August 2024

Appointed Actuary Report

I, Nelson Lund, have been with Catholic Order of Foresters (COF) for over 11 years now, and I was first named the Appointed Actuary back in February of 2020. As an Associate of the Society of Actuaries and a member of the American Academy of Actuaries, I am qualified to render opinions on COF's statutory reserves and surplus adequacy.

COF's statutory reserves at the end of 2023 totaled north of $1.06 billion, up roughly $25 million in the past four years. These reserves can be broken down into three distinct blocks of business:

1) Life Insurance
2) Annuities
3) Long-Term Care

My comments on these three blocks and how each impacts the business are below.

1) **Life Insurance:** Roughly $559 million of the $1.06 billion in statutory reserves are attributable to COF's life insurance products. This includes traditional whole life, term, and universal life (UL) insurance, the latter of which has really blossomed since the introduction of Flexible Premium Life in 2017. The total reserves for these various life insurance subsets over the last four years are shown in the table below:

TOTAL LIFE RESERVES				
YEAR	WHOLE LIFE	TERM	UL	TOTAL
2020	$438,219,570	$20,651,673	$51,793,107	**$510,664,349**
2021	$447,360,240	$21,123,560	$61,637,060	**$530,120,860**
2022	$456,224,303	$21,323,432	$68,711,966	**$546,259,701**
2023	$464,626,922	$21,288,027	$72,970,073	**$558,885,021**

Part of the reason for the substantial growth in UL has been COF's increased emphasis on pushing new premium towards single premium UL rather than single premium deferred annuities. Another reason is that COF replaced its Forester Guardian product line (term insurance) in 2017 with a term-like UL product called Flexible Premium Life.

Placing greater emphasis on life sales and less emphasis on annuity sales, by managing the inflow of new annuity business, is beneficial to COF policyholders because:

A) It enables COF to offer credited interest rates that are equitable between new and existing policyholders.

B) It keeps COF closer to a 50/50 or even 60/40 balance between the life liabilities and the annuity liabilities. This balance diversifies risks for COF.

C) It reduces the negative impact that can occur with disintermediation caused by a sudden spike in interest rates.

2) **Annuities:** At the end of 2023, annuities totaled nearly $458 million in reserves, down from $506 million just four years prior. The recent rise in interest rates has led to an abnormally large number of surrenders the last two years, which is the primary cause behind the reserve drop. The higher rates and increased cash outflow from surrenders puts tremendous pressure on the Investments Team to return a large enough portfolio yield to sufficiently cover interest credits on these annuities.

3) **Long-Term Care (LTC):** Despite having no new issues since 2005, this block continues to grow, now accounting for nearly $40 million in gross reserves at the end of 2023, up from $37 million in 2019. Larger than expected claims and a stronger than expected persistency rate have called for many insurers, including COF, to file for premium rate increases. These increases are necessary for COF to ensure it will always be able to pay future claims, no matter how volatile or unexpected they may be. That being said, LTC still comprises less than 4% of total reserves, and COF has built up a strong surplus over the years to cover any potential shortfalls with the block.

Surplus is the lifeblood of every insurance company. Surplus provides a cushion in case mortality or expenses rise higher than expected or if investment income declines more than expected. Companies with large amounts of "hot" (no surrender charge) annuity money need a relatively large surplus to handle the disintermediation that can occur when interest rates spike.

COF's surplus at the end of 2023 stood at $63.0 million, down from 2019's $77.7 million. Managing investment returns and credited interest rates during the recent, prolonged, low interest rate environment (the last year or two notwithstanding) has been challenging for COF and many fraternal insurers. Despite the decline from 2019, this is still a strong surplus level for COF to be at, and our long-term internal projections remain healthy even during less favorable stress tests.

Respectfully submitted,

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Appointed Actuary
Catholic Order of Foresters