

# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

### ORDER ADOPTING REPORT OF EXAMINATION

I, Thomas R. Sullivan, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of Knights of Columbus (the "Company") as of December 31, 2008, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions,

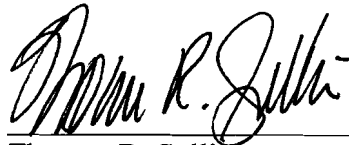
**TO WIT:**

1. I, Thomas R. Sullivan, as the Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes;
2. KNIGHTS OF COLUMBUS ("Company") is a domestic insurer authorized to transact the business of insurance in the State of Connecticut;
3. On September 2, 2009, the verified Examination Report of KNIGHTS OF COLUMBUS ("Company") was filed with the Connecticut Insurance Department.
4. In accordance with Conn. Gen. Statutes §38a-14(e) (3), KNIGHTS OF COLUMBUS was afforded a period of thirty (30) days within which to submit to the Connecticut Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On October 2, 2009, the Company notified the Department of certain responses and comments on certain items contained in the Report.
6. Following review of the Report, it was deemed necessary and appropriate to modify the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

**NOW, THEREFORE**, it is ordered as follows:

1. That the Examination Report of KNIGHTS OF COLUMBUS (“Company”) hereby is adopted as filed with the Insurance Department.
2. That KNIGHTS OF COLUMBUS (“Company”) shall comply with all of the recommendations set forth in the Report, and that KNIGHTS OF COLUMBUS (“Company”) to so comply shall result in sanctions or administrative action as provided by Title 38a of the Connecticut General Statutes.

Dated at Hartford, Connecticut this 30th day of October, 2009.

A handwritten signature in black ink, appearing to read "Thomas R. Sullivan", written over a horizontal line.

Thomas R. Sullivan,  
Insurance Commissioner

Exhibit A

ASSOCIATION EXAMINATION REPORT

OF

KNIGHTS OF COLUMBUS

AS OF

DECEMBER 31, 2008

BY THE

CONNECTICUT INSURANCE DEPARTMENT

# KNIGHTS OF COLUMBUS

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August 28, 2009

The Honorable Alfred W. Gross  
Chair, Financial Condition (E) Committee  
Commissioner  
Bureau of Insurance  
Commonwealth of Virginia  
P.O. Box 1157  
Richmond, Virginia 23218

The Honorable Paulette Thabault  
Secretary, Northeastern Zone, NAIC  
Insurance Commissioner  
Vermont Insurance Division  
Department of Banking, Insurance, Securities and  
Health Care Administration  
89 Main Street  
Montpelier, Vermont 05620-3101

The Honorable Thomas R. Sullivan  
Insurance Commissioner  
State of Connecticut Insurance Department  
P.O. Box 816  
Hartford, Connecticut 06142-0816

Dear Commissioners:

In compliance with your instructions and pursuant to the requirements of section 38a-616 of the General Statutes of the State of Connecticut (CGS), the undersigned has made an association examination of the condition and affairs of the

#### KNIGHTS OF COLUMBUS

hereinafter referred to as the "Order"; a fraternal benefit society incorporated under the laws of the State of Connecticut and having its home office located at 1 Columbus Plaza, New Haven, Connecticut. The report of such examination is submitted herewith.

#### SCOPE OF EXAMINATION

The previous examination of the Order was conducted as of December 31, 2003. The current examination, which covers the subsequent five year period, was conducted at the administrative office of the Order.

As part of the examination planning procedures, the Financial Regulation Division of the Connecticut Insurance Department (the Division) reviewed the following materials submitted by the Company:

- Board of Director (Board) minutes from 2004 through the latest 2009 meeting.
- Audit reports from 2004 through 2008, completed by the CPA firm retained by the Order.
- Management Discussion and Analysis from 2004 through 2008.

## KNIGHTS OF COLUMBUS

- Statements of Actuarial Opinion from 2004 through 2008
- Process review performed in 2008 by Control Solutions International.

A review of the independent audit reports, the Division's financial analysis files, and reports obtained from the National Association of Insurance Commissioners (NAIC) database indicated no material concerns with respect to financial condition or regulatory compliance issues.

RSM McGladrey (RSM) was engaged by the Division to assist in staffing the examination and to perform the Information Technology (IT) controls review of the Order.

