

REPORT OF EXAMINATION  
OF THE  
PORTUGUESE FRATERNAL SOCIETY OF AMERICA  
AS OF  
DECEMBER 31, 2019

Filed on April 26, 2021

## TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION .....	1
SOCIETY HISTORY: .....	2
MANAGEMENT AND CONTROL: .....	2
TERRITORY AND PLAN OF OPERATION.....	3
REINSURANCE: .....	4
Assumed.....	4
Ceded.....	4
FINANCIAL STATEMENTS: .....	6
Statement of Financial Condition as of December 31, 2019.....	7
Summary of Operations and Surplus Account for the Year Ended December 31, 2019 .....	8
Reconciliation of Surplus from December 31, 2014 through December 31, 2019 .....	9
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	10
Real Estate – Properties held for the production of income.....	10
Aggregate Reserve for Life Contracts .....	10
Aggregate Reserve for Accident and Health Contracts .....	10
Liability for Deposit-Type Contracts .....	10
SUBSEQUENT EVENTS .....	10
SUMMARY OF COMMENTS AND RECOMMENDATIONS: .....	11
Current Report of Examination .....	11
Previous Report of Examination .....	11
ACKNOWLEDGMENT .....	12

Oakland, California  
April 15, 2021

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 14<sup>th</sup> 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, 2014. This examination covered the period from January 1, 2015 through December 31, 2019.

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.

### 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, 2019:

#### Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Robert A. Bertao Dos Palos, California	Retired
Michael Castro Valley Springs, California	Retired
Marie B. Kelly-Barreiro Turlock, California	Certified Public Accountant and Owner Marie B. Kelly & Associates

Name and Location

Principal Business Affiliation

Duane S. Oliveira  
Sacramento, California

Attorney and Owner  
Oliveira Law Firm

Joe A. Pimentel  
Sunnyvale, California

Retired

Melanie M. Santos  
Merced, California

Semi-Retired / Independent Agent  
Mary Kay Cosmetics

Donald D. Valadao  
San Diego, California

Controller  
Cement Cutting, Inc.

Principal Officers

Name

Title

John A.R. Salvador  
Bernice Armas-Martinez  
Edwarda Alderete <sup>(a)</sup>

Chief Executive Officer  
Executive Secretary  
Treasurer and Vice President

<sup>(a)</sup> Edwarda Alderete, Executive Treasurer, left the Society on September 15, 2020 and Angelica De Anda was hired and officially appointed as the Executive Treasurer on December 12, 2020.

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 during 2019 totaled \$5.7 million. The majority of the premium was written in California (99.9%) and in the annuity line of business at \$4.8 million. All operating functions are performed at the Society's home office located in Modesto, California. The Society currently has 57 subordinate councils in California, 1 subordinate council in Nevada (Inactive), 1 subordinate council in Massachusetts (Inactive), and 1 subordinate council in Rhode Island (Inactive). The subordinate councils coordinate and promote fraternal, social, cultural, charitable, and membership activities.

As of December 31, 2019, the Society employed 15 (two full time and thirteen 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. The Society also utilizes the social media platform 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, 2019:

Line of Business and Type of Contract	Reinsurer's Name	Society's Retention	Reinsurer's Limit
<b>Life:</b>			
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 Plans	<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 & 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
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, 2019. The accompanying comments to the amounts reported in the financial statements should be considered an integral part of the financial statements. No examination adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2019

Summary of Operations for the Year Ended December 31, 2019

Reconciliation of Surplus from December 31, 2014 through December 31, 2019



Statement of Financial Condition  
as of December 31, 2019

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 112,462,012	\$	\$ 112,462,012	
Preferred stocks	6,765,000		6,765,000	
Common stocks	1,891,300		1,891,300	
Mortgage loans on real estate – First liens	3,359,385		3,359,385	
Real estate – Properties occupied by the Society	1,343,492		1,343,492	
Real estate – Properties held for production of income	4,108,550		4,108,550	(1)
Cash, cash equivalents, and short-term investments	2,757,579		2,757,579	
Contract loans	307,424		307,424	
Investment income due and accrued	1,283,179		1,283,179	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,603		4,603	
Electronic data processing equipment and software	216,084	216,084	0	
Furniture and equipment	40,421	40,421	0	
Aggregate write-ins for other than invested assets	52,756	52,756	0	
	<hr/>		<hr/>	
Total assets	\$ 134,591,785	\$ 309,261	\$ 134,282,524	

