

Polish Falcons of America
SPECIAL BOARD OF DIRECTORS MEETING
December 14, 2022

Roll Call:

Via Zoom:

President Timothy Kuzma

First Vice President Patricia Del Busse

Second Vice President Daniel Michalak

Secretary/Treasurer Ryan Gregg

District I Director Malgorzata Los

District II Director Thomas Eckert

District IV Director Patricia Capozoli

District V Director John Kowarik

District VI Director Mark Albin

District VII Director Thomas Washington

District IX Director Rebecca Sienkiewicz

District XIII Director Charles Johns

Legal Counsel Richard Joseph Federowicz

President Kuzma opened the meeting at 6:06 p.m. with roll call.

District I Liquor License:

President Kuzma discussed the proposed letter to District I regarding the liquor license. The District will have 30 days to respond to the letter.

A motion was made to approve the letter by Druhna Capozoli with a second by Druhna Del Busse. All were in favor.

Minimum Annuity Guaranteed Rate (new issues only):

The annuity nonforfeiture rate is re-determined annually and is defined in the annuity nonforfeiture law. It is benchmarked against the SYR CMT (constant maturity treasury) which has sharply risen in 2022.

- Several fraternalists locked in a 3% statutory annuity minimum; PFA opted to the average to lock in as of today's date.
- The nonforfeiture rate and minimum guaranteed annuity rate for new annuity business effective January 1, 2023 will be 2.75%.

The minimum suggested guaranteed interest rate is 2.75% for new business starting January 1, 2023.

Druh Kowarik made the motion with a second by Druh Johns. All were in favor.

Reinsurance Agreement with Heritage:

Reinsurance Treaty

In conjunction with revamping systems and seeking distribution, PFA has been seeking reinsurance quotes throughout the year to bolster surplus and support the first-year business strain that comes with a large new business injection. PFA initially utilized a broker, Guy Carpenter, to present quotes. The partners/deals that Guy Carpenter presented did not meet PFA's needs, as such, the broker arrangement was terminated.

PFA reached out to Heritage Life Insurance Company (HLIC), the current reinsurer of PFA's annuity block. HLIC presented a quote on the paid-up life business block that will allow PFA to grow and support new business strain. Paid-up life blocks essentially function as annuities; cash value grows, and

claims are predictable. Furthermore, paid-up life has extended persistency as compared to annuities, which makes it even more attractive to HLIC.

PFA has built trust in working with HLIC, which cannot be valued with a counter-party transaction such as this. PFA continues to monitor HLIC's financial situation as part of counter-party controls in place with the first reinsurance deal. As of 9/30/22 HLIC has surplus of \$954M, assets of \$7.7B and RBC of 856% (12/31/21 last report date). The company is very financially strong and has more than the means to support the liabilities being transferred.

The reinsurance treaty was prepared by Todd Martin of Stinson LLP Law Firm. Mr. Martin prepared PFA's initial treaty with HLIC and reinsurance treaties for several other fraternal. The treaty was also reviewed by PFA's legal counsel, Joe Federowicz. The drafted treaty has been sent to the PA Insurance Department to expedite a no objection letter regarding the transaction.

The reinsured block of business will be defined by the 12/31/22 seriatim run of paid-up life. However, the quote was developed with the 9/30/22 seriatim run; projections of present values of future cash flows of the block as of 9/30/22 was the basis of the quote presented. Below are the pertinent figures that the quote was derived from; 12/31 figures will not be materially impacted.

Description	Final Reserve @ 9/30	Count of Policy	Sum of FACEAMOUNT
Paid Up Life Insurance	16,467,820.17	16,335	47,879,023

The total paid up block consists of approx. 16k policies at \$16.5M of reserve and \$47.88M of face value.

80% Cede	Ceded Reserves	Count of Policy	Ceded FACEAMOUNT
Paid Up Life Insurance	13,174,256	16,335	38,303,218

The treaty defines an 80% ceding of the block, as was the case with the annuity deal. Reserves of approximately \$13.2M will be ceded to HLIC, along with \$38.3M of face value.

HLIC is offering a 15% ceding allowance with this transaction, as such, PFA will transfer approximately \$11.1M in assets, the difference of liabilities and assets transferred amounts to a \$1.98M ceding allowance. PFA is projecting a 700%+ RBC upon execution of the transaction.

