REPORT ON EXAMINATION

OF

THE MUTUAL BENEFICIAL ASSOCIATION, INC

AS OF

DECEMBER 31, 2005

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2005 of the

THE MUTUAL BENEFICIAL ASSOCIATIION,INC.

is a true and correct copy of the document filed with this Department.

ATTEST BY: ______________________

DATE: 26 MARCH 2007

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 26TH DAY OF MARCH 2007.

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Insurance Commissioner

REPORT ON EXAMINATION

OF THE

THE MUTUAL BENEFICIAL ASSOCIATION, INC.

AS OF

December 31, 2005

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 26TH Day of MARCH 2007.

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November 13, 2006

Honorable Matthew Denn
Insurance Commissioner
State of Delaware Insurance Department
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 06.032, an examination has been made of the affairs, financial condition and management of the

MUTUAL BENEFICIAL ASSOCIATION, INC.

hereinafter referred to as “MBA”, or “Association”. MBA, a fraternal benefit society, was chartered under the laws of the State of Delaware. Its statutory home office is located at 1209 Orange Street, Wilmington, DE. 19801. The examination was conducted at the main administrative office of the Company, located at Suite 102, 1301 Lancaster Avenue, Berwyn, Pennsylvania, 19312.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

The last examination of MBA was conducted as of December 31, 2001. This examination covered the period from January 1, 2002 through December 31, 2005, and consisted of a general survey of the Association's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Association officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made part of the workpapers of this examination:

Fidelity Bond & Other Insurance
Conflicts of Interest
All Asset & Liability items not mentioned

The December 31, 2005 examination was conducted by the Delaware Insurance Department in accordance with the Examination guidelines established by the National

Association of Insurance Commissioners. Due to the fact that MBA is not a nationally significant company, an Association Examination was not called. Therefore, no states in addition to the State of Delaware participated in the examination.

HISTORY

MBA was incorporated on December 20, 1913 under the laws of the State of Delaware as a Fraternal Benefit Association. The Association commenced business on February 1, 1914.

The original name of the Association was the Mutual Beneficial Association of Pennsylvania Railroad Employees, Incorporated. The name of the Association was subsequently changed three times. In 1970, it was changed to reflect the merger of the Pennsylvania and New York Central Railroads, and in 1976 to reflect the consolidation of several eastern railroads into the Consolidated Rail Corporation (Conrail). In 1996, the name was changed from The Mutual Beneficial Association of Rail Transportation Employees, Inc. to The Mutual Beneficial Association, Inc., its current title.

CORPORATE RECORDS

The bylaws of the Association were amended once during the examination period to reflect a change in how often the General Assembly of the Association would meet and how many Directors would be elected at those meetings. Some of the key provisions of the bylaws are as follows:

Membership

Membership in the Association is limited to present and former employees of transportation companies or affiliated companies, and members of their families. The members of the Association shall be divided into two classes as follows:

Active:

A member will be considered Active if he or she meets either of the following criteria:

1) Has a Life Insurance Certificate and is:
   - currently paying premiums
   - holding a matured paid up certificate
   - holding a reduced paid up certificate

2) Has an Annuity Insurance Certificate
   - Individual Retirement Accounts (IRA's)
   - Non-Qualified Annuity Insurance Certificate

Social:

Social members are those who do not wish to purchase one of the Association's insurance certificates (Life or Annuity) but who pay a membership fee of not less than $3.00 per year. Social members shall be eligible to hold local office and shall have all the rights of Active members except that a Social member may not hold a position as a general officer or Director of the Association and may not act as a delegate for the local assembly.

At December 31, 2005, the Association had 8,816 Active Members and 74 Social Members.

Organization

All members of the Association must be members of a Local Assembly. The Association operates on the lodge system, providing for a ritualistic form of conduct and a representative form of government. At year-end 2005, the Association had 48 local assemblies in 10 states and the District of Columbia (see Management and Control for the Management Structure defined in the bylaws [Board of Directors, Officers, etc.]).

Refunds to Members

The Association's bylaws contain a provision for certain eligible certificates to participate in distributable surplus to the extent and manner determined by the Board of Directors, and upon certification of a competent actuary.

The following is a summary of the refunds distributed during the period under examination:

2002 - $128,580
2003 - $148,286
2004 - $105,978
2005 - $73,494

MANAGEMENT AND CONTROL

The bylaws of the Company provide that the property and affairs of the Association shall be managed in the interim between General Assemblies by a Board of Directors consisting of seven members. The Board of Directors includes the Officers of the Association: the General President, General Vice President, and General Secretary-Treasurer, by virtue of their office.

