



FIRST CATHOLIC SLOVAK UNION
OF THE UNITED STATES AND CANADA
FCSU FINANCIAL®

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Jednota is more than just life insurance protection.

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2023 ANNUAL REPORT OF THE PRESIDENT
MARCH 16, 2024

Reverend Father and Members of the Board of Directors of the First Catholic Slovak Union of the United States of America and Canada, it is my pleasure to present this 2023 report to you.

Successful operating results continued for the Society in the year 2023. Operating profits improved 36% over 2022 results. The Society has continued to enjoy profitable operations for several consecutive years. After dividend payments of \$438,772, net gain from operations before capital gains amounted to \$4,729,876. Total asset value increased 1.8% (\$10,233,712) as reported on the Annual Statement. The year 2023 will see many insurers with declining assets. Realized capital gains were \$80,267 and unrealized capital gains were \$1,070,837. Liabilities increased \$5,183,530 (1.0%) mainly resulting again from the increase in the AVR, Post Retirement Benefit and a \$5,198,984 Annuity Reserve. Surplus increased 10.4%. Details follow:

Total Operation Gain and Capital Gains\ (Losses) for 2023

Gain per Page 4, Line 31	\$ 4,729,876
Realized Capital Gains	\$ 80,267
Net Gain Page 4, Line 35	\$ 4,810,143

There were Deferred Capital Gains (IMR) of \$1,070,838.

The surplus increase of 10.4% was due to the operating gain, which was partially generated by the large production of Annuity premium. The premium funds were used to purchase additional assets. Unrealized gains/(losses) were as follows:

(a) Common Stock (Unaffiliated)	\$ 73,089
(b) Other Invested Assets	\$ 997,748
	\$ 1,070,837

The following additional items affected Surplus:

AVR Increase	\$(653,754)
Change in Non-Admitted Assets	\$(183,522)
Accrued/Asset Adjustment	\$6,477

2023 Surplus Increase	\$ 5,050,182
2023 Surplus	\$53,424,728

Insurance in force decreased \$3,586,000 in 2023 (This is smaller than the five-year decrease of \$5,587,000). Life insurance production remains a challenge for the future.

The Society investments emphasize Bonds (84.2%), Mortgages, and Other Invested Assets as its main investments. Other invested Assets include Hedge Funds, Strategy, and Situation Funds. The Society also purchases Preferred and Common Stocks, including Cash Equivalents.

As of December 31, 2023 the Society had \$30,232,085 of cash.

2023 Common Stocks value is \$1,936,327 (0.3% of assets).

The Society is a member of the Federal Home Loan Bank (FHLB) and has used funds available at very favorable interest rates to help generate investment income. The funds acquired through the FHLB are managed by an investment management company. During 2023, active FHLB loans were \$19,727,262.

Since 2009, the Society has employed the services of AQS (a fraternal benefit society experienced investment management firm) to assist in guiding its investment activity.

There are no known items which would cause the financial results to be inaccurate.

Financial Position:

Our 2023 premium income is broken down as follows:

Life Insurance	\$ 1,346,198
Annuities	<u>85,468,457</u>
Total	\$86,814,655

Investment income for 2023 is broken down as follows.

Investment Income for 2023:

Government Bonds	\$ 250,619
Bonds	23,198,316
Preferred Stock	254,373
Common Stocks/Un-Affiliates	104,440
Mortgage Loans	4,133,172
Real Estate	298,028
Certificate Loans	68,331
Short Term Investments	<u>702,904</u>
Total Investment Income	\$ 29,010,183

