retired	2017
David Singer Kenosha, WI	Investment and Financial Advisor	2018
Michael Stivoric Pewaukee, WI	Retired	2018
Marion Strauss Cedarburg, WI	Retired	2018
Jeffrey Tilley Franklin, WI	Secretary/CFO of CFL	N/A

* Indicates non-voting member
N/A – Individuals are appointed by the board of directors with no set term limits.

Officers of the Company

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

Name	Office	2015 Compensation
William O'Toole	President and CEO	$435,595
Jeffrey Tilley	Secretary and CFO	228,588
Rogelio Cabral	Vice President – Sales	187,507
Frederick Muenkel	Vice President – Insurance Services	184,180
John Borgen	Senior Vice President – Membership	179,109
John Callen	Chief Investment Officer	164,813
Kerry Riemer	Controller	159,436
Joseph Gadbois	Vice President – Fraternal Outreach	132,419
Elizabeth Gabrys	Vice President and Chief Actuary	130,962
Kristen Mueller	Vice President – Human Resources	82,511
Jeff Piotrowski	Senior Vice President – IT and Insurance Services	32,081

Committees of the Board

The company'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:

Executive Committee
Jay Mack, Chair
Allan Lorge
Patrick Murphy
Michael Stivoric
William O'Toole
Jeffrey Tilley

AFI Committee
Allan Lorge, Chair
Jay Mack
Patrick Murphy
Susan Obermiller
Kristine Rappe
David Singer

Membership Committee
Michael Stivoric, Chair
Dennis Kabat
John Kenawell
Lisa Mick
Paul Pinsonnault
Marion Strauss

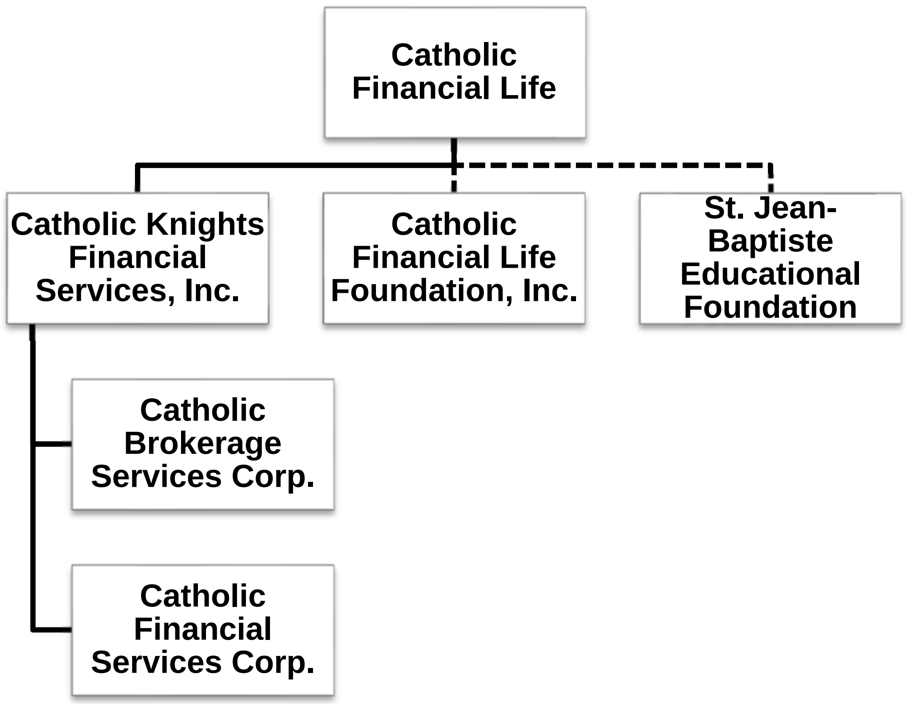
Selection Committee
Dennis Kabat, Chair
David Singer
William O'Toole

Strategy, Risk & Governance Committee
Patrick Murphy, Chair
Dennis Kabat
John Kenawell
Allan Lorge
Jay Mack
William O'Toole
Jeffrey Tilley

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 affiliates deemed significant follows the organizational chart.