The following Directors were elected and serving as of December 31, 2005:

Director	Serving Since
Raymond F. Ascencio	1998
Robert Mawhinney	1996
Stephen M. Santarlasci	1988
Richard O. Dietrich	1984
Donald F. Teague	1996
Mary L. Gibney	1998
Gregory B. Turnbull	2004

The Officers of the Association serving as of December 31, 2005 were as follows:

Officer	Title
Stephen M. Santarlasci	General President
Mary L. Gibney	General Secretary & Treasurer
Richard O. Dietrich	General Vice President
Bruce & Bruce Co.	Consulting Actuaries

As of December 31, 2005 the Association maintained two-(2) active Committees; the Wage & Finance Committee and Membership & Sales Committee. The members of these Committees consisted of the following Directors as of December 31, 2005:

Wage & Finance Committee	Membership & Sales Committee
Mary L. Gibney	Donald F. Teague, Chairman
Richard O. Dietrich, Chairman	Raymond F. Ascencio
Robert Mawhinney	Gregory B. Turnbull

HOLDING COMPANY SYSTEM

As of the December 31, 2005 examination date, the Association was not a member of an Insurance Holding Company System. The Company, as a Fraternal Benefit Society, is not subject to regulation under Chapter 50 of the Delaware Insurance Code.

GROWTH OF COMPANY

The following information was obtained from the Association's filed Annual Statements:

Year	Admitted Assets	Unassigned Funds	Premiums & Annuities	Net Income
2001	$23,332,879	$633,720	$2,058,731	$(15,703)
2002	25,563,233	709,236	3,563,854	98,050
2003	28,967,530	741,153	4,570,318	30,064
2004	33,422,131	761,100	5,439,454	25,055
2005	37,360,892	772,627	5,022,600	30,258

The Association has experienced significant growth during the period under examination. The changes that have occurred during this period and are outlined as follows:

- 21% increase in Unassigned Funds (Surplus).
- 144% increase in Premiums & Annuity Considerations.
- 60% increase in Admitted Assets.
- $183,427 cumulative Net Income during the examination period.

A comparison of the reserves as of the prior examination to the current reserves reveals that the annuity line of business is where the increase occurs:

	12/31/05	% Change	12/31/01
Life insurance	$6,036,686	4%	$5,813,547
Annuities	29,639,000	83%	16,139,000
Supplementary contracts	20,658	(51%)	40,153
Disability - active	1,251	(21%)	1,579
disabled	10,722	(50%)	21,709
Miscellaneous	11,235	2%	11,012
Totals	$35,719,552		$22,027,000

Because the Association offers a competitive rate of return to its members, annuity sales have been successful during the examination period.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2005, MBA was licensed in seven States (including Delaware). The jurisdictions in which the Association was licensed as of the examination date are as follows:

Delaware	District of Columbia
Illinois	Indiana
New Jersey	New York
Pennsylvania	

The Association was started in 1913 by the Pennsylvania Railroad (PRR) to enable their employees, who were in a very hazardous profession, to have access to insurance to protect their families. The Association had a close relationship with the PRR and was afforded a great deal of access to employees all the way to the late 1960s when PRR merged with the New York Central to form Penn Central. Since then the Association has maintained a close working relationship with a number of railroads including Amtrak, Long Island Railroad, CSX, Norfolk Southern and Indiana Harbor.

MBA has premium payroll deductions policy accounts with employees of each of these railroads and actively solicits their employees to offer them other insurance products. In addition to this direct solicitation of current employees, the Association also has a bi-monthly magazine, “The Mutual Magazine”, which is widely distributed throughout all the various railroads resulting in new and renewal business. During 1999, the Association began the solicitation of business through the use of independent agents. The number of agents utilized by the Association as of the December 31, 2005 examination date was approximately 23. The agents are to solicit business in accordance with the Company's bylaws and therefore do not acquire business from the general public. Any policies written must involve active or retired members of the transportation industry and affiliated companies or relatives of those members of the transportation industry.

The Association offers such plans as: Paid up at Age 85, Twenty Payment Life, Decreasing Term, Five year Renewable and Convertible Term, and Flexible Annuities. The following is a listing of the premiums reported during the examination period:

	2005	2004	2003	2002	2001
Life insurance – first year	$151,688	$126,201	$102,716	$151,450	$ 73,583
Life insurance – single and renewal	422,738	453,241	422,621	307,099	259,379
Annuity	4,448,174	4,860,012	4,044,991	3,105,305	1,725,768

REINSURANCE

Assumed

The Association assumed no business during the period under review.

Ceded

The Association maintained two ceded reinsurance contracts, both with Optimum Reinsurance Company, during the examination period. The first agreement, executed on August 10, 2001, is referred to as the Conditional Automatic Coinsurance Agreement. This is the Association's primary coverage and provides that the Association retain 40% per life risk up to a maximum retention of $20,000. Once MBA has paid $20,000 on a life risk, the

Association cedes 100% up to the Facultative Reinsurance Limit per life in the amount of $1,000,000 and the Jumbo Limit of $4,000,000 (per contract period).