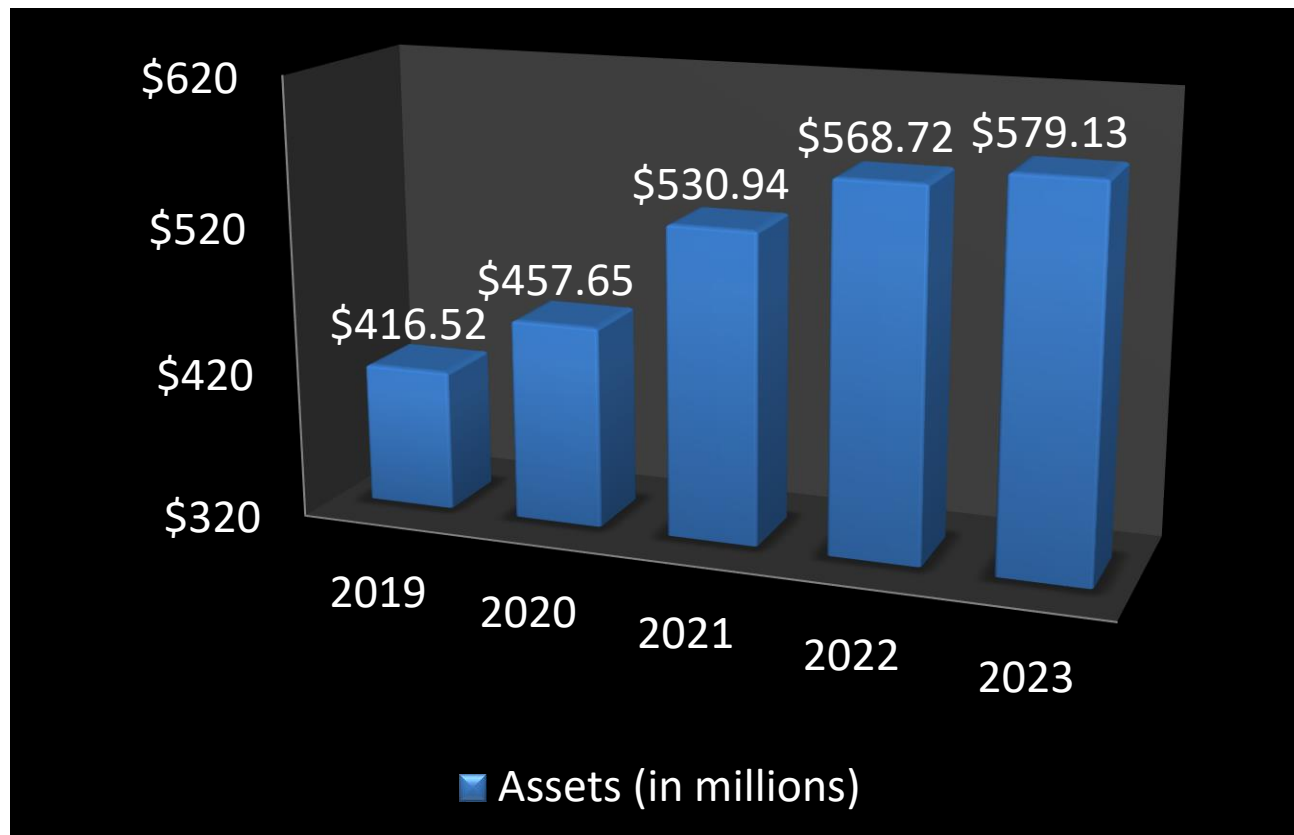
Investment Expenses:

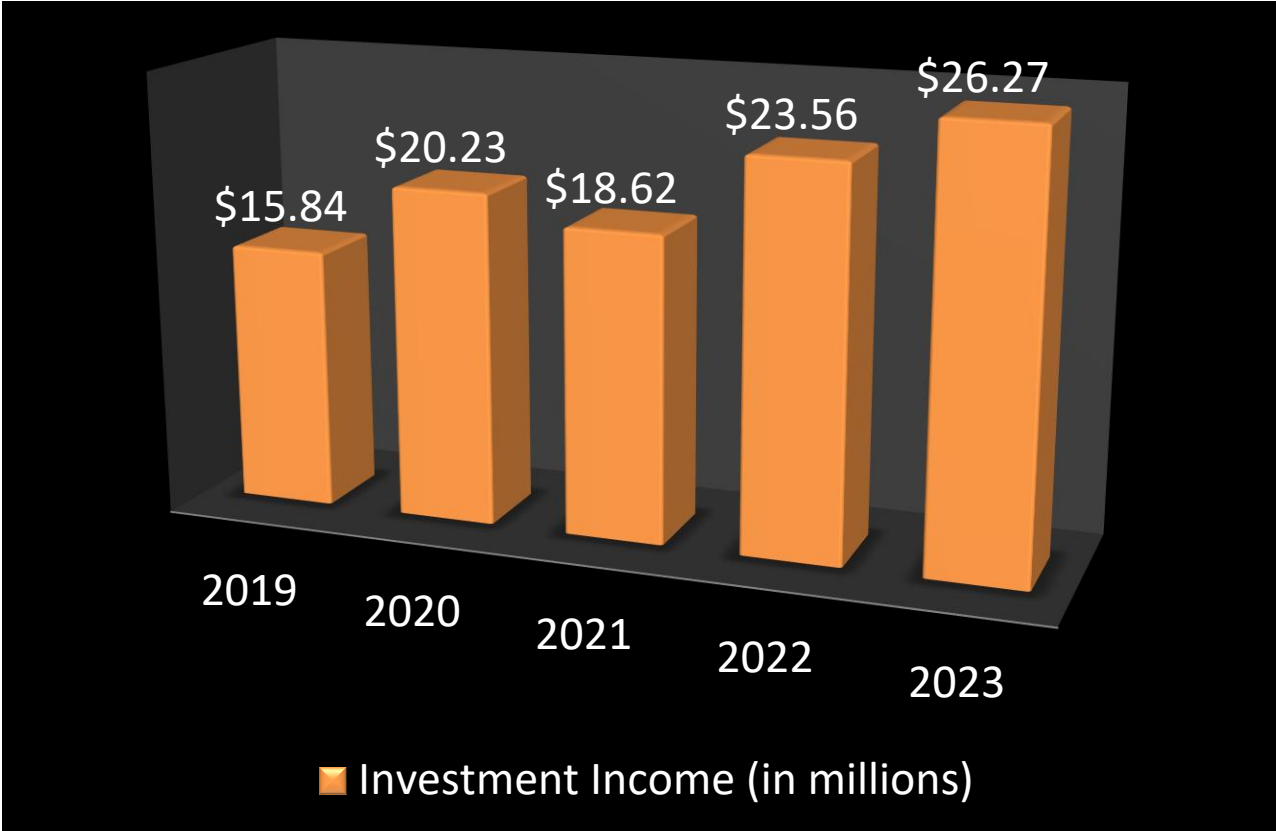
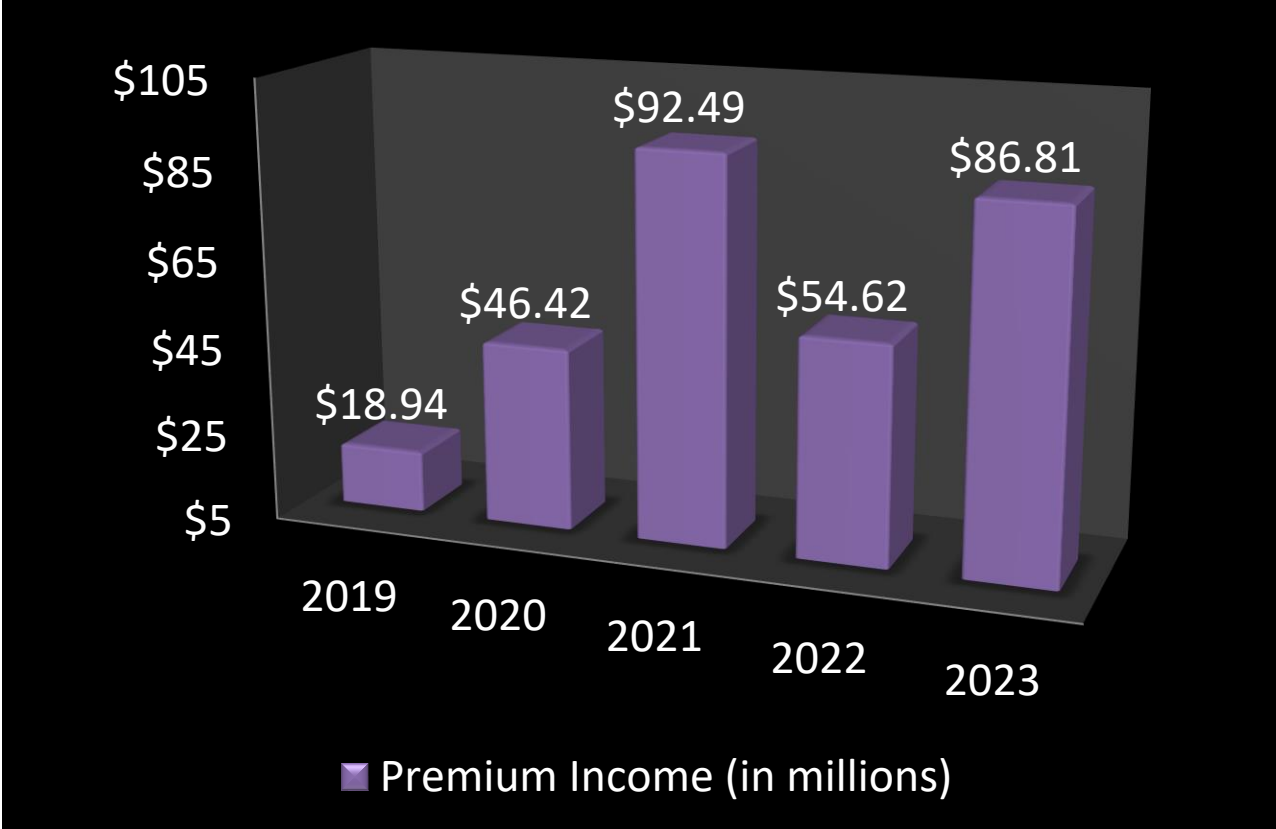
Depreciation on Real Estate and Other Investment Expenses (Investment Taxes, License Fees, etc.)	<u>(2,588,077)</u>
Net Investment Income	\$ 26,422,106