Organizational Chart
As of December 31, 2015



Catholic Knights Financial Services, Inc.

Catholic Knights Financial Services, Inc. (CKFS) was incorporated June 1, 1994, as a Wisconsin-domiciled stock corporation. All of the issued and outstanding CKFS capital stock is issued to and held by Catholic Financial Life. CKFS 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, 2015, the audited financial statements of CKFS reported total assets of $243,640 total liabilities of $ $6,969 and total shareholders' equity of $236,671. Consolidated operations for 2015 produced a net income of $4,844.

Catholic Financial Services Corporation

On June 1, 1994, Catholic Financial Services Corporation (CFSC) was incorporated as a stock corporation in Wisconsin with 100% of its outstanding shares issued to and held by CKFS 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 non-traditional 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 Catholic Financial Life.

CFSC ceased operations in 2012 but has not been dissolved to date. The statement value of the society's investment in CFSC is $0. See the "Summary of Current Examination Results" for further discussion.

Catholic Brokerage Services

Catholic Brokerage Services (CBS) was incorporated November 11, 1994, as a Wisconsin stock corporation. All of the issued and outstanding capital stock of CBS is issued to and held by CKFS. 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, 2015, the audited financial statements of CBS reported total assets of $ $200,444, total liabilities of $1,416, and total equity of $199,028. Operations for 2015 produced a net loss of $4,037.

Catholic Financial Life Foundation, Inc.

In 2006, the society established The Catholic Knights Foundation, Inc. (Foundation). The Foundation focuses on educational scholarships and grants to organizations for charitable, educational and religious purposes. Employees of the society maintain and govern the Foundation’s operations, and the society and Foundation share common facilities. The society does not report any investment in the Foundation in its financial statements and transactions between the two organizations do not exceed ½ of 1% of the society’s admitted assets. Prior to the merger, Catholic Family had also established a charitable foundation, the Catholic Family Life Education Fund. During 2010, the assets of The Catholic Knights Foundation, Inc., and the Catholic Family Life Education Fund were merged into one foundation and the name was changed to the Catholic Financial Life Foundation, Inc.

St. Jean-Baptiste Educational Foundation

The St. Jean-Baptiste Educational Foundation (SJBEF) is under the auspices of Catholic Financial Life due to a series of mergers which resulted in CFL being the surviving party. SJBEF is domiciled in Rhode Island and operates in the greater New England area. Educational assistance, assistance for seminarians, and French language study are three areas that SJBEF focuses on. 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.

Agreements with Affiliates

Catholic Financial Life charges certain cost allocations to its subsidiary CFSC for services provided to the subsidiary by the society. Pursuant to a resource-sharing agreement established in 1999, the society provides CFSC with the services of society employees and the use of society equipment and facilities to the extent necessary to enable CFSC to conduct its operations as investment adviser and broker-dealer for The Catholic Funds through March 2007. The Catholic Funds were merged into the independent Ave Maria Funds on March 31, 2007. CFSC ceased operations in 2012. The agreement remains in force but has not had any activity since operations were ceased.

Service fees charged to CFSC for the costs of society services are based on cost allocation estimates for equipment and facilities used by employees directly and substantially involved with CFSC. Time is charged to CFSC based on actual time spent on CFSC work. The estimates of time and cost allocation are amended by the society periodically as needed to update the allocation model to reflect changes in services provided. Direct costs incurred by Catholic Financial Life on behalf of CFSC that are not covered by the services categories specified in the management services agreement are charged to the affiliate on a monthly basis.

V. REINSURANCE

The society's reinsurance portfolio and strategy are described below. The society's reinsurance program cedes certain insurance risks to other insurers. The society has assumed a minimal amount of reinsurance risks from other smaller fraternal benefit societies but no longer assumes any new business. Except for as noted in the “Summary of Current Examination Results” section, each of the society’s current reinsurance contracts contains proper insolvency provisions.

