

REPORT OF EXAMINATION
OF THE
LUSO-AMERICAN FINANCIAL
AS OF
DECEMBER 31, 2023

A handwritten signature in blue ink, appearing to read "D. Silva", is positioned above the filing date.

Filed on June 2, 2025

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION	1
SOCIETY HISTORY	2
MANAGEMENT AND CONTROL	2
TERRITORY AND PLAN OF OPERATION.....	4
REINSURANCE:	4
Assumed.....	4
Ceded	4
LOSS EXPERIENCE	7
FINANCIAL STATEMENTS:	8
Statement of Financial Condition as of December 31, 2023.....	9
Summary of Operations and Surplus Account for the Year Ended December 31, 2023	10
Reconciliation of Capital and Surplus from December 31, 2019 through December 31, 2023	11
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	12
Aggregate Reserve for Life Contracts and Liability for Deposit-Type Contracts	12
SUMMARY OF COMMENTS AND RECOMMENDATIONS:	12
Current Report of Examination	12
Previous Report of Examination	12
ACKNOWLEDGMENT	13

Sacramento, California
May 14, 2025

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

LUSO-AMERICAN FINANCIAL

(hereinafter also referred to as the Society). The Society's home office is located at 7080 Donlon Way, Suite 200, Dublin, California 94568.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Society. The previous examination of the Society was as of December 31, 2019. This examination covered the period from January 1, 2020 through December 31, 2023.

The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook (Handbook). The Handbook requires the planning and performance of the examination to evaluate the Society's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause the Society's surplus to be materially misstated both currently and prospectively.

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. 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 following the Society's financial statements.

This examination report includes findings of fact and general information about the Society and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Society.

SOCIETY HISTORY

Effective July 1, 1957, United National Life Insurance Society was the successor of the merger between the Benevolent Society of California, founded in San Francisco in 1868, and the Uniao Portuguesa Continental, founded in Oakland in 1917. The successor's name was changed to Luso-American Life Insurance Society (LALIS) in 1993. In 2002, the Society merged with the Portuguese Continental Union of the United States of America, domiciled in Massachusetts, with the Society being the surviving entity. Effective January 1, 2008, the Sociedade Portuguesa Rainha Santa Isabel merged with and into the Society. Effective August 9, 2016, LALIS changed its name to Luso-American Financial – A Fraternal Benefit Society.

MANAGEMENT AND CONTROL

The Supreme and governing body of the Society is composed of delegates as follows: (1) officers and directors of the Society, (2) delegates from the Luso-American Fraternal Federation, the Portuguese Continental Union, and the Sociedade Portuguesa Rainha Santa Isabel, and (3) others that may be appointed or elected, with the privilege of the floor but not right to vote.

The three intermediate fraternal divisions of the Society are Luso-American Fraternal Federation, the Portuguese Continental Union, and the Sociedade Portuguesa Rainha Santa Isabel. Each division is entitled to send one delegate for each 400-adult benefit members to the biannual meeting of the Society. In addition, there shall be no more than one-third of the number of delegates from each fraternal division elected as alternate

delegates. Based on membership as of December 31, 2023, Luso-American Fraternal Federation had 22 delegates, the Portuguese Continental Union had 4 delegates, and Sociedade Portuguesa Rainha Santa Isabel had 6 delegates.

Directors serve a term of four years and may serve a maximum of three consecutive terms for a total of twelve years. Approximately one-half of the director positions are up for election every three years at the annual convention. The nine members of the board of directors managed the business and affairs of the Society. Following are members of the board and principal officers of the Society serving at December 31, 2023:

Board of Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Herminia Grosso Howell, New Jersey	Property Manager/Bookkeeper 1837, LLC
Maritana B. Guadalupe Newington, Connecticut	Retired
Amarantina M. Medeiros Santa Clara, California	Stewardship Officer CHP 11-99 Foundation
Elizabeth A. Motta Riverdale, California	President Riverdale Chamber of Commerce
Judy V. Mottini Granite Bay, California	Retired
John N. Perdigao Richmond, California	Retired
Daniel A. Rocha Artesia, California	Owner 420 Web Pros
Anthony G. Sozinho Hanford, California	Owner Sozinho Insurance Services
Manuel A. Vieira Santa Clara, California	CEO/President Vieira Enterprises, Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
Sue Nichols ⁽¹⁾	Controller
Esther G. Mahler	Corporate Secretary

The following change in officer occurred subsequent to the examination date:

(1) Sue Nichols was promoted to Interim Executive Vice President, effective April 1, 2025.