The second agreement is a Bulk Reinsurance Agreement applicable to the Association's Individual Accidental Death Benefit Policies and Riders. The agreement, which applies to all policies dated December 10, 2000 or later, provides for $0 retention by the Association and a Maximum Issue Limit per life of $300,000 with a Maximum Participation Limit per life of $300,000.

ACCOUNTS AND RECORDS

The Association’s actuarial reserves were prepared by the firm Bruce & Bruce Co. Bruce and Bruce’s conclusions were further reviewed during this examination by INS Consultants, Inc (the examination contracted actuaries- see Notes to Financial Statements). In addition, the independent accounting firm of L.W. Ackovitz & Co. performed the annual audit of the Association for each year under examination. All actuarial and audit reports issued during the examination period were without qualifications.

As a Fraternal Beneficial Society, the Association is exempt from income taxes under Section 501, c, 8 of the Internal Revenue Code. However, a Form 990 return (Return of Organization Exempt from Income Tax) is filed each year by the Association.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of The Mutual, Beneficial Association, Inc., as determined by this examination, as of December 31, 2005.

Analysis of Assets
Liabilities, Surplus and Other Funds
Summary of Operations (Income Statement)
Surplus Account
Examination and Surplus Changes

Analysis of Assets
December 31, 2005

	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	$36,179,890	$32,000	$36,147,890	1
Cash and Short-term investments	455,005		455,005	
Contract loans	174,500		174,500	
Investment income due and accrued	561,055		561,055	
Uncollected premiums	18,092		18,092	
Aggregate write-ins:				
Cash on Account	4,350		4,350	
Totals	$37,392,892	$32,000	$37,360,892	

Liabilities, Surplus and Other Funds
December 31, 2005

		Note
Aggregate reserve for life contracts	$35,719,552	2
Liability for deposit-type contracts	218,868	
Contract claims: Life	54,350	
Refunds due and unpaid	4,000	
Provisions for refunds payable – Apportioned	30,000	
Premiums and annuity considerations for Life Policies and contracts received in advance	8,824	
Surrender values on canceled contracts	289,314	
Interest Maintenance Reserve	98,471	
General expenses due or accrued	20,266	
Taxes, licenses and fees due or accrued	18,000	
Asset Valuation Reserve	102,566	
Aggregate Write-ins for Liabilities:		
Mutual Assistance Fund	24,054	
Unfunded pension liability	26,500	
Total Liabilities	$36,614,765	
Unassigned Funds	746,127	
Total	$37,360,892	

Income Statement
December 31, 2005

Income:		
Premiums and Annuity Considerations	$5,022,600	
Net investment income	1,979,220	
Amortization of Interest Maintenance Reserve	22,096	
Commissions and expenses allowances on reinsurance ceded	13,298	
Aggregate write-ins for miscellaneous income	3,784	
Total Income		$7,040,998
Expenses:		
Death benefits	185,385	
Matured endowments	20,439	
Surrender benefits and withdrawals for life contracts	2,215,208	
Interest and adjustments on contract or deposit-type contract funds	10,658	
Payments on supplementary contacts with life contingencies	3,186	
Increase in aggregate reserve for life contracts	3,684,207	
Commissions on premiums and annuities	182,785	
General insurance expenses and fraternal expenses	589,553	
Insurance taxes, licenses and fees	45,076	
Increase in loading on deferred and uncollected premiums	749	
Pension liability to fund	26,500	
Total expenses		6,963,746
Net gain from operations before refunds to members		77,252
Refunds to members		73,494
Net income		$3,758

Surplus Account
December 31, 2005

Surplus, December 31, 2004		$761,100
Net income	$3,758	
Additions:		
Change in asset valuation reserve	769	
Deductions:		
Change in net unrealized capital gains	(19,500)	
Net change in surplus for the year		(14,973)
Surplus, December 31, 2005		$746,127

Schedule of Examination Adjustments

	Per Company	Per Examination	Surplus Decrease
ASSETS:	$ -0-	$ -0-	$ -0-
LIABILITIES:			
Unfunded pension liability	$ -0-	$ 26,500	$(26,500)
Company surplus as of December 31, 2005			772,627
Examination surplus as of December 31, 2005			$746,127

NOTES TO THE FINANCIAL STATEMENTS

1. Bonds **$36,147,890**

The Association continues to invest primarily in Bonds with ratings of "1" or "2" per the NAIC SVO. A comparison of the bond portfolio with the previous examination is as follows:

NAIC Designations	2005	2001
1	88.8%	83.9%
2	9.6	15.1
3-6	1.6	1.0

The Association has two bonds that are rated "6". A write-down of $32,000 has been made to the carrying value. In addition, $23,600 is included in the AVR for these investments. The Company plans to hold these investments until they recover their value.

