

Report of the Examining Finance Committee

What an unusual event we are living through. Unlike previous years where an onsite review would have been performed at the home office of UCT in Columbus, Ohio, this year we are sharing this information with you that was collected and disseminated strictly through emails and teleconferences as we were in our respective homes.

The review was still conducted in accordance with the scope, responsibilities and role given this committee. The review was performed focusing on the issues and concerns of the UCT membership.

In accordance with the UCT standing policy for the EFC, all members have executed confidentiality agreements.

The 2019 financial statements we reviewed were audited by BKD, a professional accounting firm. A preview of the final report of BKD stated they present fairly the financial position of the Order using the statutory accounting practices required by the Ohio Department of Insurance (ODI) and the National Association of Insurance Commissioners (NAIC). The annual audit process was again overseen by the UCT Audit Committee, which met throughout the year and assisted the Board in fulfilling its responsibility of providing the oversight for maintaining the integrity to the accounting, auditing and reporting practices of the Order.

Being limited in time and having only limited resources this year, we used these reports as our starting point in the review process. Quarterly financial statements were sent to each of us throughout the year, providing us opportunity to stay informed with the business of the Order.

These financial statements were reviewed from a UCT member's perspective. Our focus this year was on the continued transitioning of the business of the Order after the discontinuation of the insurance business in Canada. In 2018, UCT exited the insurance business in Canada and recognized a charge of \$640,000 for the costs of exiting that business. Throughout 2019, the work was being done to pay out those remaining policies left from the Canadian insurance business. As of 2019 year-end, less than 10 policyholders (out of approximately 3,000) remained to be settled. UCT management expects to be completely done with these last payouts in 2020. With the cost of discontinuing the Canadian business being recognized in 2018, there was no major impact to the UCT bottom line in 2019. As our insurance liabilities in Canada have been paid down, the Canadian regulators have allowed us to sell off a percentage of our Canadian investments and move the money back to the U.S. Due to the strength of the U.S. dollar vs. the Canadian dollar, we incurred a loss of \$101,754 in the foreign exchange transaction but realized an overall increase to the surplus from clearing the intercompany accounts with the discontinued Canadian business.

In the first quarter of 2019, the IOB (Insurance Oversight Board) was established with two members appointed by the Board of Governors. As a separate entity of insurance and business professionals, they began working with UCT's management on April 16. Reporting to the UCT Board, their initial focus was on developing a strategic plan, reviewing expenses and working with the sales and marketing team.

Project Phoenix was initiated by the Board of Governors and the IOB as a cost-saving endeavor to search for ways to reduce administrative expenses for the current year and into future years. As a start, four areas of expense were identified with plans put in place to begin reducing those costs.

1) Home office leased space was reduced by about 20% to save over \$6,000 per month or \$75,000 per year. This savings began in November 2019.

2) The annual convention expense would have been reduced by about \$55,000 in 2020 if the convention had been held. This was to be achieved by shortening the number of days as well as a change in reimbursement policies.

3) Salaries/temporary employees expenses were reduced by almost \$225,000 in 2019 over 2018. For 2020, an additional \$100,000 in savings is expected from the elimination of a position, the retirement of two vice presidents and leaving two positions in IT unfilled into 2020.

4) Equipment lease expense was reduced by \$11,000 in 2019 through consolidating leases with newer equipment and eliminating items and services that had become unnecessary. This was a 6.5% reduction.

Expected savings in 2020 and 2021 should be \$60,000 annually.

While these areas were the initial targets for savings, the OVERALL cost savings in 2019 administrative, fraternal and marketing/agent services expenses totaled \$392,233 or 5.1% over 2018. This savings and the savings of \$296,000 in commissions expenses, helped to absorb other costs that were up... The Reinsurance Allowance was down \$321,000 due to having fewer Medicare Supplement policies (thus increasing our expenses by that amount) and an increase of \$361,000 in insurance claims paid out. In total, net claims and expenses (less the reinsurance allowance) were down by \$5,700 from the prior year!

But while we were able to make good progress on the expense side of the Order's business, revenue growth proved to be more of a challenge. For 2019, insurance premiums were down 2% (or \$260,000) as was investment income down 11.69% (or \$61,000). As our fraternal numbers have dropped, so have the fraternal dues collected. They were down a total of \$79,271, but \$30,000 of that drop can be attributed to the free membership year granted to the Canadian members last year.

The IOB and the management team have been working on establishing more sales channels through relationships with more IMOs (Insurance Marketing Organizations) and agencies to get our products out. Incentives have been added in select areas to encourage agents to promote our products. In addition, new Life and DV(H) products are being developed to add to our product mix. We are in that window of two or three years that had been projected by the IOB before we could expect to see a substantial upswing in sales. It is proving to be a time-consuming process, but we are reminded to stay positive and "celebrate the small wins."

Also charged to the surplus in 2019 was an increase in liability reserves as required by regulators. This charge to the surplus, although requiring no cash outlay, reduced our surplus by \$275,000.

The total surplus was \$7,572,917 at 2019 year-end.

There have been no changes to the Canadian or U.S. investment policies. The Prime Advisors, Inc. report on both of the portfolios showed their investments were in full compliance with those investment policies. As of December 31, 2019, there was still over \$1 million invested in Canadian securities, which had not been sold but are included in the investments in the UCT 2019 financial reports.

The A.M. Best rating at the time of this report is a B rating with a "stable" footnote.

The Enterprise Risk Management (ERM) program continues to be used to assess risks and make changes as needed to policy, procedure and plan. The ERM committee monitors those key risks to the Order and makes suggestions to the Board if corrective action needs to be taken.

The minutes of the UCT Board of Directors Meetings and the Audit Committee Meetings for 2019 were reviewed.

The Board and management team continued to successfully monitor the cyber risks of the business in 2019. Less than \$10,000 was spent on purchasing PCs and servers. There were also other updates and upgrades made to the system for the users. As a major cost saver, the Genelco operating license was successfully renewed for a three-year term starting in 2021 for a total cost of \$60,000.

The unaudited financial reports for UCT Charities, Inc. were reviewed. The surplus of the fund stands at \$3,963,353 at 12/31/2019 vs \$3,727,881 at 12/31/2018. Scholarships awarded by UCT Charities, Inc. for 2019 were 73 totaling \$36,214. An additional 10 full-year scholarships totaling \$42,000 were paid out from the Heaston Scholarship Fund.

The final cost of holding the 2019 UCT convention in New Orleans was \$153,366. In comparison, the 2018 UCT convention in Savannah was \$147,401, the 2017 UCT convention in Greenville cost \$146,233, and the 2016 UCT convention in Louisville was \$155,729.

UCT membership was down. Total membership as of March 31, 2020, was 37,211 (31,140 insurance/6,070 fraternal).

Staffing at the home office was down by four full-time employees as of April of this year. One position in accounting, one in underwriting and two temps in customer service have been eliminated.

The day-to-day management of the company changed this year with Ron Ives and Sandy Shafer retiring. Joining Kevin Hecker (CEO) was Kate Chillinsky as VP, Membership and Communications, and Kevin Roberts as VP, Insurance Operations. Also joining the team was Ray Sherrick as Director of Information Technology.

We wish to thank UCT President Mary Applegate for the opportunity to serve on this committee and to assist the membership in this way. We wish to thank Kevin Hecker, CEO, and Andrew Swetnam, Controller, for their assistance in forwarding this information to us through countless emails and phone calls.

Rick Redman, Mississippi-Louisiana, Chairperson
Lawrence Shafer, Southeastern
Brian Ward, Ohio
Mike Brakie, Indiana