TERRITORY AND PLAN OF OPERATION

The Society operates under the lodge system as described under Division 2, Part 2, Chapter 10 of the California Insurance Code. The Society's operations are conducted at its home office in Dublin, California. It also maintains an office in Lexington, Massachusetts, where administrative, fraternal, and sales and marketing functions are performed. The Society is licensed to write life and annuity business in California, Connecticut, Idaho, Massachusetts, Nevada, New Jersey, Pennsylvania, and Rhode Island. For the year ending December 31, 2023, the Society had 2 full-time appointed agents, 19 part-time appointed agents, and 19 independent or contracted agents. Approximately 96% of the Society's direct business was generated in California; 2% in Massachusetts and 2% in the remaining states. The Society had \$5,326,462 in direct premiums for life insurance premiums and annuity considerations as of December 31, 2023.

REINSURANCE

Assumed

The Society did not assume any reinsurance during the examination period.

Ceded

The Society was party to thirteen ceded reinsurance contracts. Twelve of the contracts were with Optimum RE Insurance Company and one with SCOR Global Life Reinsurance Company of Delaware. The Society has multiple contracts with various retention and

maximum limit amounts due to mergers that have occurred through the years. The following is a summary of the Society's reinsurance contracts as of December 31, 2023:

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Society's Retention</u>	<u>Reinsurer's Limits</u>
Life and waiver of premium disability (246-93AC27)	Optimum RE Insurance Company (authorized)	\$40,000 (ages 0-70), None (over age 70) for life and waiver of premium	Jumbo: \$2 million for life and \$1 million for corresponding waiver of premium. Facultative: \$5 million per life and \$1 million for corresponding waiver of premium.
Life and waiver of premium disability (249-92AY56) ^(A)	Optimum RE Insurance Company (authorized)	\$25,000	\$1,000,000
Life and waiver of premium disability (389-07AY25)	Optimum RE Insurance Company (authorized)	\$50,000 (ages 0-70), None (over age 70) for life and waiver of premium	\$4,000,000 for life and \$1,000,000 for waiver of premium
Life and waiver of premium disability (389-99AC38)	Optimum RE Insurance Company (authorized)	\$40,000 (ages 0-70), None (over age 70) for life and waiver of premium	\$10,000,000 per whole life plan, \$1,000,000 per life and waiver of premium. For all other plans, \$4,000,000 for life and \$1,000,000 for waiver of premium
Life, waiver of premium disability and accidental death (1424-2)	Optimum RE Insurance Company (authorized)	\$20,000 (ages 0-70), None (over age 70) for life and waiver of premium; None for accidental death	\$100,000 each life or accidental death
Life, waiver of premium disability and accidental death (1424-3)	Optimum RE Insurance Company (authorized)	\$40,000 (ages 0-70), None (over age 70) for life and waiver of premium; None for accidental death	\$200,000 (ages 0-70), None (over age 70) for life; \$2,000,000 (ages 0-44), \$1,000,000 (ages 45-65), None (over age 65) for wavier of premium; \$100,000 (ages 0-60), None (over age 60) accidental death
Life and waiver of premium disability (1424-4) ^(B)	Optimum RE Insurance Company (authorized)	\$20,000 (ages 0-70) for life and waiver of premium	\$200,000 (ages 0-70), None (over age 70) for life; \$2,000,000 (ages 0-44), \$1,000,000 (ages 45-65), None (over age 65) for wavier of premium

