

Report of the Examination of
Employees' Mutual Benefit Association
Milwaukee, Wisconsin
As of December 31, 2023

TABLE OF CONTENTS

	PAGE
I. INTRODUCTION	2
II. HISTORY AND PLAN OF OPERATION.....	3
III. MANAGEMENT AND CONTROL.....	5
IV. AFFILIATED COMPANIES.....	8
V. REINSURANCE.....	9
VI. FINANCIAL DATA	10
VII. SUMMARY OF EXAMINATION RESULTS	18
VIII. CONCLUSION.....	20
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS	21
X. ACKNOWLEDGMENT.....	22
XI. SUBSEQUENT EVENTS.....	23



Wisconsin Office of the
COMMISSIONER OF INSURANCE
FINANCIAL REGULATION

Tony Evers, Governor of Wisconsin
Nathan Houdek, Commissioner of Insurance

March 26, 2025

Honorable Nathan D. Houdek
Commissioner of Insurance
State of Wisconsin
101 East Wilson Street
Madison, Wisconsin 53703

Commissioner:

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

EMPLOYES' MUTUAL BENEFIT ASSOCIATION
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Employees' Mutual Benefit Association (the society or EMBA) was conducted in 2019 as of December 31, 2018. The current examination covered the intervening period ending December 31, 2023, 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.

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 completing this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

II. HISTORY AND PLAN OF OPERATION

The society was chartered on March 1, 1912, and commenced business on September 3, 1914, under the Wisconsin laws applicable to fraternal benefit societies. The society is licensed under ch. 614, Wis. Stat., and is authorized to write life and annuity and disability lines of insurance in the states of Wisconsin and Michigan.

In 2023, the society collected direct premium in the following states:

Wisconsin	\$153,139	99.0%
Michigan	<u>1,504</u>	<u>1.0</u>
Total	<u>\$154,643</u>	<u>100.0%</u>

The only product marketed by the society is short-term disability insurance. The primary purpose is to provide for partial pay replacement for lost wages due to sickness and accidents. The product, which is referred to as the Employees' Mutual Benefit Association Short Term Disability Insurance Plan, provides short-term weekly indemnity disability and accidental death and dismemberment coverage marketed to full-time employees of Wisconsin Electric Power Company and Wisconsin Gas, LLC, (the sponsoring companies), which are subsidiaries of Wisconsin Energy Corporation. The society has 12 chapters corresponding to various service centers of the sponsoring companies. The society has no agents. The disability insurance product is marketed internally through various corporate-sponsored employee orientation programs.

Disability insurance premium rate tables are established based on daily benefit options, coverage risk class based on job occupation and age groupings. The society has the right to change these premium rate tables at any time, but only for a whole coverage class. Newly issued policies provide benefits of \$20, \$25, or \$40 per day for a maximum period of 365 days after a minimum waiting period of six days. The policy coverage also provides for accidental death and dismemberment benefits up to a maximum of \$12,000. Policy premiums are primarily paid through automatic employee payroll deductions.

Policies may be canceled by the insured at any time after the initial term with written notification. The society may cancel the policy by providing written notice of intent of non-renewal not less than 60 days before the end of the term period for which premium has been accepted. Policy coverage is automatically terminated without notice if the insured attains the age of 70, ceases to be an active full-

time employee of a sponsoring company, has been paid the maximum benefits, or if it is proven that false information was provided on the original application.

The society utilizes two separate ledgers or “Funds” to record the business of the society as follows:

Sickness and Accident Fund—is used to record all insurance business operations associated with premium collection and benefits disbursement under the society's disability plan and to provide fraternal benefits to its members.

Charitable Fund—is used to record charitable contributions and donations by employees of the sponsoring companies to the EMBA Employee Emergency Fund, which is used for hardship loans and grants to its members.

III. MANAGEMENT AND CONTROL

Membership

EMBA membership consists of regular and retired members. All current employees of the sponsoring companies who are at least 18 years of age are regular members. Regular members shall have the right to participate in the affairs and activities of their respective chapter in which they are members and may hold office therein. A retired member is a former employee of the sponsoring companies who was formerly a regular member of the society. A retired member may participate in the affairs and activities of the society but may not hold office or vote.

Growth of Membership

Year	Members*
2023	3,226
2022	3,345
2021	3,127
2020	3,513
2019	3,527
2018	3,723

*Membership numbers only include regular members

As of December 31, 2023, the society had 333 active policyholders among its membership.