Actuarial Strategies, Inc. (ASI) was engaged by the Division to assist in the actuarial review of the Company.

Workpapers prepared by the Order's independent public accountants, Seward and Monde (SM), in connection with its annual audit, were reviewed and relied upon to the extent deemed appropriate.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Examiners Handbook (the Handbook).

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

### HISTORY

The Order was founded February 2, 1882, through the efforts of Reverend Michael J. McGivney. By special act of the General Assembly of the State of Connecticut, a charter was issued to the Order on March 29, 1882.

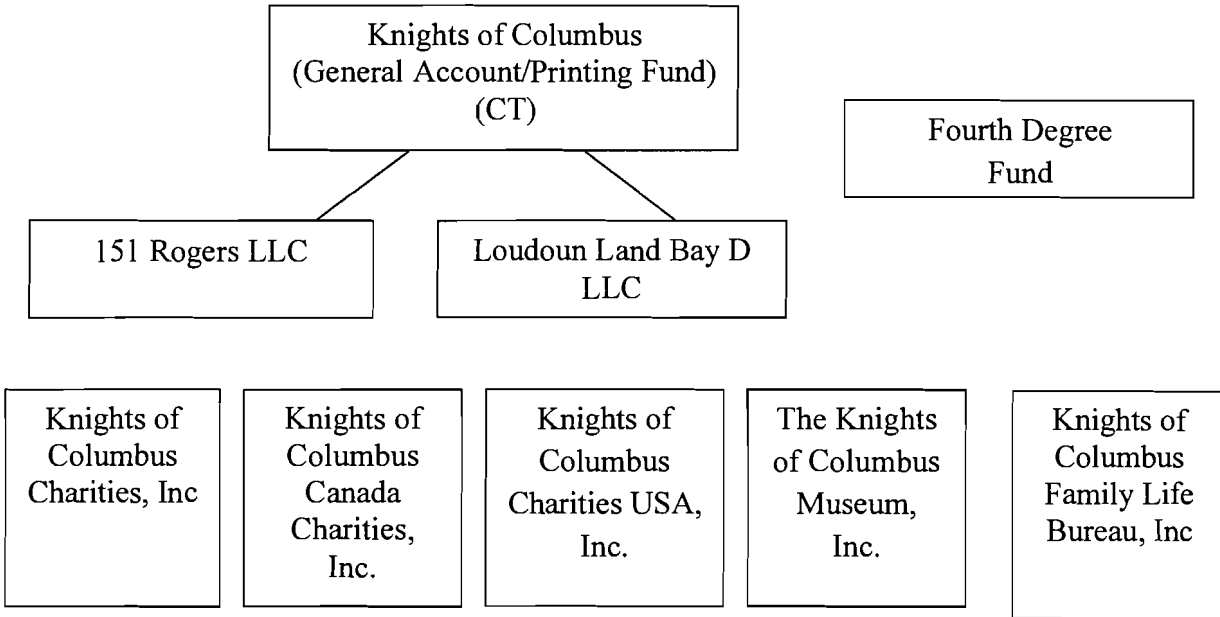
The first subordinate council was created on May 15, 1882, in New Haven, Connecticut, and in 1885 the first council outside of Connecticut was instituted in Rhode Island. The first council outside of the United States was established in 1897 in Montreal, Quebec, Canada. Associate (non-insurance) members are admitted in Mexico, the Philippines, Poland, several Caribbean countries, the United States and Canada.

The Order became a legal reserve society in 1902, insuring only members until 1948, when the program was extended to juvenile sons upon application by the member. It was further extended in 1958, to include juvenile daughters and again in 1959, to include wives.

# KNIGHTS OF COLUMBUS

## ORGANIZATIONAL CHART

The following organizational chart presents the identities of, and interrelationship between, the Order and related companies as of December 31, 2008:



The Order is comprised of the General Account and the Fourth Degree Fund (FDF). The FDF is comprised of members who have obtained the rank of a Fourth Degree Knight. The General Account has 100% interest in two limited liability companies (see chart above). While separate accounting records are maintained for the Printing Fund (Printing Plant Operations) in order to allocate the printing expenses to other departments, its operations are reported as part of the General Account Fund. The Order's financial statements reflect the General Account Fund. The Order administers the FDF on behalf of the Supreme Master, who governs the FDF. The Order maintains separate accounting records for it and provides an accounting of these funds to the Supreme Master and to the Supreme Assembly.

