

Examination Warrant Number 18-00000-56693-R1

Report of Examination of

**GCU
Beaver, Pennsylvania**

As of December 31, 2018

For Informational Purposes Only

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Harrisburg, Pennsylvania
January 8, 2020

Honorable Joseph DiMemmo, CPA
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 18-00000-56693-R1, dated August 14, 2018, an examination was made of

GCU, NAIC Code:56693

a Pennsylvania domiciled multi-state, fraternal benefit society, hereinafter referred to as "GCU or the Society." The examination was conducted at the Society's home office, located at 5400 Tuscarawas Road, Beaver, Pennsylvania 15009.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department ("Department") has performed an examination of the Society, which was last examined as of December 31, 2013. This examination covered the five-year period from January 1, 2014 through December 31, 2018.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook").

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles.

The examination does not attest to the fair presentation of the financial statements included herein. Statements were prepared by management and are therefore the responsibility of management. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Society and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Society.

For the years 2014 to 2016, the certified public accounting firm ("CPA") was McKeever, Varga and Senko of Pittsburgh, Pennsylvania, and for the years 2017 to 2018, the CPA was H2R, of Pittsburgh, Pennsylvania. Both firms provided unmodified audit opinions on the Society's year-end financial statements based on statutory accounting principles, respectively. Relevant work performed by the CPAs during the annual audits of the Society, was reviewed during the examination and incorporated into the examination workpapers.

HISTORY

The Society is a non-profit organization which provides financial and fraternal benefits for its members while promoting its heritage. The Society was organized under the laws of Pennsylvania on March 20, 1893. In 1994, the Society formed GCU Holding Company, Inc., which consists of three wholly owned subsidiaries: GCU Real Estate Company, Inc., Seven Oaks Country Club, Inc., and GCU Agency, Inc.

At the Society's Supreme Convention ("Convention") in Atlantic City, New Jersey, June 28 - 29, 2016, the Society adopted a name change from Greek Catholic Union of the U.S.A. to GCU, which became effective October 17, 2016.

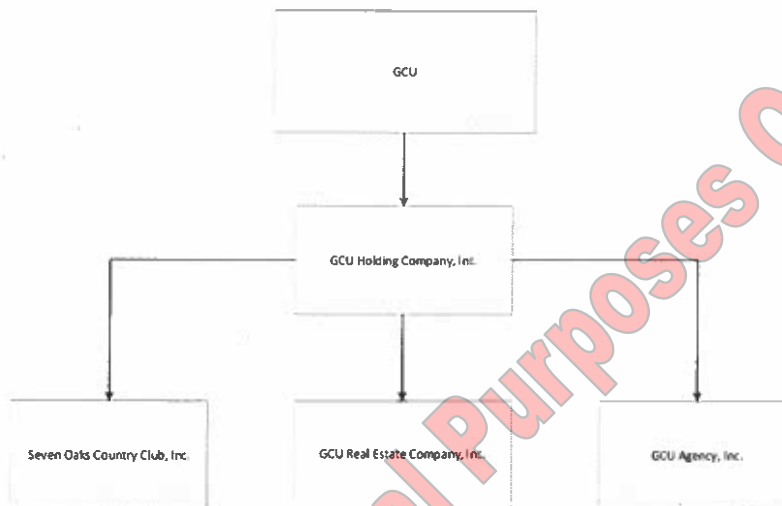
Prior to 2018, the Society's supreme legislative and judicial authority was the Convention that consisted of Spiritual Protectors and all elected officers of the Society. The Convention was held every four years, at which time the members of the Board of Directors ("Board") are elected. The last Convention (42nd) took place in Atlantic City, New Jersey between June 28 - 29, 2016.

In 2018, the Society held a referendum by all adult members that changed the Society's By-Laws to eliminate the quadrennial Convention and made the Board the ultimate governing body and ultimate decision maker. Beginning in 2020, Board members will be elected by all adults of the organization. The Society also intends to have the ability to elect four independent directors that are not members of the Society, which could improve the quality of potential new Board members.

The Society is authorized to transact business as a fraternal benefit society in Pennsylvania. As such, the Society may provide those contractual benefits as described in 40 P.S. § 991.2431, (a)(1) Death benefits, (a)(2) Endowment benefits, (a)(3) Annuity benefits, (a)(4) Temporary or permanent disability benefits, (a)(5) Hospital, medical or nursing benefits, (a)(6) Other benefits which are authorized for insurers licensed to write life, accident and health insurance and which are not inconsistent with this sub article.

MANAGEMENT AND CONTROL

As noted above, in 1994 the Society formed GCU Holding Company, Inc., which consists of three wholly owned subsidiaries: GCU Real Estate Company, Inc., Seven Oaks Country Club, Inc., and GCU Agency, Inc. As a fraternal benefit society, GCU is not subject to the requirements of the Pennsylvania Holding Company Law in 40 P.S. §§ 991.1401 - 991.1413.