Board of Directors

The board of directors consists of 16 members. Directors are elected annually to serve a three-year term; the number of officers up for election each year varies. Officers are elected at the board's annual meeting. Each elected board member represents a different chapter or geographic region of the sponsor company. Four directors have been appointed by the sponsoring company to serve indefinite terms until the society changes their appointments. Board members do not receive payment for serving on the board.

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

Name	Principal Occupation	Term Expires
Krystine Koike, Pewaukee Chapter	Senior Digital Product Manager	2025
Kelly Fehrman, Western Chapter	Energy Services Consultant	2025

Name	Principal Occupation	Term Expires
Mel Wills, Fox Valley Chapter	Operations Manager NE Area	2025
Jeffrey Carpenter, Port Washington Chapter	Design Specialist	2025
Tarek Musaitef, Lakeshore Chapter	Regulation Crew Leader	2025
Michelle Lamke, Central Chapter	Manager Ethics & Compliance	2026
Joe Dable, Metro Chapter	Customer Service Technician	2026
Matthew Cavanaugh, Oak Creek Chapter	Plant Control Operator	2026
Zachary Beanland Sr., Silver Spring Chapter	Gas Operations Inspector	2026
Wayne Fillinger Jr., Southern Chapter	Lead Design Specialist	2026
Monica Gebhart, Northern Chapter	Design Specialist	2026
Timothy Haagensen, Iron Mountain Chapter	IT Telecom Technician	2027
Perry Bishop	Manager Customer Service	*
John Zaganczyk	Senior VP Customer Service	*
Timothy Saviano	Senior Corporate Counsel	*
Jennifer Buchanan	Assistant to the President/CEO	*

* Indefinite term, serve until the sponsoring company changes their appointment

Officers of the Society

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

Name	Office
Wayne Fillinger Jr.	President
Monica Gebhart	First Vice President
Timothy Haagensen	Second Vice President
Timothy Smith	Secretary
Paul Hirthe	Treasurer

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:

Executive Committee

Monica Gebhart, Chair
Kelly Fehrman
Perry Bishop
Zachary Beanland Sr.
Joe Dable
Michelle Lamke
Timothy Haagensen
Wayne Fillinger Jr.

Ad-Hoc Committee

Monica Gebhart, Chair
Matthew Cavanaugh
Michelle Lamke
Jennifer Buchanan
Wayne Fillinger Jr.

Insurance Committee

John Zaganczyk, Chair
Matthew Cavanaugh
Krystine Koike
Mel Wills

Auditing Committee

Perry Bishop, Chair
Kelly Fehrman
Timothy Saviano
Jennifer Buchanan

By-Law Committee

Timothy Saviano, Chair
Mel Wills
Zachary Beanland Sr.

Finance Committee

Paul Hirthe, Chair
Jeffrey Carpenter
Joe Dable
John Zaganczyk

President Wayne Fillinger Jr. is an ex-officio member of every committee. The Executive Committee meets twice each month, all other committees meet only on an as-needed basis.

IV. AFFILIATED COMPANIES

Sponsor Agreement

A Sponsor Agreement (agreement) was put into place on August 27, 2009, between Wisconsin Electric Power Company, Wisconsin Gas, LLC, and EMBA. This agreement provides a structure for the relationship between the three entities. Per the agreement, EMBA agrees to offer sickness and accident insurance and provide social benefits to the employees of the sponsoring companies. In return, the sponsoring companies agree to provide financial support if EMBA fails to maintain its minimum surplus requirements.

In addition to the above-stated terms, the agreement states that the sponsoring companies will assume certain expenses on behalf of EMBA. All information regarding the expenses incurred on behalf of EMBA must be sent to the sponsoring companies by the end of the month following the period in which the expenses were incurred. The sponsoring companies will prepare and send invoices to EMBA for those expenses incurred on behalf of the association, which are due and payable 30 days after issuance of the invoice.

The agreement has a term of one year and is annually renewable. Notice of termination must be provided at least 30 days prior to the expiration of the current term; otherwise, the agreement will automatically be renewed for another period of one year.

V. REINSURANCE

The society does not reinsure any of its insurance business.

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, 2023, 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 and the compulsory and security surplus calculation.