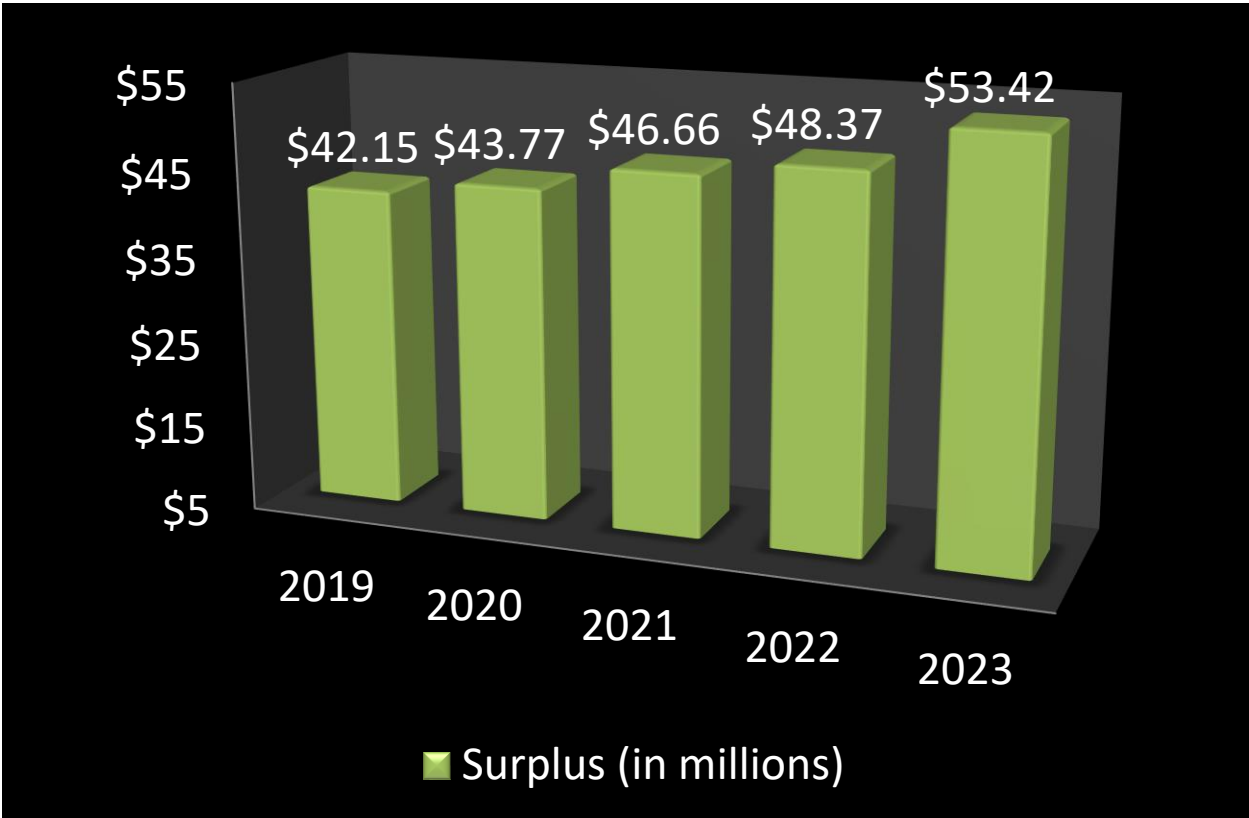
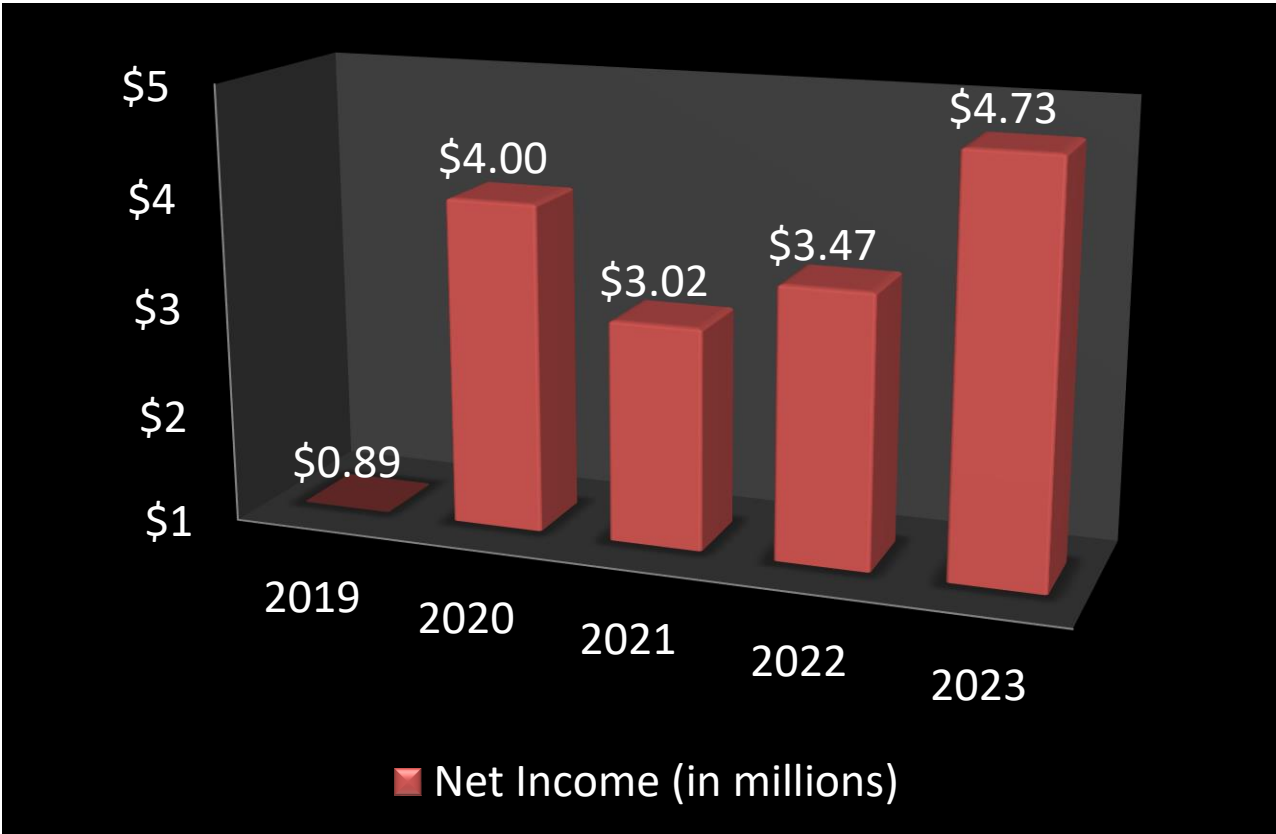
Listed below is a five-year comparison of assets, premium income, investment income, net income and surplus.

