

Sons of Norway International Board
Fall Meeting Minutes November 16-19, 2020
(By video conference due to coronavirus pandemic)

Due to the coronavirus pandemic, the Sons of Norway International Board did not meet in person as is required for its fall meeting but met by video conference using Microsoft Teams software. A three-hour session was held each day Monday-Thursday, Nov. 16-19 from 11 am to 2 pm US Central time.

Attendees:

- The following officers were present: President Ron Stubbings, Vice President Mark Agerter, Secretary Marci Larson, and Treasurer Elaine Nelson.
- Also present were board members Karl Hella (District 1), Chris Hicks (District 2), Ken Johnson (District 3), Steve Halverson (District 4), Robin Fossum (District 5), Mary Beth Ingvaldstad (District 6), Erik Brochmann (District 7) and Per Mikalsen (District 8).
- Headquarters staff members attending the entire meeting were CEO Chris Pinkerton and Executive Assistant Lonna Hanson. Staff members who attended part of the time were CFO Erica Oberg, CIO Dan Seyfried, Matt Roedel (Insurance Sales and Operations Director), Connie O'Brien (Fraternal Development & Marketing Director), Lizabeth Halva (Human Resources & Business Integration Director), Kevin Cassidy (General Counsel and Chief Compliance Officer), and David Crabb (Fraternal Engagement Manager).
- Also present for parts of the meeting was Legal Counsel Dave Ness from Fafinski Mark & Johnson, P.A.

MONDAY, NOVEMBER 16

Opening Remarks

President Stubbings welcomed everyone and reminded the Board of the confidential, sensitive nature of the upcoming meetings.

Approval of Past Board Minutes

May board minutes - approved

June 16 minutes – approved

July 15 minutes – approved

Sept. 2 minutes – delete four misplaced words 2nd paragraph Under “Overview of Resolutions.”

Parkway Investment Advisors

Chad Hoes (Chief Investment Officer) and Trevor Rupe (Portfolio Manager), both from Parkway Advisors, presented the Portfolio Valuation Report for the quarter ending Sept. 30, 2020.

U.S. interest rates continue to be very low. This creates difficulty reinvesting because Sons of Norway receives lower yields on its purchases. The book yield on new purchases is below the portfolio averages.

The market value of the SONS portfolio is \$332.2M. The book value is \$303.7M. The overall market yield of the portfolio is 2.65%.

The portfolio is well diversified into 12 sectors and 130 sub-sectors.

Twelve (12) holdings are on the portfolio watch list, which represents 2% of SONS total assets. One is Carnival PLC, which has been affected by cruise shutdowns due to Covid-19. Despite this, Chad Hoes said he is pleased with how well the portfolio is holding up. The watch list was shortened by about 15% in the 3rd quarter.

SONs invested \$12M in the 3rd quarter using multiple brokers.

IT Strategic Plan

Chief Information Officer Dan Seyfried reported to the Board about planned changes to the SONS IT strategy for 2021.

Dan previously worked at Thrivent for 25 years where he supported the insurance and investment operations. He has a Masters in Software Engineering from the University of Minnesota.

He said our current systems are unable to respond to our rapid growth in agents and new business. Our IT tools are older and not industry standard and require a lot of manual work that is no longer manageable at these greater volumes. SONS currently also has a strong dependence on external consultants, and he wants to shift this work back in-house. He said SONS needs to increase capacity by increasing IT efficiencies.

The first step is to focus on systems that end users touch (agents and members). The plan is to replace the IT peripheral systems first – customer management, agent onboarding, insurance applications, and statements. The aim is for agents to do more self-service. New software would also reduce the amount of re-keying needed.

That will set the stage for SONS to replace its core insurance systems in 3-5 years. Those systems would affect billing, collection of premiums, pricing, and compliance with State provisions.

Chris Pinkerton said when he joined SONS 3 years ago, he realized that our processes are several decades behind other insurance organizations. We need to modernize all the touch points we have with members and agents.

Minnesota Anti-Fraud Statute

CEO Erica Oberg reviewed the Sons of Norway Anti-Fraud policy with the Board. Minnesota Statute §60A.954 requires an insurer to have an anti-fraud plan. She said we have always had a policy but are formalizing it.

TUESDAY, NOVEMBER 17

Lodge Bylaws

Mark Agerter, chair of the Corporate Matters & Governance Committee, told the Board that no bylaws for any lodge will be approved if they do not have the new articles included (Article VI on Compliance, and Article VII on Dissolution and Distribution of Assets).

Also, the proper order to submit bylaws is to send first to the Corporate Matters & Governance Committee (to Chair Mark Agerter). Upon approval by the CMGC they will be forwarded to CEO Chris Pinkerton and Legal Counsel Kevin Cassidy for their signatures.