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 has reinsurance agreements for new business with both Swiss Re Life & Health America (Swiss Re) and with Optimum Re Insurance Company (Optimum). The society’s universal life plans are reinsured under an automatic yearly renewable term agreement with Optimum. The society’s term plans are reinsured under an automatic coinsurance agreement with Swiss Re, and all other traditional life plans are reinsured under an automatic yearly renewable term agreement with Swiss Re. The society also has facultative agreements with both Swiss Re and Optimum. The society’s maximum life insurance retention for any single life is $225,000. With the exception of the Direct Marketing and Reinsurance agreement shown below, the society cedes 100% of the risk on all accidental death polices to SCOR, formerly known as Generali USA Life Reassurance Company.

The society maintains a catastrophic excess of loss reinsurance treaty with Tokio Marine Kiln Syndicates Limited – Syndicate 510, which provides excess of loss reinsurance coverage for each loss occurrence in which there are three or more deaths on lives insured by the society. The reinsurance contract provides coverage for 100% of loss from each catastrophic loss occurrence in excess of society loss retention of $510,000 for each and every catastrophic occurrence. The contract provides excess reinsurance coverage to a maximum of $250,000 on any one life and has a maximum reinsurance indemnity limit of $3 million for each loss occurrence and an annual maximum reinsurance indemnity limit of $6 million. See the “Summary of Current Examination Results” for further discussion.

Effective February 5, 1999, the society entered into a Direct Marketing and Reinsurance Agreement in which the society, Lincoln National Life Insurance Company, and a direct marketing company, Remark, are contracting parties. Under the agreement, the reinsurer and the direct marketing firm agree to collaborate with the society in developing and conducting direct marketing campaigns targeted toward the society's existing policyholders, for the purposes of adding accidental death benefit coverages to existing life insurance policies. Under the contract's reinsurance provisions, the society cedes to the reinsurer on original terms a 50% quota share of the business resulting from the marketing campaigns covered by the agreement. The business ceded is subject to a maximum retention by the society of up to $150,000 of life and accidental death benefits liability on each life. In no event does the society retain less than $25,000 of the policies reinsured under the agreement. The society's retention is graded and decreases based upon the age and rating of the insured. The reinsurer's quota share percentage is 50% of the subject policies plus any excess that the society is unable to retain, to a maximum reinsurance coverage of $225,000 each life. The reinsurer pays the society an agent commission and an administrative allowance based on an agreed percentage of the ceded first-year annualized premiums. Additionally, the society, its reinsurer, and the same direct marketing company partnered in a follow-up direct mail ADB campaign which was launched in July of 2001. The subject business is also reinsured under the same agreement. Existing ADB riders continue to be reinsured under these contracts. No new ADB riders have been issued since 2001.

Effective July 1, 2005, the society merged with Catholic Knights of America, which resulted in reinsurance contracts with both Munich America Reassurance Company (Munich) and Optimum Re Insurance Company. The primary Optimum contract has an automatic yearly renewable term (YRT), providing excess risk reinsurance on all the Vision Life plans. The society had both YRT and coinsurance contracts with Munich, which reinsure the excess risk on all other life plans (excluding Vision Life). Effective January 1, 2015, all of these Munich contracts have been transferred to Optimum Re through a novation agreement.

Effective April, 1, 2010, the society merged with Catholic Family Life Insurance and now has reinsurance agreements on a closed block of CFLI business in runoff with Optimum, Swiss Re, and RGA Reinsurance Company. The society will not recapture any of this business but will still maintain these reinsurance agreements.

Effective April 1, 2016, the society entered into a coinsurance reinsurance agreement with Swiss Re Life and Health American, Inc. Under the terms of the agreement the society will coinsure its Guaranteed Issue Whole Life Final Expense Plan with Swiss Re Life and Health American, Inc. The society will retain 20% of each policy.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2015, 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 company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Catholic Financial Life
Assets
As of December 31, 2015

