

REPORT ON EXAMINATION  
OF THE  
UNITED STATES LETTER CARRIERS  
MUTUAL BENEFIT ASSOCIATION

STATUTORY HOME OFFICE:  
150 THIRD AVENUE SOUTH  
NASHVILLE, TENNESSEE 37201

MAIN ADMINISTRATIVE OFFICE:  
100 INDIANA AVENUE N.W.  
WASHINGTON, DISTRICT OF COLUMBIA 20001

AS OF

DECEMBER 31, 2009

THE DEPARTMENT OF COMMERCE AND INSURANCE

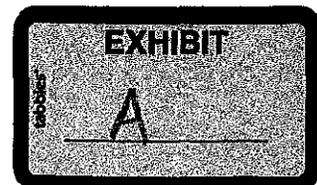
STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Dept. of Commerce & Insurance  
Company Examinations



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Washington, DC  
January 19, 2011

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

Honorable Mila Kofman  
Secretary, Northeastern Zone, NAIC  
Maine Bureau of Insurance  
34 State House Station  
Augusta, Maine 04333

Honorable James J. Donelon  
Secretary, Southeastern Zone, NAIC  
Louisiana Department of Insurance  
P.O. Box 94214  
Baton Rouge, LA 70804

Honorable Julie Mix McPeak  
Commissioner of Commerce and Insurance  
State of Tennessee  
500 James Robertson Parkway  
Nashville, Tennessee 37243

Dear Commissioners:

Pursuant to your instructions and in accordance with the Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review has been made concerning the condition and affairs of the

UNITED STATES LETTER CARRIERS MUTUAL BENEFIT ASSOCIATION  
NASHVILLE, TENNESSEE

hereinafter generally referred to as the "MBA" or the "Company", and a report thereon is submitted as follows:

## INTRODUCTION

This examination was called on March 2, 2010 through the Examination Tracking System of the NAIC by the Department of Commerce and Insurance of the State of Tennessee (TDCI). The examination was performed under the association plan of the NAIC by examiners from the TDCI representing the Southeastern Zone of the NAIC. There was no participation from any other zones. The examination commenced on April 12, 2010 and was conducted at the Company's administrative office at 100 Indiana Avenue N.W., Washington, District of Columbia, where all books and records are located.

## SCOPE OF EXAMINATION

The period covered by this examination is from January 1, 2005, to the close of business on December 31, 2009, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. We planned and performed 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 and management's compliance with Statutory Accounting Principles and annual statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Independent actuaries were used in the review of the Company's reserves.

The previous examination was made as of December 31, 2004, and resulted in no changes to the Company's surplus. The Company was directed to comply with Tenn. Code Ann. § 56-53-111(b) by ensuring that on all applications for insurance and all claims forms that an anti-fraud statement that complies with the law is permanently affixed to the application or claim form. Additionally, the Company was directed to comply with Tenn. Code Ann. § 56-1-501(g) by filing accurate annual statements and preparing its financial statements in accordance with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual. The Company was further directed to correct its prior filing by filing an amended "Form D" with the TDCI that accurately reflects the correct par values for its bond investments. As of the date of this report, the MBA has complied with these directives.

### COMPANY HISTORY

The MBA was organized in the State of Tennessee on February 26, 1892, under powers conferred by a general welfare charter issued to the National Association of

Letter Carriers of the United States of America (NALC), also known as the Union. This charter provided for the establishment of and operation of an insurance fraternal benefit corporation.

The MBA is a fraternal association authorized to transact the business of fraternal life, health and accident insurance under the laws of the State of Tennessee. The MBA exists to provide life insurance, annuity, and health coverage to members of the NALC and their families. The NALC is a national union representing letter carriers and other non-supervisory personnel of the United States Postal Service.