Liabilities, Surplus, and Other Funds

Notes

Aggregate reserve for life contracts		\$ 114,945,914	(2)
Aggregate reserve for accident and health contracts		97,622	(2)
Liability for deposit-type contracts		1,612,084	(2)
Contract claims: Life		222,057	
Premiums and annuity considerations for life and accident and health contracts received in advance		49,102	
Contract liabilities not included elsewhere:			
Interest Maintenance Reserve		4,698,430	
General expenses due or accrued		252,260	
Amounts withheld or retained by Society as agent or trustee		53,801	
Miscellaneous liabilities: Asset Valuation Reserve		2,198,260	
Aggregate write-ins for liabilities		32,581	
		<hr/>	
Total liabilities		124,162,111	
Unassigned funds (surplus)	\$ 10,120,413		
		<hr/>	
Surplus		10,120,413	
		<hr/>	
Total liabilities, surplus, and other funds		\$ 134,282,524	

Summary of Operations and Surplus Account  
for the Year Ended December 31, 2019

Summary of Operations

Underwriting Income

Premiums and annuity considerations	\$ 5,587,504
Net investment income	5,206,800
Amortization of Interest Maintenance Reserve	417,911
Aggregate write-ins for miscellaneous income	<u>2,244</u>
Totals	11,214,459

Deductions:

Death benefits	\$ 1,155,917
Matured endowments	54,789
Annuity benefits	4,081,142
Surrender benefits and withdrawals for life contracts	608,511
Interest and adjustments on contract or deposit-type contract funds	3,040,188
Increase in aggregate reserve for life and accident and health contracts	2,089,483
Commissions on premiums, annuity considerations and deposit-type contract funds	54,388
General insurance expenses and fraternal expenses	2,270,767
Insurance taxes, licenses and fees	104,631
Aggregate write-ins for deductions	<u>2</u>
Total deductions	13,459,818
Net loss from operations before realized capital gains	(2,245,359)
Net realized capital gains	<u>1,261,201</u>
Net loss	<u>\$ (984,158)</u>

Capital and Surplus Account

Surplus, December 31, 2018	\$ 11,113,772
Net loss	\$ (984,158)
Change in net unrealized losses	(190,824)
Change in nonadmitted assets	40,275
Change in asset valuation reserve	<u>141,348</u>
Net Change in surplus for the year	<u>(993,359)</u>
Surplus, December 31, 2019	<u>\$ 10,120,413</u>

Reconciliation of Surplus  
from December 31, 2014 through December 31, 2019

Surplus, December 31, 2014			\$ 9,023,208
	Gain in Surplus	Loss in Surplus	
Net income	\$ 1,159,668	\$	
Change in net unrealized capital gains	212,171		
Change in nonadmitted assets		254,321	
Change in asset valuation reserve		20,313	
Total gains and losses	\$ 1,371,839	\$ 274,634	
Net increase in surplus			<u>1,097,205</u>
Surplus, December 31, 2019			<u>\$ 10,120,413</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Real Estate – Properties held for the production of income

Statement of Statutory Accounting Principles (SSAP) No. 40, paragraph 14, requires the reporting entity to 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. It was noted that the Society did not maintain an appraisal of no more than five years for five of its properties held for the production of income. It is recommended that the Society maintain an appraisal in accordance with SSAP No. 40, paragraph 14 as of the reporting date for all properties held for the production of income.

### (2) Aggregate Reserve for Life contracts; Aggregate Reserve for Accident and Health Contracts; Liability for Deposit-Type Contracts

A Life Actuary from the California Department of Insurance performed an actuarial evaluation of the Society's above captioned reserves as of December 31, 2019. Based on the evaluation, the Society's reserves as of December 31, 2019 were reasonable and have been accepted for purposes of this examination.

## SUBSEQUENT EVENTS

The Coronavirus Disease 2019 global pandemic has triggered unprecedented government mandates and health and safety measures, which have significantly impacted the U.S. and global financial markets; resulting in lower yields and interest rates. The Society projected its reinvestment yields at 2.77% in 2020 as compared to 3.43% in 2019. As a result, the Society's Appointed Actuary recommended an additional increase in reserves of \$4.5 million for year-end 2020. The California Department of Insurance's Life Actuary reviewed and concurred with the Appointed Actuary's additional reserves recommendation.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Comments on Financial Statement Items – Real Estate Properties held for the production of income (Page 10): It is 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.

### Previous Report of Examination

Accounts and Records (Page 5): As a result of the review of the Society's information system controls, recommendations for improving these controls were presented to the Society. The Society should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems. The Society has taken steps to address the recommendations.

Comments on Financial Statements (Page 10): It was recommended that the Society deposit its securities with a qualified custodian pursuant to California Insurance Code Section 1104.9 and discontinue its practice of depositing securities with Morgan Stanley. The Society has complied with this recommendation.

ACKNOWLEDGMENT

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

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_

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

\_\_\_\_\_/S/\_\_\_\_\_

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