

Report of Examination of

United Transportation Union Insurance Association
North Olmsted, Ohio

As of December 31, 2012

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Columbus, Ohio
August 29, 2013

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

United Transportation Union Insurance Association

an Ohio domiciled, fraternal benefit society, hereinafter referred to as the “Company”. The examination was conducted at the Company’s home office in North Olmstead, Ohio.

Scope of Examination

The Department last examined the Company as of December 31, 2009. The current examination covers the period of January 1, 2010 through December 31, 2012.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes 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.

For each year during the period under examination, the Certified Public Accounting firm of Horovitz, Rudoy & Roteman LLP (“HRR”) provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
Malcolm B. Futhey, Jr.	International President, United Transportation Union Insurance Association
Bruce D. Feltmeyer	General Secretary and Treasurer, United Transportation Union Insurance Association
John Previsich	Assistant President, United Transportation Union Insurance Association
William B. Ryan	Attorney, Donati Law Firm
Frank J. Riha	Retired Chief Financial Officer, Midwestern National Life Insurance Company
William J. Thompson	Retired Ohio State Legislative Director & Conductor, United Transportation Union Insurance Association
James A. Stern, Jr.	National Legislative Director, United Transportation Union Insurance Association
Nicholas J. Diccico, Jr.	Retired President, Midwestern National Life Insurance Company

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

Name	Title
Malcolm B. Futhey, Jr.	International President
Bruce D. Feltmeyer	General Secretary and Treasurer
John Previsich	Assistant President

Affiliations

The Company has a close association with an international labor union, the United Transportation Union (“UTU”). The Company and UTU share officers, employees, costs, headquarter facilities, computer systems and have many common members and some common individuals serving on both Boards of Directors.

UTU engaged in a merger on November 20, 2011 with the Sheet Metal Workers International Association (“SMWIA”). Currently, management of the newly merged entity, known as the Sheet Metal, Air, Rail and Transportation Workers Union (“SMART”) is unable to determine the impact, if any, on the Company as a result of the merger.

Territory and Plan of Operations

The Company provides life, accident and health insurance, annuity products and other benefits for its members. The Company’s members are primarily railroad and bus employees, retirees and their families. Products are distributed throughout the United States with the largest concentrations in California, Ohio and Illinois. The following schedule illustrates the Company’s premiums during the year 2012:

Line of Business	Direct	Assumed	Ceded	Net
Life Insurance	\$ 6,132,453	0	\$ 301,606	\$ 5,830,847
Accident & Health	3,604,622	0	76,069	3,528,553
Individual Annuities	5,364,400	0	0	5,364,400
All Other Lines	<u>464,902</u>	<u>0</u>	<u>0</u>	<u>464,902</u>
Total	<u>\$15,566,377</u>	<u>\$ 0</u>	<u>\$ 377,675</u>	<u>\$15,188,702</u>

Reinsurance

The Company’s life insurance business is covered by an automatic facultative reinsurance treaty that allows cession up to \$1,800,000 with retention of \$200,000. All reinsurance agreements appear to transfer risk and contain the NAIC required clauses.

Financial Statements

The Company’s financial condition and the results of its operations for the three-year period under examination as reported and filed by the Company with the Department and audited by its external auditors are reflected in the following:

- Statement of Assets, Liabilities, Surplus and Other Funds
- Summary of Operations
- Statement of Changes in the Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2012

Admitted assets

Cash and invested assets:	
Bonds	\$188,809,287
Preferred stocks	3,039,892
Common stocks	18,672,191
Real estate	2,305,930
Cash and short-term investments	1,159,648
Contract loans	6,406,607
Total cash and invested assets	<u>220,393,555</u>
Investment income due and accrued	2,287,071
Uncollected premiums and balances in course of collection	191,435
Deferred premiums, and installments booked but not yet due	25,322
Total admitted assets	<u><u>\$222,897,383</u></u>