Life and waiver of premium disability (1424-5) ^(B) , ^(C)	Optimum RE Insurance Company (authorized)	\$40,000 (ages 0-70) for life and waiver of premium	\$200,000 (ages 0-70), None (over age 70) for life; \$2,000,000 (ages 0-44), \$1,000,000 (ages 45-65), None (over age 65) for wavier of premium
Life, waiver of premium disability, and accidental death (1425-1) ^(B)	Optimum RE Insurance Company (authorized)	\$40,000 (ages 0-70) for life and waiver of premium	\$200,000 (ages 0-70), None (over age 70) for life; \$2,000,000 (ages 0-44), \$1,000,000 (ages 45-65), None (over age 65) for wavier of premium; \$100,000 (ages 0-60), None (over age 60) for accidental death
Life, waiver of premium disability, and accidental death (1787) ^(D)	Optimum RE Insurance Company (authorized)	\$25,000 for life and disability; \$0 for accidental death	Jumbo: \$5,000,000 (ages 0-70) for life; \$200,000 (all ages) for accidental death
Life and waiver of premium disability (2287) ^(E)	Optimum RE Insurance Company (authorized)	\$40,000 (ages up to 75) for life and waiver of premium	Jumbo: \$10,000,000
Accidental death (249-92AB57)	Optimum RE Insurance Company (authorized)	\$0	\$300,000
Ordinary life, waiver of premium disability and accidental death	SCOR Global Life Reinsurance Company of Delaware (authorized)	Life and waiver of premium - \$40,000 Accidental death – N/A	Face value of the policy

- (A) Effective January 1, 2008, the agreement was terminated for new business. Such termination does not affect existing reinsurance.
- (B) Effective January 1, 2000, the agreement was terminated for new business. Such termination does not affect existing reinsurance.
- (C) Effective October 1, 1999, the agreement was terminated for new Uni-life II Level Premium Plan business. Such termination does not affect existing reinsurance.
- (D) Effective October 10, 1995, the agreement was terminated for new Uni-life II Level Premium Plan business. Such termination does not affect existing reinsurance.
- (E) Effective January 1, 2011, the agreement was terminated for new Uni-life II Level Premium Plan business. Such termination does not affect existing reinsurance.

LOSS EXPERIENCE

A review of the Society's loss experience during the examination period discloses a trend of net losses as follows:

Year	Net Gain or (Loss) From Operations	Net Income or (Loss)
2020	\$1,125,805	\$1,188,068
2021	(\$1,397,221)	(\$1,365,504)
2022	(\$1,254,142)	(\$1,254,142)
2023	(\$1,390,130)	(\$1,267,747)
2024	(465,119)	(781,478)

The Society's operating results were impacted by decrease in annuity revenues, increase of death benefits and surrender benefits, and administrative and other expenses since 2021. The adverse operating results have impacted the Society's surplus, which decreased from \$7,254,358 in 2021 to \$3,614,969 at year-end 2024.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Society with the California Department of Insurance for the period ending December 31, 2023. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2023

Summary of Operations and Surplus Account for the Year Ended
December 31, 2023

Reconciliation of Surplus from December 31, 2019 through December 31, 2023

Statement of Financial Condition
as of December 31, 2023

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 108,399,780	\$	\$ 108,399,780	
Preferred stocks	400,000		400,000	
Common stocks	276,480		276,480	
Mortgage loans on real estate: First liens	19,135,040		19,135,040	
Properties held for the production of income	2,692,275		2,692,275	
Cash, cash equivalents, and short-term investments	5,803,803		5,803,803	
Contract loans	1,881,410		1,881,410	
Investment income due and accrued	1,590,400		1,590,400	
Uncollected premiums and agents' balances in the course of collection	28,803		28,803	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	253,052		253,052	
Electronic data processing equipment and software	15,750	15,750	0	
Furniture and equipment, including health care delivery assets	8,837	8,837	0	
Total assets	<u>\$ 140,485,630</u>	<u>\$ 24,587</u>	<u>\$ 140,461,043</u>	

