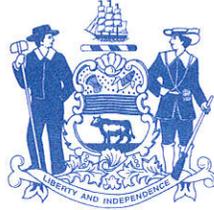


REPORT ON EXAMINATION  
OF THE  
MUTUAL BENEFICIAL ASSOCIATION  
AS OF  
DECEMBER 31, 2010

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2010 of the

**MUTUAL BENEFICIAL ASSOCIATION**

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

Attest By: *Brante Biddle*

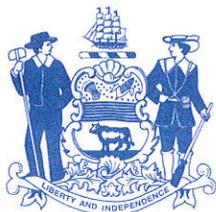
Date: 8 Jun 2012



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 8<sup>th</sup> day of June, 2012.

  
\_\_\_\_\_  
Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
MUTUAL BENEFICIAL ASSOCIATION  
AS OF  
DECEMBER 31, 2010

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

Consideration has been duly 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.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 8<sup>th</sup> day of June, 2012

## TABLE OF CONTENTS

SALUTATION.....	1
EXAMINATION SCOPE.....	2
SUMMARY OF SIGNIFICANT FINDINGS.....	3
SUBSEQUENT EVENTS .....	3
COMPANY HISTORY .....	3
CORPORATE RECORDS .....	4
MANAGEMENT AND CONTROL .....	6
FIDELITY BONDS AND OTHER INSURANCE.....	7
PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS.....	7
TERRITORY AND PLAN OF OPERATION .....	7
GROWTH OF THE COMPANY .....	9
LOSS EXPERIENCE .....	10
REINSURANCE.....	10
ACCOUNTS AND RECORDS.....	11
STATUTORY DEPOSITS .....	11
FINANCIAL STATEMENTS .....	11
ASSETS.....	12
LIABILITIES AND SURPLUS .....	13
STATEMENT OF INCOME.....	14
RECONCILIATION OF SURPLUS SINCE THE PREVIOUS EXAMINATION .....	15
ANALYSIS OF FINANCIAL CHANGES RESULTING FROM EXAMINATION.....	15
NOTES TO THE FINANCIAL STATEMENTS.....	16
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS .....	18
SUMMARY OF RECOMMENDATIONS .....	18
CONCLUSION.....	19

## SALUTATION

January 26, 2012

Honorable Karen Weldin Stewart CIR-ML  
Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority No.11.033, an examination has been made of the affairs, financial condition and management of the

### **MUTUAL BENEFICIAL ASSOCIATION, INC.**

hereinafter referred to as “MBA”, or “Company”. 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 1301 Lancaster Avenue, Suite 102, Berwyn, Pennsylvania, 19312.

The report of such examination is respectfully submitted herewith.

## **EXAMINATION SCOPE**

The last examination was as of December 31, 2005. This examination covered the period of January 1, 2006, through December 31, 2010, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2010. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable, to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

### **SUMMARY OF SIGNIFICANT FINDINGS**

The growth in annuity business spurred the increase in the Company's premiums during the period under examination. While most insurers have reported decreased investment income since 2008, MBA has actually reported increased investment income in 2008, 2009 and 2010. This has allowed the Company to offer attractive rates on its annuity products.

### **SUBSEQUENT EVENTS**

The examination noted no events that occurred subsequent to the examination that would materially impact the Company.

### **COMPANY HISTORY**

MBA was incorporated on December 20, 1913, under the Delaware Insurance Laws as a Fraternal Benefit Society and commenced business on February 1, 1914. The original name of the Company was the Mutual Beneficial Association of Pennsylvania Railroad Employees, Incorporated. The name of the Company was subsequently changed three (3) times, in 1970 and 1976 to reflect mergers and consolidations in the railroad industry, with the current name of The Mutual Beneficial Association, Inc. being adopted in 1996. Since its inception, the Company has maintained a close working relationship with a number of railroads including Amtrak, Conrail, Long Island RR/MTA, CSX, Norfolk Southern and Indiana Harbor. During recent examination

periods, the Company has sought to widen its customer base by appealing to anyone involved in the transportation industry as opposed to just the railroad industry. The Company has no subsidiaries or affiliates.

### **CORPORATE RECORDS**

Neither the Company's Certificate of Incorporation nor its bylaws were amended during the period under examination. As a fraternal organization, the Company has a unique mission as detailed by its bylaws.

Some of the key provisions of the bylaws are as follows:

#### **Membership**

Membership in MBA is limited to present and former employees of transportation companies or affiliated companies, and members of their families. The members of the Company 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:

- 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)
- Non-Qualified Annuity Insurance Certificate

Mutual Beneficial Association

**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 Company and may not act as a delegate for the local assembly.

At December 31, 2010, the Company had 9,142 Active Members and 51 Social Members.