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$1,268,505,959	$	$1,268,505,959
Stocks:			
Preferred stocks	1,639,573		1,639,573
Common stocks	8,539,787		8,539,787
Mortgage loans on real estate:			
First liens	32,715,854		32,715,854
Real estate:			
Occupied by the company			
Held for production of income	5,333,969		5,333,969
Cash, cash equivalents, and short-term investments	19,325,041		19,325,041
Contract loans	24,776,614		24,776,614
Other invested assets	1,193,332		1,193,332
Investment income due and accrued	14,920,691		14,920,691
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	118,519		118,519
Reinsurance:			
Amounts recoverable from reinsurers	829,395		829,395
Electronic data processing equipment and software	360,135	159,110	201,025
Furniture and equipment, including health care delivery assets	361,256	361,256	
Write-ins for other than invested assets	6,679,237	6,679,237	
Total Assets	$1,385,299,362	$7,199,603	$1,378,099,759

Catholic Financial Life
Liabilities, Surplus, and Other Funds
As of December 31, 2015

Aggregate reserve for life contracts		$1,243,644,126
Aggregate reserve for accident and health contracts		394,652
Liability for deposit-type contracts		44,472,399
Contract claims:		
Life		4,770,709
Accident and health		279,513
Provision for policyholders' dividends and coupons payable in following calendar year:		
Apportioned for payment		2,028,597
Premiums and annuity considerations received in advance		2,100,324
Contract liabilities not included elsewhere:		
Provision for experience rating refunds		540,667
Interest maintenance reserve		5,622,992
Commissions to agents due or accrued		226,154
General expenses due or accrued		2,022,312
Transfers to separate accounts due or accrued (net)		
Taxes, licenses, and fees due or accrued, excluding federal income taxes		275,569
Unearned investment income		1,511
Amounts withheld or retained by company as agent or trustee		266,130
Amounts held for agents' account, including agents' credit balances		71,467
Remittances and items not allocated		147,141
Miscellaneous liabilities:		
Asset valuation reserve		7,653,760
Write-ins for liabilities:		5,979,123
Total liabilities		1,320,497,146
Unassigned funds (surplus)	$57,602,613	
Total capital and surplus		57,602,613
Total Liabilities, Capital and Surplus		$1,378,099,759

Catholic Financial Life
Summary of Operations
For the Year 2015

Premiums and annuity considerations for life and accident and health contracts		$ 60,014,233
Considerations for supplementary contracts with life contingencies		1,496,428
Net investment income		63,068,258
Amortization of interest maintenance reserve		1,104,855
Commissions and expense allowances on reinsurance ceded		175,900
Miscellaneous income:		
Write-ins for miscellaneous income		11,696
Total income items		125,871,370
Death benefits	$16,089,857	
Matured endowments	640,610	
Annuity benefits	16,588,935	
Disability benefits and benefits under accident and health contracts	444,590	
Surrender benefits and withdrawals for life contracts	39,461,415	
Interest and adjustments on contract or deposit-type contract funds	1,382,045	
Payments on supplementary contracts with life contingencies	3,487,186	
Increase in aggregate reserves for life and accident and health contracts	16,231,068	
Subtotal	94,325,706	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	3,388,900	
General insurance expenses	15,466,035	
Insurance taxes, licenses, and fees excluding federal income taxes	774,900	
Total deductions		113,955,541
Net gain (loss) from operations before refunds to members		11,915,829
Refund to members		1,987,596
Net gain (loss) from operations after refunds to members and before realized capital gains (losses)		9,928,233
Net realized capital gains or (losses)		(283,409)
Net Income		$ 9,644,824

Catholic Financial Life
Cash Flow
For the Year 2015

Premiums collected net of reinsurance			$ 60,071,876
Net investment income			64,064,782
Miscellaneous income			1,508,124
Total			125,644,782
Benefit- and loss-related payments		$ 76,639,818	
Commissions, expenses paid, and aggregate write-ins for deductions		19,815,649	
Dividends paid to policyholders		1,974,289	
Total deductions			98,429,756
Net cash from operations			27,215,026
Proceeds from investments sold, matured, or repaid:			
Bonds	$ 85,812,812		
Stocks	424,545		
Mortgage loans	5,633,405		
Other invested assets	339,924		
Net gains (losses) on cash, cash equivalents, and short-term investments	(2,572)		
Miscellaneous proceeds	347		
Total investment proceeds		92,208,461	
Cost of investments acquired (long-term only):			
Bonds	124,989,518		
Stocks	717,399		
Mortgage loans	65,987		
Real estate	217,547		
Other invested assets	49,298		
Miscellaneous applications	285,806		
Total investments acquired		126,325,555	
Net increase (or decrease) in contract loans and premium notes		(120,312)	
Net cash from investments			(33,996,782)
Cash from financing and miscellaneous sources:			
Net deposits on deposit-type contracts and other insurance liabilities		813,671	
Other cash provided (applied)		(814,157)	
Net cash from financing and miscellaneous sources			(486)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(6,782,242)
Cash, cash equivalents, and short-term investments:			
Beginning of year			26,107,283
End of Year			$ 19,325,041