15% Ceding Allowance	Ceded Assets	Total Projected Ceding Allowance
Paid Up Life Insurance	11,198,118	1,976,138

Additionally, HLIC will provide a .63/policy/month expense allowance in perpetuity on the block; the .63 will increase 1% year over year. This expense allowance will be calculated on the 80/20 pro rata share.

Expense Allowance	.63/Policy/Month
# of Policies	16,000
80% Monthly Allowance	8,064
Annual Allowance	96,768

Given the rapid increase of interest rates in 2022, PFA's bond portfolio has seen rapid fair market value decline. PFA will be selling assets at a projected loss of \$1.1M to fund the transaction. These losses will be

transferred to IMR, which will be sitting at a healthy \$2.1M at year end. Post transaction, there will still be gains of roughly \$1M that will be amortized into income. The significant ceding allowance allows PFA to absorb these losses and execute the deal. Parkway Advisors are comfortable with the ALM and diversification of the portfolio post sale.

Motion to approve was made by Druh Kowarik with a second by Druh Johns. All were in favor.

Budget for 2023:

Druh Gregg presented the 2023 proposed budget. Highlights will be presented below.

PFA is budgeting a large uptick in premiums; net premiums budgeted are \$5.295M. The increase will be due to gaining distribution through various channels. Jared Gostanczik has onboarded the owner of a New Jersey agency. The agency has hundreds of agents under their umbrella; the hope would be to onboard ten agents per month at minimum in 2023. Additionally, Jared will be reaching out to several other agencies. PFA has updated systems to allow agents to write seamlessly; also, commissions have been updated to a competitive structure. All of these improvements/updates will attract distribution.

Account ID	Account Description	Approved Budget	Estimated Actual	Proposed Budget
		FYE 12/31/2022	FYE 12/31/2022	FYE 12/31/2023
400000	First Year Whole Life Premiums	75,000	32,500	155,000
401000	First Year Term Premiums	8,500	-	5,000
	Total First Year Premium	83,500	32,500	160,000
406000	Single Premiums	300,000	42,500	125,000
	Total Single Premium	300,000	42,500	125,000
411000	Renewal Whole Life Premiums	372,000	370,000	385,000
412000	Renewal Term Premiums	19,950	17,500	18,000
413000	Renewal Educational Premiums	300	300	300
414000	Renewal Retirement Premiums	1,300	1,300	1,200
415000	Renewal Reinsurance	(21,000)	(23,000)	(24,500)
	Total Renewal Insurance	372,550	366,100	380,000
416000	First Year Payment Flex Defer	1,250,000	1,000,000	2,000,000
416400	First Multi Year Guarantee	1,250,000	900,000	2,000,000
417500	Education IRA	-	7,400	10,000
	Total First Year Annuity	2,500,000	1,907,400	4,010,000
423000	Additional Payment Flex Defer	75,000	60,000	105,000
423100	Renewal Reinsurance -HLIC	1,150,000	1,125,000	1,100,000
423200	Renewal Payment-Ceded HLIC	(920,000)	(900,000)	(880,000)
426000	Early Withdrawal Penalty	5,000	4,500	5,000
	Total Renewal Annuity	310,000	289,500	330,000
427400	Medicare Supplement Premiums	351,000	308,000	290,000
	Total Medicare Supplement	351,000	308,000	290,000
	Sub-total Premium Income	3,917,050	2,946,000	5,295,000

The budgeted investment income below is assuming a 12/31 execution of the reinsurance treaty. Asset base will be reduced to approximately \$26.2M as of year-end, which will lead to a significant reduction of bond interest. PFA is projecting significantly improved month to month cash flow, which should lead to significant month to month reinvestment in rebuilding asset base.

