



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

DESERET MUTUAL INSURANCE COMPANY

of

Salt Lake City, Utah

as of

December 31, 2017



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May 1, 2019

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2017, has been made of the financial condition and business affairs of:

Deseret Mutual Insurance Company
Salt Lake City, Utah

hereinafter referred to in this report as the “Company” and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The last financial examination of the Company was as of December 31, 2012. The current examination is a full scope examination covering the period from January 1, 2013 through December 31, 2017, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination.

We conducted our examination in accordance with the risk-focused examination approach as prescribed by the National Association of Insurance Commissioners *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition of the Company and its holding company system. In addition, the purpose of the examination is to assess corporate governance, identify current and prospective risks that could cause the Company’s surplus to be materially misstated, and evaluate controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating management’s compliance with Statutory Accounting Principles and annual statement instructions. The examination, however, does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment was identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report. The examination was conducted by representatives of the Utah Insurance Department (“Department”).

Workpapers of the Company’s independent auditors, Deloitte & Touche, LLP, were reviewed and relied upon whenever possible and applicable to assist in the completion of examination procedures.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

The Company's custodial agreements are required to be in compliance with Utah Admin. Code R590-178.

During the examination fieldwork, one item of non compliance with R590-178 was found, which was rectified before the conclusion of the examination fieldwork.

HISTORY OF THE COMPANY

General

The Company was organized on January 14, 1969 as Far-West Mutual Life Insurance Association and was issued a Certificate of Authority to transact health, annuity, and life.. During 1970, the name of the Company was changed to Deseret Mutual Benefit Association when control was assumed by the Corporation of the President of the Church of Jesus Christ of Latter Day Saints ("COP"). A new Certificate of Authority was obtained from the Department on March 1, 1987 to transact business in accordance with Utah Code §31A-1 & §31A-20. The Company changed its name again on December 4, 1987 to Deseret Mutual Insurance Company.

The Company is currently licensed to do business as a life insurance company in the State of Utah to provide life, annuity, accident and health, variable life and/or annuity, and disability insurance. The Company is also licensed in Hawaii and Idaho to transact business as an accident and health insurance company.

Subsequent to the examination period, Amended Articles of Incorporation and Amended and Restated Bylaws were approved by the Department on October 24, 2018.

Dividends and Capital Contributions

The Company neither declared nor paid dividends during this examination period.

The Company did not receive any capital contributions during this examination period.

Mergers and Acquisitions

The Company was not involved in any mergers or acquisitions during the examination period.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

Board of Directors

The Company's bylaws state that the number of Directors shall be no less than three.

The following persons served as Directors of the Company as of December 31, 2017:

Name and Location	Primary Occupation
Fraser Bullock Highland, Utah	Managing Director Sorenson Capital
W. Steve Albrecht Orem, Utah	Professor Brigham Young University
Robert A. Johnson Cottonwood Heights, Utah	Retired (Former President) Deseret Mutual Benefit Administrators & Deseret Mutual Insurance Company
Roger G. Clarke Salt Lake City, Utah	Investment Advisor Ensign Peak Advisors, Inc.
Keith B. McMullin Bountiful, Utah	President Deseret Management Corporation
Mark B. Woodruff Provo, Utah	Assistant to the Commissioner Church Educational System
Benson L. Porter Draper, Utah	Managing Director of Human Resources Corporation of the President of the Church of Jesus Christ of Latter Day Saints
James M. Dester Bountiful, Utah	President Deseret Mutual Benefit Administrators & Deseret Mutual Insurance Company

- W. Steve Albrecht and Mark B. Woodruff replaced Roger G. Christensen and Sandra Rogers as Directors effective May 29, 2014.
- James M. Dester was appointed as a Director effective November 7, 2016.

Officers

The following persons served as officers of the Company as of December 31, 2017:

Name	Title
James M. Dester	President & CEO
Craig L. Christensen	Chief Financial Officer
Scott E. Eastmond	Secretary
Seth W. Vance	Treasurer

- James M. Dester replaced Robert A. Johnson as President & CEO effective November 7, 2016
- Craig L. Christensen replaced Scott C. Thornton as CFO effective May 16, 2013.
- Seth W. Vance replaced Kent A. Misener as Treasurer effective February 12, 2015.

Committees

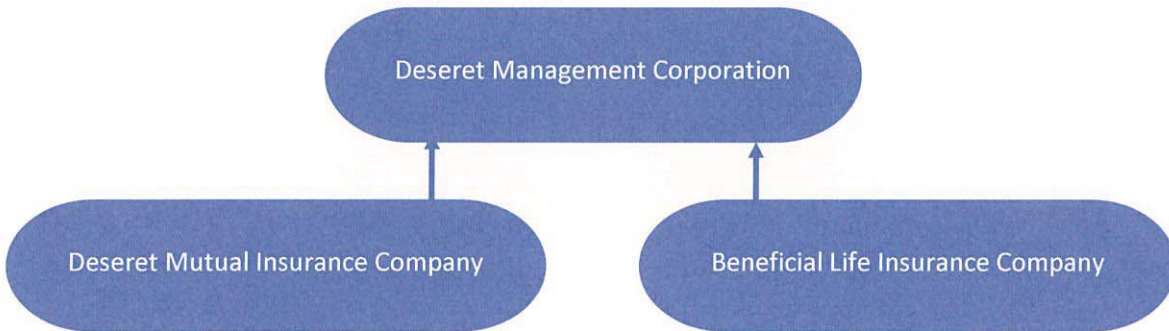
There are no committee’s at the Company level, all committee’s are maintained by an unaffiliated management company, Deseret Mutual Benefit Administrators (“DMBA”). The Company and DMBA share the same Board of Directors and senior management team.

Holding Company

The Company is part of a holding company system as defined in Utah Code § 31A-16. The ultimate controlling entity of the holding company is Deseret Management Corporation. There are numerous companies within the holding company system, which were not included in the Company’s organizational chart below; however, only insurance related entities are shown below.

Holding Company Organizational Chart

The Company’s chart below reflects the ownership of all insurance entities:



The Company has no employees, but is operated under a TPA agreement with DMBA, which has primary management and administrative duties handled out of Salt Lake City, Utah.

Transactions and Agreements with Affiliates

There are no agreements or transactions between the Company and any affiliated entities.

TERRITORY AND PLAN OF OPERATION

The Company is a mutual life insurance company, wholly owned and operated solely for the benefit of employee's of The Church of Jesus Christ of Latter Day Saints. The Company does not solicit the general public nor conduct any form of advertising.

As of December 31, 2017, there were four primary lines of business ("LOB"). The first LOB comprise of lump sum and immediate pay annuities. The second LOB is the accident and health plan provided to Church employees living in approximately three countries that do not have established insurance markets. The third LOB is a pass through of a self-funded, student health plan at BYU-Idaho. This plan is completely handled and supported by DMBA. The final LOB is "Plan-Z" which is a self-insured accident and health plan. Plan-Z assets and liabilities were transferred out of the Company in December of 2018.

The Company was licensed to transact business in Hawaii, Idaho, and Utah; however, only Utah had any written business during the examination period.

REINSURANCE

Assumed

The Company did not have any assumed reinsurance.

Ceded

As of the examination date, the Company only had ceded reinsurance arrangement related to Plan Z. The Plan Z reinsurance had three layers, with the first layer attaching after the \$1.5M initial retention, covering up to \$8.5M per loss, up to an aggregate of Ultimate Net Loss for all Loss Occurrences of \$25M. The second layer attaches at \$10M, covering an additional \$10M per loss, with an aggregate of Ultimate Net Loss for all Loss Occurrences of \$30M. The final layer attaches at \$20M, covering an additional \$30M per loss, up to aggregate of Ultimate Net Loss for all Loss Occurrences of \$50M.

Plan Z were transferred away in December of 2018 (see Subsequent Events).

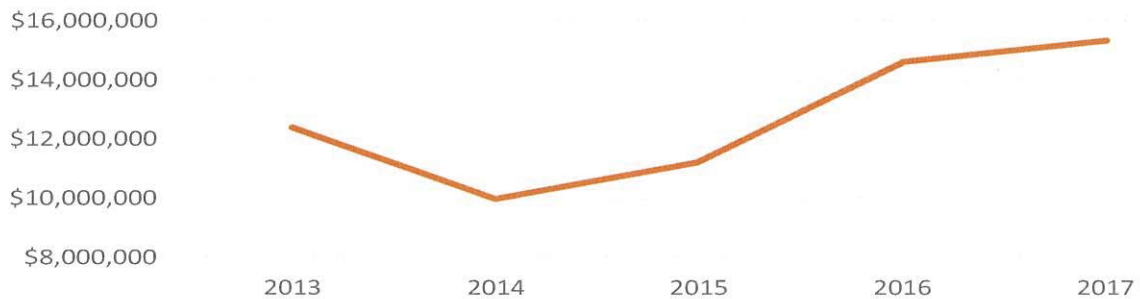
GROWTH OF COMPANY

Annuity premiums vary considerably from year to year depending on interest rates, among other factors. Annuity sales have been suspended effective January 1, 2018. Although the Company has been operating under a runoff status, its financial condition remains to be strong, as reflected in the following graphs:

Assets, Liabilities, and Capital and Surplus



Premiums



Sources: 2013-2017 Annual Statements

FINANCIAL STATEMENTS

The following financial statements are based on the statutory annual statement filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments (if any) on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

DESERET MUTUAL INSURANCE COMPANY
 ASSETS, LIABILITIES, CAPITAL AND SURPLUS
 as of December 31, 2017

	Net Admitted Assets
ASSETS	
Bonds	\$ 29,693,229
Stocks	5,171,094
Cash, cash equivalents and short-term investments	5,197,219
Subtotals, cash and invested assets	40,061,542
Net investment income due and accrued	342,928
Current federal and foreign income tax recoverable and interest thereon	17,892
Prepaid expenses	131
Receivables from parent, subsidiaries and affiliates	101,387
Total Assets	\$ 40,523,880
LIABILITIES	
Aggregate reserve for life contracts	\$ 14,693,489
Aggregate reserve for accident and health contracts	677,852
Liability for deposit-type contracts	3,987,660
Contract claims for life	2,813
Contract claims for accident and health	694,596
Medical loss ratio rebate for accident and health experience rating	5,595,821
Interest maintenance reserve (IMR)	628,125
Asset valuation reserve (AVR)	487,547
Miscellaneous accounts payable	134,966
Accrued premium tax	6,665
Unearned premiums	2,085
Total Liabilities	26,911,619
CAPITAL AND SURPLUS	
Gross paid in and contributed surplus	6,000
Unassigned surplus funds	13,606,261
Total Capital and Surplus	13,612,261
 Total Liabilities, Capital and Surplus	 \$ 40,523,880

DESERET MUTUAL INSURANCE COMPANY
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2017

REVENUE:

Premiums and annuity for life and accident and health contracts	\$ 15,346,158
Net investment income	1,217,005
Amortization of Interest Maintenance Reserve	68,914
Total Revenue	<u>16,632,077</u>

CLAIM RELATED EXPENSES

Death benefits	211,628
Annuity benefits	1,758,797
Disability benefits and benefits under accident and health contracts	10,181,245
Interest and adjustments on contract or deposit-type contract funds	147,873
Increase in aggregate reserves for life and accident and health contracts	(1,521,423)
Total Claim Expenses	<u>10,778,120</u>

GENERAL AND ADMINISTRATIVE EXPENSES:

General insurance expenses	1,132,163
Insurance taxes, licenses and fees, excluding federal income taxes	106,093
General administrative expenses	1,038,945
Total underwriting deductions	<u>13,055,321</u>
Net underwriting loss	<u>3,576,756</u>
Federal and foreign income taxes incurred (excluding capital gains tax)	<u>716,565</u>
Net gains from operations after policy dividends and federal income taxes, before capital gain taxes	<u>2,860,191</u>
Net realized capital gains, less tax	<u>4,178</u>
Net Income	<u>\$ 2,864,369</u>

DESERET MUTUAL INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
2013 through 2017

	2013	2014	2015	2016	2017
Capital and Surplus, December 31, prior year	\$ 7,122,305	\$ 6,735,864	\$ 7,479,950	\$ 6,725,681	\$ 10,844,602
Net income / (loss)	(599,623)	(322,246)	(673,708)	4,346,398	2,864,369
Change in net unrealized capital gains (losses), less tax	(55,179)	6,638	(20,966)	(96,556)	50,446
Change in net deferred income tax	(809,872)	-	-	-	-
Change in nonadmitted assets	1,000,396	745,749	-	-	-
Change in asset valuation reserve	77,837	313,945	(59,595)	(130,921)	(147,156)
Aggregate write-ins for losses in surplus	-	-	-	-	-
Net change in Capital and Surplus for the year	(386,441)	744,086	(754,269)	4,118,921	2,767,659
Capital and Surplus, December 31, current year	<u>\$ 6,735,864</u>	<u>\$ 7,479,950</u>	<u>\$ 6,725,681</u>	<u>\$ 10,844,602</u>	<u>\$ 13,612,261</u>

* Per the regulatory financial statements filed with the Utah Insurance Department

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No financial adjustments were made to surplus as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

The Company's Capital and Surplus in the amount of \$13,612,261 was determined to be the same as that reported in the Company's annual statement as of December 31, 2017. The capital and surplus significantly exceeded the authorized control level risk-based capital.

SUBSEQUENT EVENTS

Annuity sales were suspended as of January 1, 2018. In addition, the Company transferred the self-insured accident and health plan assets, known as "Plan-Z", to the Corporation of the President of the Church of Jesus Christ of Latter Day Saints in December of 2018. The transfer was approved by the Department on January 17, 2019.

ACKNOWLEDGEMENT

John Humphries, ASA, MAAA, CFE, CISA, AES, MCM; Lisa Parker, ASA, MAAA, PIR; and Nan Nguyen, ASA, MAAA, of Risk & Regulatory Consulting, LLC, reviewed the actuarial portion of the examination. Michael Nadeau, CPA, CFE, CISA, AES and Sarah Bridendall, CFE, CISA, CIE, CICSR, ALMI, AMCM, ACS, AIRC, PAHM, CCP, of Eide Bailly, LLP, reviewed the Company's Information Systems. Malis Rasmussen, MSA, CFE, SPIR, Deputy Chief Examiner, Utah Insurance Department, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully Submitted,



Michael J. Porter, AFE, APIR
Examiner-in-Charge
Utah Insurance Department