Catholic Financial Life
Compulsory and Security Surplus Calculation
December 31, 2015

Assets			$1,378,099,759
Less liabilities			1,320,497,146
Adjusted surplus			57,602,613
Annual premium:			
Individual life and health	$26,774,940		
Factor	15%		
Total		$ 4,016,241	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		13,379,733	
Compulsory surplus (subject to a $2,000,000 minimum)			17,395,974
Compulsory Surplus Excess or (Deficit)			$ 40,206,639
Adjusted surplus (from above)			$ 57,602,613
Security surplus: (140-133797% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum of 110%)			24,180,403
Security Surplus Excess or (Deficit)			$ 33,422,210

Catholic Financial Life
Analysis of Surplus
For the Five-Year Period Ending December 31, 2015

The following schedule details items affecting the company's total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	2015	**2014**	**2013**	**2012**	**2011**
Capital and surplus, beginning of year	$45,993,651	$43,152,224	$30,819,724	$27,950,618	$26,099,948
Net income	9,644,824	10,758,435	7,187,578	2,763,176	2,107,850
Change in net unrealized capital gains/losses	(112,431)	438,236	1,124,311	1,088,383	(258,368)
Change in nonadmitted assets	(1,208,458)	(357,901)	(1,141,100)	(1,543,840)	(915,485)
Change in asset valuation reserve	(21,232)	(1,509,998)	(1,310,412)	718,616	(133,865)
Surplus adjustments:					
Change in surplus as a result of reinsurance	(175,900)	(135,844)	(175,900)	(175,900)	2,638,507
Write-ins for gains and (losses) in surplus	3,482,159	(6,351,501)	6,648,023	18,671	(1,587,969)
Capital and Surplus, End of Year	$57,602,613	$45,993,651	$43,152,224	$30,819,724	$27,950,618

The significant write-ins for gains and losses in surplus in 2013 and 2014 were due to the society's pension plan. In 2013, a change in the pension discount rate coupled with strong pension investment performance resulted in a $6.5 million increase to surplus. In 2014, the society offered a one-time lump sum window to terminate vested participants in its frozen defined benefit plan. Additionally, the company applied new mortality tables issued by the Society of Actuaries and decreased the pension discount rate which led to an increase in pension liability of $6.9 million.

Catholic Financial Life
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2015

The company'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	2015	2014	2013	2012	2011
#1	Change in Surplus and Other Funds	25%	7%	40%	10%	7%
#2	Net Income to Total Income	8	8	6	2	1
#3	Adequacy of Investment Income	145	145	142	140	141
#4	Nonadmitted to Admitted Assets	1	0	0	0	0
#5	Total Real Estate and Mortgage Loans to Cash and Invested Assets	3	3	4	5	6
#6	Total Affiliated Investments to Capital and Surplus	1	1	1	1	2
#7	Surplus Relief	0	0	0	0	9
#8	Change in Premium	-2	-4	-18*	-14*	-4
#9	Change in Product Mix	0.3	1	3.9	3.6	0.8
#10	Change in Asset Mix	0.1	0.1	0.1	0.4	0.2
#11	Change in Reserving Ratio	4	-6	-5	9	3

Ratio No. 8 compares the change in premium volume from the prior year. The exceptional result for Ratio No. 8 in 2012 and 2013 was due to the company lowering the interest rates on annuities and a focus to increase life business.