BOARD OF DIRECTORS

Management of the Society is vested in its Board, which was comprised of the following members as of the examination date, December 31, 2018:

Name and Address	Principal Occupation
Melanie Basl Munhall, Pennsylvania	Speech Language Pathologist Genesis Healthcare
Dorothy Foran Hazleton, Pennsylvania	Retired
Lisa Gulibon Souderton, Pennsylvania	Technical Sales Manager Clariant Corporation
Michael W. Karaffa Strongsville, Ohio	Account Executive Sheakley
George Kofel Dunmore, Pennsylvania	Retired
Barbara Kushner Canonsburg, Pennsylvania	Retired

Reverend Richard Lambert
Youngstown, Ohio

Catholic Priest
National Spiritual Advisor

David Oleksa
Aliquippa, Pennsylvania

Environmental Engineer
Department of Defense

John Oslick
Aurora, Colorado

Retired

John Urban
Rocky River, Ohio

Retired

Gregory N. Vladika
Mayfield, Pennsylvania

Owner
Vladika Insurance Agency

The Society's By-Laws state that the Board is the supreme governing body of the Society. The Board shall govern, administer, hire Executive Officers and otherwise do anything necessary in and for the proper conduct of the business and objectives of the Society which are not inconsistent with the By-Laws herein.

The Board shall consist of ten (10) members elected by the members along with the National Spiritual Advisor and serve for a term of four (4) years. At any given time, the Board shall consist of no less than 7 and no more than 11 elected Directors. The Board shall have the authority to waive certain qualifications as deemed necessary in the appointment of new Directors.

COMMITTEES

As of the examination date, December 31, 2018, Directors and/or Officers were assigned to serve on the following key committees as listed below:

Executive Finance Committee

Gregory N. Vladika (C)
Barbara Kushner
George Kofel
John Urban
John Oslick
George N. Juba*
Scott Schuetz*
Timothy Demetres*
Theodore Trbovich*

Audit Committee

John Oslick (C)
Melanie Basl
Michael W. Karaffa
Barbara Kushner
David Oleksa

Governance Committee

John Urban (C)
George Kofel
Rev. Richard Lambert
John Oslick
Gregory N. Vladika
George N. Juba*
Theodore Trbovich*

Strategic Vision Committee

Lisa Gulibon (C)
Melanie Basl
Dorothy Foran
Michael W. Karaffa
Barbara Kushner
Rev. Richard Lambert
David Oleksa

Risk Committee

David Oleksa (C)
 Lisa Gulibon
 George Kofel
 John Urban
 Gregory N. Vladika
 George N. Juba *
 Scott Schuetz *
 Timothy Demetres *
 Theodore Trbovich *

Human Resources & Compensations Committee

Michael W. Karaffa (C)
 Lisa Gulibon
 Barbara Kushner
 David Oleksa
 John Oslick

Fraternal Communications Committee

Barbara Kushner (C)
 Melanie Basl
 Dorothy Foran
 Lisa Gulibon
 Michael W. Karaffa

(C) Chairperson
 * Non-Voting

OFFICERS

As of the examination date, December 31, 2018, the following Officers were appointed and serving in accordance with the Society's By-Laws:

Name

George N. Juba
 Scott Schuetz

Timothy Demetres
 Theodore Trbovich

Title

President & Chief Executive Officer
 Executive Vice President & Chief Operating Officer
 Chief Financial Officer
 General Counsel

CORPORATE RECORDS**MINUTES**

A review of the minutes of the meetings of the Board and various committees during the period under examination indicate all meetings were held in compliance with the Society's By-Laws. The Board members were elected during the last Convention in 2016. All Board and committee meetings were well attended with quorums established at all such meetings. All investments, reinsurance, products and business were properly approved and ratified by the Board.

ARTICLES OF INCORPORATION

During the examination period, the Society made the following amendments to its Articles of Incorporation and properly notified the Department and the Department of State of the changes. The Department approved the amendments on December 14, 2016 and January 12, 2018, respectively.

1. Adopted a name change from Greek Catholic Union of the U.S.A. to GCU.
2. Deleted any reference to the number of Directors to be elected, which authority rests with the Convention.

BY-LAWS

During the examination period, the Society made the following significant amendments to its By-Laws, which were adopted by the Board on November 10, 2018. The Department was notified of the changes and approved the amendments on January 31, 2019.

1. Title I, Par.1. Adopted a name change, from Greek Catholic Union of the U.S.A. to GCU.
2. Title VI, Par.46. The Board is the supreme governing body of the GCU
3. Title VI, Par.46. Established and renamed aforementioned committees above.
4. Title VI, Par.47. The Board shall consist ten (10) Directors and one (1) Spiritual Advisor
5. Title VI, Par.48. The Board shall consist of no less than 7 and no more than 11 elected Directors.
6. Title VI, Par.52. The Board shall have the authority to appoint up to 4 benefit members to serve as voting directors and the Board shall also have the authority to waive certain qualifications listed in Paragraph 62 as deemed necessary in the appointment of new directors.
7. Title VII, Par.66. The election must be held every four (4) years no later than August 31 of the election year.
8. Title VII, Par.68. The term of office of all Directors of the GCU shall be for four (4) years beginning October 1 and expiring on September 30.
9. Elimination of the quadrennial Convention.
10. The Board will be elected by all adult members beginning in 2020.
11. Elimination of the Supreme Tribunal.