On December 4, 1905, the charter was amended to permit the writing of sick benefit coverage, known as the United States Letter Carriers National Sick Benefit Association (NSBA). Effective July 1, 1955, the MBA's authority was expanded to permit the writing of accident and health coverage, including hospitalization. At the same time, the outstanding certificates of the NSBA and its future operations were assumed by the MBA along with the NALC hospitalization plan (HBP). The NALC agreed to protect the MBA against any future losses it sustained by reason of this assumption. The operations of the NSBA and HBP were continued on an autonomous basis as a department of the MBA until September 9, 1960, at which time the President of the NALC transferred the direction of the NSBA to the Trustees of the MBA. The HBP became a distinct and separate autonomous operation governed exclusively by federal law and outside the control or jurisdiction of the MBA.

Effective March 31, 1983, an amended charter of the MBA specified that the purposes of the fraternal are limited to insurance business exclusive of all group accident and health insurance provided by the HBP. After March 31, 1983, all

claims and similar HBP liabilities became the responsibility of the NALC.

The refunds paid to members during the period under examination are shown in the following schedule:

<u>Year</u>	<u>Life</u>	<u>Accident and Health</u>	<u>Total</u>
2005	\$ 549,071	\$ 6,011	\$ 555,082
2006	538,795	169,537	708,332
2007	543,661	221,960	765,621
2008	543,441	179,227	722,668
2009	521,977	162,587	684,564

All operations are performed at the Company's main administrative office in Washington, DC. The Company's development, since the previous examination, is depicted in the following table:

<u>Date</u>	<u>Premium Income</u>	<u>Benefits Paid</u>	<u>Net Income</u>	<u>Admitted Assets</u>	<u>Surplus</u>
12/31/05	\$16,941,305	\$21,013,294	\$1,383,089	\$167,134,529	\$24,748,947
12/31/06	15,799,725	19,878,019	1,996,374	176,391,295	26,714,173
12/31/07	14,531,544	19,610,236	1,759,335	182,721,212	27,604,831
12/31/08	15,295,721	20,457,615	(1,331,536)	177,922,685	19,010,851
12/31/09	15,699,040	20,932,350	897,561	186,417,608	19,998,085

### CHARTER, CONSTITUTION AND GENERAL LAWS

#### Charter:

The Charter, dated February 25, 1892, was granted for the general welfare of society and not for individual profit. The purposes for which the corporation is organized are:

- (a) To carry on business as a fraternal benefit corporation
- (b) To engage in and write any or all branches of insurance which may be

engaged in, including but not limited to individual life and annuity insurance, sick benefit coverage, and individual accident and health policies providing supplementary income to hospitalized and/or disabled members

- (c) To establish Branches and to exercise all powers necessary to operate such business

In addition to the preceding, the Charter recites other general and specific powers in detail. These are usual in nature and consistent with statute. The Charter was inspected and found to have been duly issued and properly recorded. There were no amendments to the Charter during the period under examination.

#### Constitution and General Laws:

The Constitution contains eight articles that establish the objectives of the MBA, the administration rules which regulate the business and affairs of the MBA and govern the conduct and duties of its trustees and officers. The General Laws of the MBA contain eleven laws that establish qualifications for membership and describe the duties of the Chief Medical Examiner, MBA Representatives, and Members. Additionally, the General Laws describe the plans of insurance and payment of benefits.

The Constitution and General Laws may only be amended by majority vote of the entire membership present at the regular session of the national convention. There were no amendments to the Constitution and General Laws during the period under examination.

## MANAGEMENT AND CONTROL

The MBA is a department of the NALC. The NALC is a labor organization with the objective of uniting fraternally all letter carriers and other employees of the Postal Career Service for their mutual benefit. Members of the NALC are affiliated with a branch and state association. The members of the NALC (represented by delegates to the biennial convention) elect a Board of Trustees, a President and a Director of Life Insurance to manage the business and affairs of the MBA. The MBA's Board of Trustees, as of December 31, 2009, are as follows:

<u>Name</u>	<u>Address</u>	<u>Occupation</u>
Lawrence D. Brown – Chairman	Los Angeles, CA	Trustee – NALC
Michael J. Gill	Miami, FL	Trustee – NALC
Randall L. Keller	Bradford, MA	Trustee – NALC