Growth of Catholic Financial Life

Year	Admitted Assets	Liabilities	Capital and Surplus
2015	$1,378,099,759	$1,320,497,146	$57,602,613
2014	1,350,071,147	1,304,077,496	45,993,651
2013	1,320,445,745	1,277,293,521	43,152,224
2012	1,288,204,174	1,257,384,450	30,819,724
2011	1,242,691,239	1,214,740,621	27,950,618
2010	1,196,641,433	1,170,541,485	26,099,948

Net Life Premiums, Annuity Considerations, and Deposits

Year	Life Insurance Premiums	Annuity Considerations	Deposit-type Contract Funds
2015	$28,631,844	$31,341,683	$1,160,829
2014	29,134,182	32,455,345	686,332
2013	31,607,071	32,912,138	631,325
2012	34,016,040	45,461,395	429,468
2011	34,437,232	57,356,992	788,779
2010	34,657,854	61,019,535	1,084,620

Life Insurance In Force (in thousands)

Year	In Force End of Year	Reinsurance Ceded	Net In Force
2015	$5,065,888	$2,246,269	$2,819,619
2014	5,023,429	2,210,211	2,813,218
2013	4,976,593	2,155,503	2,821,090
2012	4,921,659	2,047,469	2,874,190
2011	4,884,663	2,027,522	2,857,141
2010	4,898,325	1,230,962	3,667,363

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2015	$ 99,053	$ 81,712	$ 725	$31,581	115.1%
2014	100,725	53,298	898	26,856	80.5
2013	108,623	56,177	1,393	29,131	79.8
2012	116,849	60,571	1,389	29,875	78.6
2011	135,810	177,532	1,729	37,010	159.2
2010	142,823	(42,944)	2,779	73,121	23.1

* Includes increase in contract reserves
** Includes taxes, licenses, and fees

Total admitted assets have increased 15% to $1.38 billion and total liabilities increased 13% to $1.32 billion since 2010. The society's membership has decreased 10% since 2010 to 109,905 members.

Net life premiums showed a small decrease over the examination period while annuity considerations showed a large decrease. Net life premiums have decreased 17% to $28.6 million and annuity considerations have decreased 49% to $31.3 million, since 2010.

The society reported a net income in all years under examination ranging from a low of $2.1 million in 2011 and a high of $10.8 million in 2014. Net investment income ranged between $61.7 million and $63.4 million per year in the last five years. The company's surplus has increased 121% to $57.6 million from $26.1 million over the examination period.

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, 2015, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

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

1. Custodial Agreement—It is recommended that the society's custodial agreements be updated to include language consistent with the NAIC Financial Condition Examiners Handbook.

   Action—Compliance.

2. Reinsurance—It is recommended that all reinsurance reserve credits be reported in both the miscellaneous section of Exhibit 5 and in Schedule S.

   Action—Compliance.

3. Reserves—It is recommended that the Actuarial Opinion Memorandum for future years include the following information:
   - Include a discussion of the significant risks associated with the products tested.
   - Define the Conservative Basis/Method and discuss the rationale for including any liabilities in this analysis.
   - Define the Short-term Liability and discuss the rationale for including any liabilities in this analysis.

   Action—Compliance.

4. Investments—It is recommended that the society limit its total investments in equities to 50% of surplus at all times until otherwise notified by the Office of the Commissioner of Insurance.

   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 company's operations is contained in the examination work papers.

Affiliated Companies

In review of Schedule Y it was noted that the society did not include CFSC on Schedule Y. Even though the operations of CFSC have ceased, all affiliated companies are required to be included on Schedule Y. It is recommended that the society properly complete Schedule Y in accordance with the NAIC Annual Statement Instructions – Fraternal.

Reinsurance

In review of the catastrophic excess of loss reinsurance treaty with Tokio Marine Kiln Syndicates Limited – Syndicate 510 it was noted that the contract did not contain an insolvency clause. Pursuant to s. 645.58 (1), Wis. Stat., amounts recoverable shall not be reduced as a result of delinquency proceedings. To prevent a reduction in payment, the contract should contain an insolvency clause. 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.

