

**MINUTES OF THE MEETING OF THE
BOARD OF DIRECTORS OF THE
ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND**

May 12, 2020

Pursuant to a Public Notice dated May 7, 2020, a Meeting of the Board of Directors of the Arizona Life and Disability Insurance Guaranty Fund (ALDIGF) was convened on May 12, 2020 at 10:02 a.m. in a virtual video conference format using Google Meet. The meeting was called to order by Tod D. Lashway, Chair of the Board, who determined that a quorum was present.

Attending the meeting via video conference were the following Members of the Board of Directors:

Tod D. Lashway, CLU, ChFC, LUTCF, CLTC, RICP	Chair
Mark A. Haydukovich, ChFC, CLU, CPA, FLMI, CFA	Vice Chair
John R. Mathews, Esq., CPA	Secretary/Treasurer
Betsy Heisler	Director
Michael Hickey, Esq	Director
Gerrie Marks, Esq.	Director
Randi Reichel, Esq.	Director
Robert C. Corn, Esq.	Director

The following Directors were absent:

John. J. (Jay) Sheehy III	Director
---------------------------	----------

Also attending the meeting via video conference were the following persons:

Scott Greenberg	Deputy Director, AZ DOI
Lynette Evans, Esq.	Assistant Attorney General
Liane C. Kido	Deputy Receiver

Kurt Regner	Asst. Dir., DOI Financial Affairs
Scott Persten	DOI Financial Affairs Div.
Christine Cohen	ALDIGF Claims Manager
Maria Souza	ALDIGF Controller
Jennifer Tewhill, CPA	John C. Todd II, P.C.
Thomas M. O'Malley, CFA	Wells Fargo Asset Mgmt.
Lori D. Nestor	ALDIGF Executive Director

The following matters were discussed, considered and decided at the meeting:

Item #1. Announcement Concerning the Fund's Conflict of Interest Policy and Anti-Trust Compliance Policy.

Chairman Lashway announced the meeting would be conducted in accordance with the Fund's Conflict of Interest Policy and Anti-Trust Compliance Policy.

Item #2. Approval of the Minutes of the Annual Meeting held on November 12, 2019.

Upon a motion made by Director Gerrie Marks and seconded by Secretary John Mathews, the Minutes of the Annual Meeting of the Board held November 12, 2019 were unanimously approved as previously circulated.

Item # 3. Report Concerning Financial Audit.

The Chair recognized Jennifer Tewhill from the accounting firm of John C. Todd II, PC for a report concerning the independent financial audit of the Fund for the year ended December 31, 2019. Ms. Tewhill said the audit resulted in a clean opinion with no discrepancies in reporting or accounting, and no difficulties were encountered during the course of the audit. She did report one deficient finding relative to internal control, as the check log used by the previous Executive Director could not be located to verify that it had been maintained during the first half of 2019, and no log was apparently kept during the

interim between his departure and the new Executive Director joining the ALDIGF in December, 2019. Ms. Tewhill verified that Executive Director Nestor has already corrected the deficiency and reestablished the check log process. Mr. Mathews made a motion that the Board accept the audit report, which was seconded by Director Gerrie Marks and passed by a unanimous vote.

Following Ms. Tewhill's presentation, a discussion was also held regarding upcoming changes to the ALDIGF basis of accounting as it pertains to the timing of future auditing of ALDIGF. Deputy Director Greenberg explained that the change is related to the state's need to consolidate the financial information from ALDIGF into statewide financial statements due to ALDIGF's statutory status as being within the Arizona Department of Insurance. He indicated that the basis of accounting for ALDIGF needs to be changed from a cash basis to a full accrual basis, and from a calendar year to a fiscal year, in order to support their ability to do so. Deputy Director Greenberg discouraged the use of a "stub year", and instead advised that ALDIGF should create a full, fiscal year financial statement from 7/1/19 through 6/30/2020 in the new, full accrual manner, and conduct a secondary audit shortly thereafter. Assistant Director Regner recommended that we discuss any auditing standards regarding comparative year audits with that secondary auditing firm to consider whether a fiscal year 2019 audit might be needed for preparative purposes at that time as well. Deputy Director Greenberg recommended that future audits could then be conducted following the close of each June 30 fiscal year.