SERVICE AND OPERATING AGREEMENTS

The Society is party to various service and operating agreements. The following significant agreements were in place during the examination period:

Actuarial Services Agreement

The Society entered into a service agreement with Allen Bailey & Associates Inc. ("ABA"), an actuarial and consulting firm located in Austin, Texas, effective December 1, 2017. Under this agreement, ABA performs actuarial, regulatory filings and other actuarial services on a fee incurred basis to the Society for assignments designated by an authorized officer of the Society. This agreement remains in force until either party terminates the agreement with 30 days advance notice.

Actuarial Consulting Agreement

The Society entered into a service agreement with CSG Actuarial, an actuarial and consulting firm located in Omaha, Nebraska, effective December 7, 2017. Under this agreement, CSG Actuarial performs Medicare Supplement actuarial services, regulatory filings and other actuarial services on a fee incurred basis to the Society for assignments designated by an authorized officer of the Society. This agreement remains in force until either party terminates the agreement with 30 days advance notice.

Actuarial Consulting Agreement

The Society entered into a pension consulting agreement with Bruce and Bruce Company ("BBC"), effective October 8, 2018. Under this agreement, BBC performs pension plan valuation, regulatory filings and other pension actuarial services for a monthly fee. The agreement is for a three-year term from January 1, 2018 through July 30, 2021.

Enterprise Accounting Agreement

The Society entered into a software licensing agreement with FIS iWorks LLC (formerly known as SunGard iWorks, LLC), effective October 28, 2002. This agreement has an initial term of five (5) years and thereafter for successive three (3) year renewal terms unless and until terminated in accordance with this agreement. Either party may terminate this agreement at the end of the initial term or at the end of any renewal term by giving at least ninety (90) days prior written notice of termination. Under terms of the agreement, the Society pays an initial license fee and an annual fee thereafter.

Investment Accounting Agreement

The Society entered into a SaaS Order for Business Process Outsourcing ("Order") with FIS iWorks LLC, effective March 31, 2016. Under the Order, FIS will provide security investment accounting services, maintain the hardware and necessary Third-Party Software required provide the Services under this Order, record keeping and reporting. The Order has an initial term of three (3) years from the Order effective date and shall renew for successive three (3) year renewal terms. This Order was subsequently terminated on April 30, 2019.

Policy Administration Service Agreement

The Society entered into a master software licensing agreement with Liberty Insurance Services Corporation ("LIS"), a South Carolina corporation, for the use of its Genelco Life Plus System, effective October 31, 2002. The Genelco Life Plus System is used for policy management, claims and reserving and producer management. The Society paid a one-time license fee for the use of the system for a twenty-five-year period.

Marketing and Administrative Service Agreement

The Society entered into an Affinity Marketing Agreement with Nationwide Mutual Insurance Company ("Nationwide"), effective April 1, 2017. Under this agreement, Nationwide offers its affinity personal lines standard auto insurance, powersports (boat, recreational vehicle, and/or motorcycle) insurance, homeowners/condo/renters insurance, and pet health insurance products to the members of Affinity Group. The initial term of this agreement will be for five (5) contract years beginning on the effective date. Upon completion of the initial term, this agreement will automatically renew for a two-year term on a biennial basis unless either party provides the other with written notice of its intent not to renew at least ninety (90) days.

Administrative Services Agreement

The Society entered into an Administrative Service Agreement with Equitable Life & Casualty Insurance Company ("Equitable"), effective January 1, 2015. Under this agreement, Equitable agrees to provide administrative services on the Medicare Supplement Products. The services include but are not limited to the following: policy issuance, premium collection and accounting, claims, commission accounting, policyowner service, legal and regulatory compliance, insurance accounting, actuarial and reinsurance data & information. This agreement shall remain in effect for an initial term of five (5) years and shall automatically renew for consecutive one (1) year periods unless terminated by either party with prior ninety (90) written notice.

Marketing Services Agreement

The Society entered into a Marketing Agreement with Heartland Financial Group, Inc. ("HFG"), effective January 2, 2015. Under this agreement, HFG agrees to provide the following services on the Medicare Supplement line, and Society's existing Life and Annuity products lines: performing all agent underwriting functions, developing all forms for Medicare Supplement sales and solicitation, developing all marketing materials for Medicare Supplement line, appointing and managing Medicare Supplement distribution, agent appointments and agent contracting management. The agreement was amended on January 1, 2016.

Compliance Services Agreement

The Society entered into a service agreement with Venia LLC doing business as KEANE, a Delaware limited liability company, effective June 7, 2013. Under this agreement, KEANE will perform certain unclaimed property compliance, communication, and consulting services. This agreement shall remain in effect for an initial term of two (2) years. Upon expiration of the initial term, this agreement shall become effective quarter-to-quarter. Either party may terminate

this agreement by providing written notice to the other party within ninety (90) days of the initial expiration date.

Investment Management Agreement

The Society entered into an Investment Management Agreement with Prosperity Capital Advisors, to provide investment advisory services to the Society, effective April 12, 2013.

Investment Management Agreement

The Society entered into an Investment Management Agreement with PNC Capital Advisors, LLC, to provide investment advisory services to the Society, effective September 4, 2018.