2. Aggregate Reserves for Life Certificates & Contracts $35,719,552

The amount shown above is the same amount as reported by in the Association's Annual Statement as of December 31, 2005. Per Exhibit 5 of the 2005 Annual Statement, the Association's reserve was comprised of the following:

Life Insurance	$ 6,036,686
Annuities	$29,639,000
Deposit-Type Contracts	$ 20,658
Disability- Active Lives	$ 1,251
Disability- Disable Lives	$ 10,722
Miscellaneous Reserves	$ 11,235
	$35,719,552

The examination tested the Association's In Force Files to validate the data used to calculate the above reserves. In addition, Arthur Lucker, ASA, MAAA of INS Consultants, Inc. reviewed the reserve factors and methodologies, the Association's cash flow testing results, and other actuarial assumptions. It was concluded that the Association's reserves were fairly stated, and are accepted as reported. However, during this review it was noted that the Association had not addressed the recommendations that were contained in the prior examination report. It was noted that the Association still does not provide a thorough discussion of interim projected cash flow results. Therefore,

It is again recommended that the Association expand the discussion of interim projected results and/or include a tabular presentation of interim cash flows and projected results in all future annual reporting periods.

INS Consultants also noted that the Association's actuaries still are not utilizing a twenty-year projection period for all business segments reviewed. Therefore,

It is again recommended that the Association use a twenty-year projection period for all business segments for purposes of its actuarial review on all future Actuarial Opinion Memorandums.

INS Consultants further noted that certain liabilities continue to be excluded from Cash Flow Testing Analysis. Therefore,

It is again recommended that all future Actuarial Opinion Memorandums identify and discuss the adequacy of assets supporting any actuarial liabilities excluded from Cash Flow Testing Analysis.

Note 3. Unfunded Pension Liability $26,500

The Association has adopted a defined benefit pension plan effective January 1, 1981 which covers all full time employees. The plan costs are funded as accrued. The cost of the plan for the year ended December 31, 2005 was $17,362.

SSAP # 89 requires that insurance companies accrue a liability for any amount by which the present value of the accumulated obligations exceed plan assets. The December 31, 2005 market values of the pension plan assets were $441,913 whereas the present value of the obligations were calculated at $468,413.

It is recommended the Company comply with SSAP #89 and accrue a liability when the accumulated obligations exceed the market value of pension plan assets. The examination will establish the liability of $26,500 for the unfunded pension obligation as of December 31, 2005.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The examination reviewed the prior Report on Examination along with the Association's compliance with prior examination recommendations, comments and concerns. Based on that review, the Association has not complied with the prior examination recommendations, comments and concerns and they are repeated again in the current examination.

SUMMARY OF RECOMMENDATIONS

1) It is recommended that the Association expand the discussion of interim projected results and/or include a tabular presentation of interim cash flows and projected results in all future annual reporting periods. (*Page 15- Notes to Financial Statements*).

2) It is recommended that the Association use a twenty-year projections period for all business segments for purposes of its actuarial review on all future Actuarial Opinion Memorandums. (*Page 16- Notes to Financial Statements*).

3) It is recommended that all future Actuarial Opinion Memorandums identify and discuss the adequacy of assets supporting any actuarial liabilities excluded from Cash Flow Testing Analysis. (*Page 16- Notes to Financial Statements*).

4) It is recommended the Company comply with SSAP #89 and accrue a liability when the accumulated obligations exceed the market value of pension plan assets. The examination will establish the liability of $26,500 for the unfunded pension obligation as of December 31, 2005. (*Page 16, Notes to Financial Statements).*

SUMMARY COMMENTS

The following is a summary of significant events occurring since the prior examination date and previously included within this Report on Examination:

- The Association's By-Laws were amended once during the examination period to reflect a change in how often the General Assembly of the Association would meet and how many Directors would be elected at those meetings.

- Surplus increased $112,407 or 17.7% during the examination period.

- Because the Association offers a competitive interest rate to its members, Annuity sales were successful during the period under examination.

CONCLUSION

As a result of this examination, the financial condition of The Mutual Beneficial Association, Inc. as of December 31, 2005 was determined to be as follows:

	Current Examination	12/31/01 Examination	Changes- Increases/ (Decreases)
Total Assets	$37,360,892	$23,332,881	$14,028,011
Total Liabilities	$36,614,765	$22,699,161	$13,915,604
Surplus	$ 746,127	$ 633,720	$112,407

In addition to the undersigned, James J. Blair, Jr., CFE, CPA (Supervising Examiner) participated in the examination along with actuarial services provided by Arthur Lucker, ASA, MAAA of INS Consultants, Inc.

Respectfully submitted,

Dean L. Cross, CPA, CFE
Examiner In-Charge
State of Delaware