

Report of the Examination of
Employees' Mutual Benefit Association
Milwaukee, Wisconsin
As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

Wisconsin.gov

March 18, 2020

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
ociinformation@wisconsin.gov
oci.wi.gov

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:

EMPLOYEES' 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 2014 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2018, and included a review of such 2019 and 2020 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 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 with respect to 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 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 2018, the society collected direct premium in the following states:

Wisconsin	\$282,284	97.9%
Michigan	<u>6,072</u>	<u>2.1</u>
Total	<u>\$288,356</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 accident. 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 13 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 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.

Employees' Mutual Benefit Association 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

Employees' Mutual Benefit Association 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 have the right to vote on the affairs of EMBA and may hold office. A retired member is a former employee of the sponsoring companies who has retired on a pension and was formerly a regular member of the fraternal 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
2018	3,723
2017	3,805
2016	3,911
2015	4,076
2014	4,131
2013	4,437

As of December 31, 2018, the society had 619 active policyholders among its membership.

Board of Directors

The board of directors consists of 18 members. Four directors are elected annually to serve a three-year term, and five directors have been appointed by the sponsoring company to serve indefinite terms until the company changes their appointments. Officers are elected at the board's annual meeting. The board members do not receive payment for serving on the board.

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

Name and Residence	Principal Occupation	Term Expires
Zachary Grant Beanland Sr. Milwaukee, WI	Distribution Worker	2020
Perry Lee Bishop Racine, WI	Manager Customer Service	*
Jeffrey D. Carpenter Port Washington, WI	Designer	2019
Matthew Cavanaugh Oak Creek, WI	Control Operator–Oak Creek PP	2020

Name and Residence	Principal Occupation	Term Expires
DuWayne Donald Criter Racine, WI	Troubleshooter	2021
Wayne Allan Fillinger Burlington, WI	Manager Land Quality	2019
Kelly Fehrman Waukesha, WI	Energy Services Consultant	2021
Michael Garcia Milwaukee, WI	Leading Plant Electrician	2021
Monica Gebhart Milwaukee, WI	Designer	2020
Timothy R. Haagensen Iron Mountain, MI	Communications Technician	2019
Krystine Kay Koike Pewaukee, WI	Senior Business Analyst	2019
John Jay Marose Waukesha, WI	Supervisor- Electric Distribution	*
Eddie Nash Milwaukee, WI	Operations Manager-Northern	2020
Timothy Saviano Milwaukee, WI	Legal Counsel	*
Michelle Waters Milwaukee, WI	Area Manager-Western	*
Mel Wills Appleton, WI	Operations Manager	2019
Jodi Wire Milwaukee, WI	Director-Customer Service	2021
John Alexander Zaganczyk Milwaukee, WI	Customer Service Director	*

* Until sponsoring company changes their appointment

Officers of the Society

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

Name	Office	2018 Compensation
John Alexander Zaganczyk	President	\$ 0
Jody L. Wire	Vice President	0
Joseph Gerard Kopinski	Secretary	76,637
Timothy Smith	Assistant Secretary	0
Christopher Lapinski	Treasurer	0

All officers are WE Energies' employees and are therefore compensated by WE Energies. EMBA reimburses WE Energies for approximately 50% of the secretary's salary and 100% of the assistant secretary's salary. The assistant secretary, Timothy Smith, was appointed during the third quarter of 2018. None of his 2018 salary was reimbursed to WE Energies.

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

Jodi Wire, Chair
Michael Garcia
Tim Haagensen
Mel Wills
Zachary Beanland, Sr.
John Marose
Timothy Saviano
Monica Gebhart
John Zaganczyk
Michelle Waters
Kelly Fehrman

By-Law Committee

Timothy Saviano, Chair
Jeffrey Carpenter
Krystine Koike
Jodi Wire

Finance/Investment Committee

Christopher Lapinski, Chair
Zachary Beanland, Sr.
Jeffrey Carpenter
Krystine Koike
Jodi Wire

Nominations & Election Committee

The Nominations & Election Committee is created when board elections are approaching. The president will appoint directors, both elected and appointed, who are not up for reelection. If the president is up for reelection, the vice president and/or secretary shall appoint a committee. Currently, there are no members on this committee.