Organization

All members of MBA must be members of a Local Assembly. The Company operates on the lodge system, providing for a ritualistic form of conduct and a representative form of government. At year-end 2010, the Company had 48 local assemblies in 10 states and the District of Columbia.

Refunds to Members

MBA'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.

Mutual Beneficial Association

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

<u>Year</u>	<u>Amount</u>
2006	\$ 66,922
2007	\$ 65,550
2008	\$ 50,972
2009	\$ 39,807
2010	\$ 42,152

**MANAGEMENT AND CONTROL**

The bylaws of the Company provide that the property and affairs of MBA 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 MBA: 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, 2010:

<u>Director</u>	<u>Serving Since</u>
Raymond F. Ascencio	1998
Robert Mawhinney	1996
Stephen M. Santarlasci	1988
Richard O. Dietrich	1984
Donald F. Teague	1996
Mary L. Gibney	1998

The Officers of the Company serving as of December 31, 2010 were as follows:

<u>Officer</u>	<u>Title</u>
Stephen M. Santarlasci	General President
Mary L. Gibney	General Secretary & Treasurer
Richard O. Dietrich	General Vice President

As of December 31, 2010 the Company 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, 2010:

Wage & Finance Committee

Richard O. Dietrich-Chair  
Robert Mawhinney  
Mary L. Gibney

Membership & Sales Committee

Donald F. Teague-Chair  
Raymond F. Ascencio  
Stephen M Santarlaschi

**FIDELITY BONDS AND OTHER INSURANCE**

The Company maintained fidelity bond coverage, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company also maintained adequate Property-Casualty insurance including Directors & Officers Insurance.

**PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

As a fraternal organization, MBA does not issue stock. The Company has a defined benefit pension plan for its two full-time employees.

**TERRITORY AND PLAN OF OPERATION**

As of December 31, 2010, MBA was licensed in seven states (including Delaware). The jurisdictions in which the Company was licensed as of the examination date are as follows:

Delaware	District of Columbia
Illinois	Indiana
New Jersey	New York
Pennsylvania	

## Mutual Beneficial Association

MBA 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 Company 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 MBA has maintained a close working relationship with a number of railroads including Amtrak, Long Island Railroad/MTA, 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 Company also has a bi-monthly magazine, "The Mutual Magazine", which is widely distributed throughout all the various railroads resulting in new and renewal business. In 1999, the Company began the solicitation of business through the use of independent agents. The number of agents utilized by the Company as of the December 31, 2010 examination date was approximately 25. 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.

MBA 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:

Mutual Beneficial Association

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Life Insurance	\$ 712,737	\$ 714,892	\$ 721,352	\$ 692,339	\$ 661,719
Annuities	<u>5,559,103</u>	<u>3,841,006</u>	<u>3,441,441</u>	<u>3,180,379</u>	<u>4,180,417</u>
Total Premium Income	<u>\$ 6,271,840</u>	<u>\$ 4,555,898</u>	<u>\$ 4,162,793</u>	<u>\$ 3,872,718</u>	<u>\$ 4,841,136</u>

The writing of annuity business was the Company's primary source of premium growth during the period under examination.

**GROWTH OF THE COMPANY**

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets	<u>\$ 50,464,384</u>	<u>\$ 45,368,583</u>	<u>\$ 42,733,353</u>	<u>\$ 41,707,110</u>	<u>\$ 40,056,666</u>
Surplus	<u>\$ 805,496</u>	<u>\$ 751,788</u>	<u>\$ 830,968</u>	<u>\$ 825,143</u>	<u>\$ 797,765</u>
Premium and Annuity Considerations	<u>\$ 6,271,840</u>	<u>\$ 4,555,898</u>	<u>\$ 4,162,793</u>	<u>\$ 3,872,718</u>	<u>\$ 4,841,136</u>
Gain from operations	\$ 100,163	\$ 5,025	\$ 70,865	\$ 20,201	\$ 22,290
Net realized capital gains	-	-	13,557	-	-
Net Income	<u>\$ 100,163</u>	<u>\$ 5,025</u>	<u>\$ 84,422</u>	<u>\$ 20,201</u>	<u>\$ 22,290</u>
Direct Premiums	\$ 6,363,649	\$ 4,639,831	\$ 4,246,060	\$ 3,951,698	\$ 4,918,156
Assumed Premiums	-	-	-	-	-
Ceded Premiums	<u>91,809</u>	<u>83,933</u>	<u>83,267</u>	<u>78,980</u>	<u>77,020</u>
Net Premiums	<u>\$ 6,271,840</u>	<u>\$ 4,555,898</u>	<u>\$ 4,162,793</u>	<u>\$ 3,872,718</u>	<u>\$ 4,841,136</u>

The growth in annuity business spurred the increase in the Company's premiums during the period under examination. While most insurers have reported decreased investment income

since 2008, MBA has actually reported increased investment income in 2008, 2009 and 2010. This has allowed the Company to offer attractive rates on its annuity products.