Investment Management Agreement

The Society entered into an Investment Management Agreement with Northern Trust Investments, Inc., to provide investment advisory services to the Society, effective September 4, 2018.

REINSURANCE

CEDED

The Society's ceded reinsurance program as of December 31, 2018 is summarized as follows:

Optimum Re Insurance Company

The Society entered into a Quota Share Reinsurance Contract with Optimum Re Insurance Company, effective January 1, 2010. The term of the contract is continuous and shall remain in force until terminated by either party giving a ninety (90) day written notice to the other.

The contract was amended on January 1, 2014, September 1, 2015, October 1, 2017 and November 1, 2018. The Society did not cede any significant life business in 2018.

The Society's standard retention and the reinsurance limit are as follows:

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of business Covered</u>
\$250,000 (0 - 65)	\$0 (Automatic)	Term and permanent plans
\$150,000 (66 - 80)	\$4,000,000 (Facultative)	
\$50,000 (81 - 85)	\$4,000,000 (Jumbo)	

Aetna Life Insurance Company

The Society entered into a Medicare Supplement Coinsurance Agreement with Aetna Life Insurance Company, effective January 9, 2015. The agreement was amended on January 20,

2015. This agreement has an initial term of three (3) years and thereafter for successive one (1) year renewal terms unless and until terminated in accordance with the agreement. The Society ceded \$12,982,040 in premiums in 2018.

The Society's retention and the reinsurance limit are as follows:

Company's Retention	Reinsurance Limits	Type of business Covered
5%	95%	Medicare Supplement

Marketing Agent:	Heartland Financial
Services:	Agent appointment and contracting, marketing, etc.
Compensation:	Fixed rate per agent appointment plus a fixed dollar rate per each issued underwritten and non-underwritten policy.
Administrator:	Equitable Life & Casualty Insurance Company (Triad)
Admin Services:	Underwriting, policy issue, premium collection and accounting, claims, commission accounting, policyowner servicing, legal and compliance, insurance accounting, actuarial and reinsurance data and information.
Compensation:	Rate per in-force policy plus a fixed dollar rate per each issued, underwritten, non-underwritten and declined policy.

All of the Society's reinsurance contracts meet the transfer of risk test. All contracts contained the appropriate insolvency and arbitration clauses.

ASSUMED

The Society assumed no business during the period covered under this examination.

TERRITORY AND PLAN OF OPERATIONS

As of December 31, 2018, the Society is licensed to conduct business in the District of Columbia and the following jurisdictions:

Arizona	Illinois	Mississippi	Pennsylvania
California	Indiana	Missouri	South Carolina
Colorado	Iowa	Nevada	Tennessee
Connecticut	Kentucky	New Jersey	Texas
Florida	Maryland	New York	Utah
Georgia	Michigan	North Carolina	Virginia
Idaho	Minnesota	Ohio	West Virginia
			Wisconsin

The major lines of business written by the Society are individual life insurance and individual annuity contracts. In addition, the Society's product lines also include Medicare Supplement Insurance.

The following table shows a distribution of premiums by line of business for the year ending December 31, 2018:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Premium	Percentage of Total
Ordinary life	2,206,098	41,389	2,164,709	0.9 %
Individual annuities	235,359,245	0	235,359,245	98.8 %
Other accident and health	13,667,175	12,982,040	685,135	0.3 %
Totals	\$ 251,232,518	\$ 13,023,429	\$ 238,209,089	100.0 %

As of December 31, 2018, the Society has a system of 51 active lodges or branches through which business is generated and fraternal activities are conducted. The Society has approximately 1,200 independent general agents selling and marketing its products. These agents are located primarily in Pennsylvania, Wisconsin, Ohio, Minnesota, California, Michigan, Illinois, Indiana, Arizona, and Florida.

Equitable Life & Casualty Insurance Company is the Society's third-party administrator for Medicare Supplement business. The Society has no managing general agent.

SIGNIFICANT OPERATING TRENDS

The following table indicates the changes in key balance sheet items of the Society during the period covered by this examination:

	2018	2017	2016	2015	2014
Admitted Assets	\$ 1,890,844,697	\$ 1,712,285,488	\$ 1,549,960,643	\$ 1,354,927,436	\$ 1,196,636,848
Liabilities	\$ 1,736,575,697	\$ 1,579,243,067	\$ 1,441,428,668	\$ 1,264,187,700	\$ 1,124,811,418
Capital and Surplus Funds	\$ 154,269,000	\$ 133,042,421	\$ 108,531,975	\$ 90,739,736	\$ 71,825,430
Net Premiums Written	\$ 238,209,089	\$ 251,613,772	\$ 263,701,121	\$ 242,805,533	\$ 165,385,899
Benefits to Members *	\$ 290,603,117	\$ 295,133,472	\$ 304,928,489	\$ 282,113,119	\$ 204,346,104
Net Investment Income	\$ 91,265,601	\$ 84,242,334	\$ 77,563,952	\$ 71,778,773	\$ 64,871,864
Net Income	\$ 22,182,737	\$ 25,707,763	\$ 20,636,081	\$ 22,061,922	\$ 18,166,287

