STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Watkins Life & Benefit Association as of December 31, 2008

ORDER

After full consideration and review of the report of the financial examination of Watkins Life & Benefit Association for the period ended December 31, 2008, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Watkins Life & Benefit Association, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this March 19, 2010.

John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration

REPORT OF

LIMITED SCOPE FINANCIAL EXAMINATION

OF

Watkins Life & Benefit Association

As of:

December 31, 2008

FILED
MAR 2 9 2010
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

November 23, 2009
Dexter, Missouri

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

In accordance with your financial examination warrant, a limited scope financial examination has been made of the records, affairs and financial condition of

Watkins Life & Benefit Association

hereinafter referred to as "Watkins" or as the "Association". The Association's office is located at 301 North Walnut Street, Dexter, Missouri 63841, telephone number (573) 624-3548. Examination fieldwork began on November 9, 2009 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The last comprehensive financial examination of the Association was performed as of December 31, 2007, by an examiner from the state of Missouri.

The current financial examination of the Association covers the period from January 1, 2008 through December 31, 2008, and was conducted by an examiner from the state of Missouri. This examination also included material transactions or events occurring subsequent through September 30, 2009. This limited scope financial examination was called by the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) due to concerns regarding the Association's ability to pay future benefits.

Scope and Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (Department) and statutes of the state of Missouri prevailed.

HISTORY

The Association was organized and commenced business in April 1951 as The Watkins Life & Benefit Association of Dexter, Missouri to write life insurance in conjunction with the funeral services provided by Watkins and Sons Funeral Home. The Watkins Life & Benefit Association is an unincorporated association, which is owned by its certificate holders.

The Association operates as an assessment plan under the provisions of Chapter 377 RSMo "Assessment Plan and Stipulated Premium Plan Life Insurance." The Association writes business solely in Missouri. The Association does not actively market its product. The Association has a general agency agreement with Watkins Agency, Inc. Watkins Agency, Inc. writes almost all the business of the Association and receives commissions on business written. The primary agent of Watkins Agency, Inc. is Stephen Watkins, who is an officer and member of the board of directors of the Association.

EXAMINATION FINDINGS

Assets

Assets as of year-end 2008 remained consistent compared to the 2007 balance. The Association's assets increased 1.3% during 2009. The Association reported assets of $347,857 at September 30, 2009.

Outstanding Policies

The Association saw a decline in the number of outstanding policies during 2008. This decline has continued into 2009.

Outstanding Policies as of December 31, 2007	2,784
Written/Revived during 2008	16
Lapses during 2008	(65)
Deaths during 2008	(64)
Outstanding Policies as of December 31, 2008	2,671
Written/Revived during 2009	13
Lapses during 2009	(88)
Deaths during 2009	(61)
Outstanding Policies as of September 30, 2009	2,535

New premium writings have essentially ceased. For 2008, the Association wrote one new policy for every eight policies that lapsed or paid a death claim. As of September 30, 2009, this ratio has worsened to one new policy written for every eleven policies that lapsed or paid a death claim.

Policyholder Age Analysis

An age analysis of the 2,671 policyholders as of December 31, 2008, revealed 28% are over age 70 and 47% are over age 60.

Age Range	# of Policyholders	% of Total
0 – 19	91	3.4%
20 – 29	119	4.5%
30 – 39	252	9.4%
40 – 49	394	14.8%
50 – 59	569	21.3%
60 – 69	497	18.6%
70 – 79	387	14.5%
80 +	362	13.6%
Total	2,671	100.0%

As of September 30, 2009, the percentage of policyholders over age 70 increased slightly to 29%; however the percentage of policyholders over age 60 increased to 49%.

Age Range	# of Policyholders	% of Total
0 – 19	79	3.1%
20 – 29	109	4.3%
30 – 39	231	9.1%
40 – 49	372	14.7%
50 – 59	510	20.1%
60 – 69	503	19.8%
70 – 79	386	15.2%
80 +	345	13.6%
Total	2,535	100.0%

Claims and Premium

The Association paid claims of $65,300 during 2008, which is a decline from the $79,100 paid during 2007. Claim payments for 2008 and 2007 exceeded premium collected each year. Total premium collected during 2008 was $51,320, which is a 13.7% decrease from the $59,496 reported as collected in 2007.

Since its inception, the Association has collected $2.93 million from its members and has paid out $2.56 million in claims. The Association has not assessed its policyholders since its inception.

