

Des Moines, Iowa
October 3, 2002

HONORABLE THERESE M. VAUGHAN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner Vaughan:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the

MID-WEST BENEFIT, INC.

DES MOINES, IOWA

AS OF DECEMBER 31, 2002

at its Home Office, 8230 Hickman Road, Des Moines, Iowa.

SCOPE OF EXAMINATION

The Mid-West Benefit, Inc., is hereinafter referred to as the Benevolent. This examination covers the intervening period from December 31, 1998 to December 31, 2002, the date of the present examination. The examination was conducted in accordance with procedures suggested by the Financial Condition (E) Committee of the N.A.I.C., and other generally accepted insurance examination standards.

A general review and survey was made of the Benevolent's operation and manner in which its business has been conducted during the stated period. A detailed audit was not made of all transactions, but accounting practices and records were examined and tested to the extent deemed essential.

HISTORY

The Benevolent was incorporated December 20, 1967 as Mid-West Benefit, Inc. under the Iowa Corporation Act, Chapter 496A, Code of Iowa.

On October 18, 1974 the Benevolent adopted the Articles of Merger for the purpose of merging Home Benevolent Association, Inc. and Denison Benevolent Societies, Inc. into Mid-West Benefit, Inc. The merger became effective January 1, 1975.

MANAGEMENT AND CONTROL

STOCKHOLDERS

The Articles of Merger increased the total number of shares which the Benevolent authorized to issue from 1,500 shares to 11,000 shares. The number of shares and par value of each class are as follows:

<u>Class</u>	<u>Number of Shares Authorized</u>	<u>Par Value</u>
"A" Common	10,000	\$100
"B" Common	500	100
Preferred	500	100

As of December 31, 2002 the Benevolent had 559 shares of Class "A" common stock outstanding and has recorded paid in capital of \$55,900. All of the outstanding shares were held by Mid-West Benefit, Inc. Employee Stock Ownership Trust. The stock is voted by the current trustee, Eleanor R. Thielking.

The Bylaws stipulate that the annual meeting of the stockholders shall be held on the fourth Thursday in January for the purpose of electing directors and for the transaction of such other business as may come before the meeting.

Special meetings may be called by the President, by the Board of Directors or by the holders of not less than fifty percent of the outstanding capital stock. The Board of Directors may designate any place within the State of Iowa as the meeting place for any annual meeting or for any special meeting of the stockholders.

BOARD OF DIRECTORS

The business and affairs of the Benevolent shall be managed by a Board of Directors consisting of at least three directors. Directors shall hold office for the term for which they were elected or until their successor shall have been elected and qualified. Directors need not be stockholders of the Benevolent. A majority of directors shall be residents of the State of Iowa.

A regular meeting of the Board shall be held without notice, immediately after and at the same place as the annual meeting of the stockholders. The Board may provide, by resolution, for the holding of additional regular meetings. Provision is also provided in the Bylaws for holding of special meetings of the Board of Directors.

Directors duly elected at the annual stockholders meeting held January 24, 2002 and serving as of December 31, 2002 were as follows:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Armin F. Thielking	West Des Moines, Iowa	January 2003
John W. Thielking	Des Moines, Iowa	January 2003
Paul M. Thielking	Des Moines, Iowa	January 2003

During 2002, each director received \$12.11 in directors' fees.

OFFICERS

The annually elected officers of the Benevolent shall be a President, a Vice President, a Treasurer, a Secretary and such other officers as may be elected by the Board of Directors. Any two or more offices may be held by the same person, except that there shall be at least two persons who shall be officers of the Benevolent.

Officers duly elected at the Board of Directors meeting held on January 24, 2002 and serving as of December 31, 2002 were as follows:

<u>Name</u>	<u>Title</u>
Armin F. Thielking	President
John W. Thielking	Vice-President
Paul M. Thielking	Secretary-Treasurer

Exhibit "A" discloses the salaries paid to the officers.

CORPORATE RECORDS

The minutes of the stockholders and the Board of Directors were read and noted.

The Benevolent's Articles and Bylaws were not amended during this examination period.

The minutes were silent as to the review and acceptance of the examination report as of December 31, 1998.