3rd Quarter 2020 Financial Statements

SONs finished the 3rd quarter with a net loss from operations of \$2.9M. For the period of July 1 – Sept. 30, SONS had a net operating loss of \$542K. This is smaller than the net operating losses in the first and second quarters, which were \$1.63M and \$723K, respectively.

Overall, life insurance premiums were \$1.8M in the 3rd quarter. We have achieved most of our targets month after month.

Death claims in the 3rd quarter were \$130K better than in the first two quarters. We have not seen any marked increase in death claims due to Covid-19. We are on pace for approximately the same amount of death claims in the 4th quarter. Statistically speaking we generally see a spike in death claims just after the holidays which usually affects our 1st quarter.

Budget

General expenses are down in the 3rd quarter due to reduced travel, completing our move into our new building, and intentional budget cuts. Also, our planned operating budget for 2021 is 4% lower (by \$370K) than it was for 2020. CFO Oberg said that this is as close as home office can cut the budget right now without impacting the member experience.

We have planned an overall decrease in our home office salary budget for 2021.

We have cut all travel and entertainment, partly due to Covid-19, but also for other reasons. These expenses will rise again at the end of 2021 but will not reach anywhere near the previous level.

Expenses for postage, printing and forms will decrease significantly in 2021 due to IT efficiencies reducing costs.

SONs is entering into a professional employer organization (PEO) business model in 2021 with OASIS/DEG. As part of a PEO we are pooling together with thousands of other members to get better rates on all types of insurances and services. We can reduce costs without reducing employee benefits in 2021.

We have not budgeted for an in-person Board meeting in May 2021 but are planning for an in-person Board meeting in November 2021.

Rent for 2021 will increase slightly year-over-year (in the 2-4% range) because we share taxes and depreciation on our headquarters building. Also, we will have a repeating budget item for the next 15 years (the length of our lease) for depreciation on leasehold improvements in the range of \$75-100K a year.

We are expecting a \$12K increase in Wells Fargo Bank charges. Every deposit we make and every check we write has a cost to it. With IT technology improvements we hope to reduce this cost.

Update from American Fraternal Alliance

CEO Allison Koppel, American Fraternal Alliance, gave a presentation. SONs is a member of AFA, an umbrella organization of 55 fraternal benefit societies. Four years ago, the Alliance had 80 societies, but the very strongest fraternal remain. The combined societies have 7.6 million members who devoted more than 66 million service hours and gave more than \$631 million to community organizations in the U.S. in 2019.

The AFA has three pillars of service: advocacy, information, and education. One important function is to lobby to protect federal and state tax exemptions for fraternal. She invited CEO Pinkerton on the next legislative trip to Washington, DC.

Employee Succession Planning

CEO Pinkerton shared a confidential document with the Board listing who he believes should backfill key roles in the home office when key members of staff depart, resign or retire. The board discussed this plan with the CEO. It was noted that employee succession planning is a component of CGAD reporting.

WEDNESDAY, NOVEMBER 18

H.R. and New Building Update

Lizabeth Halva, Human Resources and Business Integration Director, gave a presentation. She explained the performance review process used for home office staff and SON's philosophy of "pay for performance." There are no automatic yearly pay raises.

She reported that three staff had Covid-19 but each case was quickly identified and quarantined with no community spread. Most employees are primarily working from home, but a core group of 15-20 people come to the office to handle mail, accounting, and banking (some daily, and some a couple of days a week).

Ms. Halva also showed photos of the exterior and interior of the new facility.

Insurance Business Update

Matt Roedel, Insurance Sales & Operations Director, presented to the Board. He stated year-to-date agent recruiting results and product sales results.

- We have 1,640 appointed agents. More than 44% of the agents have written business year-to-date (known as "activated").
- We have \$8.1M in annuity premium against a goal of \$10.05M.
- We have \$2.6M life insurance premium toward a goal of \$2.7M.

Sales is moving to a JIT (just in time) model that pertains to adding new insurance producers to our appointed agent group. Going forward, SONs will only contract agents who have business to write. Direct contracting was terminated for independent agents.

Code of Ethics

Staff Legal Counsel Kevin Cassidy reviewed the Code of Ethics and Conflicts of Interest Policy with the Board and explained several changes. The Board was also given the 2020 Individual Disclosure Statement to be completed by Dec. 15 and returned to Lonna Hanson.

THURSDAY, NOVEMBER 19

Foundation Board of Governors

President Stubbings has reappointed the following Governors for the 2021 Foundation Board of Governors: Jon Tehven, Karl Hella, Steve Young and Robin Fossum.

The Foundation Board elected these sitting Governors to return in 2021: Mervin Eriksson, Faye Auchenpaugh, and Ernie Fosse. They also elected one new Governor: Christy Olsen-Field from Edmonds, WA. These four Governors were **accepted unanimously**.