430000	Bond Interest	1,954,963	1,971,000	1,304,000
430100	Change in Accrued Int Rec	15,000	25,000	20,000
431000	Accrual Discount Bonds	11,214	12,000	8,582
432000	Amortization Bond Premium	(123,819)	(146,000)	(110,858)
433000	Interest Paid On Bond Purchase	(25,000)	(40,000)	(40,000)
	Total Bond Income	1,832,358	1,822,000	1,181,724
435000	Preferred Stock Dividends	7,000	-	-
435050	Common Stock Dividends		1,400	1,400
	Total Preferred Stock Income	7,000	1,400	1,400
450000	Certificate Loan Interest	9,000	8,000	8,500
460000	Money Market Interest	500	3,700	3,600
461000	Loan Interest	5,094	5,000	3,724
	Total Interest on Accounts	5,594	8,700	7,324
468000	Investment Advisory Fees	(84,000)	(80,000)	(72,000)
	Total Investment Advisory Fees	(84,000)	(80,000)	(72,000)
	Sub-total Investment Income	1,769,952	1,760,100	1,126,948

Other income remains fairly consistent with prior year budget and actual figures, outside of the projected ceding allowance in 2022. One item of note is the \$100k increase to the expense allowance, which represents the additional allowance that will be provided in conjunction with the new life reinsurance treaty with Heritage Life.

Account ID	Account Description	Approved Budget	Estimated Actual	Proposed Budget
		FYE 12/31/2022	FYE 12/31/2022	FYE 12/31/2023
470000	National Dues	90,000	87,000	95,000
470500	National Dues Expenses	(17,000)	(22,340)	(21,000)
471000	Fraternal Benefit Dues	3,500	4,080	4,000
	Total National Dues	76,500	68,740	78,000
475000	Scholarship Donations	29,000	30,000	29,000
477000	Starzynski Scholarship Interest	11,250	11,250	10,550
477200	Nest 92 Scholarship Interest	-	-	1,550
477500	Kus Scholarship Income	-	-	-
478000	Kus Scholarship Interest	2,397	2,397	1,565
479000	Mierzejewski Scholarship Income	171	171	170
480500	Gorecki Interest	14,861	14,861	15,250
	Total Scholarship Income	57,679	58,679	58,085
48200	Pension Income	89,363	64,363	63,000
490000	Miscellaneous Income	500	1,100	1,000
493000	Expense & Commission Allowance	219,250	217,000	315,000
494000	Reserve Ceding Allowance		1,968,000	
	Total Other Income	309,113	2,250,463	379,000
	Total Income	6,130,294	7,083,982	6,937,033

Highlights from the first block of expenses below:

- Office/off-site rentals are based on in place contracts and estimated annual prorated expenses of the office building.
- Salary increase is budgeted for a 2-3% increase. The staff increase is due to a full year of Jared Gostanczik's salary and possible bonus to be assessed in March 2023.
- Health insurance increased 11% at renewal. PFA will seek additional quotes if renewals remain significant for 23-24.
- PFA is still projecting pension to be overfunded slightly, as such, no contributions will be made.
- There is no pending litigation; however, PFA will budget \$14k for cushion
- Rx checks are a new account; the new E-app utilizes Milliman for Rx checks, representing this line

- CPA/actuary fees should be consistent with years past. PFA will take the 990 in-house in 2023.

Account ID	Account Description	Approved Budget FYE 12/31/2022	Estimated Actual FYE 12/31/2022	Proposed Budget FYE 12/31/2023
500000	Home Office Rental	47,475	49,143	48,736
500002	Off-Site Storage	6,348	10,112	10,944
	Total Rent & Moving	53,823	59,255	59,680
501000	Officers Payroll	260,861	261,000	267,000
501500	Office Staff Payroll	323,604	319,000	367,000
502000	Fraternal Payroll	112,760	112,500	116,000
502500	Directors Compensation	38,010	37,680	37,680
	Total Payroll	735,235	730,180	787,680
503000	BC/BS Insurance	78,500	82,000	87,000
504000	Pension Benefits	23,677	23,677	23,677
504500	Interest Pension Reserve	64,363	64,363	63,000
505000	PFA Pension Contribution	25,000	-	-
505500	Pension Miscellaneous	2,700	2,482	2,700
	Employees Uninsured Benefits	115,740	90,522	89,377
506000	Legal Fees	20,000	29,000	10,000
506500	PFA Legal Counsel	4,000	4,000	4,000
	Legal Fees	24,000	33,000	14,000
507000	Portamedic Exams	4,000	3,200	2,500
507100	Rx Checks			6,000
507500	Doctors Fees	1,000	600	2,500
	Medical Fees	5,000	3,800	11,000
508000	CPA Fees	21,000	22,000	21,000
508500	Actuarial Cash Flow	65,000	60,000	58,000
508505	Actuarial Annual State	19,000	10,000	8,000
508510	Actuarial Valuation Annual	-	11,366	12,500
508515	Actuarial Qrtly State	19,000	13,631	19,500
508525	Actuarial Pension	16,000	16,000	16,000
508530	Actuarial Other	27,500	28,000	20,000
	Actuary & CPA	167,500	160,997	155,000