Item #4. Financial Report.

- A. The Chair recognized Thomas O'Malley of Wells Capital Management for a report on the performance of ALDIGF's investment portfolio through April 30, 2020. Mr. O'Malley introduced himself as the new Relationship Manager for the ALDIGF portfolio at Wells Fargo. He noted that financial markets have had one of the most tumultuous periods in history recently, due largely to the impact of Coronavirus. However, because of its

emphasis in fixed income markets, the ALDIGF account has come out fairly unscathed. The ALDIGF Portfolio's market value as of April 30, 2020 was \$16.6 million, comprised of 47% treasury investments, 30% corporate bonds, 12% mortgage backed securities, and 10% cash. ALDIGF investments have maintained a very high average credit quality, with almost 60% in AAA investments. The portfolio demonstrates little exposure to credit deterioration via volatile industries heavily impacted by Coronavirus, such as airlines, retail, etc. Total rate of return for the net portfolio in the past 3 months had positive return of 77 basis points. We are looking at lower interest rates for a protracted amount of time globally. Going forward, we might use this opportunity to look for corporate exposures that are not Coronavirus impacted while staying within portfolio investment guidelines.

Following Mr. O'Malley's presentation, a discussion was had regarding Wells Fargo's request that ALDIGF consent to a custodial change for its portfolio account from Wells Fargo to Principal Bank. Mr. O'Malley confirmed that Wells Fargo/Welscap would remain as investment manager, and only custodial & reporting responsibilities would transfer to Principal if ALDIGF chooses to consent. Ms. Nestor confirmed that Wells Fargo has asked that an actual custodian agreement be signed by ALDIGF giving consent for assignment of the portfolio to Principal Bank. Deputy Director Greenberg took the matter under advisement to consider any potential legal implications of signing for the Department of Insurance.

- B.** The Chair recognized Executive Director Nestor, who reported on the financial condition of the Fund as of March 31, 2020. She noted the balance in each of ALDIGF's four accounts and the total fund balance of \$17,366,365.82. Ms. Nestor noted that the largest exposures to ALDIGF are to its Disability Account, resulting from multiple long term care

insolvencies. She opined that the balance in that fund is sufficient at this time, but recommended monitoring in light of these ongoing exposures. Deputy Director Greenberg advised that ALDIGF needs to ensure appropriate allocation of future long term care assessments as a result of the change in assessment methodology made to the ALDIGF statutes in 2019.

- C. Ms. Nestor briefly discussed actual expenditures compared to projections for the year ended December 31, 2019 and through March 31, 2020. The financial statements are attached to and incorporated into these minutes.

Item #5. Executive Session for the Purpose of Receiving Information About and Discussing the Financial Condition of One or More Insurers.

Upon a motion made by Secretary/Treasurer Mathews and seconded by Director Reichel, the Board voted unanimously to move into Executive Session to receive information concerning the financial condition of certain member insurers. The Executive Session commenced at 11:09 a.m. at which time the public was excused. Financial Affairs Division Assistant Director Kurt Regner reported on the status of two insurers, both of which are member insurers of ALDIGF. Upon a motion made by Secretary/Treasurer Mathews and seconded by Director Marks, the Board voted unanimously to adjourn the Executive Session at 11:27 a.m., and the public was invited to rejoin the meeting.

Item #6. Activity Report from the Department of Insurance on the Detection and Prevention of Insolvencies.

Mr. Regner advised that there was no activity to report with respect to the detection and prevention of insolvencies.

Item #7. Report of Executive Director.

A. The Chair recognized Executive Director Nestor, who reported on activity with regard to insolvent or impaired insurers for which ALDIGF has been activated:

i. Senior American Insurance Company

Ms. Nestor reported that Senior American Insurance Company (“SAIC”) was declared insolvent in July of 2019. As of March 3, 2020, ALDIGF had roughly 100 inforce long term care policies, 9 of which were on claim. LTC Re has estimated total reserves for ALDIGF of \$2.5 million as 10/31/2019, and ALDIGF has paid \$46,319 in claims (net of premium collected) since Jan 1, 2020. Ms. Nestor explained that claim and premium administration had been performed by affiliated company AF&L since insolvency, but that the National Organization of Life and Health Guaranty Associations (“NOLHGA”) has selected and engaged Disability Insurance Specialists (“DIS”) to assume that administration going forward. She advised that ALDIGF does have the ability to opt out of the engagement, but recommended that ALDIGF not do so based on prior, positive experience with DIS.

