

REPORT OF EXAMINATION
OF THE
PORTUGUESE FRATERNAL SOCIETY OF AMERICA
AS OF
DECEMBER 31, 2023

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

Filed on May 12, 2025

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Oakland, California
May 8, 2025

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

PORTUGUESE FRATERNAL SOCIETY OF AMERICA

(hereinafter also referred to as the Society), which has its home office located at 1100
14th Street, Suite E, Modesto, California 95354.

SCOPE OF EXAMINATION

We have performed our single 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. An examination also includes identifying and evaluating significant risks that could cause an insurer'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 might 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

The Society is a not-for-profit corporation formed, organized and incorporated under the Fraternal Benefit Society Laws of the State of California for the sole mutual benefit of its members and their beneficiaries. The Society operates on the lodge system with ritualistic ceremonies and a representative form of government.

Effective January 1, 2010, the Society became the surviving entity in a four-way merger with Irmandade do Divino Espirito Santo (I.D.E.S.); Sociedade do Espirito Santo (S.E.S.); and the Uniao Portuguesa Protectora do Estado da California (U.P.P.E.C.). As a result of the merger, the Society changed its name from Uniao Portuguesa do Estado da California (U.P.E.C.) to Portuguese Fraternal Society of America.

MANAGEMENT AND CONTROL

Management and control of the Society is vested in a seven-member board of directors whom serve on a staggered four-year term with directors' terms expiring and standing for election each year. Following are members of the board and principal officers of the Society serving at December 31, 2023:

Directors

| <u>Name and Location</u> | <u>Principal Business Affiliation</u> |
|---|---|
| Robert A. Bertao Dos Palos, California | Retired |
| John P. Camara Tulare, California | Retired |
| Almiro C. Furtado San Jose, California | Director of Quality Control and Human Resources J&E Precision Machine |
| Marie B. Kelly-Barreiro ^(a) Turlock, California | Certified Public Accountant and Owner Marie B. Kelly & Associates |
| Stephanie M. Koch Eureka, California | Retired |
| Duane S. Oliveira Sacramento, California | Attorney and Owner Oliveira Law Firm |
| Melanie M. Santos Merced, California | Semi-Retired / Independent Agent Mary Kay Cosmetics |

Principal Officers

| <u>Name</u> | <u>Title</u> |
|---------------------------------------|---------------------------------|
| Bernice Armas-Martinez ^(b) | Interim Chief Executive Officer |
| Helen Crockett ^(c) | Interim Executive Treasurer |

The following changes in directors and management occurred subsequent to the examination date:

- ^(a) Marie B. Kelly-Barreiro termed out of her director position at the end of the year 2023. Ted A. Pedrozo was elected to fill the position in January 2024.
- ^(b) Bernice Armas-Martinez was appointed as the Chief Executive Officer in April 2024.
- ^(c) Helen Crockett was appointed as the Executive Treasurer in June 2024.

TERRITORY AND PLAN OF OPERATION

The Society is licensed to transact life, annuity, and disability business in the states of California, Nevada, and Rhode Island. Direct premiums and annuity considerations written during 2023 totaled \$5.2 million. All of the premiums were written in California. The Society's principal line of business during 2023 was individual annuities (81.9%) and individual life (18.1%). All operating functions are performed at the Society's home office located in Modesto, California. The Society currently has 52 subordinate councils, which coordinate and promote fraternal, social, cultural, charitable, and membership activities.

The Society currently employs 17 (five full time and twelve part time) sales agents. Business is marketed and distributed through the sales agents' active involvement with the subordinate fraternal councils and the local communities. Annual official visits to the subordinate councils and public community events provide the sales agents with leads to generate new sales and referrals. Sponsoring events and initiatives within the communities allows the Society to align with meaningful causes and increase brand recognition. The Society also utilizes the social media platforms to target the young population.

REINSURANCE

Assumed

The Society did not assume reinsurance during the examination period.

Ceded

The following table is a summary of the ceded reinsurance agreements in-force as of December 31, 2023:

| Line of Business and Type of Contract | Reinsurer's Name | Society's Retention | Reinsurer's Limit |
|--|---|--|---|
| Life: | | | |
| Automatic Reinsurance Agreement (Facultative Submission Only) for Flexible II plan, Whole Life, 10 and 20 Pay Whole Life plans, 20 and 30 Year Term with Return of Premium (ROP) plans, and Wealth Transfer Single Premium Universal Life plan | <u>Authorized</u> Optimum Re Insurance Company | \$100,000 per Life | Facultative Limit per Life: \$10 million Jumbo Limit: \$4 million |
| Automatic Reinsurance Agreement (Facultative Submission Only) for 10 and 20 Year Non-Renewal, Convertible to Age 60 Level Term Plans, and Revised 10 and 20 Year Level Term Plan | <u>Authorized</u> Optimum Re Insurance Company | \$100,000 per Life | Facultative Limit per Life: \$10 million Jumbo Limit: \$4 million |
| Automatic Reinsurance Agreement (Facultative Submission Only) for 15, 20, and 30 Year Level Term - 20 Years Guaranteed, and 30 Year Term - Fully Guaranteed | <u>Authorized</u> Optimum Re Insurance Company | \$100,000 per Life/Life with Waiver of Premium (WP) | Facultative Limit and Jumbo Limit: \$4 million (Life) / \$1 million (WP) |
| Automatic Reinsurance Agreement (Facultative Submission Only) for Interest Sensitive Whole Life Plan, Terminal Illness Rider, Chronic Illness Rider, Flexible Premium Universal Life Plan, and Single Premium Universal Life Plan | <u>Authorized</u> Optimum Re Insurance Company | \$100,000 per Life/Life with Waiver of Premium (WP) & Waiver of Deduction (WD) | Facultative Limit and Jumbo Limit: \$4 million (Life) / \$1 million (WP & WD) |
| Bulk Reinsurance Agreement for Accidental Death Benefit Policies issued by IDES. (Note: IDES merged with SES, UPPEC, and UPEC to become Portuguese Fraternal Society of America effective 1/1/2010.) | <u>Authorized</u> Optimum Re Insurance Company | \$0 | \$300,000 |

| Line of Business and Type of Contract | Reinsurer's Name | Society's Retention | Reinsurer's Limit |
|--|---|---------------------|-------------------|
| Bulk Reinsurance Agreement for Accidental Death Benefit Policies and Riders issued by SES. (Note: SES merged with IDES, UPPEC, and UPEC to become Portuguese Fraternal Society of America effective 1/1/2010.) | <u>Authorized</u> Optimum Re Insurance Company | \$0 | \$300,000 |

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 reported in the annual 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 Accounts 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 | \$ 115,934,637 | \$ | \$ 115,934,637 | (1) |
| Preferred stocks | 9,996,720 | | 9,996,720 | (1) |
| Common stocks | 6,140,779 | | 6,140,779 | (1) |
| Mortgage loans on real estate – First liens | 2,127,862 | | 2,127,862 | |
| Real estate - Properties occupied by the Society | 1,247,304 | | 1,247,304 | |
| Real estate - Properties held for production of income | 3,638,058 | | 3,638,058 | |
| Cash, cash equivalents, and short-term investments | 4,303,853 | | 4,303,853 | |
| Contract loans | 302,150 | | 302,150 | |
| Aggregate write-ins for invested assets | 13,485 | | 13,485 | |
| Investment income due and accrued | 1,357,870 | | 1,357,870 | |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 2,708 | | 2,708 | |
| Electronic data processing equipment and software | 15,159 | 15,159 | 0 | |
| Furniture and equipment | 14,152 | 14,152 | 0 | |
| Aggregate write-ins for other than invested assets | <u>7,017</u> | <u>7,017</u> | <u>0</u> | |
| Total assets | <u>\$ 145,101,754</u> | <u>\$ 36,328</u> | <u>\$ 145,065,426</u> | |
| <u>Liabilities, Surplus, and Other Funds</u> | | | | <u>Notes</u> |
| Aggregate reserve for life contracts | | | \$ 127,515,129 | (2) |
| Aggregate reserve for accident and health contracts | | | 71,398 | (2) |
| Liability for deposit-type contracts | | | 1,506,711 | (2) |
| Contract claims: Life | | | 646,363 | (2) |
| Premiums and annuity considerations for life and accident and health contracts received in advance | | | 36,431 | |
| Contract liabilities not included elsewhere: | | | | |
| Interest Maintenance Reserve | | | 5,437,525 | |
| General expenses due or accrued | | | 289,989 | |
| Amounts withheld or retained by Society as agent or trustee | | | 34,856 | |
| Miscellaneous liabilities: Asset Valuation Reserve | | | 2,646,183 | |
| Aggregate write-ins for liabilities | | | <u>65,953</u> | |
| Total liabilities | | | 138,250,538 | |
| Unassigned funds (surplus) | | \$ 6,814,888 | | |
| Surplus | | | <u>6,814,888</u> | |
| Total liabilities, surplus, and other funds | | | <u>\$ 145,065,426</u> | |