Highlights from the block of expenses below:

- PFA is budgeting 2 in-person Board meetings. PFA is looking to increase insurance travel with Jared Gostanczik most likely traveling to onboard agencies in 2023.
- Lead generation is a new line item. PFA is currently in pilot with Insuraware, which is an AI data driven lead generator. If PFA sees positive ROI during the pilot, a long-term partnership with the group will be considered. However, it is possible that this line item is not utilized to the level budgeted.

- All other groups below are consistent with actual/prior year budget.

509000	Directors Travel	7,500	5,701	6,500
509500	Directors Per Diem	6,500	6,956	6,500
509900	Executive Officer's Travel	750	1,651	1,500
509950	Appointed/Other Travel	750	-	-
510000	National Board Meetings	7,000	5,700	6,000
510500	Home Office Fraternal Travel	7,500	13,280	9,500
511000	Home Office Insurance Travel	1,500	2,937	6,000
	Travel	31,500	36,225	36,000
512000	Advertisements	5,200	6,500	6,000
512100	Lead Generation			18,000
512500	Internet	1,800	2,400	1,400
	Advertising	7,000	8,900	25,400
513000	Postage	15,250	15,000	15,000
513500	Telephone	8,500	8,500	7,800
	Communications	23,750	23,500	22,800
517000	Office Supplies	5,000	6,000	6,000
517500	Printing For Office	6,500	3,500	5,500
	Printing & Stationery	11,500	9,500	11,500
519000	Copier Maintenance	5,750	5,800	5,750
520500	National Fraternal Membership	6,795	7,011	7,000
521000	State Fraternal Membership	700	425	500
521500	Local Fraternal Membership	75	50	100
	Fraternal Membership Dues	7,570	7,486	7,600

Account ID	Account Description	Approved Budget	Estimated Actual	Proposed Budget
		FYE 12/31/2022	FYE 12/31/2022	FYE 12/31/2023
546000	Building Real Estate Tax	1,850	2,769	-
546500	State Licenses & Fees	14,050	8,042	32,000
547000	State Audit Fees / Reserve	24,000	24,000	24,000
547500	State Unemployment Tax	2,750	2,500	2,750
548000	FICA Tax	57,000	57,000	57,375
548500	Federal Unemployment Taxes	1,000	1,000	1,400
		100,650	95,311	117,525
551500	Term Conversion Credit	700	440	700
551500	Dividends	700	440	700
555000	Insurance Claim Amount	605,000	610,000	605,000
555100	Paid Up Life Insurance Claims Ceded			(411,400)
555500	Additional Paidup Amount	30,500	67,000	60,000
555510	Additional Paidup Amount Claims Ceded			(48,000)
556000	Refunded Premiums	400	400	400
556600	Interest Paid on Death Claims	5,000	6,400	7,000
556610	Interest Paid on Death Claims Ceded			(5,600)
557000	Matured Insurance Amount	12,500	59,500	10,000
557000	Matured Insurance Amount Ceded			(8,000)
	Life Claims	653,400	743,300	209,400
560000	Annuity Death Benefit	100,000	71,000	100,000
560500	Interest On Death Benefit	100,000	82,000	100,000
561000	Complete Annuity Withdrawal	45,000	145,000	100,000
561500	Interest Cash Surrender	8,000	22,500	25,000
562000	Partial Annuity Withdrawal	150,000	135,000	150,000
562500	Interest Paid On Partial Surr.	10,000	10,000	10,000
563000	Annuity Transfers	25,000	-	-
563500	Education Annuity Paid Out	100,000	15,985	35,000
564000	Education Annuity Interest Pd	85,000	25,000	30,000
564500	Retirement Annuity Paid Out	5,000	5,000	7,500
565000	Retirement Annuity Interest Pd	10,000	14,000	15,000
568000	Annuity Death Benefit -Re	400,000	650,000	400,000
568100	Interest On Death Benefit-Re	260,000	150,000	150,000
568200	Complete Annuity Withdrawal-Re	225,000	1,600,000	750,000
568300	Interest Cash Surrender-Re	135,000	550,000	400,000
568400	Partial Annuity Withdrawal-Re	725,000	1,325,000	925,000
568500	Interest Paid On Partial Surrender-Re	85,000	145,000	125,000
568600	Annuity Transfers-Re	50,000	500,000	150,000
568700	Annuity Reinsurance HLIC	(1,504,000)	(3,936,000)	(2,320,000)
	Annuity Claims	1,014,000	1,509,485	1,152,500