FIDELITY BONDS AND OTHER INSURANCE

The Benevolent does not have a fidelity bond. The businessowners policy provides coverage for employer's liability, contents, medical expense and business liability. The coverage is placed with an authorized insurer.

EMPLOYEES' WELFARE

The Benevolent established an amended Medical Reimbursement Plan effective September 1, 1981 to reimburse medical expenses for any employee who has attained the age of 21 years before the beginning of the Plan year and whose customary employment is for more than ten hours per week. In addition, the Plan shall include any former employee who is being paid on a consultant basis. Expense assessment funds were used in making total contributions for years 1999, 2000, 2001 and 2002 which were \$1,252.20, \$0, \$0, and \$3,747.65, respectively.

EMPLOYEE STOCK OWNERSHIP PLAN

January 1, 1981 the Benevolent adopted an Employee Stock Ownership Plan. The Plan may be used to transfer the ownership of stock in the Benevolent, including the stock of the principal owners in the Benevolent, to the employees (through the Employee Stock Ownership Trust); and to provide participants with beneficial ownership of Benevolent stock, without requiring any cash outlay, any reduction in pay or other personal investment on the part of the participants.

The Plan stipulates that employer contributions shall be determined by the Benevolent's Board of Directors. Contributions of dividends are paid the Trust, with Board of Directors' approval. The Board minutes were silent as to any contribution references and no ESOP contributions were noted during the examination period. However, a membership fee of 400 was paid to an ESOP trade association in the years 2000 and 2002.

INSURANCE DIVISION FILINGS

191 IAC 8.3, stipulates that a new benevolent association shall file a copy of its general plan of operation with the Commissioner, such a plan was filed February 6, 1968. An amended plan of operation was subsequently adopted by the Benevolent and approved by the Insurance Division on July 9, 1990.

Section 512A.7, Code of Iowa, states that certificates of membership delivered to members shall be approved by the Commissioner. The certificate of membership currently in use was approved by the Insurance Division October 10, 1990. The applications for membership were approved December 14, 1990.

MEMBERSHIP

Pursuant to provisions of the Bylaws the Board of Directors has the authority to create groups for the Benevolent. Presently there are four basic groups and/or units listed in the amended Plan of Operation which is summarized as follows:

- A) Group (F), Firemen, is limited to members of fire departments in the State of Iowa, who are between the ages of eighteen and 66 at the time they join. In the event a fireman's membership in their respective fire department is terminated for any reason, the fireman shall have the privilege of continuing their membership in another unit of the Benevolent.
- B) Group (D) consists of current and former members of fire departments and their spouses.
- C) Group (A) consists of persons who are between the ages of fifty and 66 at the time they join, or persons who have moved up into this group from Group (B) or Group (C) because of increased age.
- D) *Group (B) consists of persons who are between the ages of two weeks and fifty years when they join.
- E) Group (C) consists of persons who are between the ages of two weeks and fifty years when they join.
- F) Groups composed of persons under the age of 66 when they join the following:

- ***Community Home Benevolent Society
- ***Denison Home Benevolent Society
- ***Crawford County Home Benevolent Society
- **Crawford County Home Benevolent Society #2

- *This group was merged into Group (C) known as Unit C in 1998.
- **This group was merged into Community Home, Denison Home and Crawford County groups during 1995.
- ***These groups were sold to United Benefit Society, Inc. in 1999.

Membership in the groups for the years 1995 through 2002 are as summarized as follows:

<u>Group</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Firemen	1,141	1,152	1,125	999	1,088	1,095	1,108	1,126
Unit "A"	970	926	1,086	999	1,290	1,177	1,109	1,056
Unit "B"	742	669	568	0				
Unit "C"	831	793	706	1,162	1,088	1,002	1,121	1,010
Unit "D"	802	743	987	872	1,286	1,141	1,025	938
Community Home	1,017	902	815	729	0			
Denison Home	981	879	765	669	0			
Crawford County	934	826	732	633	0			
Crawford County #2	<u>0</u>							
Total	<u>7,418</u>	<u>6,890</u>	<u>6,784</u>	<u>6,063</u>	<u>4,752</u>	<u>4,415</u>	<u>4,363</u>	<u>4,130</u>

CONTRACT FOR PURCHASE OF UNITS

On August 1, 1999 the Benevolent entered into a contract for sale of assets with United Benefit Society, Inc. to sell approximately 1,850 memberships in the following units: Community Home, Denison Home and Crawford County. The August 1, 1999 promissory note provides a purchase price of \$120,000 plus interest at ten percent. The units sold did not have reserves or paid up members, therefore none were transferred. The unpaid death benefits associated with the three units were transferred by the closing date of August 1, 1999.