The Order manages five related non-insurance organizations: Knights of Columbus Charities, Inc.; Knights of Columbus Canada Charities, Inc.; Knights of Columbus Charities USA, Inc.; Knights of Columbus Family Life Bureau, Inc.; and The Knights of Columbus Museum, Inc.

## KNIGHTS OF COLUMBUS

### MANAGEMENT AND CONTROL

The executive authority of the Order is vested in the Board of Directors (Board), consisting of twenty-four insurance members elected by the Supreme Council, the Supreme Chaplain, who is elected by the Board and the Past Supreme Knight.

The Board and principal officers serving the Order at December 31, 2008 were:

<u>Directors</u>	<u>Title and Principal Business Affiliation</u>
Most Rev. William E. Lori	Supreme Chaplin Bishop of Bridgeport, Connecticut
Frederick J. Abraham, Jr.	Community Planning Coordinator Clark County, WA
Carl A. Anderson	Supreme Knight and Chief Executive Officer Knights of Columbus
David A. Bellendier	Manager, Human Resources Rockwell Collins
Javier G. Najera Cabrales	Manager Vel-Con
Robert F. Cayea	Retired School Principal
Virgil C. Dechant	Past Supreme Knight Knights of Columbus
Paul R. Devin	Supreme Advocate Knights of Columbus
Yves Duceppe	Attorney at Law, L.L.L.Duceppe, Theoret et associes
Ronald L. Gay	Regional Director Scott & White Health Plan
John A. Harrison, Jr.	Plant Engineer R.J. Reynolds Tobacco Company
Donald R. Kehoe	Supreme Secretary Knights of Columbus
Logan T. Ludwig	Associate Dean, Library & Telehealth Services Loyola University Stritch School of Medicine
Charles E. Maurer, Jr.	President Philip Birck & Son, Inc.
Emilio B. Moure	Executive Vice President, Business Process Management Knights of Columbus
Edward J. Mullen, FSA, CPA	Executive Vice President, Insurance and Chief Operating Officer, Insurance Knights of Columbus
Michael J. O'Connor	Attorney Michael J. O'Connor & Associates
John W. O'Reilly, Jr.	Supreme Treasurer Knights of Columbus
Dennis A. Savoie	Deputy Supreme Knight Knights of Columbus
Thomas P. Smith, Jr.	Executive Vice President, Agencies and Marketing Knights of Columbus
Alberto P. Solis	President AYS Realty and Development Corporation
Dennis Stoddard	Teacher, Christ the King School Jacksonville, Florida
John P. Wainscott	Director of Security and Compliance Automatic Data Processing
Thomas M. Wegener	Purchasing Agent, Michigan Senate
Ronald B. White	Retired National Sales Manager Avaya, Inc.
William J. White	Retired Teacher



## KNIGHTS OF COLUMBUS

### Senior Officers

### Title

Carl A. Anderson	Supreme Knight and CEO (President)
Most Rev. William E. Lori	Supreme Chaplain
Dennis A. Savoie	Deputy Supreme Knight
Donald R. Kehoe	Supreme Secretary
John W. O'Reilly, Jr.	Supreme Treasurer
Paul R. Devin	Supreme Advocate
Meclea Casavant	Supreme Warden

### Executive Vice Presidents

Emilio B. Moure	Business Process Management
Edward J. Mullen	Chief Operating Officer (Insurance)
Thomas P. Smith, Jr.	Agencies and Marketing

### Assistant Officers

Stephen M. Feiler	Administrative Assistant to the Supreme Knight
Ronald J. Tracz	Assistant Supreme Secretary

### Assistant to the Supreme Knight

Terrence T. Lescoe	Chief Financial Officer
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### Deputy Chief Operating Officer

Daniel E. O'Sullivan	Insurance
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### Chief Actuary

Ronald Franzluebbbers	Chief Actuary
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### Senior Vice Presidents

Gary Wood	Chief Information Officer
Kenneth Lem, FSA	Valuation Actuary
Michael S. Boullion	Field Management
Anthony V. Minopoli	Investments

### Vice Presidents

### Principal Business Unit

Richard B. Carroll	Associate General Counsel (Insurance)
Ruthanne Connor-King	BIS&T Application Development
Steven J. Fedewa	Manpower Growth, Retention and Development