The Foundation Board of Governors has selected the following Governors as their officers for 2021:

Chair: Mervin Eriksson
Vice Chair: Jon Tehven
Secretary: Christy Olsen-Field
Treasurer: Ernie Fosse.

Vice President's Report

Board Vice President Mark Agerter reported on activities at the District level. He said Covid-19 has greatly affected local lodge activity. The older age demographic of lodge members makes in-person lodge meetings nearly impossible. However, many lodges are adapting and connecting electronically or through socially distanced activities. Some lodges have sewn masks, sold baked goods (for drive-thru pick-up), and sent greeting cards to their members.

Lodges that own buildings and rely on rental income are suffering due to the loss of rentals.

A high point is that overall membership went above 50,000 in July and has been increasing every month since then.

Board Policy Book

Secretary Larson reported that revisions on the Board Policy Book are ongoing. Some sections have been totally removed because they were instructions for other entities, such as Home Office or the Foundation and did not pertain to Board business. She has also removed items that are already in the Policies & Procedures manual and therefore redundant in the Board Policy Book.

The Finance Committee has also participated in re-writing some parts of the Policy Book.

Ms. Larson said she hopes to send a draft for Board review, hopefully by Dec. 15th. She said the Board still needs to discuss revisions to SON's vision statement.

Lodge Owned Real Estate

Dave Ness reported that all lodges who own real estate are in compliance with their official paperwork. A few lodges are waiting for their tax exemption statement to come from the IRS, but they have filed the necessary documents. Mr. Ness credited Marci Larson for doggedly pursuing those lodges who needed to file paperwork. The project took several years to gain full compliance.

Lodge Liability Insurance Resolution

It was **moved and seconded** to make a permanent policy that if lodge liability insurance is not paid within 60 days of the original billing date dues will be withheld from any non-compliant lodge. The liability insurance will then be paid with the money withheld from the dues. **Motion Carried.**

Chris Hicks would like to know when the first notice was sent to each lodge and also when the second notice is sent. Were these notices e-mailed or sent by US mail? Also, is the second notice on a 30-day cycle?

CEO Pinkerton said he would get the procedural details and share with the Board.

Finance Committee Resolutions

Resolutions 1, 2, 4, 5, 6, 7, 8, 9, and 10 from the Finance Committee were handled by consent calendar. Resolution #3 was pulled for discussion and a separate vote.

Resolutions 1, 2, 4, 5, 6, 7, 8, 9 and 10 were approved.

1. September 30, 2020 Financial Results (Exhibit FIN 1)
The Finance Committee moves to accept, the 3rd Quarter 2020 financial results.
2. Proposed 2021 Budget and Operating Plan (Exhibit FIN 2)
The Finance Committee moves to accept 2021 Budget and Operating Plan.

4. 2021 Refund to Members Resolution (Exhibit FIN 3 & CEO Report)

The Finance Committee moves to accept 2021 Refund to members estimated at \$164,000.

5. Actuarial Service Bids (CEO Report)

The Finance Committee moves to accept the change for outside actuarial service to Griffith, Ballard and Company (GBC) for the reporting effective Dec. 31, 2020.

6. Audit Committee Report (Exhibit FIN 4)

The Finance Investment Committee met by Team Meeting October 27, 2020. Our Committee moves to accept the Audit Approach and Engagement Letter presented by RSM US LLP.

7. Parkway Advisors Investment Report (Exhibit FIN 5)

The Finance Committee moves to accept Parkway Advisor Report as presented.

8. Board Member Expense (Exhibit FIN 7)

The Finance Committee moves to accept the Board Member Expense report for April – September 2020.

9. 1035 Document Signing Authority (Exhibit FIN 8)

The Finance Committee moves to accept the following resolution.

BE IT RESOLVED, that any two of the following individuals:

Chief Executive Officer Christopher Pinkerton

Chief Financial Officer Erica Oberg Insurance

Operations Manager Christian Laland

Accounting Manager Michelle Swanson

Accounting Manager Karen Patwell

HR & Business Integration Director Lizabeth Halva

Are hereby authorized to execute, on behalf of Sons of Norway, insurance policy surrender forms necessary to accomplish tax-free exchanges or surrenders under Internal Revenue Code §1035, and any other insurance instruments and documents as required.

The Board then returned to the Anti-Fraud Policy discussed on Monday and voted on whether it should be approved with the revisions made by Mark Agerter and posted to BoardPaq. The policy was **APPROVED** as revised.

Board Self-Assessment on Meeting

Legal Counsel Dave Ness will e-mail the assessment questions to the Board and each member should respond directly back to Mr. Ness.

Respectfully Submitted,



Sons of Norway
International Board Secretary