	2019	2020	2021	2022	2023
Assets	416,524,510	457,648,477	530,937,088	568,716,615	579,134,399
Prem Income	18,944,367	46,423,786	92,488,251	54,622,568	86,814,655
Inv Income*	15,841,382	20,225,043	18,621,567	23,556,485	26,274,799
Net Income	891,852	4,001,829	3,022,244	3,473,008	4,729,876
Surplus	42,148,006	43,771,595	46,657,607	48,374,546	53,424,728

*This includes a one-time dividend of \$3,602,388 from Jednota holding company in 2020.







Financial Position:

Summary: Realized capital gains of \$80,267; plus, operating gains of \$4,729,876; plus, unrealized gains of \$1,070,838; less \$653,731 of AVR increase; increased surplus by \$5,050,182 (change in non-admitted assets and accrual adjustments were \$177,045).

The Society's IMR now stands at \$472,129, and the AVR is at \$4,925,917. The common stock and real estate components of the AVR are at maximum. Overall, the AVR is at 87.3% of total maximum.

The Society's solvency ratio is 110.2%. When the IMR and AVR are combined with surplus, the solvency ratio is 111.3% (consistent with prior years).

The Society experienced total premium income that was 58.6% higher than the previous year. Annuity premium income increased 60.8% compared to the previous year. Investment income increased 11.5%

Bonds are 84.2% (-1.9%) of the Society's assets, with an average maturity of 11.9 years. The Organization enjoys excellent bond quality with 98.9% of the bonds in the two highest NAIC rating classes. Preferred Stocks make up 0.7% of invested assets, and Common stock 0.3%, which serve to provide diversity and balance to the portfolio, as well as to provide the benefit of growth potential in the market. Other assets consist of mortgages (7.6%); and all others (1.5%), including cash on hand of \$30,232,085. About 6% of the cash is in Government securities.

The most significant changes to liabilities were: policy reserves increased 1.19%; Deposit type accounts decreased 2.7% (lower FHLB loans), IMR decreased 42.3%; AVR increased 15.3%; Funds held as Trustee increased 2.6%. The AVR increased 21.7% partially due to the Unrealized Gains and investment purchases. The AVR is 87.3% of the 2023 maximum. The Real Estate and Common Stock Equity components are at 100.0% of the 2023 maximums. Average lapse ratio is very favorable for the past 5 years. The Society enjoys loyal membership.

The Organization's total admitted assets are \$578,950,327, a 1.8% increase partially due to large premium income production, less higher annuity payments. Five-year asset growth is \$162,425,817 or 39.0%.

Operations:

Life premium income decreased 9.7%, led by a 29.0% decrease in Single Premium, and an 8.7% decrease in first year premium. Annuity premium income increased 60.8% and totaled \$85,468,457 versus \$53,137,772. Overall total premium income increased 58.9%. Sales activity consists of contracted General Agencies, Independent Agents, and Member Agents. The Society is successfully active in recruiting agents and general agents. Investment income was 11.5% higher, in tune with efforts to keep up with the larger premium income and increased rate environment. Total income for the year was 44.4% higher.

Total member benefits were 268.8% higher primarily because of a 298.9% increase in annuity benefits paid. There was a 74.0% decrease in interest paid; 6.0% decrease in Death benefits. Life reserve demand was 44.5% lower, and annuity reserve demand was \$28,511,740 (84.6%) lower, consistent with the higher annuity premium production and higher benefit activity. Total Operation Expenses were 16% higher. Commissions were 84.4% higher, reflecting the increase in annuity premium production. General Expenses were 16% higher. Management continues to monitor

expenses, and expense levels in relation to income. Dividends to members were \$438,772 which is slightly higher level than the prior year. The Society realized a gain from operations of \$4,729,876 (+36.2%), after payment of dividends. Realized capital gains were \$80,267.

Net Income was \$5,050,182. The AVR increased by \$653,754, primarily due to the growth in assets.

There are no known trends which will cause future operation results to deviate materially.

Cash Flow and Liquidity:

The items which provide liquidity are \$30,232,085 of cash, \$1,936,327 of common stock, over \$16,164,673 of bonds maturing in less than one year; almost \$87,000,000 of premium income; and over \$26,274,799 of investment income. Expected outgo for benefit payments, commissions, dividends and expenses are about \$108,312,390, if the same amount of premium income and withdrawals are incurred in 2024. The Society enjoyed \$10,723,946 of positive operation cash flow in 2023.

The Society experienced higher operating profits, which is consistent with the large premium increase and 2023 capital gains. Asset growth in 2023 was very favorable. The net investment rate of return, although somewhat affected by the fluctuating interest rates available in 2023, will be at a higher level. The Society markets no other major interest sensitive product other than annuities.

There are no plans for any major expenses or outlays.

Risk Based Capital:

The Risk Based Capital calculations indicate that total adjusted capital is \$58,350,645. This does not include the \$472,129 in the IMR. The total for 50% of the calculated RBC was \$7,890,266. The RBC ratio was affected by the inclusion of new bond calculation factors introduced in 2021 into the RBC calculation.

The Society had two Insurance Regulatory Information System ratios outside NAIC designated ranges; change in premium and change in reserving. The items have been covered in this report.