Liabilities, Surplus, and Other Funds

Notes

Aggregate reserve for life contracts		\$ 131,618,645	(1)
Liability for deposit-type contracts		707,903	(1)
Contract Claims: Life		1,169,843	
Premiums and annuity considerations for life and accident and health contracts received in advance less discount		35,430	
Contract liabilities not included elsewhere: Interest maintenance reserve		233,548	
Commissions to agents due or accrued		7,960	
General expenses due or accrued		110,743	
Taxes, licenses and fees due or accrued, excluding federal income taxes		150,000	
Unearned investment income		51,346	
Amounts withheld or retained by reporting entity as agent or trustee		73,169	
Remittance and items not allocated		51,857	
Asset valuation reserve		1,591,196	
Aggregate write-ins for liabilities		258,326	
Total liabilities		136,059,966	
Unassigned funds (surplus)	<u>4,401,077</u>		
Surplus as regards policyholders		<u>4,401,077</u>	
Total liabilities, surplus, and other funds		<u>\$ 140,461,043</u>	

Summary of Operations and Surplus Account
for the Year Ended December 31, 2023

Underwriting Income

Premiums and annuity considerations	\$ 5,051,665
Net investment income	6,636,745
Amortization of Interest Maintenance Reserve	<u>42,161</u>
Total	11,730,571

Deductions:

Death benefits	\$ 1,531,606
Matured endowments	12,010
Annuity benefits	1,445,712
Surrender benefits and withdrawals for life contracts	5,245,818
Interest and adjustments on contracts or deposit-type contract funds	21,452
Payment on supplementary contracts with life contingencies	96,225
Increase in aggregate reserves for life and accident and health contracts	1,895,919
Commissions on premiums, annuity considerations, and deposit-type contract funds	128,708
General insurance expenses and fraternal expenses	2,593,225
Insurance taxes, licenses and fees, excluding federal income taxes	<u>150,026</u>
Totals	<u>(13,120,701)</u>
Net loss from operations after dividends to policyholders, refunds to members and before federal income taxes	(1,390,130)
Net realized capital gains	<u>122,383</u>
Net loss	<u>\$ (1,267,747)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2022	\$ 5,784,720
Net loss	\$ (1,267,747)
Change in net unrealized capital losses less capital gain tax	(21,163)
Change in nonadmitted assets	54,112
Change in asset valuation reserve	<u>(148,846)</u>
Change in surplus as regards policyholders for the year	<u>(1,383,644)</u>
Surplus as regards policyholders, December 31, 2023	<u>\$ 4,401,076</u>

Reconciliation of Capital and Surplus
from December 31, 2019 through December 31, 2023

Surplus as regards policyholders, December 31, 2019			\$ 6,880,553	<u>Notes</u>
	Gain in Surplus	Loss in Surplus		
	<hr/>	<hr/>		
Net loss	\$	\$	2,699,325	
Change in net unrealized capital losses	20,874			
Change in nonadmitted assets		16,084		
Change in asset valuation reserve		538,371		
Aggregate write-ins for gains and losses in surplus	<hr/> 753,429	<hr/>		
Total gains and losses in surplus	<hr/> \$ 774,303	<hr/> \$ 3,253,780		
Net decrease in surplus as regards policyholders			<hr/> (2,479,477)	
Surplus as regards policyholders, December 31, 2023			<hr/> \$ 4,401,076	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Reserve for Life Contracts and Liability for Deposit-Type Contracts

Based on an analysis by a Life Actuary from the California Department of Insurance, the Society's reserves as of December 31, 2023 were found to be reasonable and have been accepted for the purpose of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Comments on Financial Statement Items – Contract Claims (Page 11): The Society could not provide proper documentation and information that were complete and accurate for its contract claims. It was recommended that the Society maintain proper documentation to support its contract claims and implement procedures to ensure data completeness and accuracy. The Society has taken steps to address these recommendations.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Exchange's officers and employees during the course of this examination.

Respectfully submitted,

Jack Lee, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

Kyo Chu, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California