### **LOSS EXPERIENCE**

The Company's increased writing of annuity business would seem to lessen the mortality and loss exposure. The examination review of the Company's Aggregate Reserve for Life Contracts and Contract Claims did note exceptions however.

### **REINSURANCE**

#### **Assumed**

The Company assumed no business during the period under review.

#### **Ceded**

MBA maintained two ceded reinsurance contracts during the examination period. The first agreement, executed on August 10, 2001, is referred to as the Conditional Automatic Coinsurance Agreement. This is the Company's primary coverage and provides that MBA retain 40% per life risk (up to a maximum retention of \$20,000). Once MBA has paid \$20,000 on a life risk, the Company cedes up to 100% 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 Company's Individual Accidental Death Benefit Policies and Riders. This agreement, which applies to all policies dated December 10, 2000 or later, provides for \$0 retention by the Company and a Maximum Issue Limit (per life) of \$300,000 with a Maximum Participation Limit (per life) of \$300,000.

## **ACCOUNTS AND RECORDS**

The Company's actuarial reserves were prepared by Bruce & Bruce Co. 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 received unqualified opinions.

As a Fraternal Beneficial Society, the Company 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 Company.

## **STATUTORY DEPOSITS**

As a fraternal organization, the Company is not required to have funds on deposit with the Insurance Departments for the states in which MBA is licensed.

## **FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2010.

Assets  
Liabilities, Surplus and Other Funds  
Statement of Income  
Capital and Surplus Account  
Reconciliation of Surplus for the Period since the Previous Examination  
Analysis of Financial Statement Changes resulting from Examination

Mutual Beneficial Association

**ASSETS**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$ 49,135,437	-	\$ 49,135,437	1
Common stocks	-		-	
Cash, cash equivalents and short term investments	325,476		325,476	
Contract loans	214,258		214,258	
Investment income due and accrued	762,502		762,502	
Uncollected premiums and balances in the course of collection	22,361		22,361	
Cash on account	4,350		4,350	
Totals	<u>\$ 50,464,384</u>	<u>-</u>	<u>\$ 50,464,384</u>	

**LIABILITIES AND SURPLUS**

		<u>Notes</u>
Aggregate reserve for life contracts	\$ 48,201,655	2
Liability for deposit-type contracts	21,051	
Contract claims-life	29,419	3
Refunds due and unpaid	3,000	
Provision for refunds:		
Apportioned for payment	22,000	
Premiums received in advance	10,835	
Surrender values on cancelled contracts	449,624	
Interest maintenance reserve	771,202	
General expenses due and accrued	5,386	
Taxes, licenses and fees	17,500	
Asset valuation reserve	131,533	
Mutual assistance fund	<u>43,683</u>	
Total liabilities	<u>\$ 49,706,888</u>	
Surplus	<u>\$ 757,496</u>	
Total Liabilities and Surplus	<u><u>\$ 50,464,384</u></u>	

**STATEMENT OF INCOME**

Premium and annuity considerations	\$ 6,271,840
Net investment income	2,615,124
Amortization of interest maintenance res.	30,517
Commissions on reinsurance ceded	18,936
Miscellaneous income	7,960
Total revenue	\$ 8,944,377
Death benefits	\$ 340,705
Matured endowments	6,802
Surrender benefits and withdrawals	3,666,992
Interest on deposit-type contracts	2,067
Payments on supplementary contracts	2,947
Increase in aggregate reserves	4,024,885
Commissions on direct business	128,926
General insurance and fraternal expenses	630,759
Insurance taxes, licenses and fees	50,101
Increase in loading	(4,122)
Total	\$ 8,850,062
Net gain from operations	\$ 94,315
Refunds to members	42,152
Net income	\$ 52,163
Surplus, December 31, prior year	\$ 751,789
Net income	52,163
Change in asset valuation reserve	(46,455)
Change in surplus for the year	\$ 5,708
Surplus, December 31, 2010	\$ 757,497

**RECONCILIATION OF SURPLUS SINCE THE PREVIOUS EXAMINATION**

The surplus amounts presented below are after examination adjustments. The previous examination made a financial adjustment of \$26,500 (decrease) to MBA's surplus while the current examination is making an adjustment of \$48,000 (decrease) to the Company's surplus.