Unclaimed Funds

In review of the society's unclaimed property filing procedures, it was noted that the search for a payee, or beneficiary of the payee, begins in the claims department. If the search is unsuccessful, the search gets delegated to the accounting department. When the search gets delegated, the claims department transfers the property and issues a check to the accounting department to hold while the search continues. If no payee is found five years after the check is written (i.e., when the search is delegated to the accounting department), the check is remitted to the state as unclaimed property. For unclaimed property filings the society uses the date the search was delegated to the accounting department (the date check was issued) rather than the date the claims department initially began the search for the payee. These procedures neglect to count the initial time spent by the claims department to locate the payee in the five-year period to report unclaimed property, causing unclaimed property to be held for longer than five years before being remitted to the state. Pursuant to ch. 177, Wis. Stat., property is considered abandoned if unclaimed for five years after the funds become due or payable; therefore, in the society's case the funds are due or payable at the point when the claims department begins its search for the payee or beneficiary of the payee. It is recommended that the society properly file its unclaimed properly in a timely fashion in accordance with ch. 177, Wis. Stat.

Investments

According to the society's Investment Policy, on a quarterly basis, the Chief Investment Officer (CIO) will report to the Asset Finance and Investment Committee (AFI) on the performance and activity of all investment portfolios. To fulfill their responsibilities, the Chief Financial Officer (CFO) and CIO will complete the following:

1. Document external manager guidelines.
2. Analyze, report, and review manager performance.
3. Assist the AFI Committee in measuring compliance to standards and objectives.
4. Prepare reports necessary for oversight and comparing results to objectives.

The Investment Policy additionally states: The CIO is responsible for reporting on the status of each investment management firm retained at each quarterly meeting of the AFI Committee.

The examination confirmed that the society has three external investment managers. It was determined that the AFI Committee is only following the above guidelines for their main investment manager's performance and compliance and is not reviewing the performance and compliance of the other two investment managers as required by the Investment Policy. It is recommended that the society follow the guidelines established in their Investment Policy.

The society has a process in place to review investment activities but does not have a formal investment transaction approval process in place at the board or management level. The examination review of the society's board and committee meeting minutes disclosed that the Audit Finance and Investment Committee monitors the society's investment performance but does not document the approval of investment transactions made by the society, including bonds held by the society, in addition to other assets. The board of directors is required to manage the business and affairs of the society including, but not limited to, the oversight of the society's investments in accordance with s. 611.51 (6), Wis. Stat. To ensure that the society's investment transactions are made in accordance with the society's investment policy, the board or a subordinate committee thereof should 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. 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.

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 its name to that currently used.

Total admitted assets have increased 15% to $1.38 billion and total liabilities increased 13% to $1.32 billion since 2010. The society's membership has decreased 10% since 2010 to 109,905 members.

Net life premiums showed a small decrease over the examination period while annuity considerations showed a large decrease. Net life premiums have decreased 17% to $28.6 million and annuity considerations have decreased 49% to $31.3 million since 2010.

The society reported a net income in all years under examination ranging from a low of $2.1 million in 2011 and a high of $10.8 million in 2014. Net investment income ranged between $61.7 million and $63.4 million per year over the examination period. The company's surplus has increased 121% to $57.6 million from $26.1 million over the examination period.

The current examination determined that the society is in compliance with all four of the recommendations in the prior examination. The current examination resulted in five recommendations.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 27 - Affiliated Companies—It is recommended that the society properly complete Schedule Y in accordance with the NAIC Annual Statement Instructions – Fraternal.

2. Page 27 - 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.

3. Page 28 - Unclaimed Funds—It is recommended that the society properly file its unclaimed properly in a timely fashion in accordance with ch. 177, Wis. Stat.

4. Page 28 - Investments—It is recommended that the society follow the guidelines established in their Investment Policy.

5. Page 29 - 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.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company 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**
James Vanden Branden	Insurance Financial Examiner
Kongmeng Yang	Insurance Financial Examiner
John Coyle	Insurance Financial Examiner
Tom Houston, CFE	ACL Specialist
Dave Jenson, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Terry Lorenz
Examiner-in-Charge