## KNIGHTS OF COLUMBUS

George Hanna	Fraternal Services
Lynn Hussey	Certificate Service and Support Service
E. Neill Jordan	Fixed Income Securities
Paul T. Keating	New Issue Processing
Patrick E. Kelly	Public Policy
Patrick S. Korten	Communications
Jose L. Martinez, Jr.	Agency
Francis C. McCarthy, Jr.	Product Design and Implementation
Howard E. Murphy, Jr.	Insurance Services
William J. Murray	Specialized Products and Projects
David Nowak	Real Estate Investments
Michael G. Paradis	Agency Administration
Richard A. Robinson	Training and Compliance
Edward P. Scheuy	Underwriting
William C. Scialabba	Treasury Operations
Ralph Stanley	Agency
Michael Terry	Credit Investments
Louise K. Vets	Member Benefits

### Committees

The committees of the Board which pertain to the insurance operations as of December 31, 2008, were:

#### Executive and Finance

Supreme Officers who are  
Board Members and:  
Virgil C. Dechant  
Most Rev. William E. Lori  
Edward J. Mullen  
Thomas P. Smith, Jr.

#### Audit

Frederick J. Abraham, Jr., Chairman  
John P. Wainscott  
Alberto P. Solis  
Meclea Casavant

#### Executive Compensation

Charles E. Maurer, Chairman  
David A. Bellendier  
Ronald B. White  
Logan T. Ludwig

#### Pension-401 (K)

Edward J. Mullen, Chairman  
Carl A. Anderson  
Dennis A. Savoie  
Donald R. Kehoe  
John W. O'Reilly  
Paul R. Devin  
Thomas P. Smith, Jr.  
Emilio B. Moure

## KNIGHTS OF COLUMBUS

### RELATED PARTIES

The Order advances funds to affiliates for long-term projects which are to be repaid and appear on the Annual Statement as non-admitted assets. The collectability of these amounts is reviewed on an annual basis.

In addition, economic support is provided to these organizations in the form of cash and in-kind contributions of goods and services. The Order does not seek reimbursements for this support and records them as "donation" expenses on the Annual Statement. According to SSAP No. 25 of the NAIC Accounting Practices and Procedures Manual (Manual), "Transactions involving services provided by related parties shall be recorded at the amount charged". The SSAP goes on to further state that, "related party transactions where amounts charged for services do not meet the fair and reasonable standard .... may result in (a) amounts charged being recharacterized as dividends or capital contributions, (b) transactions being reversed, (c) receivable balances being nonadmitted, or (d) other regulatory action". SSAP No. 25 also requires that "transactions between related parties must be in the form of a written agreement".

It is recommended that the Order: prepare written agreements in accordance with SSAP No 25 of the Manual; file the agreement for approval with the Division via a "Non-Form D" and; determine if donated amounts are actually capital contributions.

The Division will verify compliance with SSAP No. 25 once the agreements are reviewed and approved.

## KNIGHTS OF COLUMBUS

### INSURANCE COVERAGE

The Order is covered by a fidelity bond issued by St. Paul Fire and Marine Insurance Company. The aggregate limit of liability on the policy is \$30,000,000, which exceeds the suggested minimum limits of insurance per the Handbook.

In addition to the fidelity bond insurance, the Order is protected by the following insurance coverages:

<u>Insurance Company</u>	<u>Insurance Coverage</u>
American Insurance Company	Excess umbrella policy
Chubb	Fiduciary responsibility insurance
Executive Risk Specialty Insurance Company	Directors and officers Professional liability
Federal Insurance Company	Employment practices liability
Hartford Fire Insurance Company	Commercial general liability policy Canadian general liability policy Business auto policy
Hartford Life and Accident Insurance Company	Travel accident coverage
Landmark American Insurance Company	Excess Directors and Officers
Liberty Mutual Fire Insurance Company	Property insurance
National Union Fire Insurance Company of Pittsburgh, PA	Special contingency policy International policy
Nationwide Insurance Company	Catastrophe
Ohio Casualty Insurance Company	Excess umbrella policy
Scottsdale Insurance Company	Catastrophe umbrella policy
St. Paul Fire and Marine Insurance Company	Financial institution bond Computer crime Comprehensive 3-D crime
St. Paul Mercury Insurance Company	Excess Directors and Officers
Travelers Property Casualty Insurance Company	Mail insurance Museum Floater
Twin City Fire Insurance Company	Workers' compensation insurance Excess professional liability
XL Specialty Insurance Company	Excess employment practices liability

## KNIGHTS OF COLUMBUS

### TERRITORY AND PLAN OF OPERATION

At December 31, 2008, the Order was licensed to transact fraternal insurance in all states, the District of Columbia, Guam, Puerto Rico, U.S. Virgin Islands, all Canadian Provinces, the Yukon, and Northwest Territories.