570000	Cash Value Amount	80,000	60,000	70,000
571000	Cash Value Surrenders Ceded			(56,000)
	Cash Surrenders	80,000	60,000	14,000
508531	Medicare Supp Actuarial Serv.	21,870	28,000	19,683
576003	Medicare Bank Charges	10,000	9,900	10,000
576005	Medicare Admin Fees	25,000	25,000	25,000
576006	Medicare Supplement Claims	300,000	271,000	265,000
	Total Medicare Supplement	356,870	333,900	319,683
577510	Annuities/Comm.	61,500	47,500	115,000
577520	Single Prem/Comms.	14,000	14,000	10,000
577530	1st Year/Comms. - Life Ins.	46,000	26,000	178,250
577540	Renewals/Comms.	17,000	15,000	15,000
576000	Commissions Expense	-	-	-
577610	Medicare Sup. Commissions	42,000	26,000	24,000
	Commissions	180,500	128,500	342,250

Highlights from the block of expenses below:

- PFA will be saving on building depreciation and other line items associated with NJ properties. Computer equipment depreciation should be increasing with the introduction of an additional underwriting module with Milliman/iCover. This module will allow point of sale offers on fully underwritten products by simultaneously pulling attending physician statements during application completion.
- The Nest 92 scholarship program is a new member benefit that will provide a one-time reimbursement of \$250 for PFA members seeking professional credentials/licenses.
- IMR release will decrease with the execution of the reinsurance treaty.

Account ID	Account Description	Approved Budget FYE 12/31/2022	Estimated Actual FYE 12/31/2022	Proposed Budget FYE 12/31/2023
580000	Depreciation-Building	15,085	4,688	-
580100	Depreciation-Computer Equipment	8,773	8,319	23,800
580200	Depreciation-Land Improvement	3,713	928	
580500	Depreciation-Equipment	1,088	353	
	Depreciation	28,659	14,298	23,800
581000	Interest On Nest Deposits	32,000	32,500	58,500
583000	Increase In Life Reserves	2,780,000	(400,000)	2,645,000
583200	Increase In Health Reserves	(25,000)	(31,000)	(25,000)
583300	Increase In IMR	(214,291)	(212,209)	(184,000)
583600	Increase In AVR	(15,000)	(75,000)	20,000
584000	Life Claim Reserve	-	(41,111)	5,000
584500	Annuity Claim Reserve	-	(112,936)	(20,000)
582000	Mortgage Interest Expense	-	-	-
582500	Interest Expense	-	1,948	
583400	Reserve Adjustment Reim Ceded	(472,500)	1,700,000	525,000
	Reserves	2,085,209	862,192	3,024,500
586000	Scholarship Grants	25,000	14,350	25,000
586100	Gorecki Scholarship Grants	30,000	30,000	30,000
586150	Gorecki Scholarship Expenses	200	270	200
587500	Kus Scholarship Grants	3,000	3,000	3,000
588800	Nest 92 Scholarship			2,500
	Scholarships	58,200	47,620	60,700
	Total Expenses	6,107,391	5,356,797	6,923,318
	Net Income	22,903	1,727,185	13,715

Overall, the budget is projecting an approximate break-even year. With the reduced investment income, state expansion and new business strain, it would be a positive year to remain around break-even while rebuilding asset base and building life renewals.

Druh Kowarik made a motion to accept with a second by Druhna Capozoli. All were in favor.

With no other business, the meeting was adjourned at 8:04 p.m.

Czolem!
Patricia "Trish" Del Busse
National First Vice President