Total security trading activity was \$74,997,106 in 2023 (lower than 2022 activity due to the 2023 economy).

Insurance in Force:

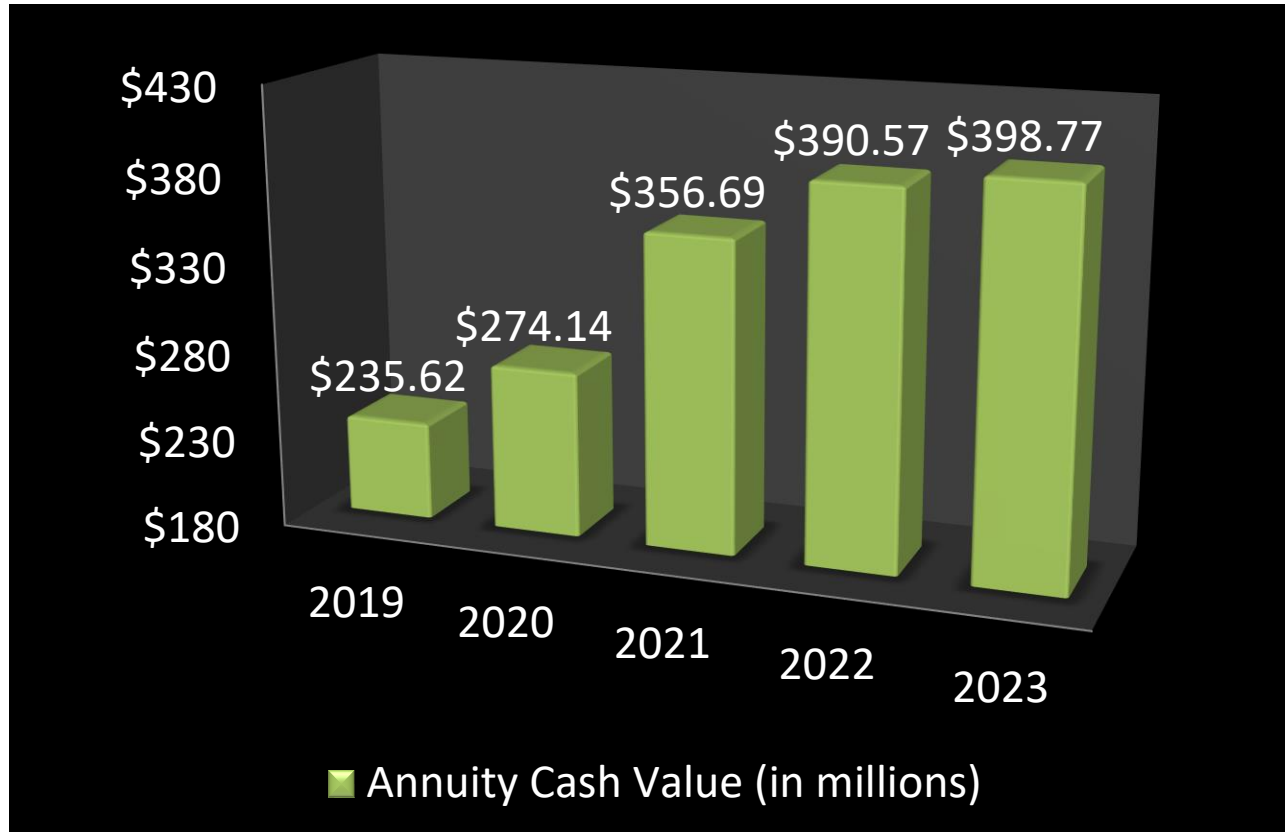
The Society recorded a decrease of \$3,568,000 of insurance in-force. Insurance in-force has decreased 1.7% since 2019.

Summary:

Our 2023 quarterly and year-end financial statements were compiled and completed on a timely basis and filed with the various states in which we are licensed to do business. We are continually in contact with the regulatory agencies of the various states regarding their requirements, which are constantly changing. We are in compliance with all of the states' and NAIC accounting regulations.

In 2023 we had a loss in insurance membership (death claims, cash withdrawals, expels, etc.) of 1,002 members compared to a loss of 822 in 2022. We had a decrease in the number of life insurance certificates of 1,285 in 2023 compared to a loss of 910 in 2022.

As of December 31, 2023, annuitant membership totals 5,259 members (this total does not reflect life insurance and branch agreements). As of December 31, 2023, the Society had 7,655 annuity certificates. The total cash value of our annuity accounts for 2023 was \$398,773,557 compared to \$390,570,778 in 2022 (2% increase). In just the last 5 years, cash value of our annuity account has increased 69.2%. In 2019 assets totaled \$235,613,055.



The First Catholic Slovak Union’s insurance and annuity portfolio contains many products, which suit all insurance and annuity needs. The Membership and Marketing Committee, along with our actuarial firm, Miller & Newberg Inc., and our Financial Consulting Firm, ENDePersis Fraternal Consulting, LLC, continues to explore avenues to improve and enhance our existing products and develop new products.

The Executive Secretary and the Home Office staff are developing new methods to expand our search for new independent insurance agents to sell our products. We have over 472 agents with signed contracts with our Society and they are making our products available to their clients. Our agents have access to our agent portal which allows them to view their client’s accounts online. Our independent agents receive monthly emails on our annuity rates and insurance products. We are also developing a new method of paying commissions to the agents.