Certificates are offered to members through a field organization operated on the general agency system. General agents are under contract directly with the Order. Their duties are primarily the recruiting, training and supervising of the agency field force, selling insurance and servicing certificate holders. All field agents are under contract with the general agent.

The Order offers life coverage on a non-rated and substandard basis. The life plans include whole life, modified life, paid up at age 65, paid up at age 95, 20 pay life, single premium life, a whole life package plan which includes a term component (the plan competes with universal life), a variety of term plans and a traditional second to die product. Supplemental benefits are available through riders. The Order also offers annuity products, including flexible premium deferred annuities, single premium deferred annuities, and single premium immediate annuities. The crediting interest rate for the flexible deferred annuities is guaranteed for 12 months; the interest crediting rate for the single premium deferred annuity is guaranteed for 5 years.

The Order introduced a new series of life insurance products based on the 2001 CSO tables on October 1, 2008. These new products include new rating classes for the individual whole life plan, and the introduction of a guaranteed issue product.

Individual accident and health insurance benefits were first made available to members in 1961. The Order discontinued offering hospital indemnity, major medical, hospital medical and disability income policies to its members, spouses and children in 1991.

Effective January 1, 2000, the Order introduced two guaranteed renewable long-term care (LTC) products. Similar products were introduced in Canada in 2002.

### REINSURANCE

#### Assumed Business

The Order does not assume any business.

#### Life Reinsurance Ceded

The Order's retention limits are \$1.5 million per life for single life policies and \$2.25 million per life for second-to-die policies.

For life products prior to the 800 Series (i.e. whole life, 20-pay life, life paid up at 65, single premium whole life, and term plans): reinsurance is ceded on a yearly renewable term (YRT) basis to General Re Life Corporation (Gen Re) and Swiss Re Life & Health America, Inc. (Swiss Re) on both an automatic and facultative basis, and to Reinsurance Group of America,

## KNIGHTS OF COLUMBUS

Incorporated (RGA) on facultative basis. Gen Re and Swiss Re share the automatic reinsurance risks for permanent single life products. Swiss Re is the sole reinsurer for the second-to-die product and Gen Re is the sole reinsurer of the 700 Series term products.

The 800 Series products were introduced on October 1, 2008, and are ceded to a pool of three reinsurers on an YRT basis. The three automatic reinsurance pool members are Gen Re, Swiss Re, and Munich American Reassurance Corporation (MARC). These three companies also provide facultative reinsurance on specific cases as does RGA.

### Accident and Health Reinsurance Ceded

Accident and health (A&H) insurance, excluding Long-Term Care, is all renewal business and a portion is reinsured with Metlife Insurance Company of Connecticut and Medico Insurance Company.

The reinsurance agreement covering A&H insurance reinsured by Mutual of Omaha was terminated effective August 1, 2006. Since that date, the Order has assumed the risk for that block of business, but Mutual of Omaha continues to administer it under a new administrative services agreement.

### INFORMATION TECHNOLOGY AND CONTROLS

The Division used a team from RSM to evaluate the IT general control policies and procedures established by the Order. The objectives of this review were to determine whether:

- The Order's responses to Exhibit C of the Handbook (Exhibit C) indicated the existence of internal controls, including policies and procedures that may be relevant to governing its IT internal control structure;
- The Order has a process in place to identify and mitigate/manage its IT risks;
- The IT control structure policies and procedures were suitably designed to achieve the control objectives specified in Exhibit C, and if those policies and procedures were complied with;
- Such policies and procedures were in place during the examination period (i.e., from January 1, 2004 to December 31, 2008);
- IT risk assessment procedures performed by the external auditors sufficiently identified and evaluated IT inherent risk and controls; and
- IT governance is a key component of the overall corporate governance structure within an organization.

