

# Our Catholic Journey

March/April 2017 Volume 122 Issue 2



The 139th Year of Your Association

CATHOLIC UNITED FINANCIAL | ANNUAL REPORT EDITION

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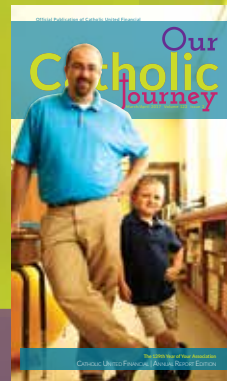
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**On the Cover:** Jason and son Isaac Smith in a classroom at St. Henry's School, in Perham, Minn.  
*Photo Bob Pearle*



## Our Catholic Journey

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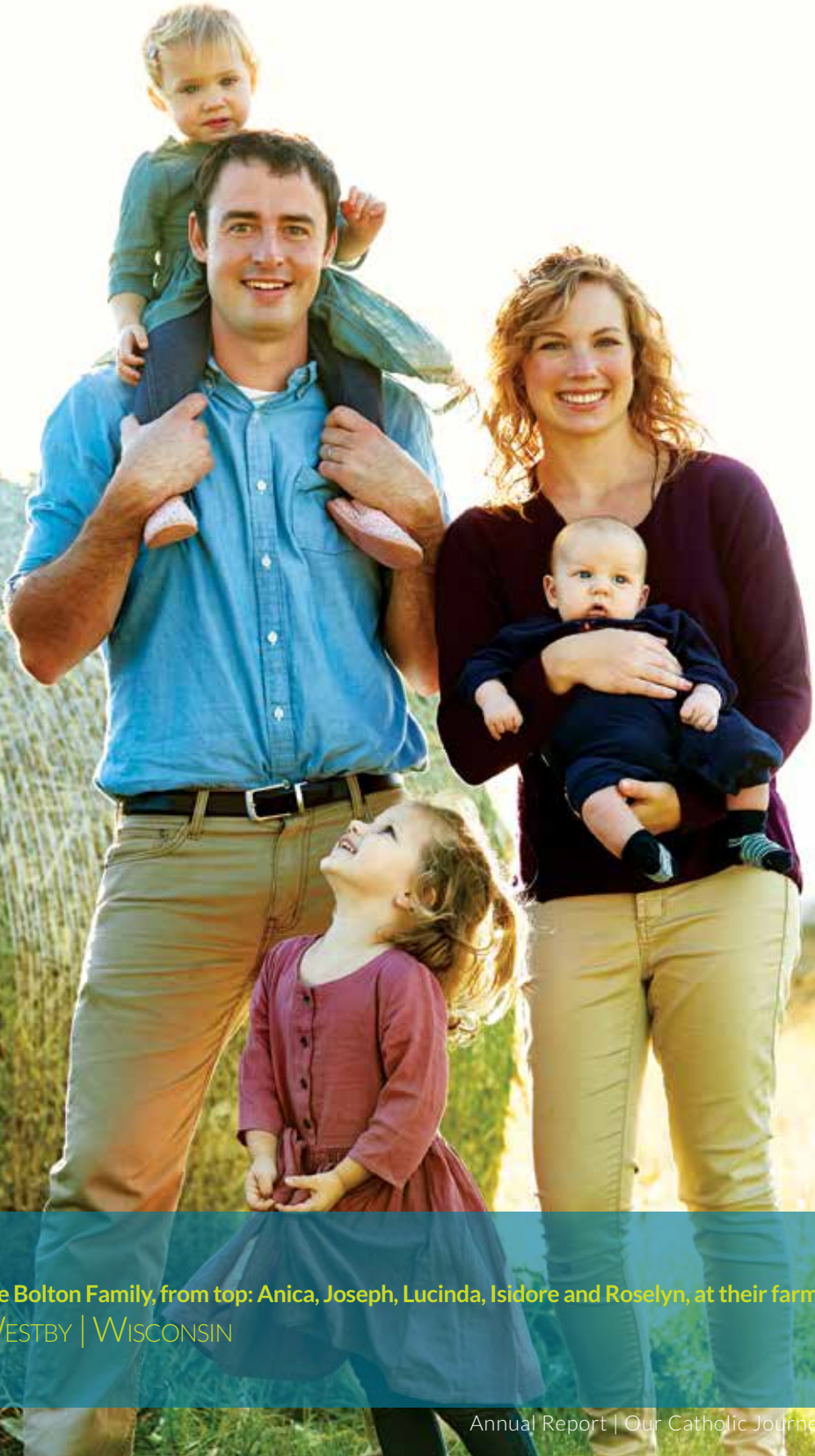


Katarina & Avery Malone  
THIEF RIVER FALLS | MINNESOTA

“**We are always mindful of the trust** you — **our member** — place in us as we work to fulfill our Vision Statement...**A tall order?** Yes, but with your support and the hard work of our amazing staff, we can **continue our quest** to be the best fraternal benefit society in the land.”

**Harald Borrmann**

# Annual Report



The Bolton Family, from top: Anica, Joseph, Lucinda, Isidore and Roselyn, at their farm in WESTBY | WISCONSIN

# Annual Report

## PRESIDENT'S MESSAGE

Welcome to our 2016 Annual Report. As you will see, 2016 was a year of significant achievement for our Association. At the same time, everything we are doing is being done with an eye toward rebuilding Catholic United to be a leading fraternal benefit society for many years into the future. Our litmus test for our activities is pretty simple: will what we are doing make us stronger and more relevant in 2018, 2019 and beyond?

The prolonged era of low interest rates has led us to conclude that we must rebuild how we run our insurance business based on the economic realities of today's financial environment. That means we will review our product offerings to make sure they are properly priced. That means we are expanding our product offerings to include insurance products such as Medicare Supplement insurance. That means we are continuing our major technology initiative, Project Voyager, to help us become more efficient in producing, underwriting, processing and servicing insurance policies. This means improving our members' experiences when they interact with us electronically, while maintaining if not improving our already world-class member service.

Another important consideration is to expand our fraternal benefit offerings, and to find ways to continue to make a bigger difference in our members' lives and in their parishes, schools and communities. We will create a more profitable insurance operation while still maintaining our history of providing exceptional value to our members when they purchase our financial products. This is not an easy balancing act, yet it is one to which our entire Association is fully committed.

We are bringing some new and exciting partnerships to our organization as well. We are expanding our relationship with FAST, our partner in rebuilding our technology base. We entered into a new reinsurance relationship with Guy Carpenter and Somerset Re, which is partnering with us to share our ever-growing annuity business; this will result in a much stronger surplus base in 2017 and beyond. We are finalizing a new relationship with a partner in the Medicare Supplement field that will lend us their expertise as we provide our senior members with important protection against rising health care costs. And, finally, we are looking to the future with exciting new ideas, already embraced by your Board of Directors and Constitution Committee, of having fewer "business" conventions and more "member gatherings" where we can meet, share ideas and issues, promote our fraternal purpose and just plain spend more time together. It's what you've told us you'd like to see and we promise to deliver just that!

We are always mindful of the trust you – our member – place in us as we work to fulfill our Vision Statement: **Bound by our Catholic faith, we will be the provider of choice in contributing to the financial well-being of our members, and we will be a visible leader in support of our Catholic communities.** A tall order? Yes, but with your support and the hard work of our amazing staff, we can continue our quest to be the best fraternal benefit society in the land.

May God bless you, your families and all the members of Catholic United Financial.

Peace.



**Harold  
Borrman**

PRESIDENT, CEO AND  
CHAIR OF THE BOARD



If there's something that I can do for you, contact me at  
(651) 765-4123, or write to [hborrman@catholicunited.org](mailto:hborrman@catholicunited.org)

# Annual Report

## FELLOWSHIP



## Charitable by Nature

Participants at the Abria “Life is Wonderful” Family Fun Run/Walk & 5k event May, 7, 2016 prep their little ones for a kids’ race. Catholic United members volunteered and participated in the event, and Catholic United was a major sponsor of the fundraiser, which brought in more than \$60,000 in support of Abria’s mission.

I recently attended a council meeting for one of our “most experienced” councils, St. Elizabeth Ann Seton in Hastings, Minn. In many ways, it was the standard chain of events I’ve come to expect in council meetings – opening prayer, pledge of allegiance, roll call, etc. But during the routine, I was suddenly struck by the charitable nature of each of the officers, their devotion to caring for one another; there to serve not out of a sense of pride or even out of obligation, but rather out of humility and hope. This was most evident by their first order of business: to identify Catholic United members in distress. Why? To send a sympathy card, offer prayers, and make plans to visit.

I can remember times in my life when I’ve received gifts and notes of encouragement and it was so meaningful that I ended up saving those notes and gifts for many years. I was thinking about the importance of these gestures when I realized something else about this group – they’re special, but they’re not unique. The characteristics I’ve described about this group could easily be used to describe all our Catholic United members.

To enable that type of giving through our platforms and programs is a great privilege and I count myself blessed to witness the sacrifice of time and effort put in by our members to serve the local Church.

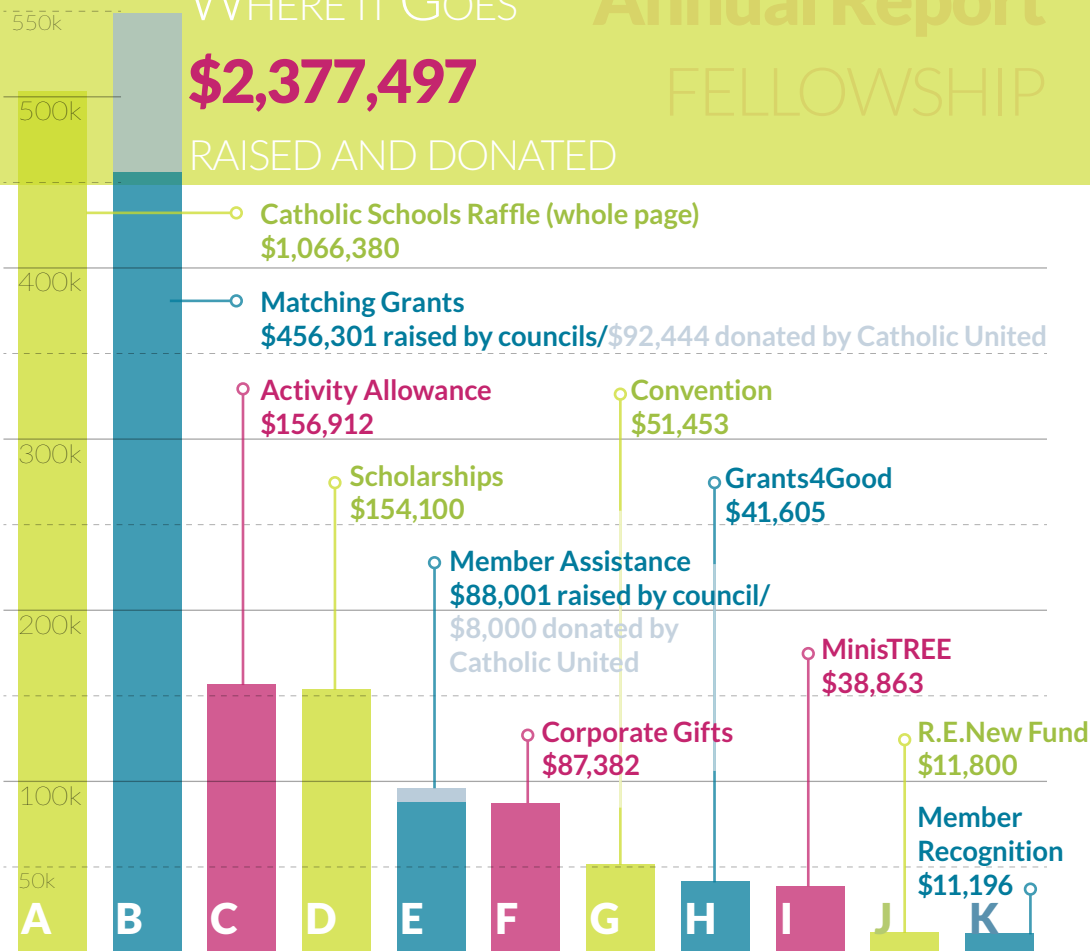
# WHERE IT GOES

# Annual Report

# FELLOWSHIP

## \$2,377,497

### RAISED AND DONATED



**A:** Annual fundraiser paid for by Catholic United allows schools to keep 100% of the donations they raise. **B:** Catholic United matches funds raised at fundraisers up to \$1,000 per event. **C:** Funds paid by Catholic United to support activities of member Councils and PVTs. **D:** More than 500 members received scholarships to post secondary education and training. **E:** For members in need, Catholic United will match funds raised at a benefit up to \$1,000. **F:** Donations in the form of building grants and other assistance as directed by the Board. **G:** Cost incurred by M.E. Dept. to plan and host Annual Convention. **H:** Donations to enhance a planned service, faith or family event. **I:** Catholic United pays school or parish for every needed task completed by volunteers. **J:** New-member \$15 donation made to any Religious Education program or Catholic School. **K:** Gifts and documentation recognizing members in their communities.

On this page, you will find some of the ways in which our members have impacted those around them in 2016.

On behalf of the Member Engagement team, thank you for choosing to be members of Catholic United. Looking ahead, we are particularly excited about the ways in which we will soon

be able to interact online. Visit [www.catholicunited.org](http://www.catholicunited.org) and create an account to participate in some of the programs listed above! We look forward to helping you help one another.

God bless.

**Nate Lamusga**

DIRECTOR OF MEMBER ENGAGEMENT



# 2016 Catholic United Financial ANNUAL REPORT

### 2016 WAS EXCEPTIONAL FOR CATHOLIC UNITED FINANCIAL IN MANY WAYS.

We continued our exceptional level of support for our members and their families when they need us most. This has been the hallmark of our Association for 139 years. Our exceptional level of growth in sales and income continued; although it may not be obvious to you as you read our financial statements due to an exceptional transaction. Our willingness to address the unique challenges we face as a fraternal life insurer proved to be exceptional as well, in that we met this challenge in a way that will use our current strength to fuel our plans for growth in the years to come.

### EXCEPTIONAL INCOME & BENEFITS FOR OUR MEMBERS

Catholic United's 2016 total income of minus \$174 million may appear overly negative considering we achieved new records in new annuity premium and investment income during the year. This is due to the impact of one very large "reinsurance" transaction completed at year end in which we transferred \$276 million of our annuity reserves to another insurance company. More to come on this exceptional transaction later.

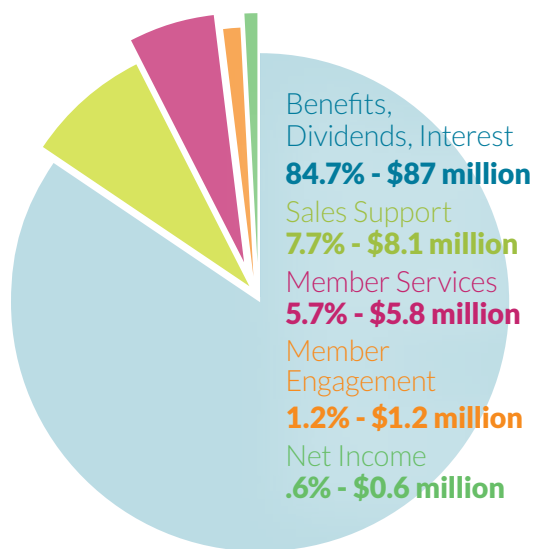
The record total income of \$102 million was due to the domino effect from our Sales Representatives' exceptional sales of our Bonus Plus deferred fixed annuities during the year. These sales propelled our new annuity sales record of \$47 million, which pushed our assets to a new record of \$919 million which, in turn, enabled our investment income to reach \$40 million. This exceptional total income exceeded our previous record in 2015 by 9%.

So what was done with our record-setting income during 2016? We gave it back to you! In fact, more than 84.7% or \$87 million was returned directly to our members as follows.

- \$28 million was paid to members as annuity benefits.
- \$42 million was earmarked as policy reserves for future member benefits.
- \$17 million was paid in life policy benefits to the families of 1,306 members.

Services delivered through our Home Office (5.7%) and Sales Support (7.7%) for our members in their local communities remained consistent with recent years, as was the

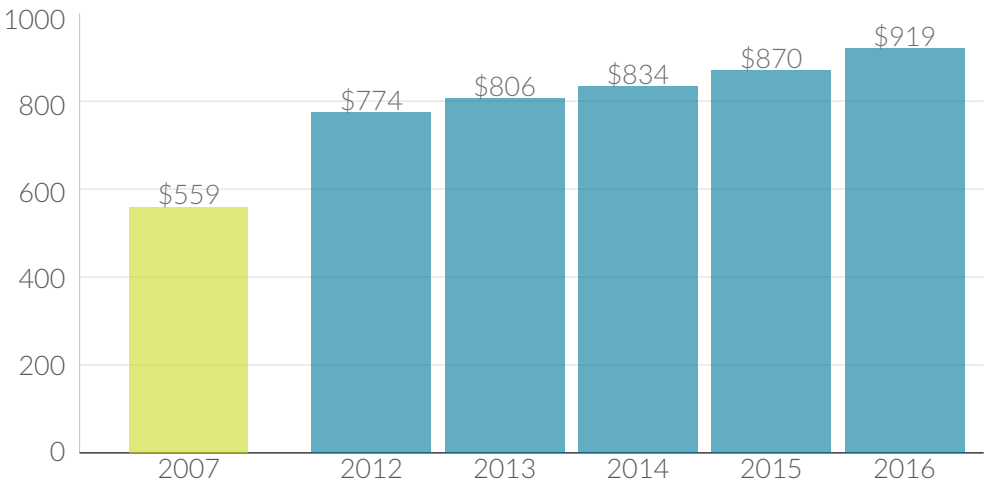
### Return to Members





In 2016, Catholic United member families received more than \$44 million in benefits.

### ASSETS (IN MILLIONS OF DOLLARS)



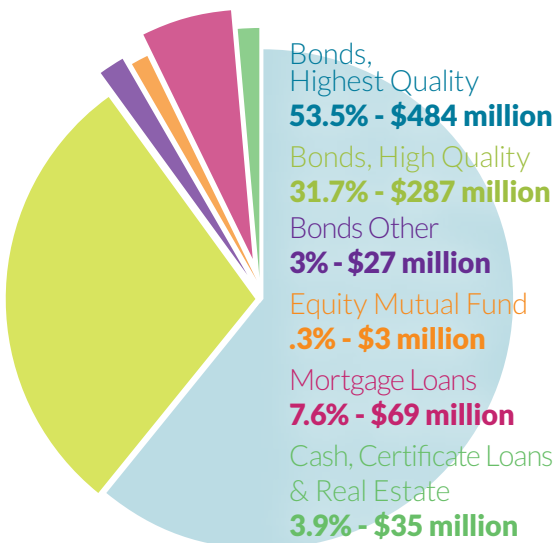
\$1.2 million (1.2%) in support of our various Member Engagement programs. The details of our sponsored programs can be found in the Fellowship Annual Report on pages 6-7. Our Association's overall net income for the year of \$0.6 million was consistent with 2015, and enabled a modest dividend to be returned to our members for the year.

### EXCEPTIONAL ASSET GROWTH

Catholic United's assets continued their decades-long ascent by increasing almost \$50 million in 2016. This exceptional financial strength is a testament to our members' loyalty, and continued trust, in our Association. And we don't take this trust for granted in the way we manage our assets.

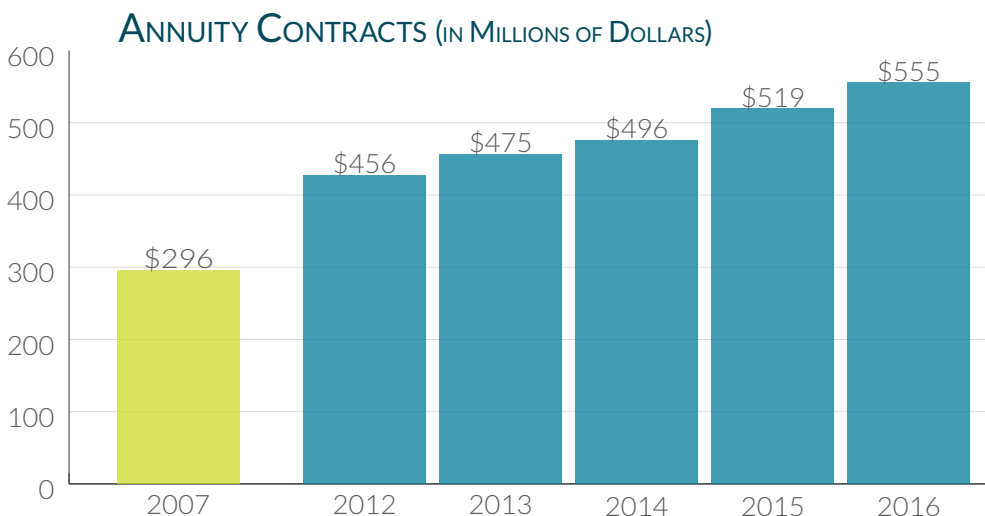
The majority of our assets consist of bonds as part of an increasingly diversified portfolio managed by professional asset managers in accordance with the Investment Policy established and monitored by your Board of Directors. As shown in the "Investments" chart, 85.2% of our investments are bonds of the highest quality (53.5%) or high quality (31.7%), per the ratings from the National Association of Insurance Commissioners. To improve our opportunities to find investment yield to bolster the rates we credit to our members, assets were shifted to higher yield bonds with slightly higher risk ratings during 2016. This shift of \$14 million is a small portion of our investment portfolio and is within the limits managed closely by our investment

### Investments



# Annual Report

## FINANCES



team and our Board of Directors. To further improve long-term yield possibilities, mortgage loan holdings were increased \$17 million during the year and now comprise 7.6% of the investment portfolio. Unfortunately, and in spite of these new investment strategies, the Association's overall portfolio yield decreased slightly to end the year at 4.56%.

### STRENGTH FROM AN EXCEPTIONAL TRANSACTION

Total surplus is also a critical gauge of the financial strength of our Association. It serves to:

- Cushion market fluctuations as a "safety net" for our investments,
- Fund our ability to pay future benefits and claims to members, and
- Support the investments we make in our systems and processes to serve new and existing members.

During 2016, total surplus grew to \$35 million. This growth was due to our solid operating net income (\$0.6 million), boosted by the exceptional transaction in which half of our \$550 million block of annuity business was reinsured with another insurance company that will share the future risks, costs and profits of these contracts. The Association recorded a \$3.8 million commission from the reinsurance partner that increased total surplus at year end. Plus, total surplus will continue to increase in early 2017 as the reinsurance transaction is fully settled.

In all, 2016 was a **truly exceptional** year for Catholic United!

May God continue to bless our Association and our Members!



**Michael M. Ahles**

SENIOR VICE PRESIDENT AND  
SECRETARY/TREASURER



The Kratzke girls appear inseparable, like the fraternal and financial pillars that form the foundation upon which Catholic United Financial is built.

DENT | MINNESOTA

# Annual Report

## FINANCES

### Balance Sheet

LIABILITIES AND SURPLUS	2016	2015
TOTAL ASSETS	\$919,281,819	\$869,637,094
TOTAL LIABILITIES	\$890,156,132	\$844,713,191
SURPLUS	\$29,124,888	\$24,923,904
TOTAL LIABILITIES AND SURPLUS	\$919,281,819	\$869,637,094

### Statement of Operations

INCOME	2016	2015
Life insurance premiums	\$15,564,563	\$17,483,448
Annuity premiums	(229,228,327)	37,063,063
Investment income	39,567,695	38,222,800
Amortization of interest maintenance reserve	313,779	483,353
Other income	227,050	815,060
Total Income	(\$173,555,150)	\$94,067,764
CLAIMS & EXPENSES		
Claims, surrenders and benefits	44,829,461	44,414,310
Increase in aggregate reserve for life	6,336,061	8,548,242
Increase in reserves for annuities	(240,448,296)	25,069,129
Commissions	3,343,585	3,264,221
Expenses	12,704,401	12,869,892
Total Claims and Expenses	(\$174,045,108)	\$94,165,794
Net Gain from Operations	\$489,958	\$(98,030)
Refunds to members	112,231	(14,613)
Net gain after refunds to members	377,727	(83,417)
Net realized capital gains (or losses)	223,787	685,827
NET INCOME	\$601,514	\$602,410

# Notice: Call for Candidates FOR BOARD OF DIRECTORS

Two seats on the Board will be up for election at the 2017 Annual Convention. The Convention will take place August 5, 2017, at River's Edge Convention Center in St. Cloud, Minn. Director George Gmach will retire as he completes his fourth term. Incumbent William Lucas will seek re-election. To run for an open seat on the Board of Directors, you must declare your candidacy by writing to:

Catholic United Financial  
President Harald Borrmann  
3499 Lexington Ave. N.  
Arden Hills, MN 55126.

MUST BE POSTMARKED BY JUNE 1, 2017.



A farmer's work is never done — That's the same plains attitude that Catholic United was founded upon, and to which it adheres today.

Roger McCulloch  
BIG STONE CITY | SOUTH DAKOTA

# Notice: Call for Recommendations GOOD OF THE ASSOCIATION

Catholic United Financial is member owned and member governed; therefore, as a member, if you have some thoughts or ideas on how we can improve, strengthen or grow our Association, please send an email to [goodofassn@catholicunited.org](mailto:goodofassn@catholicunited.org). Or write to: Good of the Association, Catholic United Financial, 3499 Lexington Avenue North, Arden Hills, MN 55126.

Please respond on or before July 1, 2017. All recommendations will be reviewed and may be brought before the next Annual Delegate Convention for consideration.

Thank you for your investment in the future of Catholic United.

THANK YOU FOR YOUR MEMBERSHIP!

# Annual Report

## FOUNDATION



## Generosity begins with Gratitude

### 2016 CATHOLIC UNITED FINANCIAL FOUNDATION ANNUAL REPORT

**I**N MATTHEW KELLY'S BOOK, *FOUR SIGNS OF A DYNAMIC CATHOLIC*, THE AUTHOR SUGGESTS THERE ARE four common signs typical of the most engaged among us. The signs are prayer, study, generosity and evangelization. Describing generosity, he proposes that rather than seeing money and possessions as ours to keep, we should see our wealth as a gift from God.

As Catholics, God calls us to not try to "take it with us," but to continue giving the gifts received from God for the next generation to use. The things we have, we received as blessings from others. Our knowledge, skills, love, and the ability to find and accept what God has given us to use have come from our parents, teachers, family and friends.

When we see the use of money and possessions as a part of our spiritual life, as a part of Christian formation and faithfulness, we become grateful givers. We are given another of God's graces when we receive the joy and happiness of helping others.

Pope Francis explained: "Whenever material things, money, worldliness, become the center of our lives, they take hold of us, they possess us; we lose our very identity as human beings." [Homily, 9/29/13.] We should not focus on what we want or don't have, but on the gifts we have and can share.

We are grateful that our many donors have shared their gifts through Catholic United Financial Foundation. Your generosity is evident in the information shared on page 15. During 2016, the Foundation used your contributions, along with distributions from Donor Advised Funds and proceeds from charitable annuities and life insurance policies, to provide significant assistance to strengthen our Catholic community and our Faith.

# Annual Report

## FOUNDATION



- ♥ 158 Seminarians, being called to serve God, continued their training to lead our Church
- ♥ 97 Major Seminarians received grants totaling \$38,800
- ♥ 61 Minor Seminarians received grants totaling \$15,250



- ♥ 170 schools and parishes strengthened educational opportunities and taught the sanctity of our bodies to thousands of our Catholic School students making faith a keystone of their education
- ♥ 132 Catholic schools received \$62,690 in technology assistance
- ♥ 38 parishes and schools received \$29,476 in support of chastity education



- ♥ Volunteers gratefully gave their time and talents by aiding our neighbors affected by natural disaster
- ♥ 9 days of service were provided responding to disasters across Minnesota
- ♥ More than 150 volunteers provided 500+ hours cleaning flood and tornado debris from more than 45 homes and a Catholic cemetery

Catholic United Financial Councils and Parish Volunteer Teams raised funds to support the Gather4Good program providing thousands of personal care kits for the homeless and needy in our local communities.

Many parish cemetery boards invested their perpetual care funds in the Foundation to help them maintain the cemeteries of our families for many more generations.

You have shown not just the spirit of generosity but the **spirituality** of generosity. Your generosity, as evidenced above, encourages those around you to also be generous. What a gift you share with others, especially your children, when you share with them the joy of giving.

Please consider making a tax-deductible donation to support the work of the Catholic United Financial Foundation. You can designate your contribution to support the Msgr. Schuler Seminarian Fund, technology & chastity grants to strengthen Catholic schools, or to assist in the Catholic United Disaster Response efforts.

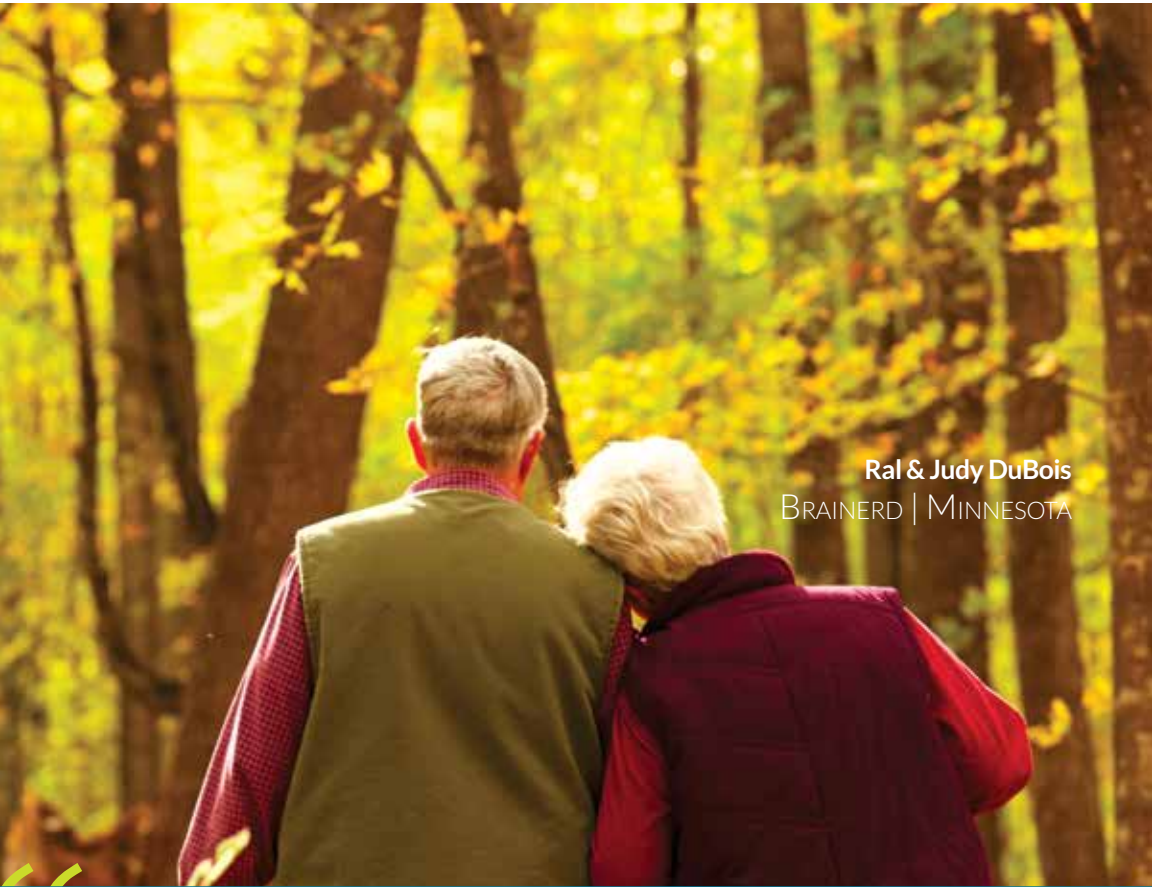
Let us show you how to use life insurance, annuities and donor advised funds to increase the effect of your generosity to your parish, school or the charity of your choice. Joining the Foundation to connect your faith, charity and financial planning together is truly a perfect way to answer God's call to share His gifts with others.

**Robert Heuermann**

Executive Director



The Foundation can be reached through your local Sales Rep., directly by calling 1-877-275-7145, or by emailing Bob at [rheuermann@catholicunited.org](mailto:rheuermann@catholicunited.org).



Ral & Judy DuBois  
BRainerd | MINNESOTA

**THE LORD CREATED US IN HIS IMAGE AND** likeness, and we are the image of the Lord, and He does good and all of us have this commandment at heart: **Do good**, and do not do evil. **ALL OF US.**

**- Pope Francis**