The MBA Constitution calls for a Board of Investment to direct the investments in securities. The Board of Investment, as of December 31, 2009, is composed of the following persons:

<u>Name</u>
Fredric V. Rolando – Chairman
Myra Warren
Lawrence D. Brown
Michael J. Gill
Randall L. Keller

The Officers of the MBA, as of December 31, 2009, are as follows:

<u>Name</u>	<u>Office Held</u>
Fredric V. Rolando	President
Myra Warren	Secretary/Director of Life Insurance

Conflicts of Interests:

The MBA's Code of Conduct (Code) contains five primary principles: (1) to promote honest and ethical conduct; (2) promote full, fair, accurate, timely and understandable disclosure in reports and documents; (3) promote compliance with applicable laws, rules and regulations; (4) promote the prompt internal reporting of violations of the Code; and (5) promote accountability for adherence to the Code. Annually all officers and trustees are required to sign an affirmation statement confirming their understanding of and compliance with the Code and disclose any known or suspected violations and changes in affiliations. The statements and disclosures were reviewed without exception.

Pecuniary Interest:

A check for compliance with Tenn. Code Ann. § 56-3-103 found that no trustee or officer of the Company had pecuniary interest in the investment or disposition of Company funds.

CORPORATE RECORDS

The minutes of the meetings of the Board of Trustees and Board of Investment were reviewed for the period under examination. They were found to be complete as to necessary detail and appear to adequately reflect the acts of the respective parties. The review of the minutes indicates that all investment transactions were approved by the Board of Trustees. The previous examination report was reviewed by the Board of Trustees on December 14, 2005.

## FIDELITY BOND AND OTHER INSURANCE

The MBA maintains a Financial Institution Bond that includes fidelity coverage. Other insurance coverages maintained by the Company at December 31, 2009 were:

Commercial Property	Automobile
Commercial General Liability	Workers' Compensation
Commercial Umbrella Liability	

The fidelity coverage is \$200,000 less than the suggested minimum amount per the NAIC Financial Condition Examiners Handbook. Although less than the suggested minimum, the coverage is considered sufficient taking into account the favorable risk management assessment of the Company. The policies noted above were reviewed without exception. All of the above policies were issued by companies licensed to transact business in the State of Tennessee.

## RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The MBA contributes to the NALC Annuity Trust Fund (the Plan), a multi-employer defined-benefit pension plan established by the NALC. The Plan is a noncontributory plan that covers substantially all permanent full-time employees of the MBA. In addition to life, health, vision and dental benefits, the MBA currently provides certain health care benefits for retired employees. Substantially all of the MBA's employees, except officers, may become eligible for these benefits when they become eligible for retirement while working for the MBA. The benefits are provided through the NALC's Health Benefit Plan for Employees and Staff. The cost of postretirement benefits has been actuarially determined and accrued over the working lives of employees expected to receive benefits.

## TERRITORY

The MBA writes premiums in 54 states and territories. They are licensed in 15 states and territories, including California, Colorado, Louisiana, Minnesota, Mississippi, Montana, New Mexico, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Wisconsin, and the District of Columbia. The MBA is in the process of obtaining a license in Florida. They are exempt from licensing in the other states and territories. The Certificates of Authority issued by the states and territory listed above were inspected without exception. Listed below is a tabulation of the Company's 2009 direct premiums written by state or territory:

<u>State/Territory</u>	<u>Life Insurance Premiums</u>	<u>Annuity Considerations</u>	<u>Accident &amp; Health Insurance Premiums</u>	<u>Total</u>
Alabama	\$ 31,925	\$ 27,926	\$ 36,671	\$ 96,522
Alaska	7,089	24,056	4,039	35,184
Arizona	30,176	182,004	51,579	263,759
Arkansas	12,813	70,445	8,615	91,873
California	220,032	520,864	536,414	1,277,310
Colorado	29,385	59,197	22,960	111,542
Connecticut	35,158	118,386	63,523	217,067
Delaware	11,094	18,453	14,352	43,899
District of Columbia	637,495	3,243	7,840	648,578
Florida	178,905	896,538	229,246	1,304,689
Georgia	57,622	80,080	75,151	212,853
Hawaii	13,639	118,855	7,219	139,713
Idaho	5,434	2,612	2,802	10,848
Illinois	127,922	294,341	172,432	594,695
Indiana	55,547	156,077	55,640	267,264
Iowa	4,530	54,687	11,685	70,902
Kansas	21,273	23,315	16,001	60,589
Kentucky	17,526	32,361	21,394	71,281
Louisiana	49,637	40,084	44,148	133,869
Maine	5,844	41,642	14,249	61,735
Maryland	64,235	196,408	101,551	362,194
Massachusetts	66,432	281,282	139,767	487,481

<u>State/Territory</u>	<u>Life Insurance Premiums</u>	<u>Annuity Considerations</u>	<u>Accident &amp; Health Insurance Premiums</u>	<u>Total</u>
Michigan	57,629	260,572	264,287	582,488
Minnesota	15,126	117,801	28,220	161,147
Mississippi	17,496	35,076	16,818	69,390
Missouri	39,210	102,520	30,780	172,510
Montana	4,531	109,725	5,142	119,398
Nebraska	7,824	32,194	7,914	47,932
Nevada	23,039	52,213	25,873	101,125
New Hampshire	9,821	26,009	33,730	69,560
New Jersey	135,830	321,676	235,333	692,839
New Mexico	11,086	15,507	17,945	44,538
New York	226,049	619,254	372,371	1,217,674
North Carolina	48,257	73,706	55,854	177,817
North Dakota	3,335	7,603	2,683	13,621
Ohio	126,025	209,367	106,471	441,863
Oklahoma	15,368	42,315	11,237	68,920
Oregon	12,948	53,131	17,699	83,778
Pennsylvania	166,210	621,733	242,776	1,030,719
Rhode Island	8,902	123,979	25,571	158,452
South Carolina	27,221	40,114	12,529	79,864
South Dakota	1,914	5,422	1,936	9,272
Tennessee	163,515	44,201	22,265	229,981
Texas	155,138	347,896	267,348	770,382
Utah	4,453	38,821	7,715	50,989
Vermont	793	8,586	1,131	10,510
Virginia	66,156	109,390	40,367	215,913
Washington	27,506	74,533	28,003	130,042
West Virginia	18,006	34,066	13,234	65,306
Wisconsin	36,710	272,180	44,850	353,740
Wyoming	4,546	53,390	1,855	59,791
Guam	863	0	165	1,028
Puerto Rico	2,480	4,031	4,817	11,328
US Virgin Islands	0	2,383	1,438	3,821
United Kingdom	0	2,000	0	2,000
Paid-up Additions	264,116	0	0	264,116
<b>Totals</b>	<b><u>\$3,385,816</u></b>	<b><u>\$7,104,250</u></b>	<b><u>\$3,585,635</u></b>	<b><u>\$13,811,585</u></b>

## PLAN OF OPERATION

The MBA offers life, accident and health and annuity products. On any one life, the minimum insurance issued is \$1,000 and the maximum is \$100,000. The MBA has no insurance agents. Insurance solicitation is accomplished through the NALC's magazine "the Postal Record". This direct response marketing is supplemented with promotional materials provided by the MBA to the Union branches and by the MBA representatives who serve each branch.

Applicants for insurance coverage must be a letter carrier or other non-supervisory employee of the Postal Career Service who is a member in good standing of the NALC, or the spouse, child, grandchild or great grandchild of a member of the NALC. Employees of the NALC and its subsidiaries, their spouses and children are also eligible applicants. The MBA utilizes the services of a Medical Consultant to review applications and claims in certain instances. At December 31, 2009, there were 30,250 policies in force.