Employees' Mutual Benefit Association
Assets
As of December 31, 2023

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents, and short-term investments	\$694,055	\$	\$694,055
Write-ins for other than invested assets:			
Loans to Members	<u>8,425</u>	<u>8,425</u>	<u> </u>
Total Assets	<u>\$702,480</u>	<u>\$8,425</u>	<u>\$694,055</u>

Employees' Mutual Benefit Association
Liabilities, Surplus, and Other Funds
As of December 31, 2023

Aggregate reserve for accident and health contracts		\$ 12,358
Contract claims:		
Accident and health		2,783
General expenses due or accrued		5,540
Amounts withheld or retained by reporting entity as agent or trustee		100,159
Miscellaneous liabilities:		
Payable to parent, subsidiaries and affiliates		<u>2,414</u>
Total Liabilities		123,254
Unassigned funds (surplus)	<u>\$570,801</u>	
Total Capital and Surplus		<u>570,801</u>
Total Liabilities, Capital and Surplus		<u>\$694,055</u>

Employees' Mutual Benefit Association
Summary of Operations
For the Year 2023

Premiums and annuity considerations for life and accident and health contracts		\$154,643
Net investment income		<u>15,187</u>
Total income items		169,830
Disability benefits and benefits under accident and health contracts	\$ 51,040	
Increase in aggregate reserves for life and accident and health contracts	<u>(22,794)</u>	
Subtotal	28,246	
General insurance expenses and fraternal expenses	168,802	
Insurance taxes, licenses, and fees excluding federal income taxes	<u>3,705</u>	
Total deductions		<u>200,753</u>
Net Income (Loss)		<u><u>\$(30,923)</u></u>

Employees' Mutual Benefit Association
Cash Flow
For the Year 2023

Premiums collected net of reinsurance		\$154,643
Net investment income		<u>15,187</u>
Total		169,830
Benefit- and loss-related payments	\$ 52,260	
Commissions, expenses paid, and aggregate write-ins for deductions	<u>170,767</u>	
Total deductions		<u>223,027</u>
Net cash from operations		(53,197)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>(21,095)</u>	
Net cash from financing and miscellaneous sources		<u>(21,095)</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(74,292)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>768,347</u>
End of year		<u>\$694,055</u>

**Employees' Mutual Benefit Association
Compulsory and Security Surplus Calculation
December 31, 2023**

Assets		\$694,055
Less liabilities		<u>123,254</u>
Adjusted surplus		570,801
Annual premium:		
Individual life and health	\$154,643	
Factor	<u>15%</u>	
Total	23,196	
Compulsory surplus (subject to a \$300,000 minimum)		<u>300,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$270,801</u>
Adjusted surplus (from above)		\$570,801
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>420,000</u>
Security Surplus Excess (Deficit)		<u>\$150,801</u>

Employees' Mutual Benefit Association
Analysis of Surplus
For the Five-Year Period Ending December 31, 2023

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.

	2023	2022	2021	2020	2019
Capital and surplus, beginning of year	\$604,424	\$677,838	\$688,036	\$688,346	\$688,361
Net income	(30,923)	(69,114)	(13,434)	(4,349)	(200)
Change in nonadmitted assets and related items	(2,700)	(4,300)	2,386	3,293	238
Change in asset valuation reserve	_____	_____	850	746	(53)
Capital and Surplus, End of Year	<u>\$570,801</u>	<u>\$604,424</u>	<u>\$677,838</u>	<u>\$688,036</u>	<u>\$688,346</u>

Growth of Employees' Mutual Benefit Association

Year	Admitted Assets	Liabilities	Capital and Surplus	Number of Policyholders
2023	\$694,055	\$123,254	\$570,801	333
2022	768,347	163,923	604,424	372
2021	832,720	154,882	677,838	429
2020	855,217	167,181	688,036	499
2019	873,418	185,072	688,346	545
2018	895,564	207,203	688,361	619

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Other Expenses Incurred**	Combined Loss and Expense Ratio
2023	\$154,643	\$ 28,568	\$91,976	77.9%
2022	174,772	91,556	83,298	100.0
2021	192,195	68,600	91,687	83.4
2020	216,552	85,096	79,227	75.9
2019	238,148	50,077	98,004	62.2
2018	288,356	120,024	92,801	73.8

* Includes change in contract reserves

** Includes taxes, licenses, and fees

The society has seen a decline in policyholders every year for many years. The society only markets and sells its product to the employees of Wisconsin Electric Power Company and Wisconsin Gas, LLC. which limits the society's ability to expand its policyholder base. Policyholders have been retiring, and more often new hires at the sponsoring companies have been declining to purchase a policy, leading to the declines in policyholder counts. Added policies have been exceeded by cancellations and terminations every year under examination. The declining policyholder count has shown impacts in the overall decline of admitted assets, liabilities, total surplus, and net premiums earned. Although the combined loss and expense ratio generally stayed below 100%, the society's pricing has not been adequate to cover all costs and losses the society incurs which had led itself to declining surplus. The society produced a net loss each year under examination. The decreasing number of policyholders has created concerns about the near-term viability of the society.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the society as of December 31, 2023, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments or suggestions in the previous examination report.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted.