We are licensed in the following states: Arizona, Colorado, Connecticut, Florida, Georgia, Kentucky, Illinois, Indiana, Iowa, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, Nevada, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, West Virginia, Virginia, and Wisconsin. This will provide an opportunity to market our insurance and

annuity products and recruit new independent agents in these states. In 2024 we plan to explore the potential of being licensed in 11 more states.

New insurance premium rates and insurance application forms have been generated to accommodate a newly updated mortality table that is used in the development of insurance products. The updated standard table - the 2017 Commissioners Standard Ordinary (CSO) Table - has been adopted by the National Association of Insurance Commissioners (NAIC) for use beginning in 2020. In 2021 we were required by the NAIC to update all our annuity suitability applications to be in compliance with the states we are licensed in. The new annuity applications are available on our website at www.fcsu.com.

The First Catholic Slovak Union, like other fraternal benefit societies and insurers, is mandated by the state (s) in which it operates to comply with these changes adopted by NAIC. Since the 1940s, the insurance industry by law has been regulated by the states in order to protect policy buyers. State regulations are designed to make sure insurance rates aren't too excessive; and they ensure insurance rates aren't so low that the insurer becomes insolvent and doesn't have the funds to meet their financial obligations to their insured. Insurance regulation also is in place to prevent unfair discrimination against policyholders based on factors unrelated to the risks insured.

The Executive Secretary and the Home Office staff will began working on updating our presentation that will be used at our training seminars offered to branches and districts. These seminars will be designed to educate our branch officers, district officers and recommenders not only about our existing products but also our new products and ways to present them. We believe these seminars will help stimulate the growth of our Society, develop motivation and strengthen the relationship between the Home Office, our branches and recommenders. Our goal is to keep the lines of communication open among our branches, districts, recommenders and the Home Office. We encourage our district officers, branch officers and recommenders to personally discuss their thoughts and ideas with us. We hope to schedule seminars later in 2024. We are also working on developing virtual training seminars that will be available to our branches and districts.

Our highly qualified Home Office staff is available to answer any questions concerning rates, completing applications and any other questions regarding our insurance and annuity products. To better serve our members and to increase efficiency, we currently offer an automatic premium payment service, which enables our members to have their premium payments automatically deducted from their bank accounts. Automatic deposit for annuity checks is also available to our annuity holders. For the convenience of our members, we accept Visa and MasterCard for premium payments, loan payments and newspaper subscriptions. In 2023 we began offering online premium payments, annuity deposits and a membership portal.

Per state regulations, commissions will not be paid to non-licensed recommenders who sell insurance or annuity policies for the First Catholic Slovak Union, effective April 1, 2020. Only licensed agents will receive a commission. A \$25 referral fee will be paid to non-licensed recommenders for each insurance policy issued once underwriting is complete and the first-year premium has been paid. The referral fee applies to the following policies: Whole life or single premium whole life policies with a face amount of \$5,000 or more, Term policies with a face amount of \$25,000* or more excluding JEP policies.

A \$25 referral fee will be paid to non-licensed recommenders for each annuity policy once

underwriting is complete and the policy has been issued. The referral fee applies to the following policies: Annuity policies with a deposit of \$2,000 or more.

In 2023 we continued to encourage our current recommenders to obtain their state insurance license. Generally, to obtain a full insurance license a person will be required to take an exam and must take continuing education classes to maintain the license. A full insurance license allows a person to solicit any amount of insurance or annuities with no restrictions. In some states a person may apply for a restricted fraternal license and not be required to take an exam or to take continuing education classes. A restricted fraternal license limits the amount of insurance or annuity products sold. We are offering an incentive plan to our recommenders and any member interested in representing the FCSU as a state licensed insurance agent an opportunity to do so with this incentive plan. The FCSU will pay ½ (one half) of the cost to obtain a life insurance/annuity license in your state. This includes the cost of the required courses and the license fee (the tuition and license fee varies by state). Based on productivity the FCSU will pay for ½ (one half) of the renewal. If you wish to become a licensed agent in your resident state, please contact the Home Office for further information.

Email has become one of the main ways to communicate with our members and as we expand our email base, we are reaching out to more members and providing up to date information. We use email to send out information on branch activities and meetings to our members. We are encouraging our members and officers to use e-mail when corresponding with the Home Office and to provide the Home Office with members email addresses so everyone is kept informed. Please email us at fcsu@fcsu.com.

We have published more information concerning our products in our *Jednota*, our official organ, to better inform our members about our products. The Home Office worked hard to improve the appearance of our paper by adding color and additional articles to the paper. All articles should be sent to the Home Office or they may be emailed to our Editor Lucy Connolly at editor@fcsu.com. In 2023 we continued sending out a monthly newsletter which highlighted our upcoming events, fraternal events, a link to our online Jednota newspaper, products, announcements and Slovak articles with the English translation.

In 2023 we continued to update our website, <https://www.fcsu.com/> so that when you visit it you will not only have the latest information regarding our insurance and annuity products but also information about what is going on in the FCSU (branch meetings, district meetings, etc.). We are encouraging all branches and districts to send information about their activities and branch/district announcements to branch@fcsu.com and district@fcsu.com. We will publish the information on our website and in the Jednota newspaper (English and Slovak sections). We also feature Slovak articles with the English translation. The current issue of Jednota is available our website as well as issues dating back to 2006. The website contains links to Slovak news agencies, the Slovak Embassy and other interesting topics. We continue to offer insurance quotes on our website for the convenience of all our members.