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

Summary of Operations

Underwriting Income

| | | | |
|---|----|-----------|-------------------|
| Premiums and annuity considerations | \$ | 5,118,755 | |
| Aggregate reserve for accident and health contracts | | 5,907,868 | |
| Amortization of Interest Maintenance Reserve | | 675,713 | |
| Aggregate write-ins for miscellaneous income | | 5 | |
| Totals | | | 11,702,341 |
| Deductions: | | | 5,437,525 |
| Death benefits | \$ | 536,605 | |
| Matured endowments | | 32,419 | |
| Annuity benefits | | 4,130,228 | |
| Surrender benefits and withdrawals for life contracts | | 613,452 | |
| Interest and adjustments on contract or deposit type contract funds | | 3,036,811 | |
| Increase in aggregate reserve for life and accident and health contracts | | 318,970 | |
| Commissions on premiums, annuity considerations and deposit type contract funds | | 190,934 | |
| General insurance expenses and fraternal expenses | | 2,320,662 | |
| Insurance taxes, licenses, and fees | | 110,752 | |
| Total deductions | | | 11,290,833 |
| Net gain from operations before realized capital losses | | | (90,509) |
| Net income | | | <u>\$ 320,999</u> |

Capital and Surplus Account

| | | | |
|---|----|-----------|---------------------|
| Unassigned funds (surplus), December 31, 2022 | \$ | 6,047,517 | |
| Net income | \$ | 320,999 | |
| Change in net unrealized gains | | 120,796 | |
| Change in nonadmitted assets | | 53,809 | |
| Change in asset valuation reserve | | 271,767 | |
| Net change in surplus for the year | | | 767,371 |
| Unassigned funds (surplus), December 31, 2023 | | | <u>\$ 6,814,888</u> |

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

| | | | | |
|---|--------------------|--------------------|----|-------------|
| Unassigned funds (surplus), December 31, 2019 | | | \$ | 10,120,413 |
| | Gain in Surplus | Loss in Surplus | | |
| Net income | \$ 3,312,237 | \$ | | |
| Change in net unrealized capital losses | | 6,442,770 | | |
| Change in nonadmitted assets | 272,931 | | | |
| Change in asset valuation reserve | | 447,923 | | |
| Total gains and losses | \$ 3,585,168 | \$ 6,890,693 | | |
| Net decrease in surplus | | | | (3,305,525) |
| Unassigned funds (surplus), December 31, 2023 | | | \$ | 6,814,888 |

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds, Preferred Stocks, and Common Stocks

According to National Association of Insurance Commissioners (NAIC)'s Statement of Statutory Accounting Principles (SSAP) No. 26 for bonds, SSAP No. 30 for common stocks, and SSAP No. 32 for preferred stocks, insurers are required to perform an other-than-temporary impairment (OTTI) analysis for its invested assets for each reporting period. If it is determined that a decline in the fair value of the security is other-than-temporary, an impairment loss shall be recognized as a realized loss at the balance sheet date of the reporting period for which the assessment is made. In addition, insurers are required to write down the value of the security to the current fair value as the new cost of the investment.

Also, life insurers are required to maintain an Asset Valuation Reserve (AVR) and an Interest Maintenance Reserve (IMR). The accounting for the entire amount of the related realized capital loss shall be in accordance with SSAP No. 7. Credit related other-than-temporary impairment losses shall be recorded through the AVR, and interest related other-than-temporary impairment losses shall be recorded through the IMR.

According to the Chief Executive Officer, management and the board of directors monitor impaired assets with input from their investment advisor on a case-by-case basis. In the events of an asset default, the asset is written down to zero or its fair market value. Also, the Society has reported AVR and IMR in the annual statements. However, the Society currently does not perform OTTI analysis.

It is recommended that the Society establish formal OTTI review guidelines and perform an OTTI analysis for its invested assets on a quarterly basis to comply with SSAP No. 7, SSAP No. 26, SSAP No. 30, and SSAP No. 32.

- (2) Aggregate Reserve for Life Contracts;
Aggregate Reserve for Accident and Health Contracts;
Liability for Deposit-Type Contracts
Contract Claims: Life

A Life Actuary from the California Department of Insurance performed an actuarial evaluation of the Society's above captioned reserves as of December 31, 2023. Based on the evaluation, the Society's reserves as of December 31, 2023 were reasonable and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Comments on Financial Statement Items – Bonds, Preferred Stocks, and Common Stocks (Page 10): It is recommended that the Society establish a formal other-than-temporary impairment (OTTI) review guidelines and perform an OTTI analysis for its invested assets on a quarterly basis to comply with Statement of Statutory Accounting Principles (SSAP) No. 7, SSAP No. 26, SSAP No. 30, and SSAP No. 32.

Previous Report of Examination

Comments on Financial Statement Items – Real Estate Properties held for the production of income (Page 10): It was recommended that the Society maintain an appraisal that is no more than five years old as of the reporting date for all properties held for the production of income in accordance with Statement of Statutory Accounting Principles (SSAP) No. 40, paragraph 14. The Society has complied with this recommendation.

ACKNOWLEDGMENT

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

Respectfully submitted,

Sam Chiu, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

Li Lim, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California