Since the prior examination, the Society has experienced the following changes in its total number of certificates in-force, the overall amount of insurance in-force, and the average amount of insurance in-force per policy:

Life Insurance	Certificates In Force	Insurance In Force	Average Policy In Force
December 31, 2013	29,198	\$ 227,473,992	\$ 7,791
December 31, 2018	25,596	224,311,868	8,764
Net increase/(decrease)	<u>(3,602)</u>	<u>\$ (3,162,124)</u>	<u>\$ 973</u>

Annuities	Number of Annuities	Annuities In Force	Average Annuity In Force
December 31, 2013	26,109	\$ 882,255,066	\$ 33,791
December 31, 2018	34,857	1,616,877,380	46,386
Net increase/(decrease)	<u>8,748</u>	<u>\$ 734,622,314</u>	<u>\$ 12,595</u>

PENDING LITIGATION

A review of the legal representation letters from the Society's legal counsel, and outside attorneys, explaining all current litigation to which the Society is a party indicated that the Society is not a party to any material litigation or arbitration, and none of which will, in the opinion of management that the ultimate liability, if any, associated with the outcome of these matters have a material adverse effect on the Society's financial condition.

FINANCIAL STATEMENTS

The financial condition of the Society, as of December 31, 2018, and the results of its operations for the five-year period under examination, are reflected in the following statements*:

- Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
- Comparative Statement of Income;
- Comparative Statement of Capital and Surplus;
- Comparative Statement of Cash Flow

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

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Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31,

	2018	2017	2016	2015	2014
Bonds	\$ 1,762,020,723	\$ 1,595,058,016	\$ 1,430,406,992	\$ 1,261,831,337	\$ 1,111,526,995
Preferred stocks	49,820,562	50,145,547	44,259,004	21,413,155	25,660,832
Common stocks	13,990,414	12,374,916	11,796,525	12,313,564	13,185,684
Mortgage loans on real estate	4,769,997	2,489,104	1,552,189	1,119,684	861,848
Real estate	490,077	526,624	590,727	401,182	452,827
Cash, cash equivalents and short-term investments	18,882,006	11,318,179	26,262,312	30,815,446	20,936,835
Contract loans	647,887	642,393	625,578	658,821	673,510
Other invested assets	15,908,160	15,985,356	11,945,290	6,170,497	5,945,970
Subtotal, cash and invested assets	1,866,529,626	1,688,540,135	1,527,438,617	1,334,723,686	1,179,244,501
Investment income due and accrued	23,960,016	22,786,832	21,431,743	19,501,215	17,228,911
Premiums and considerations:					
Uncollected premiums and agents balances	63,309	91,007	91,007	76,881	70,826
Deferred premiums and agents balances	15,177	13,732	11,543	8,726	17,621
Other amounts receivable under reinsurance contracts	200,883	841,905	962,963		
Receivable from parent, subsidiaries and affiliates	75,686	11,877	24,770	28,081	34,618
Health care and other amounts receivable				303,736	
Aggregate write-ins for other than invested assets	0	0	0	285,111	40,371
Total	\$ 1,890,844,697	\$ 1,712,285,488	\$ 1,549,960,643	\$ 1,354,927,436	\$ 1,196,636,848

	2018	2017	2016	2015	2014
Aggregate reserve for life contracts	\$ 1,668,429,434	\$ 1,518,113,800	\$ 1,383,334,000	\$ 1,215,347,000	\$ 1,084,379,000
Aggregate reserve for accident and health contracts	34,603	109,242	72,197	8,957	
Liability for deposit-type contracts	13,687,942	15,508,391	15,821,531	14,828,247	9,255,863
Contract claims:					
Life	300,000	600,000	600,000	600,000	600,000
Accident and health	195,646	61,910	61,910	7,064	
Provision for refunds payable in following calendar year-estimated amounts:					
Apportioned for payment	300,000	300,000	300,000	300,000	300,000
Premiums and annuity considerations received in advance	36,853	42,576	45,687	40,881	34,062
Contract liabilities not included elsewhere:					
Other amounts payable on reinsurance assumed and ceded	402,871				
Interest maintenance reserve	22,582,928	22,869,833	18,058,704	16,735,319	16,113,913
General expenses due or accrued	580,541	368,978	309,251		
Amounts withheld or retained by company as agent or trustee	1,679,482	972,383	810,302	452,095	552,691
Miscellaneous liabilities:					
Asset valuation reserve	19,311,098	18,662,239	17,556,902	13,217,552	11,663,823
Drafts outstanding	5	5	8,938		
Payable for securities	7,415,445		1,798,893		
Aggregate write-ins for liabilities	1,618,849	1,633,710	2,650,363	2,650,585	1,912,066
Total liabilities excluding Separate Accounts business	1,736,575,697	1,579,243,067	1,441,428,668	1,264,187,700	1,124,811,418
Total liabilities	1,736,575,697	1,579,243,067	1,441,428,668	1,264,187,700	1,124,811,418
Unassigned funds	154,269,000	133,042,421	108,531,975	90,739,736	71,825,430
Total Surplus	154,269,000	133,042,421	108,531,975	90,739,736	71,825,430
Totals	\$ 1,890,844,697	\$ 1,712,285,488	\$ 1,549,960,643	\$ 1,354,927,436	\$ 1,196,636,848