Auditing Committee

Christopher Lapinski, Chair
Zachary Beanland, Sr.
Perry Bishop
Jeffrey Carpenter
Matt Cavanaugh
John Marose
John Zaganczyk

Insurance Committee

Perry Bishop, Chair
Matt Cavanaugh
Tim Haagensen

Ad-Hoc Committee

Michelle Waters, Chair
Kelly Fehrman
Matt Cavanaugh
Tim Haagensen

IV. SPONSOR AGREEMENT

A Sponsor Agreement was put into place on August 27, 2009, between Wisconsin Electric Power Company, Wisconsin Gas, LLC, and Employees' Mutual Benefit Association. 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 one-year agreement 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, 2018, 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.

Employees' Mutual Benefit Association Assets As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$514,236	\$	\$514,236
Cash, cash equivalents, and short-term investments	381,276		381,276
Investment income due and accrued	52		52
Write-ins for other than invested assets:			
Loans to Members	<u>7,342</u>	<u>7,342</u>	<u> </u>
Total Assets	<u>\$902,906</u>	<u>\$7,342</u>	<u>\$895,564</u>

Employees' Mutual Benefit Association Liabilities, Surplus, and Other Funds As of December 31, 2018

Aggregate reserve for accident and health contracts		\$ 50,842
Contract claims:		
Accident and health		6,635
General expenses due or accrued		6,935
Amounts withheld or retained by society as agent or trustee		130,329
Miscellaneous liabilities:		
Asset valuation reserve		1,543
Payable to subsidiaries and affiliates		<u>10,919</u>
Total Liabilities		207,202
Unassigned funds (surplus)	<u>\$688,361</u>	
Total Surplus and Other Funds		<u>688,361</u>
Total Liabilities, Surplus, and Other Funds		<u>\$895,563</u>

**Employees' Mutual Benefit Association
Summary of Operations
For the Year 2018**

Premiums and annuity considerations for life and accident and health contracts		\$288,356
Net investment income		7,788
Write-ins for miscellaneous income:		
Social allowance refund		<u>71</u>
Total income items		296,215
Disability, accident and health benefits including premiums waived	\$143,090	
Increase in aggregate reserve for life and accident and health contracts	<u>(25,158)</u>	
Subtotal	117,932	
General insurance expenses and fraternal expenses	187,435	
Insurance taxes, licenses, and fees	<u>3,602</u>	
Total deductions		<u>308,969</u>
Net Loss		<u>\$ (12,754)</u>

**Employees' Mutual Benefit Association
Cash Flow
For the Year 2018**

Premiums collected net of reinsurance		\$288,356
Net investment income		11,245
Miscellaneous income		<u>71</u>
Total		299,672
Benefit- and loss-related payments	\$152,712	
Commissions, expenses paid, and aggregate write-ins for deductions	194,189	
Total deductions		<u>346,901</u>
Net cash from operations		(47,229)
Proceeds from investments sold, matured, or repaid:		
Bonds	510,306	
Cost of investments acquired (long-term only):		
Bonds	<u>259,422</u>	
Net cash from investments		250,884
Cash provided from (applied for) financing and miscellaneous sources:		
Other cash provided (applied)		(2,916)
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		200,739
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>180,537</u>
End of Year		<u>\$381,276</u>

**Employees' Mutual Benefit Association
Compulsory and Security Surplus Calculation
December 31, 2018**

Assets		\$895,564
Less liabilities		<u>207,202</u>
Adjusted surplus		688,362
Annual premium:		
Individual life and health	\$288,356	
Factor	<u>15%</u>	
Total	43,253	
Compulsory surplus (subject to a \$300,000 minimum)		<u>300,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$388,682</u>
Adjusted surplus (from above)		\$688,362
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>\$268,362</u>

**Employees' Mutual Benefit Association
Analysis of Surplus
For the Five-Year Period Ending December 31, 2018**

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.