## MORTALITY AND LOSS EXPERIENCE

The mortality experience on life insurance business and the loss experience on accident and health business, since the previous examination, as reported in its annual statements, are as follows:

Life:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net Death Benefits Incurred	1,215,543	1,495,641	1,543,832	1,551,374	1,295,672
Less-Reserves Released by Death Actual Death	<u>317,907</u>	<u>390,613</u>	<u>348,295</u>	<u>453,817</u>	<u>336,510</u>
Benefits Incurred	897,636	1,105,028	1,195,537	1,097,557	959,162
Expected Mortality	<u>1,992,636</u>	<u>2,049,916</u>	<u>2,074,405</u>	<u>2,037,551</u>	<u>1,952,425</u>
Mortality Experience Ratio	<u>45.0%</u>	<u>53.9%</u>	<u>57.6%</u>	<u>53.8%</u>	<u>49.1%</u>

Accident and Health:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net Incurred Claims	4,133,639	3,604,252	3,366,024	2,992,196	3,024,430
Net Premiums Earned	<u>4,905,774</u>	<u>4,611,155</u>	<u>4,294,773</u>	<u>3,975,473</u>	<u>3,590,421</u>
Loss Experience Ratio	<u>84.2%</u>	<u>78.1%</u>	<u>78.3%</u>	<u>75.2%</u>	<u>84.2%</u>

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2009:

<u>Where Deposited and Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
South Carolina			
USTN, 5.00%, Due 2/15/11	\$ 135,000	\$ 134,834	\$ 137,700
Tennessee			
FHLB, 3.125%, Due 12/13/13	<u>400,000</u>	<u>413,107</u>	<u>412,000</u>
Totals	<u>\$ 535,000</u>	<u>\$ 547,941</u>	<u>\$ 549,700</u>

The deposits listed above are for the benefit of all policyholders, claimants and creditors of the Company. The deposits were verified by direct correspondence with the regulating jurisdiction.

## COMMITMENTS AND CONTINGENCIES

From the examination data made available, it appears that the only matters of law in which the Company was involved, during the period under review, were those arising out of the normal course of business and the outcome of such actions should not have a material effect on the financial position of the Company.

## ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including verification of postings, extensions and footings. General ledger trial balances were reconciled with copies of annual statements for the years 2005 through 2009. Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

The Company is audited annually by Bond Beebe, Bethesda, Maryland. There is no violation of Tenn. Comp. R. & Reg., ch. 0780-1-65.07(3).

## ACTUARIAL REVIEW

TDCI contracted with the independent actuarial firm of Lewis & Ellis, Inc., Richardson, Texas, to assist with this examination. Lewis & Ellis was retained to review the actuarial assumptions and methodologies of the actuarial liabilities

established by the MBA. They concluded that the methods used are appropriate and that the established actuarial liabilities, as of December 31, 2009, are adequate.

### MARKET CONDUCT ACTIVITIES

#### Policy Forms and Rates:

All policy forms have been submitted and approved in accordance with Tenn. Code Ann. § 56-25-1404. The MBA is exempt from filing rates.

#### Advertising:

The MBA's print advertising was reviewed and no exceptions were noted. In addition, the NALC maintains a website where MBA product descriptions and forms can be found. The advertising complies with Tenn. Comp. R. & Reg., ch. 0780-01-08 and Tenn. Comp. R. & Reg., ch. 0780-01-33

#### Policyholder Complaints:

Constitution and General Laws establish a process for members to appeal decisions by the MBA. Inquiries made to the TDCI Consumer Insurance Services section indicated no specific regulatory concerns with the Company during the period under examination.

#### Privacy:

The Company's privacy policies and practices were reviewed. No instances of non-compliance with Tenn. Comp. R. & Reg., ch. 0780-1-72 were noted.

Claims Review:

A review of open and closed claims was made. The review indicates that claims are being handled properly, timely and in accordance with policy provisions. A sample of paid claim files reviewed during the examination indicated that claims were being paid upon receipt of proper evidence of the Company's liability.