Comparative Statement of Income For the Year Ended December 31,

	2018	2017	2016	2015	2014
Premiums and annuity considerations for life and A&H contracts	\$ 238,209,089	\$ 251,613,772	\$ 263,701,121	\$ 242,805,533	\$ 165,385,899
Net investment income	91,265,601	84,242,334	77,563,952	71,778,773	64,871,864
Amortization of interest maintenance reserve (IMR)	3,195,329	2,914,368	2,725,275	2,726,856	2,636,293
Commissions and expense allowances on reinsurance ceded	2,790,926	2,578,324	1,324,076	112,478	
Miscellaneous Income:					
Aggregate write-ins for miscellaneous income	690,571	548,347	809,563	784,109	2,143,531
Totals	336,151,516	341,897,145	346,123,967	318,207,749	235,037,587
Death benefits	2,089,121	2,466,815	2,457,341	2,336,035	3,269,700
Matured endowments	22,137	26,676			
Annuity benefits	136,643,894	156,435,684	133,302,424	147,479,456	102,744,058
Disability benefits and benefits under accident and health contracts	698,255	472,991	226,384	12,034	
Surrender benefits and withdrawals for life contracts	834,452	844,574	823,475	1,242,015	1,222,379
Interest and adjustments on contract or deposit-type funds	74,264	69,876	68,642	66,623	62,967
Increase in aggregate reserves for life and A&H policies and contracts	150,240,994	134,816,856	168,050,223	130,976,957	97,047,000
Totals	290,603,117	295,133,472	304,928,489	282,113,119	204,346,104
Commissions on premiums, annuity considerations & deposit-type funds (direct)	10,439,421	11,402,458	9,256,484	6,689,711	4,156,142
General insurance expenses and fraternal expenses	7,150,790	6,128,598	7,198,319	6,397,100	5,921,131
Insurance taxes, licenses and fees	330,926	14,984	502,808	438,903	582,836
Aggregate write-ins for deductions	1,759,285	500,261	274,678	272,721	447,243
Totals	310,283,539	313,179,773	322,160,778	295,911,554	215,453,456
Net gain from operations before refunds to members	25,867,977	28,717,372	23,963,209	22,296,195	19,584,131
Refunds to Members	271,796	261,841	257,398	256,199	341,293
Net gain from operations after refunds to members and before realized capital gains (losses)	25,596,181	28,455,531	23,705,811	22,039,996	19,242,838
Net realized capital gains or (losses) less capital gains tax (excluding \$2,908,423 transferred to the IMR)	(3,413,444)	(2,747,768)	(3,069,730)	21,926	(1,076,551)
Net income	\$ 22,182,737	\$ 25,707,763	\$ 20,636,081	\$ 22,061,922	\$ 18,166,287

**Comparative Statement of Capital and Surplus
For the Year Ended December 31,**

	2018	2017	2016	2015	2014
Capital and surplus, December 31, previous year	\$ 133,042,421	\$ 108,531,974	\$ 90,739,736	\$ 71,825,430	\$ 50,492,229
Net income	22,182,737	25,707,763	20,636,081	22,061,922	18,166,287
Change in net unrealized capital gains or (losses)	380,996	570,958	2,715,950	(393,429)	329,698
Change in nonadmitted assets and related items	501,762	636,909	(341,881)	(352,869)	4,113,489
Change in asset valuation reserve	(648,859)	(1,105,337)	(4,339,349)	(1,553,729)	(1,721,302)
Aggregate write-ins for gains and losses in surplus	(1,190,057)	(1,299,846)	(878,563)	(847,589)	445,029
Net change in capital and surplus for the year	21,226,579	24,510,447	17,792,238	18,914,306	21,333,201
Capital and surplus, December 31, current year	\$ 154,269,000	\$ 133,042,421	\$ 108,531,974	\$ 90,739,736	\$ 71,825,430

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Comparative Statement of Cash Flow For the Year Ended December 31,