BENEFIT ASSESSMENTS, FEES AND EXPENDITURES

Benefit Assessments

Members of the Benevolent contribute \$1.00 per death. 191 IAC 8.5(2), stipulates that the benefit portion of the assessment shall not exceed the maximum benefit payable, as stated upon the certificate of membership, by more than twenty percent of the maximum benefit payable to the claiming member or beneficiary of a member. The maximum benefit payable for all units of the Benevolent is \$1,000.

Benefit contributions and payments as reflected in the Benevolent's filed annual statements for the years 1995 through 2002 are summarized as follows:

Benefit Contributions

<u>Group</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Firemen	\$ 12,839	\$ 13,097	\$ 13,058	\$ 15,435	\$ 13,204	\$ 14,451	\$ 11,539	\$ 12,402
Unit "A"	54,577	55,212	64,248	61,556	69,778	85,548	63,997	61,702
Unit "B"	1,956	0	2,518	1,090				
Unit "C"	270	707	2,483	8,932	3,281	221	1,753	3,756
Unit "D"	43,221	44,251	58,157	55,657	63,274	92,865	79,513	65,036
Community								
Home	88,452	79,636	71,916	65,937	35,520			
Denison								
Home	88,524	76,745	69,307	59,966	32,895			
Crawford								
County	85,544	71,979	65,495	57,176	32,304			
Crawford								
County #2	<u>0</u>							
Total	<u>\$375,383</u>	<u>\$341,627</u>	<u>\$347,182</u>	<u>\$325,749</u>	<u>\$250,256</u>	<u>\$193,085</u>	<u>\$156,802</u>	<u>\$142,896</u>

The above reported benefit contributions per year include interest on selected units.

Benefits Paid Members

<u>Group</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Firemen	\$ 6,000	\$ 15,000	\$ 7,004	\$ 16,000	\$ 21,041	\$ 15,000	\$ 11,000	\$ 10,013
Unit "A"	35,032	48,010	58,097	81,060	91,951	82,058	54,045	56,056
Unit "B"	4,000	3,000	3,000	10,445				
Unit "C"	1,000	1,000	0	2,000	9,568	0	2,000	4,000
Unit "D"	38,009	44,117	51,520	60,089	67,822	82,063	66,218	65,324
Community								
Home	100,000	95,071	71,014	73,000	40,243			
Denison								
Home	88,000	88,322	71,007	56,028	35,911			
Crawford								
County	85,000	79,014	70,019	54,000	31,646			
Crawford								
County #2	<u>7,680</u>							
Total	<u>\$364,721</u>	<u>\$373,534</u>	<u>\$331,661</u>	<u>\$352,622</u>	<u>\$298,182</u>	<u>\$179,121</u>	<u>\$133,263</u>	<u>\$135,393</u>

Enrollment Fees

During the years 1995, 1996 and 1997 enrollment fees to cover initial expenses \$10, \$6 and \$2.52 were collected, respectively. No enrollment fees have been collected since 1997.

Expense Fees and Payments

191 IAC 8.5(3), permits the assessment of an expense fee added as a separate item to each assessment or as a separate periodical assessment, provided the expense portion of any assessment represents actual costs directly related to the collection and payment of the certificate benefit. Each individual within a group or unit is assessed \$.35 per death as an expense fee.

Expense fees as reflected in the Benevolent's filed annual statements for the years 1995 through 2002 are summarized as follows:

<u>Expense Fees Collected</u>								
<u>Group</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Firemen	\$ 3,584	\$ 3,610	\$ 3,546	\$ 2,113	\$ 3,676	\$ 4,171	\$ 3,169	\$ 3,434
Unit "A"	19,065	18,799	19,168	17,938	24,161	29,855	22,331	21,538
Unit "B"	684	1,113	78	381				
Unit "C"	0	247	269	38	1,054	69	610	1,312
Unit "D"	15,104	15,356	16,095	17,317	21,984	32,400	27,686	22,609
Community Home	30,916	27,686	24,505	20,623	12,413			
Denison Home	29,731	26,703	21,466	20,912	11,476			
Crawford County	28,689	25,145	20,672	19,985	11,280			
Crawford County #2	<u>0</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$127,773</u>	<u>\$118,659</u>	<u>\$105,799</u>	<u>\$99,307</u>	<u>\$86,044</u>	<u>\$66,495</u>	<u>\$53,796</u>	<u>\$48,893</u>

Prior to 1997 the Benevolent recorded the collection of sixty days past due accounts as reinstatement fees. Fees collected and reflected in the Benevolent's annual statements were as follows:

<u>Reinstatement Fees</u>								
<u>Group</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Firemen	\$ 563	\$ 238	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Unit "A"	669	262	0	0	0	0	0	0
Unit "B"	129	221	0	0				
Unit "C"	228	30	0	0	0	0	0	0
Unit "D"	411	214	0	0	0	0	0	0
Community Home	767	501	0	0				
Denison Home	417	227	0	0				
Crawford County	470	282	0	0				
Crawford County #2	<u>0</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$3,654</u>	<u>\$1,975</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

In addition to the expense contributions noted above, the members of Units "F", Firemen, "A" and "D" are assessed a \$2.00 per member annual membership contribution. Unit "C" members are assessed a \$1.00 per member annual membership contribution. Unit "B" also had the \$2.00 per member annual membership contribution but this unit was merged into Unit "C" by December 31, 1998. The prior Unit "B" members are now assessed a \$1.00 per member annual membership contribution. Annual fees assessed are summarized as follows:

<u>Group</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Firemen	\$2,048	\$1,978	\$2,130	\$2,094	\$1,974	\$2,038	\$1,982	\$2,018
Unit "A"	1,922	1,832	1,794	1,876	1,778	2,292	2,126	2,038
Unit "B"	1,304	1,120	832	877				
Unit "C"	574	688	654	569	954	794	801	776
Unit "D"	<u>-1,572</u>	<u>-1,444</u>	<u>-1,460</u>	<u>-1,508</u>	<u>-1,434</u>	<u>-2,224</u>	<u>-1,912</u>	<u>-1,792</u>
Total	<u>\$7,420</u>	<u>\$7,062</u>	<u>\$6,870</u>	<u>\$6,924</u>	<u>\$6,140</u>	<u>\$7,348</u>	<u>\$6,821</u>	<u>\$6,624</u>

Expenses paid are allocated to the Units based on the percentage each Unit's membership bears to the total membership of the Benevolent. Expenses paid are summarized as follows:

<u>Group</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Firemen	\$ 20,825	\$ 21,711	\$ 18,027	\$ 16,997	\$ 21,196	\$ 37,961	\$21,584	\$13,879
Unit "A"	18,048	16,601	18,027	16,997	24,937	37,961	21,585	13,879
Unit "B"	13,883	14,047	6,760	0				
Unit "C"	15,271	14,047	11,267	20,184	21,196	37,961	21,584	13,879
Unit "D"	15,271	14,047	18,028	14,872	24,937	37,961	21,585	13,880
Community								
Home	19,436	16,601	13,521	12,748	12,468	0		
Denison								
Home	18,048	14,047	13,521	12,748	9,975	0		
Crawford								
County	18,048	16,601	13,521	11,685	9,975	0		
Crawford								
County #2	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$138,830</u>	<u>\$127,702</u>	<u>\$112,672</u>	<u>\$106,231</u>	<u>\$124,684</u>	<u>\$151,844</u>	<u>\$86,338</u>	<u>\$55,517</u>

TIME PAYMENT STUDY

A meaningful claims analysis could not be performed as the Benevolent did not date stamp correspondence received.

ACCOUNTS AND RECORDS

Trial balances were taken of the general ledger for the years 1999, 2000, 2001 and 2002. The amounts were reconciled to the Benevolent's annual statements.