SUBSEQUENT EVENTS

In October 2008, the MBA was notified by their custodial bank that losses had been suffered as a result of market risk on the cash collateral held on loaned securities. The cash collateral held, which is commingled with other organizations participating in this activity, was invested in corporate paper and other securities; some of which suddenly lost some or all of its value (i.e. Lehman Brothers). The MBA's share of the commingled losses associated with this activity was \$2,881,262.

In March, 2010, a Memo of Understanding with the custodial bank was executed whereby the losses will be recovered over time by means of reimbursement of agent fees and reduced fees charged by the custodial bank as investment advisor.

## FINANCIAL STATEMENT

There follows a statement of assets, liabilities and surplus funds, and a summary of operations at December 31, 2009, together with a reconciliation of surplus for the period under review, as established by this examination:

### ASSETS

	<u>Assets</u>	<u>Non Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 161,096,714	\$ 0	\$ 161,096,714
Common stocks	16,716,000		16,716,000
Cash, cash equivalents and short term investments	1,066,746		1,066,746
Contract loans	<u>5,230,503</u>	<u>0</u>	<u>5,230,503</u>
Subtotals, cash and invested assets	<u>184,109,963</u>	<u>0</u>	<u>184,109,963</u>
Investment income due and accrued	2,268,177	0	2,268,177
Uncollected premiums and agents' balances in the course of collection	35,159		35,159
Electronic data processing equipment	6,505	2,199	4,306
Furniture and equipment	<u>2,344</u>	<u>2,344</u>	<u>0</u>
Total assets	<u>\$ 186,422,148</u>	<u>\$ 4,543</u>	<u>\$ 186,417,605</u>

## LIABILITIES, SURPLUS AND OTHER FUNDS

### Liabilities

Aggregate reserve for life contracts	\$138,013,925
Aggregate reserve for accident and health contracts	15,205,805
Liability for deposit-type contracts	1,947,590
Contract claims:	
Life	549,918
Accident and health	389,429
Refunds apportioned for payment	709,847
Premiums and annuity considerations for life and accident and health contracts received in advance	160,372
Interest maintenance reserve	3,098,393
General expenses due or accrued	273,176
Taxes, licenses and fees due or accrued	1,264
Amounts withheld as agent or trustee	(3,714)
Remittances and items not allocated	164,425
Asset valuation reserve	3,563,053
Aggregate write-ins for liabilities:	
Experience refund provision	371,025
Accumulated post retirement obligation	1,979,112
 Total liabilities	 <u>166,423,620</u>

### Surplus

Voluntary surplus for contingencies	\$350,000
Unassigned funds	<u>19,643,985</u>
 Total surplus	 <u>19,993,985</u>
 Total liabilities and surplus	 <u>\$186,417,605</u>

## SUMMARY OF OPERATIONS

### Income

Premiums and annuity considerations for life and accident and health contracts	\$ 14,090,701	
Considerations for supplementary contracts with life contingencies	1,608,339	
Net investment income	8,911,518	
Amortization of interest maintenance reserve	465,126	
Miscellaneous income	<u>52,596</u>	
 Total income		 \$ 25,128,280

### Expenses

Death benefits	1,270,428	
Annuity benefits	8,776,566	
Disability benefits and benefits under accident and health contracts	3,049,674	
Surrender benefits and withdrawals for life contracts	2,084,944	
Interest and adjustments on contract or deposit-type contract funds	123,931	
Payments on supplementary contracts with life contingencies	680,726	
Increase in aggregate reserve for life and accident and health contracts	3,890,505	
General insurance expenses and fraternal expenses	2,915,480	
Insurance taxes, licenses and fees	103,684	
Increase in loading on deferred and uncollected premiums	191	
Experience refunds	<u>371,015</u>	
 Total expenses		 <u>23,267,144</u>
 Net gain from operations before refunds to members and realized capital gains (losses)		 <u>1,861,136</u>
 Refunds to members		 684,564
Net realized capital gains (losses)		<u>(279,020)</u>
 Net income (loss)		 <u>\$ 897,552</u>