	2018	2017	2016	2015	2014
Cash from Operations					
Premiums collected net of reinsurance	238,229,619	251,608,472	263,688,984	242,817,000	165,508,177
Net investment income	93,874,301	87,570,124	79,491,661	71,442,698	64,716,616
Miscellaneous Income	3,481,497	3,126,671	2,133,639	784,109	893,520
Total	335,585,417	342,305,267	345,314,284	315,043,807	231,118,313
Benefit and Loss related Payments	139,887,365	160,195,558	137,786,383	151,129,098	106,731,876
Commissions, expenses paid and aggregate write-ins for deductions	19,483,725	19,002,553	16,923,260	13,686,144	10,263,805
Dividends paid to policyholders	271,796	261,841	257,398	256,199	241,293
Total deductions	159,642,886	179,459,952	154,967,041	165,071,441	117,236,974
Net Cash from Operations	175,942,531	162,845,314	190,347,243	149,972,366	113,881,339
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	222,642,942	206,494,820	71,152,160	49,753,162	81,935,201
Stocks	3,958,359	7,900,066	3,067,324	5,111,690	6,281,208
Mortgage loans	147,107	63,085	157,495	145,664	65,384
Other invested assets	3,043,164	35,977	8,793,301	500,000	150,000
Miscellaneous proceeds	7,415,445		1,798,893		
Total investment proceeds	237,207,017	214,493,948	84,969,173	55,510,516	88,431,793
Cost of investments acquired (long-term only):					
Bonds	393,598,040	370,930,298	240,873,033	198,683,814	191,103,319
Stocks	3,598,181	13,547,482	25,168,391	64,809	458,623
Mortgage loans	2,427,999	1,000,000	590,000	403,500	
Real estate			245,871		
Other invested assets	1,682,943	3,622,944	13,972,077	844,647	2,061,500
Miscellaneous applications		1,798,893			
Total investments acquired	401,307,163	390,899,617	280,849,372	199,996,770	193,623,442
Net increase (decrease) in policy loans and premium notes	5,294	16,815	(33,243)	(14,689)	87,131
Net cash from investments	(164,105,440)	(176,422,484)	(195,846,956)	(144,471,565)	(105,278,779)
Cash from Financing and Miscellaneous Sources					
Cash provided (applied):					
Net deposits on deposit-type contracts and other insurance liabilities	(1,823,491)	(313,140)	993,284	5,572,384	(642,648)
Other cash provided or (applied)	(2,449,772)	(1,053,823)	(46,703)	(1,194,574)	236,476
Net cash from financing and miscellaneous sources	(4,273,263)	(1,366,963)	946,581	4,377,810	(406,172)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	7,569,628	(14,944,133)	(4,553,132)	9,878,612	8,196,388
Cash and short-term investments:					
Beginning of the year	11,318,179	26,262,312	30,815,444	20,936,831	12,740,444
End of the year	18,887,807	11,318,179	26,262,312	30,815,443	20,936,832

SUMMARY OF EXAMINATION CHANGES

The following changes have been made to the Society's financial statements as a result of this examination:

During the course of calculating the Society's September 30, 2019 annuity reserve using the Commissioners' Annuity Reserve Calculation Model ("CARVM"), the Society's appointed actuary raised two issues that resulted in an understatement of the annuity reserves: (1) the current interest rate guarantees have not been fully reflected in calculating CARVM for certain products; and (2) the full value of guaranteed annuity benefits (annuitization) have not been included in the calculation. The overall financial impact was \$21.3 million at September 30, 2019, \$17.1 million prior period adjustment to surplus related to corrections occurring as of December 31, 2018 and previously, and \$4.2 million for the impact of 2019 issued contracts from January 1, 2019 to September 30, 2019.

Note 2 of the Notes to Financial Statement of the Society's September 30, 2019 statement disclosed that to correct errors in calculating annuity contract reserves, the Society recorded a prior period adjustment to December 31, 2018 reported surplus. Annuity reserves were understated by \$17,082,509 due to \$14,977,547 from the use of an incorrect settlement (annuitization) table, and \$2,104,962 to fully value extended interest rate guarantees contained in certain annuity contracts.

The impact of the errors on surplus, total assets, and total liabilities ending December 31, 2018 is shown in the following table.

Balance Sheet - December 31, 2018

	As Reported 12/31/2018	Increase (Decrease)	Corrected 12/31/2018	Change %
Net Admitted Assets	\$ 1,890,844,697	\$ -	\$ 1,890,844,697	0.0%
Aggregate reserve for life contracts	\$ 1,668,429,434	\$ 17,082,509	\$ 1,685,511,943	1.0%
Total Liabilities	\$ 1,736,575,697	\$ 17,082,509	\$ 1,753,658,206	1.0%
Total Surplus	\$ 154,269,000	\$ (17,082,509)	\$ 137,186,491	-11.1%

The impact of the errors on surplus, total assets, and total liabilities ending September 30, 2019 is shown in the following table.

Balance Sheet - September 30, 2019

	Before Correction 9/30/2019	Increase (Decrease)	As Reported 9/30/2019	Change %
Net Admitted Assets	\$ 2,034,789,661	\$ -	\$ 2,034,789,661	0.0%
Aggregate reserve for life contracts	\$ 1,803,108,445	\$ 4,191,537	\$ 1,807,299,982	0.2%
Total Liabilities	\$ 1,878,589,113	\$ 4,191,537	\$ 1,882,780,650	0.2%
Total Surplus	\$ 156,200,551	\$ (4,191,537)	\$ 152,009,014	-2.7%

NOTES TO FINANCIAL STATEMENTS

ASSETS

INVESTMENTS

As of December 31, 2018, the Society's invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 1,762,020,723	94.40 %
Preferred stocks	49,820,562	2.67 %
Common stocks	13,990,414	0.75 %
Mortgage loans on real estate	4,769,997	0.26 %
Real estate occupied by the company	490,077	0.03 %
Cash & short-term investments	6,784,203	0.36 %
Cash equivalents	12,097,803	0.65 %
Contract Loans	647,687	0.03 %
Other invested assets	15,908,160	0.85 %
Totals	\$ 1,866,529,626	100.0 %

The Society's bond and short-term investment portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 473,255,571	26.8 %
2 - high quality	1,190,127,480	67.5 %
3 - medium quality	57,112,460	3.2 %
4 - low quality	24,108,801	1.4 %
5 - lower quality	17,144,399	1.0 %
6 - in or near default	272,000	0.1 %
Totals	\$ 1,762,020,711	100.0 %

Years to Maturity	Amount	Percentage
1 year or less	\$ 32,720,050	1.9 %
2 to 5 years	113,253,376	6.4 %
6 to 10 years	251,530,163	14.3 %
11 to 20 years	536,338,173	30.4 %
over 20 years	828,178,949	47.0 %
Totals	\$ 1,762,020,711	100.0 %

The Society's investment portfolio is primarily comprised of bonds, preferred stocks, common stocks, cash equivalents, and other invested assets which collectively represent 99.3% of the invested assets.