Discussion also ensued regarding AF&L’s denial of Waiver of Premium (“WOP”) for policyholders in Assisted Living situations based on their interpretation of the WOP clause in several SAIC policies. The NOLHGA task force for SAIC provided a legal analysis of the potential WOP, and has asked ALDIGF to determine whether the administrator should continue status quo, waive premium going forward, or waive premium retroactively for the policies it covers. Secretary/Treasurer Mathews requested a legal review of the opinion and the

policies by counsel for ALDIGF prior to making this determination and Chairman Lashway agreed. Ms. Nestor agreed to seek that legal opinion.

The Board of Directors then commenced a discussion of whether to opt out of a rate increase strategy approved by the Members Participation Council (“MPC”) of NOLHGA. A motion to “Opt Out” of the rate increase strategy was made by Director Bob Corn. The motion was seconded by Vice Chair Haydukovich and passed unanimously.

ii. Penn Treaty Network America and American Network Insurance Companies.

Ms. Nestor reported that ALDIGF claim funding in the amount of \$12,973,000 for Penn Treaty and \$62,000 for ANIC was paid on March 1, 2020, and was inclusive of 2020 policy cash buyouts. She added that this funding was slightly less than the \$13.7 million and \$175,000 projected in October of 2019 as a result of a balance in ALDIGF’s notional account. Ms. Nestor also reported that NOLHGA has selected TriPlus Services as the new provider for claim and premium administration, and transition is anticipated to be complete by April 2021.

Ms. Nestor advised that the Receiver for ANIC recently chose to distribute the funds set aside for Guaranty Association claims in a lump sum rather than continue monthly, in an effort to reduce administrative expenses. This distribution resulted in a deposit into ALDIGF’s notional account regarding claim obligations in the amount of \$160,000. Chairman Lashway asked for a status report regarding the collection of the 2019 assessment called for this insolvency. Ms. Nestor reported that \$238,000 of the amounts assessed remained outstanding, with Time Insurance and the Reliastar Companies owing the largest portion of that amount.

iii. Executive Life Insurance Company.

Ms. Nestor reported the ALDIGF 29th installment billing for the Article 22/23 life insurance subsidies was paid on March 31, 202 in the amount of \$2,187. Remaining ALDIGF liabilities for this insolvency are estimated at \$142,000, payable annually in decreasing increments over 30 years. Required subsidies are currently 13% below the amounts estimated in a 2015 actuarial study, largely due to higher than anticipated mortality and associated decreasing benefits.

Ms. Nestor advised that a distribution of approximately \$670,000 is anticipated from this estate in July 2020, which will be distributed among the guaranty associations. Ultimate distribution to ALDIGF is not anticipated to be a large amount.

iv. Executive Life of New York. Ms. Nestor reported that Guaranty Association Benefit Co (“GABC”) continues to administer the annuities that it assumed. The asset portfolio is performing well and no additional contributions are anticipated at this time.

Ms. Nestor advised that this estate was closed in December of last year. GABC did recover \$8 million from the estate on September 3, 2019, but no further distributions are anticipated.

v. Life and Health Insurance Company of America. Ms. Nestor reported that claim payments of \$66,619 were made and a premium collections of \$12,650 from Q4 of 2019 were received during Q1 of 2020, for net claim payments of \$54,000 as of March 31, 2020. She advise that 4 long term care policyholders were on claim,

one of which is nearing the limit of guaranty fund protection. A total of 32 long term care policies remained in force as of 12/31/2019.

vi. Lincoln Memorial Life Insurance Company. Ms. Nestor reported claim payments of \$3400 to date in 2020. She advised that Liberty Bankers is due to assume “RPU” policies in July of this year, and ALDIGF estimated exposure following that assumption is estimated at \$108,000. At that time, ALDIGF will need to determine whether to handle its own claims internally or retain another administrator to handle them.

vii. Meritus Mutual Health Partners. Ms. Nestor reported no recent Proof of Claim or claim activity. ALDIGF’s service agreement with the Receiver has been renegotiated from \$1000 to \$200 per month in light of the reduced activity.