Surplus 12/31/2005	\$	746,127
Surplus 12/31/2010		757,496
Change- examination period	\$	<u>11,369</u>
Analysis of Change in Surplus		
Net Income	\$	232,101
Unrealized Capital Gains		(170,264)
Examination adjustments		(21,500)
Change in asset valuation reserve		<u>(28,967)</u>
Change in Surplus	\$	<u>11,369</u>

**ANALYSIS OF FINANCIAL CHANGES RESULTING FROM EXAMINATION**

	<u>Examination</u> <u>Amount</u>	<u>Company</u> <u>Amount</u>	<u>Increase/</u> <u>(Decrease)</u> <u>to Surplus</u>
Aggregate reserve for life contracts	\$48,201,655	\$48,153,655	<u>(\$48,000)</u>
Total Change in Surplus			<u>(\$48,000)</u>
Examination Surplus			<u>\$757,496</u>

**NOTES TO THE FINANCIAL STATEMENTS**

Note 1 – Bonds \$49,135,437

The Company reported the following for its Bond Portfolio as of December 31, 2010:

Carrying Value	\$49,135,437
Fair Value	\$50,244,496
Actual Cost	\$49,190,885

The Company continues to invest exclusively in Bonds with ratings of "1" or "2" per the NAIC Securities Valuation Office. A comparison of the bond portfolio with the previous examination is as follows:

<u>NAIC Designations</u>	<u>2010</u>	<u>2005</u>
1	82.4%	88.8%
2	16.9%	9.6%
3-6	0.7%	1.6%

Note 2 - Aggregate Reserve for Life Policies and Contracts \$48,201,655

The amounts shown below reflect the reserve reported on the Company's December 31, 2010 Annual Statement after examination adjustment. As per Exhibit 5 of the 2010 Annual Statement, this reserve is distributed as follows:

<u>Ordinary</u>	
Life Insurance	\$ 7,132,000
Annuities (excluding supplementary contracts)	41,030,382
Supplementary Contracts	14,345
Disability- Active Lives	764
Disability- Disabled Lives	9,387
Miscellaneous Reserves	14,777
Total	<u>\$ 48,201,655</u>

The Company's policy and contract reserve valuation material was reviewed by INS Consultants Inc. (INS), the examination actuarial consultants. The underlying data from the Company's policy master file was tested by the examiners.

The report of INS contained the following findings:

- INS determined that reserves for two new blocks of traditional life business were calculated by interpolating the mid-terminal reserves instead of the terminal reserves. This error underestimated the reserves for these affected plans by approximately \$20,000. As the MBA valuation actuary has indicated that they have already implemented this correction in 2011, no recommendation was required by INS.
- Also, INS determined that MBA did not calculate deficiency reserves for a group of contracts in the premium paying file. This omission underestimated the reserves for these affected policies by approximately \$28,000, as estimated by the MBA valuation actuary. The MBA valuation actuary stated that this error will be corrected for 2011.

Based on the INS review and report, the following recommendations are warranted:

Therefore:

**It is recommended that the Company utilize the correct valuation standards in Exhibit 5 in the future.**

**It is recommended that the Company calculate deficiency reserves for all life contracts where required.**

Note 3 - Contract Claims

\$29,419

MBA accrued \$1,666 for Incurred But Not Reported (IBNR) claims at December 31, 2010. Through March 31, 2011, the Company had \$25,921 in claims reported in 2011 that had death dates prior to December 31, 2010. The examination noted MBA accrued reserves for these claims in the "Aggregate Reserve for Life Contracts" line item of the 2010 Annual Statement.

Though the Life Contract reserves offset the IBNR deficiency, the Company's IBNR methodology needs to be revised. Therefore:

**It is recommended that the Company revise its IBNR methodology to emphasize recent policy years where the cash value on policies hasn't had a chance to accumulate, and where the Company has IBNR exposure.**

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The 2005 examination contained four recommendations. The examination noted compliance with the recommendations made by the previous examination.

**SUMMARY OF RECOMMENDATIONS**

As a result of the examination actuarial review:

**It is recommended that the Company utilize the correct valuation standards in Exhibit 5 in the future.**

**It is recommended that the Company calculate deficiency reserves for all life contracts where required.**

**It is recommended that the Company revise its IBNR methodology to emphasize recent policy years where the cash value on policies hasn't had a chance to accumulate, and where the Company has IBNR exposure.**

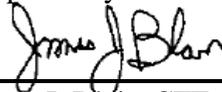
**CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>12/31/2010</u> <u>Current</u> <u>Examination</u>	<u>12/31/2005</u> <u>Previous</u> <u>Examination</u>	<u>Increase</u> <u>(Decrease)</u>
Assets	<u>\$ 50,464,384</u>	<u>\$ 37,360,892</u>	<u>\$ 13,103,492</u>
Liabilities	\$ 49,706,888	\$ 36,614,765	\$ 13,092,123
Surplus	<u>757,496</u>	<u>746,127</u>	<u>11,369</u>
Total Liabilities and Surplus	<u>\$ 50,464,384</u>	<u>\$ 37,360,892</u>	<u>\$ 13,103,492</u>

The assistance of INS Consultants, Inc. is acknowledged.

Respectfully submitted,




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James J. Blair, CFE, CPA  
 Examiner In-Charge  
 State of Delaware