The quality of the Society's bond portfolio is 94.3% investment grade, with 26.8% having an NAIC designation of "1" highest quality and 67.5% having an NAIC designation of "2" high quality.

The Society has a written investment policy as required by 40 P.S. § 504.1(c). The investment policy is reviewed and approved on at least an annual basis by the Board. The Society was following its investment policy at December 31, 2018.

The Society's investment securities are held by The Northern Trust Company. Effective August 31, 2018, the Society entered into a custodial agreement with The Northern Trust Company, which acts as a non-discretionary custodian. The custodial agreement complies with the requirements of 31 Pa. Code § 148a.3.

The Society owns 100% of the issued and outstanding common stock of GCU Holding Company, Inc., with a reported statutory book value of \$10,283,373 at December 31, 2018.

LIABILITIES

POLICYHOLDER AND CLAIM RESERVES

The Society reported \$1,668,429,434 in aggregate reserve for life contracts, \$34,603 in aggregate reserve for accident and health contracts, \$13,687,942 in liability for deposit-type contracts, \$300,000 in contract claims for life, and \$195,646 in contract claims for accident and health on its December 31, 2018 Annual Statement.

Edward Cowman, FSA, MAAA, of BBC served as the Society's appointed actuary from August 22, 2009 until his replacement in 2015. Grant Hemphill, FSA, MAAA, also of BBC, became the Society's appointed actuary from November 12, 2015 until his resignation effective December 1, 2017. Kirk Gravely, ASA, MAAA, of ABA became the appointed actuary effective December 1, 2017.

In conjunction with the examination, the Department utilized the actuarial services of Taylor-Walker Consulting, LLC, to assist in the review of the Society's actuarial reserving processes, assumptions, methodologies, calculations, and reserve adequacy as of the examination date. Based upon procedures performed and results obtained, except for the line item adjustment noted above, no material deficiencies were identified in the reported actuarial reserves and related actuarial values.

The Department concurred with the appointed actuary's conclusion that the Society's December 31, 2018 reserves make an adequate provision for all actuarial reserves and related actuarial values which ought to be established.

SUBSEQUENT EVENTS

The Society entered into an Investment Accounting and Reporting Services Agreement with The Northern Trust Company ("Northern"), effective April 1, 2019. Under the agreement, Northern agrees to provide various investment accounting and reporting services to the Society. This agreement shall continue in full force and effect until terminated by either party upon at least ninety (90) days written notice.

The Society entered into a Master Services Agreement with Equisoft Inc., effective January 31, 2019. Under the agreement, Equisoft was tasked to modernize GCU's current IT infrastructure and Policy Administration Systems. The terms of the agreement say it shall come into force as of its effective date and shall remain in force for an initial period of twelve (12) months and shall, thereafter, be automatically renewed for additional periods of twelve (12) months each unless terminated by either party with at least thirty (30) days written notice prior to the coming into force of the next renewal term.

The Society became licensed in the state of Kansas in the 2nd quarter of 2019.

On October 7, 2019, Timothy Demetres, Chief Financial Officer of GCU informed the examination team that Kirk Gravely, GCU's appointed actuary has resigned to take a position in industry, effective October 3, 2019. Douglas Brown, ASA, MAAA, of ABA was assigned a leadership role in servicing GCU and completing any outstanding actuarial requests related to the examination. Mr. Demetres does not foresee any issues during this period of transition. Douglas Brown became GCU's appointed actuary upon Board approval November 9, 2019.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained no recommendations.

CURRENT EXAMINATION

There are no recommendations being made as a result of the current examination.

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CONCLUSION

As a result of this examination, the financial condition of GCU, as of December 31, 2018, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 1,890,844,697	100.0 %
Liabilities	\$ 1,736,575,697	91.8 %
Capital and Surplus	154,269,000	8.2 %
Total liabilities, capital and surplus	\$ 1,890,844,697	100.0 %

Since the previous examination, made as of December 31, 2013, with the Society's assets increased by \$810,730,231, its liabilities increased by \$706,953,461, and its surplus increased by \$103,776,770.

This examination was conducted by actuarial staff from Taylor-Walker Consulting, LLC., David Smith, CISA, Cornelius McConville, and David Jia, CFE, with the latter in charge.

Respectfully,

Melissa L. Greiner
Director
Bureau of Financial Examinations

Philip M. Judge, CFE
Examination Manager

David W. Jia, CFE
Examiner-in-Charge