Noncompliance with Bylaws

The examination identified that the society has not complied with its bylaws. As outlined in Article V Section 5. – Powers and Duties of the Secretary: “The Secretary shall act as the Secretary at all Board and Committee meetings and keep a record of all transactions.” The examination identified that not all minutes of Board and Committee meetings were produced for the examination team by the society. It is also noted in Article IV Section 13. – Quorum of the society’s bylaws: “A majority of the Board of Directors shall constitute a quorum of such Board for the transaction of business. Board members may meet in person or call in on a conference line.” There were four meetings noted during the examination period where the committee conducted votes via email rather than in person or via conference line. The agenda items being handled over several days via email do not satisfy the requirements outlined in the society’s bylaws. It is recommended that the society comply with its bylaws by maintaining documentation of all board and committee meetings and establishing a quorum for the transaction of business at all board meetings.

Actuarial Report not Presented to the Board of Directors

The examination identified that upon review of the minutes of the board of directors there was no evidence of the Actuarial Opinion or report being presented to the board of directors. As stated in the *NAIC Annual Statement Instructions—Life Accident and Health/Fraternal*: “The Appointed Actuary must report to the Board of Directors or the Audit Committee each year on the items within the scope of the Actuarial Opinion. The minutes of the Board of Directors shall indicate that the Appointed Actuary has presented such information to the Board of Directors or the Audit Committee.” It is recommended that the society comply with the *NAIC Annual Statement Instructions* by indicating within the minutes of the board

of directors or audit committee that the items within the scope of the Actuarial Opinion have been presented to them.

Missing Conflict of Interest Statements

In accordance with a directive from the Office of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. Annually the society is required to complete director and officer conflict of interest statements. The examination reviewed the society's conflict of interest statements and found that an officer and director conflict of interest statement from the examination period was not provided. It is recommended that the society formally establish a procedure for its completion and retention of conflict-of-interest questionnaires on an annual basis as required by the directive of the commissioner of insurance.

VIII. CONCLUSION

EMBA is authorized to write life and annuity and disability lines of insurance in the states of Wisconsin and Michigan. The only product marketed by the society is short-term disability insurance. The primary purpose is to provide for partial pay replacement for lost wages due to sickness and accidents. The product is only marketed to full-time employees of Wisconsin Electric Power Company and Wisconsin Gas, LLC. The operations of the society are funded by payroll deductions of policyholders.

EMBA reported admitted assets of \$694,055 and surplus of \$570,801 as of December 31, 2023. The society's surplus decreased every year under examination totaling a 17.1% decline from the prior examination. No adjustments or reclassifications to the surplus were made as a result of the examination.

The society has seen policyholder counts continuously decline which has had a negative impact on the society's ability to maintain its surplus. EMBA has an agreement with its sponsoring company which indicates that they will provide financial support should the association fall below minimum legal surplus requirements. The decreasing number of policyholders has created concerns about the near-term viability of the society.

The prior examination resulted in no recommendations. The current examination of EMBA as of December 31, 2023, resulted in three recommendations, which are outlined in Section IX below.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were three recommendations made as a result of this examination

1. Page 17 - Noncompliance with Bylaws—It is recommended that the society comply with its bylaws by maintaining documentation of all board and committee meetings and establishing a quorum for the transaction of business at all board meetings.
2. Page 17 - Actuarial Report Not Presented to the Board of Directors—It is recommended that the society comply with the NAIC *Annual Statement Instructions* by indicating within the minutes of the board of directors or audit committee that the items within the scope of the Actuarial Opinion have been presented to them.
3. Page 18 - Conflict of Interest Statements—It is recommended that the society formally establish a procedure for its completion and retention of conflict-of-interest questionnaires on an annual basis as required by the directive of the Commissioner of Insurance.

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
Benjamin Marquardt	Insurance Financial Examiner
Junji Nartatez, CISA, AES	IT Specialist
Terry Lorenz, CFE	Quality Control Specialist
Levi Olson, CFE	Reserve Specialist

Respectfully submitted,

A handwritten signature in black ink, reading "Takoda Boyd". The signature is fluid and cursive, with the first name "Takoda" and last name "Boyd" clearly distinguishable.

Takoda Boyd
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

In December 2024, the society informed the OCI of its intention to enter voluntary dissolution. The society entered into a voluntary Stipulation and Order on January 13, 2025, to not issue new insurance policies or otherwise engage in the acceptance of any form of new insurance risk and to service current policies in force. In accordance with s. 614.74 Wis. Stat. the society plans to submit its plan of voluntary dissolution to the OCI during 2025.