**RECONCILIATION OF SURPLUS  
FOR THE PERIOD UNDER EXAMINATION**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Surplus December 31, previous year	<u>\$23,507,852</u>	<u>\$24,748,953</u>	<u>\$26,714,173</u>	<u>\$27,604,729</u>	<u>\$19,006,756</u>
Net income (loss)	1,383,089	1,996,368	1,759,233	(1,335,523)	897,552
Change in net unrealized capital gains (losses)	--	--	(250,698)	(7,631,374)	3,656,705
Change in nonadmitted assets	22,150	(32,114)	16,109	6,678	5,797
Change in asset valuation reserve	(31,115)	20,182	(601,600)	622,496	(3,263,053)
Current year increase in post retirement reserve	<u>(133,023)</u>	<u>(19,216)</u>	<u>(32,488)</u>	<u>(260,250)</u>	<u>(309,772)</u>
Net change in surplus	<u>1,241,101</u>	<u>1,965,220</u>	<u>890,556</u>	<u>(8,597,973)</u>	<u>987,229</u>
Surplus December 31, current year	<u>\$24,748,953</u>	<u>\$26,714,173</u>	<u>\$27,604,729</u>	<u>\$19,006,756</u>	<u>\$19,993,985</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS**  
**RESULTING FROM EXAMINATION**

Although minor differences were found in various items, none were considered to produce a material effect on surplus funds either singly or in the aggregate.

## COMMENTS AND RECOMMENDATIONS

### Comments:

1. During the course of the examination, the Company's custodial agreement with Region's Bank was reviewed. Per the review, the agreement needed to be amended to include the required provisions pursuant to Tenn. Comp. R. & Reg., ch. 0780-1-46-.03(2)(a)(1) & (3). The agreement was amended and is now in full compliance.
2. The Company's Securities Lending Agreement was reviewed and found to be missing two provisions as required by Tenn. Code Ann. § 56-3-303(a)(18)(A) and Tenn. Code Ann. § 56-3-303(a)(18)(C)(i). During the examination, the agreement was amended to add the two required provisions and is now in compliance.
3. During the examination, it was found that the Company had no Anti-Fraud Plan as required by Tenn. Code Ann. § 56-53-111. Prior to completion of the examination, the Company prepared and adopted a plan. It was reviewed and found to be in compliance.
4. The previous examination report contained a finding that not all claim forms contained the fraud statement as required by Tenn. Code Ann. § 56-53-111(b). The Company was ordered to comply and during the initial meeting with the Company they stated that they were now in compliance. However, after review of claim forms, it was determined that one form did not contain the fraud statement. The form in question was amended during the examination and is now in compliance.
5. The Company is reporting a money market account as a short-term investment and showing a maturity date of 12/31/12; however, this account is simply a deposit account and should be reported as cash.

Recommendations:

1. The examination revealed no evidence that the Board of Trustees meetings were being held at least quarterly as required by statute.

It is recommended that the Company comply with Tenn. Code Ann. § 56-25-1103(1)(B) by holding meetings of trustees no less than quarterly.

## CONCLUSION

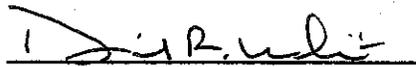
The customary insurance examination practices and procedures, as established by the NAIC, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such manner, it was determined that, as of December 31, 2009, the Company had net admitted assets of \$186,417,605 and liabilities of \$166,423,620. Thus, there existed for the additional protection of the policyholders, the amount of \$19,993,985 in surplus funds.

The courteous cooperation of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Brian H. Sewell, CFE, Insurance Examiner, State of Tennessee, and Michael A. Mayberry, FSA, MAAA of Lewis & Ellis, Inc., Actuaries & Consultants, participated in the work of this examination.