We encourage members to use our online member portal which we launched in 2021. This allows members to create an account to log in and view all their active life insurance and annuity policies that they own. They can see their personal information, beneficiary information and values of each policy.

We are continually updating our computer system to be more efficient to ensure that it meets and exceeds all state and NAIC requirements. We strive to improve our Home Office operations and have taken every precaution to protect our members' financial information. We have installed anti-virus

protection and firewalls along with Windows updates to guard us against any outside threats. We have purchased Cyber Security Insurance for the additional protection of our members. We test our system every year and have audits performed by outside firms.

In 2023 our outside auditors, Hosack, Specht, Muetzel & Wood, conducted a remote audit. Their audits consisted of a complete review of our quarterly and year-end financial statements for period ending December 31, 2022 and our Home Office operations. As a result of these audits our Society received an excellent review. Our internal auditors performed several audits in 2023 and found everything to be in order. We have already scheduled several audits for 2024.

In 2024 the Home office will continue to merge inactive branches with active branches. This is an ongoing issue since many of our branch officers are unable to continue to service the members in their branches. In 2024 I am encouraging our Regional Directors to contact the branches in their region. The information we obtain will be used to find out how we can better serve our branches.

Per FCSU bylaws, branches are still required to meet the requirements set forth by our FCSU Convention to qualify for the branch stipend. We encourage our branch officers that if they are unable to perform their duties and cannot find anyone in their branches to take over their duties, to call the Home Office. We will try to merge them with an active branch. For those branches that do not wish to merge, the Home Office can offer you guidelines as to how you can meet the requirements and receive the stipend. Throughout 2023 the requirements for the financial obligations (bylaw section 4.05) has been mailed to all branch officers and published in the Jednota newspaper as a reminder of the expectations for each branch. The Board of Directors strongly recommended that branches hold in person or virtual meetings to help increase attendance. A virtual meeting will count as a meeting towards the branch stipend.

The FCSU has an outstanding scholarship program, which was expanded in 2023 to include:

Catholic Grade School (grades 5-8)	\$500
Catholic High School	\$1,000
Colleges	\$1,500
Graduate School	\$1,500
Vocational/Trade School	\$1,000

More information regarding these scholarships will be available on our website and in the Jednota newspaper. Members may contact the Home Office for information concerning the scholarship program.

The Jednota Benevolent Foundation, which is separate from the Society's scholarship program, is available to any person pursuing post-secondary education. To be eligible for this one-time scholarship, the applicant must be of Slovak descent and Catholic faith. At this time, ten non-renewable scholarships in the amount of \$500.00 each are expected to be awarded.

We sponsor and support local groups including the Slovak Radio Club, St. Andrew's Abbey, Slovak Catholic Federation, Slovak League and Slovak dance groups. We also donate to many other Slovak organizations along with local non-profit organizations. We will continue to explore possible joint adventures with other fraternal for the future.

As I have stated in the past, the economic success of our Society hinges on four factors: the effective sale and promoting of our insurance and annuity products to increase premium income; the effective

management of our investment portfolio to increase our investment income; continuing to control our operating expenses; and also investigate new ways to attract new members. New members are vital to our growth.

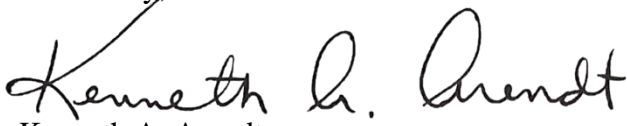
We have two National/Regional Picnics planned for 2024. Knoebels Amusement Resort in Elysburg, Pennsylvania on June 22, 2024 and Making Memories at Wiegand Lake Park in Novelty, Ohio on August 10, 2024. We may also possibly hold a fall festival.

As your President, I represented the FCSU on the Board of Directors of the Slovak Catholic Federation and Slovak League. I have attended and represented the Society at fraternal functions not only within our FCSU but also other fraternal societies. I represent the society at various branch and district meetings throughout the year. I also attend many seminars, including the American Fraternal Alliance Seminar, the AQS Symposium, and the ENDePersis Fraternal Consulting Seminars, which are always very informative regarding current insurance trends and pending state and NAIC regulations that might affect the FCSU. I am in constant contact with all state Departments of Insurance to ensure that FCSU is at all times in compliance with state regulations. We continue to exceed all state requirements.

My wife, Theresa, and I appreciate your trust and support as your Executive Secretary and as your newly elected President. I will continue to work and do my very best for our society. I will work towards a stronger society and address all issues with honesty and integrity. We are the First Catholic Slovak Union and I pray for our Society's continued growth. We have outstanding products with competitive rates and we all need to be involved in reaching new members and promoting our society.

In conclusion, I would like to thank all of my fellow officers and board members who assisted me throughout the year. A special thank you goes to our highly qualified Home Office staff.

Fraternally,

A handwritten signature in black ink that reads "Kenneth A. Arendt". The signature is written in a cursive style with a large, sweeping initial 'K'.

Kenneth A. Arendt
President