Based upon the testing performed, the Division determined that reliance could not be placed on the IT controls. This assessment was based upon numerous issues, six of which were considered high risk and have been included below. The remaining issues were rated as medium to low risk

## KNIGHTS OF COLUMBUS

and were deemed immaterial for this report. It was noted that the Order was in the process of implementing IT general control policies and procedures that would address the following exceptions and accompanying recommendations:

1. The Order does not place reliance on IT General Controls or automated controls. The Order prefers to rely on manual checks and balances and considers these procedures as mitigating controls. Additionally, procedures have not been established to ensure timely resolution of control deficiencies identified by either internal, external, or third parties. The results of these audits revealed numerous control weaknesses; many of which have remained unresolved. It is recommended that a thorough assessment of the Order's IT environment be performed and controls be established to ensure accuracy and completeness of data processing information as outlined in the Handbook.
2. The Order's IT audit function lacks independence. The lack of independence is due to the director of the IT audit unit not only being responsible for reviewing the IT controls, but also for the security administration of the mainframe and maintaining the business continuity plan. In addition, it was noted that the IT audit function is not appropriately staffed due to the lack of the appropriate level of work experience or knowledge necessary to ensure that timely and thorough technical reviews are being performed. It is recommended that the Order review the responsibilities, staffing levels, and minimal educational requirements of the IT audit unit to ensure the appropriate control structure as outlined in the Handbook.
3. A review of the Order's procedures for granting, modifying and terminating users' access rights to networks, applications, and operating systems was attempted. Formal procedures have not been established concerning user administration. Formal procedures would ensure the following: access is authorized and granted on an as needed basis; transferred employees would not retain excessive system access and terminated employees' system access is revoked in a timely manner. It is recommended that the Order define, establish and document formal user administration policies and procedures as outlined in the Handbook.
4. The Order's processes were reviewed to ensure that controls exist to prevent either inappropriate access rights to applications, infrastructure, and operating systems, or conflicting segregation of duties. The Order has not established formalized procedures to periodically evaluate users' assigned responsibilities. It is recommended that the Order define, establish and document formalized user recertification policies and procedures as outlined in the Handbook.
5. According to the Order, formal procedures have not been established that would address requesting, authorizing, performing, or reviewing application changes. It is recommended that the Order establish and document formal application change control procedures as outlined in the Handbook.
6. A formal System Development Life Cycle (SDLC) development control procedures has not been established. Formal procedures would ensure that all phases of system development are addressed, such as project initiation, functional design analysis and planning, system design specifications, software development, installation and

## KNIGHTS OF COLUMBUS

implementation, etc. It is recommended that the Order define, establish and document formal SDLC policies and procedures as outlined in the Handbook.

### ACCOUNTS AND RECORDS

The Order's general ledger is an integrated module of the Life 70 System. The general ledger is updated, primarily through system feeds, including its policy administration systems (Life 70 & Ingenium) and some manually input journal entries. The Order uses a purchased annual statement software package for financial reporting.

General ledger account balances were reconciled and traced to the amounts reported in the statutory-basis financial statements for 2007 and 2008. Further detailed analyses were performed on the individual accounts throughout the examination.



KNIGHTS OF COLUMBUS

FINANCIAL STATEMENTS

The following statements, as filed by the Company and as determined by the examination, reflect the assets, liabilities, surplus and other funds, and summary of operations of the Company as of December 31, 2008:

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$12,077,736,079		\$12,077,736,079
Stocks:			
Preferred stocks	343,614,526		343,614,526
Common stocks	228,988,151		228,998,151
Mortgage loans on real estate:			
First liens	117,923,039		117,923,039
Real estate:			
Occupied by the company	12,716,050		12,716,050
Cash and short-term investments	284,489,583		284,489,583
Contract loans	721,013,429		721,013,429
Other invested assets	98,025,050	\$5,863,928	92,161,122
Receivable for securities	677,543		677,543
Subtotals, cash and invested assets	13,885,183,450	5,863,928	13,879,319,522
Investment income due and accrued	155,430,060	14,572	155,415,488
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	11,115,091	225,635	10,889,456
Reinsurance:			
Other amounts receivable under reinsurance contracts	6,812		6,812
Net deferred tax asset	653,199	653,199	
Electronic data processing equipment and software	43,141,308	40,861,329	2,279,979
Furniture and equipment	6,167,354	6,167,354	
Receivables from parent, subsidiaries and affiliates	10,128,224	10,128,224	
Aggregate write-ins for other than invested assets	40,500,021	37,076,771	3,423,250
<b>Totals</b>	<b><u>\$14,152,325,519</u></b>	<b><u>\$100,991,012</u></b>	<b><u>\$14,051,334,507</u></b>

KNIGHTS OF COLUMBUS

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life certificates and contracts	\$ 8,433,289,681
Aggregate reserve for accident and health certificates	106,928,620
Liability for deposit-type contracts	3,422,770,085
Contract claims:	
Life	32,465,126
Accident and health	1,748,809
Refunds due and unpaid	1,200,084
Provision for refunds payable in following calendar year – estimated amounts:	
Apportioned for payment	308,758,599
Premium and annuity considerations for life and accident and health contracts received in advance less \$0 discount; including \$362,786 accident and health premiums	6,548,065
Contract liabilities not included elsewhere:	
Interest Maintenance Reserve	24,002,504
Commissions to fieldworkers due or accrued – life and annuity contract \$0; accident and health \$39,691	39,691
General expenses due or accrued	16,539,785
Taxes, licenses and fees due or accrued	2,502,042
Amounts withheld or retained by Society as agent or trustee	1,254,795
Amounts held for fieldworkers’ account, including \$52,041 fieldworkers’ credit balances	52,041
Remittances and items not allocated	8,308,075
Miscellaneous liabilities:	
Asset valuation reserve	4,282,656
Payable to subsidiaries and affiliates	21,473
Drafts outstanding	782,278
Payable for securities	6,508,184
Aggregate write-ins for liabilities	54,515,422
Total Liabilities	12,432,518,015
Aggregate write-ins for surplus funds	23,400,000
Unassigned funds	1,595,416,492
Total surplus and other funds	1,618,816,492
Total liabilities, surplus and other funds	<u>\$14,051,334,507</u>

# KNIGHTS OF COLUMBUS

## SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and accident and health contracts	\$979,561,573
Considerations for supplementary contracts with life contingencies	17,694,636
Net investment income	781,158,175
Amortization of Interest Maintenance Reserve	12,253,012
Commissions and expense allowances on reinsurance ceded	6,132
Miscellaneous income:	
Charges and fees for deposit-type contracts	1,168,257
Aggregate write-ins for miscellaneous income	842,528
Total	1,792,684,313
Death benefits	222,511,516
Matured endowments	5,614,608
Annuity benefits	1,775,725
Disability, accident and health benefits, including premiums waived \$6,772,888	8,886,598
Surrender benefits and withdrawals for life contracts	123,486,076
Interest and adjustments on contract or deposit-type contract funds	129,147,938
Payments on supplementary contracts with life contingencies	29,802,244
Increase in aggregate reserve for life and accident and health contracts	580,435,309
Totals	1,101,660,014
Commissions on premiums, annuity considerations and deposit-type contract funds	81,249,511
General insurance expenses and fraternal expenses	174,482,472
Insurance taxes, licenses and fees	10,145,758
Increase in loading on deferred and uncollected premiums	(77,757)
Totals	1,367,459,998
Net gain from operations before refunds to members	425,224,315
Refunds to members	311,712,968
Net gain from operations after refunds to members and before realized capital gains	113,511,347
Net realized capital gains (losses)	(102,315,848)
Net income	<u>\$ 11,195,499</u>
<b>SURPLUS ACCOUNT</b>	
Surplus, December 31, 2007	\$1,751,216,497
Net income form operations	11,195,499
Change in net unrealized capital gains (losses)	(241,210,030)
Change in net unrealized foreign exchange capital gain (losses)	(40,848,017)
Change in nonadmitted assets	(1,228,879)
Change in asset valuation reserve	139,691,422
Net change in surplus for the year	(132,400,005)
Surplus, December 31, 2008	<u>\$1,618,816,492</u>

## KNIGHTS OF COLUMBUS

<u>AGGREGATE RESERVE FOR LIFE CERTIFICATES AND CONTRACTS</u>	<u>\$8,433,289,681</u>
<u>AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS</u>	<u>\$106,928,620</u>
<u>LIABILITY FOR DEPOSIT-TYPE CONTRACTS</u>	<u>\$3,422,770,085</u>
<u>CONTRACT CLAIMS:</u>	
<u>LIFE</u>	<u>\$32,465,126</u>
<u>ACCIDENT AND HEALTH</u>	<u>\$1,748,809</u>

The Division retained ASI to verify the accuracy and theoretical correctness of reserve calculations and to review the asset adequacy analysis performed by the appointed actuary as of December 31, 2008.

### Formula Reserves-Scope

Independent actuarial tests of the Order's business reported in Exhibits 5, 6 (LTC only), 7 (annuities certain and supplementary contracts only), and 8 (LTC IBNR only) of the Annual Statement were conducted to determine whether the Order's reserves were established in accordance with minimum standards for the valuation of liabilities specified in the Connecticut Standard Valuation Law and applicable Actuarial Standards of Practice. In performing the reserve review and analysis, ASI performed the following:

- Requested information and supporting data from the Order's valuation actuaries relevant to reserve analysis, and reviewed the responses.
- Reviewed and analyzed work papers and other documents that supported the aggregate reserves exhibited in the 2008 statutory annual statement.
- Reviewed and analyzed the Order's actuarial reserve methods, assumptions, trends, and the reserves for sample policies.

### Asset Adequacy-Scope

A limited scope review relating to the methods employed by the appointed actuary in the performance of the asset adequacy analysis was completed. ASI reviewed and analyzed the approaches, procedures, and methods employed by the Order for its 2008 Statement of Actuarial Opinion, supporting memoranda, and supplementary reports.

### Formula Reserves-Analysis

Based on the review of the Order's formula reserves as outlined above, it was determined that the reserve liabilities were reasonably stated as of December 31, 2008, and are in compliance with the applicable provisions of the CGS, and Actuarial Guidelines.

# KNIGHTS OF COLUMBUS

## RECOMMENDATIONS

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### RELATED PARTY

It is recommended that the Order: prepare written agreements in accordance with SSAP No 25 of the Manual; file the agreement for approval with the Division via a "Non-Form D" and; determine if donated amounts are actually capital contributions.

### 9 INFORMATION TECHNOLOGY AND OTHER CONTROLS

- It is recommended that a thorough assessment of the Order's IT environment be performed and controls be established to ensure accuracy and completeness of data processing information as outlined in the Handbook.
- It is recommended that the Order review the responsibilities, staffing levels, and minimal educational requirements of the IT audit unit to ensure the appropriate control structure as outlined in the Handbook.
- It is recommended that the Order define, establish and document formal user administration polices and procedures as outlined in the Handbook.
- It is recommended that the Order define, establish and document formalized user recertification policies and procedures as outlined in the Handbook.
- It is recommended that the Order establish and document formal application change control procedures as outlined in the Handbook.
- It is recommended that the Order define, establish and document formal SDLC polices and procedures as outlined in the Handbook.

## CONCLUSION

The results of this examination disclosed that as of December 31, 2008, the Order had admitted assets of \$14,051,334,507, liabilities of \$12,432,518,015 and capital and surplus of \$1,618,816,492. During the period of the examination, admitted assets increased \$3,104,741,812, liabilities increased \$2,913,309,594 and capital and surplus increased \$191,432,218. It was determined that the Order's assets and liabilities were fairly stated in accordance with guidance outlined in the Manual. Assets were acceptable under Section 38a-102 of the CGS. The liabilities established were adequate to cover the Order's obligations.


KNIGHTS OF COLUMBUS

SIGNATURE

In addition to the undersigned, Sharon A. Altieri, CPA; William Arfanis, CFE; Edna F. Bosley; Gerald Burke, CFE; Cecil Chadaws, CFE; Clyde G. Hayden, CFE and Allen Elstein, FSA, MAAA of the Division; and ASI and RSM participated in this examination.

I, Michael P. Daniels, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2008, to the best of my information, knowledge and belief.

Respectfully submitted,

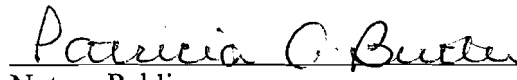
  
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Michael P. Daniels, CFE  
Examiner-in-Charge  
State of Connecticut  
Insurance Department

State of Connecticut

ss. Hartford

County of Hartford

Subscribed and sworn to before me, Patricia A. Butler  
Notary Public on this 25<sup>th</sup> day of August, 2009.

  
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Notary Public

My Commission Expires September 30, 2009