Liabilities and unassigned funds

Liabilities:	
Aggregate reserve for life certificates and contracts	\$165,221,013
Aggregate reserve for accident and health contracts	6,877,804
Liability for deposit-type contracts	6,843,851
Life contract claims	1,149,607
Accident and health contract claims	238,043
Refunds due and unpaid	13,837
Premiums and annuity consideration received in advance	437,394
Surrender values on canceled contracts	157,292
Interest maintenance reserve	6,373,437
Commissions to fieldworkers due or accrued	80,389
General expenses and commissions due or accrued	367,168
Taxes, licenses and fees due or accrued	35,433
Asset valuation reserve	4,250,542
Payable to subsidiaries and affiliates	693,930
Aggregate write-ins for liabilities	61,328
Total liabilities	<u>192,801,068</u>
Unassigned funds	<u>30,096,315</u>
Total surplus	<u>30,096,315</u>
Total liabilities, surplus and other funds	<u><u>\$222,897,383</u></u>

Statement of Operations
For the Year Ended December 31, 2012

Premiums and other revenues:	
Premiums for life, accident and health insurance; annuity considerations	\$15,188,702
Net investment income	9,479,581
Amortization of interest maintenance reserve	767,617
Other income	8,963
Total premiums and other revenues	<u>25,444,863</u>
Benefits paid or provided:	
Death benefits	4,072,092
Matured endowments	166,561
Annuity benefits	7,868,398
Disability, accident and health contract benefits	1,439,195
Surrender benefits and withdrawals for life contracts	2,209,033
Interest and adjustments on deposit-type contracts	5,848
Increase in aggregate reserve for life and accident and health contracts	(50,698)
Total benefits paid or provided	<u>15,710,429</u>
Commissions on premiums, annuity considerations and deposit-type contracts	823,285
General expenses	6,193,111
Insurance taxes, licenses and fees	559,890
Aggregate write-ins for deductions	
Total insurance expenses and other deductions	<u>23,286,715</u>
Gain from operations before refunds to members	2,158,148
Refunds to members	2,087
Gain from operations after refunds and before realized capital losses	<u>2,156,061</u>
Net realized capital losses	(122,389)
Net income	<u><u>\$2,033,672</u></u>

Statement of Changes in the Surplus Account
(in thousands)

	2012	2011	2010
Surplus December 31, previous year	<u>\$27,591</u>	<u>\$25,970</u>	<u>\$24,239</u>
Net income from operations	2,034	1,945	(73)
Net unrealized capital gains (losses)	2,316	(1,207)	2,408
Change in nonadmitted assets	(20)		9
Change in asset valuation reserve	<u>(1,825)</u>	<u>884</u>	<u>(613)</u>
Net change in surplus for the year	<u>2,505</u>	<u>1,621</u>	<u>1,731</u>
Surplus December 31, current year	<u>\$30,096</u>	<u>\$27,591</u>	<u>\$25,970</u>

Notes to the Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3907.14 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Aggregate Reserve for Life Certificates, Accident and Health Contracts

The Company's Board of Directors appointed R. Eric Newberg, ASA, MAAA, of Miller & Newberg, Inc., to render the Company's Statement of Actuarial Opinion ("Opinion").

Peter Weber, ASA, MAAA, the Department's Chief Life Actuary, reviewed the Opinion and performed other procedures as considered necessary to evaluate the Company's reserves. On the basis of his analysis, Mr. Weber determined the reserves presented in the 2012 Annual Statement are consistent with requirements in Ohio law, and furthermore, the reserves and related items held by the Company are adequate and appropriate.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

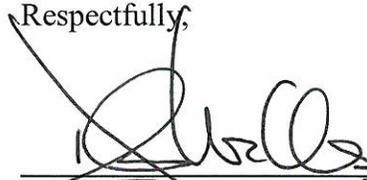
Total Admitted Assets	<u>\$222,897,383</u>
Liabilities	\$192,801,068
Surplus and Other Funds	<u>30,096,315</u>
Total Liabilities, Surplus and Other Funds	<u>\$222,897,383</u>

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company and its affiliates during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: Jyotika Patel, CPA; Peter Weber, ASA, MAAA; Mohammad Arif, AES, CFE, CIDM, CISA, CISPP; and Edward Nagorny, CFE, CPA.

Respectfully,



Donnie G. Wells, CFE
Examiner in Charge
Ohio Department of Insurance



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2012.

[Signature] 9/20/13 [Signature] 9/20/13
Examiner in Charge Date Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named Donnie G. Wells, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 20 day of September, 2013.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 20 day of September, 2013.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires