

Fraternal Financial Dynamics: Challenges and Opportunities

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June 22, 2026

FCSU Financial Highlights at End of 2025

Financial Metric	FCSU
Admitted assets	\$599.3 million
Adjusted capital	\$53.5 million
RBC Ratio	720%

FCSU Financial Strength Last 10 Years

+63%

growth in total assets

Increase over the past 10
years

+86%

**adjusted capital
growth**

Increase over the past 10
years

>600%

RBC ratio maintained

Above 600% for all 10 years

FCSU has maintained asset growth, capital growth, and strong RBC levels.

Risk-Based Capital (RBC) Ratio

A compact measure of statutory capital strength

Key metric

Perhaps the most significant financial metric for a life insurance company.

Regulatory lens

Used by regulators and management to assess the organization's financial strength.

Risk cushion

A higher ratio indicates a larger capital cushion relative to the risk profile.

RBC Ratio

Total Adjusted Capital

Authorized Control Level Capital

RBC Ratio

Regulatory attention increases as the RBC ratio declines

RBC Ratio	Action Level	Regulatory Meaning
> 300%	None	No intervention generally needed.
200% – 300%	Trend Test Range	Watch zone; negative trend can trigger action.
150% – 200%	Company Action Level	Insurer submits RBC Plan and corrective actions.
100% – 150%	Regulatory Action Level	Commissioner may require plan, analysis, or orders.
70% – 100%	Authorized Control Level	Regulator may place insurer under control.
< 70%	Mandatory Control Level	Regulator generally must place insurer under control.

FCSU's RBC ratio of 720% is very strong!

How a Business Makes Money – Store Model

Consider a gallon of milk at the grocery store

Customer pays

\$4.00

–

Store paid to get milk from
supplier

\$3.25

–

Store operating expenses

\$0.50

=

Net profit

\$0.25

The store made money by charging the customer more than the product cost the store to acquire.

How an Insurance Company Makes Money

For automobile, home, and health insurers, the profit equation is similar:

+ Premiums

– Benefits

– Agent commissions

– Expenses

= **Profit**

(and investment income is just icing on the cake)

That is not the profit equation for a life insurance company.

In the life insurance and annuity business, claims always exceed premiums, even for a profitable business.

How a Life Insurance Company Makes Money

For an insurer in the life insurance and annuity business, your profit equation is:

+ Net investment income

– Net policyholder benefits

= Interest spread

– Agent commissions

– Operating and fraternal expenses

= Profit

Your real revenue item is investment income.

What Makes Your Business Profitable vs Unprofitable

Here are fraternal industry statistics for 2024 and 2025:

Measure	Profitable	Unprofitable
+ Net investment income	4.66%	4.64%
– Net policyholder benefits	2.13%	2.73%
= Interest spread	2.53%	1.91%
– Agent commissions	0.23%	0.18%
– Operating and fraternal expenses	1.52%	2.22%
= Profit	0.78%	-0.49%

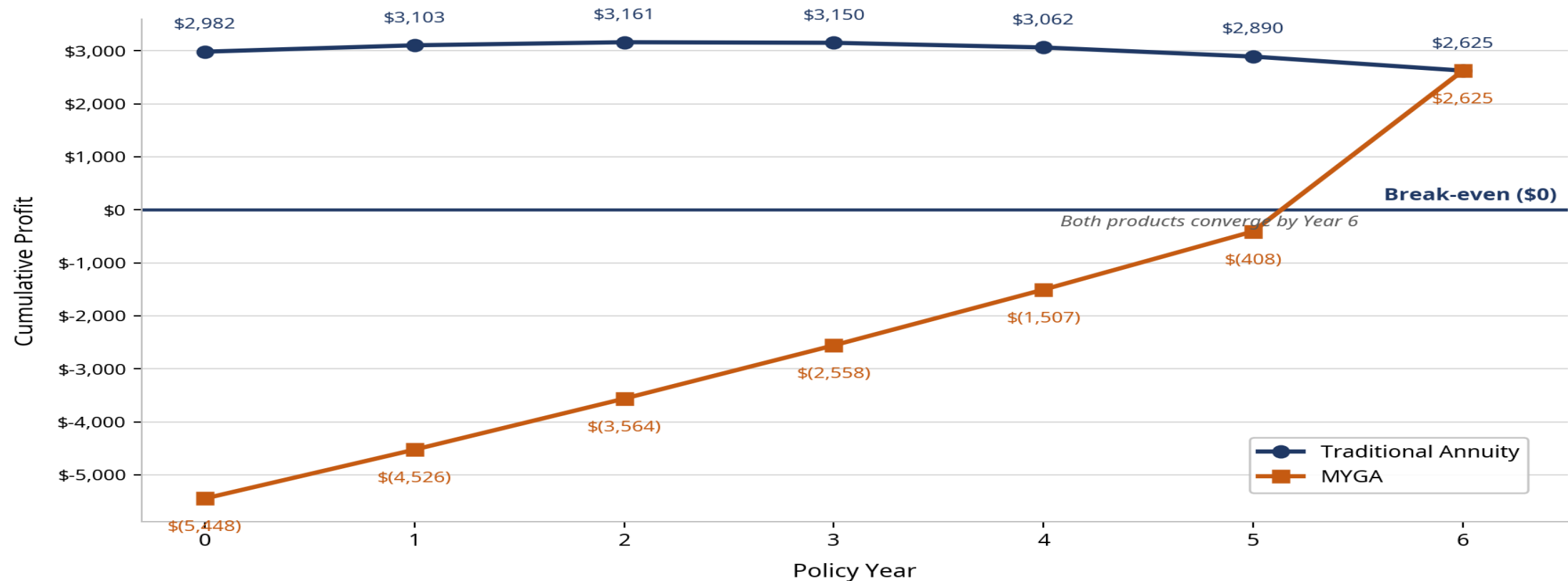
What Makes Your Business Profitable

- Maximizing investment yields at appropriate risk levels
- Being able to sell products without giving away the store
 - Your interest spread will be shrinking thanks to intensifying competition
 - But your interest spread must not be shrinking too fast
- Keeping expenses under control
 - Expense ratio = expenses ÷ assets
 - Because of intensifying competition, your expense ratio must be shrinking
 - Note: the median profitable society's fraternal expenses are 0.24% of assets

Multi-Year Guarantee Annuities (MYGAs)

- Crediting rate is fully guaranteed to end of surrender charge period
- Appeals to customers that want certainty in rates
- Have gained popularity with elevated interest rate environment
- Non-level profit pattern for company – loss in year of contract issue, followed by gains

Profit Pattern – MYGA vs Traditional Annuity



Hypothetical example assumes \$100,000 of premium, 6-year surrender charge period, and reasonable assumptions for crediting rates, valuation rates, expenses, and commissions.

Fraternal Struggles

Industry pressures are broad-based and persistent

Half of fraternal from 1990 no longer exist

The long-term landscape has consolidated materially over the past few decades.

About half lose money annually

Fraternal benefit societies face recurring profitability pressure.

Low sales volumes

Many organizations struggle to generate enough new business to support fixed operating costs.

Declining scale

Assets and membership are shrinking for many fraternal, compounding strategic pressure.

The Landscape Has Changed

Capital Markets

Higher interest rates have changed both product economics and balance sheet dynamics.

Competition

Consumers have more options, more information, and greater ability to compare products.

Expense Pressure

Inflation and operating scale make expense discipline more important than ever.

Technology & Underwriting

Digital access, online product information, and accelerated underwriting are raising expectations.

Profitability now depends on disciplined pricing, careful risk selection, expense control, and capital management.

Capital and Investment Strategies Are Evolving

Theme	What is changing
Private Equity Ownership	PE-backed firms are acquiring insurers and blocks of life insurance business.
Alternative Assets	Insurers are looking beyond traditional fixed-income portfolios to seek higher yields.
Offshore Reinsurance	Business is being transferred to reinsurers outside the traditional domestic framework.

Being profitable has never been as difficult as it is today!

Private Equity in the Annuity Market

Private equity firms are reshaping how annuities are funded and invested.

- Growing PE ownership of insurers and blocks of business
- Greater use of alternative assets – private credit, CLOs, structured assets
- Especially visible in fixed and indexed annuity markets

Takeaway: The investments behind the contract shape both the rate and the risk

What's Behind a Higher Crediting Rate?

When one carrier offers materially more than another, ask why.

- Often driven by different asset choices, which may involve:
 - Less liquidity – harder to value or sell in stress
 - More complexity – harder to evaluate and monitor
 - Higher credit risk – greater chance of loss in a downturn

Takeaway: Higher yield frequently means higher risk

Why Carrier Strength Matters

- The value of a guarantee is only as strong as the company standing behind it
- Capital levels, reserve adequacy, disciplined risk management, and long-term stability all play a role
- Extreme or unexpected scenarios can arise — and strong carriers are built to weather them

Takeaway: Carrier quality is an integral part of the product — here is how FCSU delivers it

Disciplined Risk Management and ALM



Active ALM

Assets and liabilities managed and aligned to protect against interest-rate movements.



High-Quality Portfolio

Anchored in high-quality fixed income, with use of alternatives kept limited and purposeful.



Rigorous Stress Testing

Tested against interest-rate shocks, credit deterioration, and elevated policyholder surrender activity.

Takeaway: FCSU does not chase yield — our focus is on protecting the guarantees we make to every contract holder

Prudent Product Design and Pricing



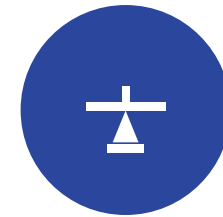
Sustainable Rates

Crediting rates set to stay competitive in the marketplace yet sustainable across the full life of contract.



Realistic Assumptions

Pricing grounded in realistic investment-yield, expense, and surrender-behavior assumptions.



Balanced Design

Products balance meaningful member value with the long-term profitability needed to support our guarantees.

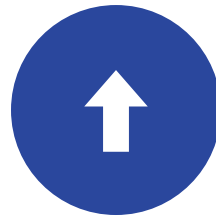
Takeaway: FCSU competes on the basis of quality and stability — not simply on offering the highest available rate

Member-First Mission and Decision Making



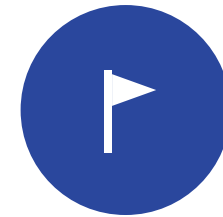
No Outside Shareholders

As a fraternal benefit society, FCSU operates free of external shareholders seeking short-term returns.



Surplus Reinvested

Surplus is retained and reinvested to strengthen the organization, not distributed to outside investors.



Long-Term Focus

Decisions are guided by what is best for members and the communities we serve, not quarterly earnings targets.

Takeaway: FCSU's fraternal structure is itself a source of financial strength — our interests and our members' interests are one and the same

Questions?



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