The Benevolent bills five deaths per month for Unit "A" and Unit "D". The Benevolent has paid deaths prior to the billing and collection of the membership benefit assessments.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Nonledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bank deposits	\$ 61,066	\$	\$	\$61,066
Life benefit contributions due from members		1,994		1,994
Expense fees due from members		698		698
Membership list	<u>108,500</u>	<u> </u>	<u>108,500</u>	<u> </u>
Total	<u>\$169,566</u>	<u>\$2,692</u>	<u>\$108,500</u>	<u>\$63,758</u>

LIABILITIES, CAPITAL AND SURPLUS

Life benefits due members but unpaid	\$61,057
Life benefit contributions due from members but not collected	1,994
Expense fees due from members but not collected	<u>698</u>
Total liabilities	\$63,749
Reserves funds as regards membership, December 31, 2002	<u>9</u>
Total liabilities and reserves	<u>\$63,758</u>

UNDERWRITING AND INVESTMENT EXHIBIT

STATEMENT OF INCOME

<u>Benefit Income</u>	
Life benefits earned	\$142,833
Life benefits incurred	<u>(142,896)</u>
Net benefits paid	<u>\$ (63)</u>
 <u>Administrative Income</u>	
Expense fees	\$ 48,893
Annual fees	6,624
Administrative expenses incurred	<u>_(55,517)</u>
Net administrative income	<u>\$ 0</u>
Investment income	<u>\$ 63</u>
Net income	<u>\$ 0</u>

RESERVE FUND

Reserve funds as regards membership, December 31, 2001	\$ 9
Change in reserve funds for the year	<u> 0</u>
Reserve funds as regards membership, December 31, 2002	<u>\$ 9</u>

UNDERWRITING AND INVESTMENT EXHIBIT

FOUR-YEAR STATEMENT OF INCOME

<u>Benefit Income</u>	
Life benefits earned	\$741,112
Life benefits incurred	<u>(743,039)</u>
Net benefits paid	<u>\$ (1,927)</u>
 <u>Administrative Income</u>	
Expense fees	\$255,228
Annual fees	26,933
Sale of members	136,221
Administrative expenses incurred	<u>(418,382)</u>
Net administrative income	<u>\$ 0</u>
Investment income	<u>\$ 1,927</u>
Net income	<u>\$ 0</u>

RESERVE FUND

Reserve funds as regards membership, December 31, 1998	\$ 9
Change in reserve funds for the period	<u>0</u>
Reserve funds as regards membership, December 31, 2002	<u>\$ 9</u>

GENERAL COMMENTS

Life benefits due members but unpaid \$61,057

Reserves established for each unit as of December 31, 1999, 2000, 2001 and 2002 are summarized as follows:

<u>Unit</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Firemen	\$ 2,956	\$ 2,407	\$ 2,945	\$ 5,334
Unit "A"	6,692	10,183	20,135	25,782
Unit "C"	2,836	3,056	2,810	2,566
Unit "D"	<u>3,567</u>	<u>14,369</u>	<u>27,664</u>	<u>27,375</u>
Total	<u>\$16,051</u>	<u>\$30,015</u>	<u>\$53,554</u>	<u>\$61,057</u>

Life benefit contributions due from members and expense fees due from members

Life benefit contributions due from members have been allocated between benefit assessments due and expense assessments due on \$1.00 to \$1.35 ratio.

Capital stock

While the Benevolent's stock is issued and outstanding, no statutory recognized asset was infused to represent the capital. Thus, capital paid up has not been reflected in this examination report.

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Benevolent during the course of the examination is hereby acknowledged.

Respectfully submitted,

STEPHANIE K. HOULSON, AFE
Examiner
Insurance Division
State of Iowa

EXHIBIT "A"

Compensation paid to officers during 2002 were as follows:

<u>Name and Title</u>	<u>Salary</u>	<u>Director Fees</u>
*Armin F. Thielking - President	\$7,000	\$12.11
*John W. Thielking - Vice President	7,000	12.11
*Paul M. Thielking - Secretary-Treasurer	7,000	12.11

*Officers did not receive their salaries in November and December of 2002 due to lack of profit from the expense assessments.