	2018	2017	2016	2015	2014
Surplus, beginning of year	\$696,073	\$770,193	\$811,465	\$837,326	\$786,416
Net income	(12,754)	(83,438)	(50,105)	(29,375)	65,546
Change in nonadmitted assets and related items	4,290	9,342	8,093	3,775	(14,286)
Change in asset valuation reserve	<u>752</u>	<u>(24)</u>	<u>741</u>	<u>(261)</u>	<u>(350)</u>
Surplus, End of Year	<u>\$688,361</u>	<u>\$696,073</u>	<u>\$770,193</u>	<u>\$811,465</u>	<u>\$837,326</u>

**Employees' Mutual Benefit Association
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2018**

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	2018	2017	2016	2015	2014
#1 Change in surplus & other funds	-1%	-10%*	-5%	-3%	6%
#2 Net income to total income	-4*	-24*	-14*	-7*	16
#3 Adequacy of investment income	NR	NR	NR	NR	NR
#4 Nonadmitted to admitted assets	1	1	2	3	3
#5 Total real estate & mortgage loans to cash & invested assets	0	0	0	0	0
#6 Total affil. investments to surplus	0	0	0	0	0
#7 Surplus relief	0	0	0	0	0
#8 Change in premium	-14*	-8	-7	-6	-7
#9 Change in product mix	0.0	0.0	0.0	0.0	0.0
#10 Change in asset mix	3.1	4.1	5.3*	0.2	3.1
#11 Change in reserving	0	0	0	0	0

The unusual results for Ratios #1 and 2 were largely due to pricing having difficulty covering fixed expenses and fraternal expenses, exasperated by a declining number of policyholders. The declining number of policyholders was also the main driver behind the unusual result for Ratio #8 in 2018.

The unusual result for Ratio #10 was due to a change in EMBA's investment portfolio. A few of the society's CDs matured in 2016, with some of the matured proceeds being reinvested in a money market mutual fund.

Growth of Employees Mutual Benefit Association

Year	Admitted Assets	Liabilities	Total Surplus
2018	\$ 895,564	\$207,202	\$688,361
2017	945,708	249,635	696,073
2016	1,010,112	239,919	770,193
2015	1,070,875	259,410	811,465
2014	1,085,104	247,778	837,326
2013	1,158,655	372,240	786,415

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Other Expenses Incurred**	Combined Loss and Expense Ratio
2018	\$288,356	\$120,024	\$92,801	73.8%
2017	335,395	210,278	100,759	92.7
2016	363,971	216,833	96,984	86.2
2015	390,124	214,892	98,492	80.3
2014	412,926	99,984	117,860	52.8
2013	446,187	300,726	118,327	93.9

* Includes change in contract reserves

** Includes taxes, licenses, and fees

The decline in policyholders manifests itself in an overall decline in admitted assets, liabilities, total surplus, and net premiums earned. The combined loss and expense ratios of below 100% indicate that pricing is adequate to handle claims experience. Although not shown in the above tables, pricing has more difficulty covering fixed expenses and fraternal expenses.

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, 2018, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two 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. Elected Directors—It is recommended that the company follow its articles of incorporation and bylaws by maintaining the appropriate amount of elected directors.

Action—Compliance.

2. Management Plan—It is recommended that the company provide a management plan to the Office of the Commissioner of Insurance by December 31, 2015, which outlines their plans to either remedy the declining surplus or run-off its policies and wind up affairs pursuant to s. 614.74, Wis. Stat.

Action—Compliance.

Summary of Current Examination Results

There were no adverse findings as a result of the examination.

VIII. CONCLUSION

Employees' Mutual Benefit Association reported admitted assets of \$895,564 and members' surplus of \$688,361 as of December 31, 2018. The society's surplus has decreased 12.5% from the prior examination. No adjustments or reclassifications to surplus were made as a result of the examination.

The decreasing number of policyholders has created concerns about the long-term viability of the society. The agreement with EMBA's sponsoring companies guarantees that EMBA's minimum surplus requirements will be met.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during 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
James R. Lindell	Insurance Financial Examiner
David A. Jensen, CFE	IT Specialist
Jerry C. DeArmond, CFE	Reserve Specialist
Karl A. Albert, CFE	Workpaper Specialist

Respectfully submitted,

Thomas C. Hilger

Thomas C. Hilger, AFE
Examiner-in-Charge