Respectfully submitted,

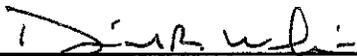


David R. White, CFE  
Examiner-in-Charge  
State of Tennessee  
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of the United States Letter Carriers Mutual Benefit Association dated January 19, 2011, and made as of December 31, 2009, on behalf of the TDCI.

Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
David R. White, CFE  
Examiner-in Charge  
State of Tennessee  
Southeastern Zone, NAIC

Subscribed and sworn to before me this

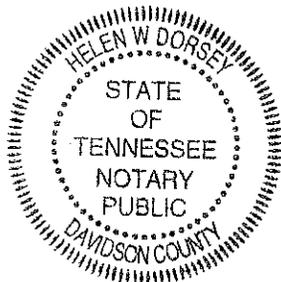
20<sup>th</sup> day of January, 2011

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 03/03/2014





# National Association of Letter Carriers

RECEIVED

FEB 08 2011

Dept. of Commerce & Insurance  
Company Examinations

**Fredric V. Rolando**  
President

February 8, 2011

**EXPRESS MAIL**  
EG 523062846 US

100 Indiana Ave., NW  
Washington, DC  
20001-2144  
202.393.4695  
www.nalc.org

Mr. Horace E. Gaddis, Jr., CFE  
Insurance Examinations Director  
State of Tennessee  
Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, TN 37243

Re: Report on Financial Condition Examination of  
United States Letter Carriers Mutual Benefit Association  
Made as of December 31, 2009

**Timothy C. O'Malley**  
Executive Vice President

Dear Mr. Gaddis:

**George C. Mignosi**  
Vice President

The following responds to your letter dated January 20, 2011, and received in our office on January 25, 2011, addressed to William H. Young enclosing the Report on Examination of the United States Letter Carriers Mutual Benefit Association:

**Jane E. Broedel**  
Secretary-Treasurer

**Nicole Rhine**  
Asst. Secretary-Treasurer

**Lew Drass**  
Director, City Delivery

**Manuel L. Peralta Jr.**  
Director, Safety & Health

**Myra Warren**  
Director, Life Insurance

**Brian E. Hellman**  
Director, Health Insurance

**Ernest S. Kirkland**  
Director, Retired Members

**Board of Trustees:**

**Larry Brown Jr.**  
Chairman

**Randall L. Keller**  
**Michael J. Gill**

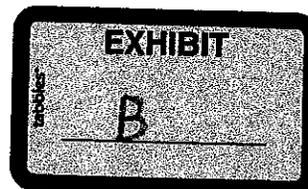
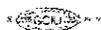
### Subsequent Events (p. 16)

Regarding the description of this matter, please note for clarification that the March, 2010 Memo of Understanding was entered into with Regions Bank, and that the loss amount reflected in the Report is the amount as reported in the Annual Statement of the USLCMBA for the year ended December 31, 2008. Regarding the Report's description in the second paragraph, MBA refers the Department to the contents of the Memo of Understanding for a completed description of its terms.

### Comments and Recommendations (pp. 22-23)

The USLCMBA concurs with the five comments and the recommendation set forth in the Report. The money market account referenced in Comment 5 will be reclassified and will appear in Schedule E along with the USLCMBA's other short term assets in the Annual Statement of the USLCMBA for the year ended December 31, 2010. The USLCMBA will adjust its board of trustees' meeting schedule to reflect and record that it holds meetings on a quarterly basis.

Affiliated with the AFL-CIO & Union  
Network International



Mr. Horace E. Gaddis, Jr.  
Page 2

Thank you for incorporating on pages 10 and 11 of the Report the corrections to the distribution of state premiums referenced in your email to Assistant Director Lawrence Winfield on January 26, 2011.

Please note that Mr. Young retired as NALC's President in July, 2009. Future correspondence from your office may be addressed to me.

If you would like to discuss any of the foregoing, please contact me or Director Myra Warren at 202-662-2868.

Sincerely,



Fredric V. Rolando  
President

cc: Myra Warren