Present Value Calculation

The Association files its financial statements on a cash basis; therefore no loss reserve is established for anticipated future claim payments. In order to determine the adequacy of the Association's ability to pay future claims, examiner calculated the present value of future assessments and death benefits. The present value calculation requires an estimated rate of interest and an expense ratio be assigned. Using information shown in the Association's financial statements, a 4.5% rate of interest was assigned, which appears reasonable given the fact that the Association's 2008 average rate of interest on its investments was 4.7%; the two-year average interest rate for 2007 and 2008 was 4.8%; and the three-year average interest rate for 2007 through 3rd quarter 2009 was 4.5%. The expense ratio was assigned based on two scenarios: Scenario 1) the Association would continue issuing/renewing policies or Scenario 2) the Association would runoff existing policies. The Association's average expense rate for 2007 through 3rd quarter 2009 was 23.2%. A reasonable expense ratio of 25% was assigned for Scenario 1. In Scenario 2, audit fees and insurance fees would be drastically reduced. These fees have on average represented approximately 10% of total expenses. Therefore, an expense ratio of 15% was assigned for Scenario 2.

The following present values were derived:

Present Value as of December 31, 2008
Scenario 1 (Association continues issuing/renewing policies)

Present Value of Death Benefits	$(1,166,375)
Present Value of Assessments	534,200
Present Value Gap	$(632,175)
Current Ledger Assets	343,531
Present Value Surplus/(Deficiency)	$(288,644)

Scenario 2 (Association would runoff existing policies)

Present Value of Death Benefits	$(1,166,375)
Present Value of Assessments	605,427
Present Value Gap	$(560,948)
Current Ledger Assets	343,531
Present Value Surplus/(Deficiency)	$(217,417)

Present Value as of September 30, 2009
Scenario 1 (Association continues issuing/renewing policies)

Present Value of Death Benefits	$(1,123,711)
Present Value of Assessments	500,166
Present Value Gap	$(623,545)
Current Ledger Assets	347,857
Present Value Surplus/(Deficiency)	$(275,688)

Scenario 2 (Association would runoff existing policies)

Present Value of Death Benefits	$(1,123,711)
Present Value of Assessments	566,855
Present Value Gap	$(556,856)
Current Ledger Assets	347,857
Present Value Surplus/(Deficiency)	$(208,999)

All scenarios presented indicate the Association's current level of assessments combined with ledger assets will not be sufficient to pay future death benefits.

Department Filings

For the period under exam, the Association's financial statements were habitually filed late, incomplete and often requests for information from the Department were ignored.

Description	Due Date	Date Received
1st Qtr 2008 Statement	May 15, 2008	June 25, 2008
2nd Qtr 2008 Statement	August 15, 2008	August 28, 2008
3rd Qtr 2008 Statement	November 15, 2008	February 17, 2009
4th Qtr 2008 Statement	February 1, 2009, extension granted to March 1, 2009	June 3, 2009
1st Qtr 2009 Statement	March 15, 2009	June 24, 2009
Response to 2008 Annual Statement questions	July 14, 2009	No response received.
Second request for response to 2008 Annual Statement questions.	August 19, 2009	August 17, 2009
2008 Audited Financial Statements	June 1, 2009	August 14, 2009
Business plan of action to replace financial preparer, if necessary.	March 12, 2009	No response received.
Second request for business plan of action to replace financial preparer, if necessary.	June 5, 2009	June 15, 2009
Investment Policy to comply with revised investment statues.	December 31, 2008	Response was not adequate.
Request to revise Investment Policy to comply with statues.	June 30, 2009	No revised policy has been submitted.
2008 Certificate of Authority renewal fees	July 1, 2008	October 6, 2008, resulting in a late penalty of $1,500.
2009 Certificate of Authority renewal fees	July 1, 2009	September 29, 2009, resulting in a late penalty of $1,500.
Request to schedule a conference call regarding noticed assessment deficiency.	October 30, 2009	Call scheduled for November 6, 2009, was cancelled by Stephen Watkins and has not been rescheduled.

FINANCIAL STATEMENTS

The following financial statements, present the financial condition of the Association As of December 31, 2008 and September 30, 2009. These documents were provided by the Company and have not been audited.

BALANCE SHEET

As of December 31, 2008

Assets	Assets	Nonadmitted Assets	Net Admitted Assets 12/31/08	Net Admitted Assets 9/30/09
Book value of bonds	$214,761	$9,854	$204,907	$266,759
Deposits in trust companies and banks on interest	136,344	0	136,344	36,038
Bills recivable	-			42,399
Total Ledger Assets	$351,105			
Gross interest due and accrued on bonds	2,191	0	2,191	2,609
Gross interest due and accrued on CDs	89	0	89	52
Mortuary assessments due and unpaid	145	145	-	-
Total assets	$353,531	$10,000	$343,531	$347,857
Liabilities				
Death claims incurred in the current year			$6,900	$2,000
Advance premiums or assessments			15,588	17,830
Salaries, rents, expenses, bills & accounts due or accrued			0	1,641
Borrowed money			0	46,635
Advance on future assessment collections by Agency			23,900	0
Total unpaid claims and other current liabilities			46,388	68,106
Reserves				
Emergency			21,065	20,241
Guaranty			30,000	30,000
Unassigned			246,079	229,510
Total Reserve			297,144	279,751
Total liabilities and reserves			$343,531	$347,857

INCOME STATEMENT

For the periods ending: December 31, 2008 and September 30, 2009

	Year Ending 12/31/08	Year to Date 9/30/09
Balance From Previous Year	$345,550	$351,105
First year's assessments or premiums	1,026	392
Subsequent year's assessments or premiums	50,341	43,158
Total received from applicants and members	51,367	43,550
Deduct payments returned to appicants and members	47	0
Net Amount received from applicants and members	51,320	43,550
Gross interest on bonds less accrued interest on bonds acquired	13,672	7,985
Gross dividends on stocks less accrued dividends on stock acquired	684	417
Gross interest on deposits in trust companies and banks	2,202	1,427
Borrowed money	23,900	24,376
Gross profit on sale or maturity of ledger assets	367	91
Total Income	92,146	77,847
Amounts carried forward	$437,696	$428,952
Death Claims	65,300	57,900
Commissions & fees paid to agents on first year assessments	667	255
Commissions & fees paid to agents on subsequent year assessments	2,848	2,428
Other compensation of officers & trustees	2,000	0
Other compensation of office employees	4,106	3,484
Insurance Department fees and licenses	6,208	3,125
General office maintenance and expenses	285	875
Postage, express, telegraph and telephone	173	580
Security Handling	172	132
CPA - Tax and Audit Fees	4,668	6,188
Interest on borrowed money	0	637
Gross loss on sale or maturity of ledger assets	164	0
Total Disbursements	86,591	75,604
Balance	$351,105	$353,348

SUBSEQUENT EVENTS

The Association currently uses an outside party to prepare its financial statements. The preparer disclosed to the Department that he may no longer be compiling the statements. When asked how the Association would handle the departure of its preparer, the Association stated that it would purchase a new data software system to generate and prepare the financial reports and would hire Van de Ven, LLC to prepare the financial statements. Additional changes would be necessary to implement this plan of action since Van de Ven, LLC has been the Association's independent auditor for several years. This change could result in additional expenses for the Association.

CONCLUSION

Based on the findings presented in this limited scope examination, the ability for Watkins to pay all future death benefits is in doubt and management's ability to address this situation is questionable. The examination has presented the following concerns:

- Present value calculations indicate that current assessments plus ledger assets compared to future benefit obligations are deficient by more than $200,000.
- The Association has essentially ceased writing new policies.
- Premium rates are inadequate.
- Policyholders include a large percentage of older members, which will result in a steady stream of claim payments.
- The Association alone has not shown the ability to file an accurate financial statement on a timely basis.

Watkins is in need of additional funds by way of an assessment or a direct capital infusion. The Association should provide a plan of action to obtain this necessary capital. Management also needs to address the changes necessary to ensure financial guidance that will result in accurate and timely financial statement preparation. If management is unable to provide an adequate plan to address the concerns stated above, regulatory action should be taken to protect the well-being of the policyholders.

ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and employees of Watkins Life & Benefit Association during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, Karen J. Milster, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Association, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

KATHY L. EGAN
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: July 27, 2013
Commission # 09844667

Karen J. Milster
Karen J. Milster, CPA, CFE
Financial Examiner / Analyst
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 23 day of November 2009
My commission expires:
7/27/13

Kathy L. Egan
Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Michael Shadowens, CFE
Audit Manager, St. Louis
Missouri Department of Insurance, Financial Institutions and Professional Registration