Ms. Nestor explained that Meritus is anticipating payment resulting from litigation surrounding the Risk Corridor program established under the US Affordable Care Act. The Supreme Court recently decided the case in the favor of health insurance providers. The timing of the payment is unknown, but the Receiver is hopeful that they’ll be able to honor ALDIGF’s claim in the estate once that distribution is made.

viii. National States Insurance Company. Ms. Nestor reported payment of \$32 in health claims year to date. Seven policies remained in force as of January 31, 2020, most of which are long term care policies. Claims and policy administration is performed by TriPlus Services, and their performance was audited in October of 2019 with no concerns regarding premium collection or claim handling found.

- ix. Standard Life Insurance Company of Indiana.** Ms. Nestor advised that there was no activity to report with regard to this insolvency.
- B.** Ms. Nestor reported there are no pending claims appeals.
- C.** Ms. Nestor presented invoices from NOLHGA representing an assessment for the third quarter of 2019 in the amount of \$69,418, and for the fourth quarter of 2019 in the amount of \$67,740, and asked the Board to ratify her decision to pay the NOLHGA assessments. Upon a motion made by Secretary/Treasurer Mathews and seconded by Director Hickey, the Board voted unanimously to ratify the decision of the Executive Director to pay the assessments.
- D.** Ms. Nestor presented an invoice from NOLHGA for 2020 membership dues in the amount of \$61,193 and asked the Board to ratify her decision to pay the invoice. Upon a motion made by Director Hickey and seconded by Director Corn, the Board voted unanimously to ratify the decision of the Executive Director to pay the invoice.
- E.** Ms. Nestor reported regarding the collection status of the assessments called in 2019. Of the \$16,000,000 total assessed in 2019, \$238,000 remained outstanding. She advised that ALDIGF collection efforts continue.
- F.** Ms. Nestor provided information regarding loans that were made from the Life, Disability and Annuity accounts to the Administrative account in 2013, 2014 and 2015 to pay for administrative expenses. She advised that a sufficient amount of the assessment called in 2019 to fund repayment of the loans had been collected to execute the repayment.

Secretary/Treasurer Mathews made a motion that ALDIGF repay the loans in the amounts of \$275,700 to the Life Account, \$932,831 to the Disability Account, and \$691,469 to the Annuity Account, and thereby reduce the Administrative Account by \$1,900,000 accordingly. The motion was seconded by Director Reichel, and passed unanimously.

- G.** Ms. Nestor reported regarding the selection of a contracted CPA firm to assist ALDIGF with the conversion of its basis of accounting from a modified cash, calendar year basis to a full accrual, fiscal year basis as previously discussed during this meeting. Ms. Nestor advised that proposals were sought, presented to the Executive Committee and compared. Chairman Lashway confirmed that sufficient due diligence had been performed, and Ms. Nestor asked that the Board ratify her decision to engage CPA firm Eide Bailly to assist with the transition. Upon a motion made by Director Corn and seconded by Director Hickey, the Board voted unanimously to ratify Ms. Nestor's decision to engage Eide Bailly for this purpose.
- H.** Ms. Nestor reported on the potential engagement of ALDIGF banking services provider Wells Fargo for an electronic payment option for assessment collection and the costs associated with that service. Discussion was had regarding potential other options, and it was decided that additional information would be gathered before an option is selected.
- I.** Ms. Nestor deferred to Secretary/Treasurer Mathews for a report regarding IL SB1377, which prohibits the approval of an insurance company's request for division unless that insurer can demonstrate that the resulting, divided company will be licensed where it does business following the division. The bill was proposed to ensure that the resulting, divided company would be eligible for guaranty association protection in the states in

which it writes future business, thereby preventing the exclusive provision of such protection by the state in which the original company is domiciled. Secretary/Treasurer Mathews suggested monitoring and possible involvement should such an idea surface in AZ.

Item #8. Additional Executive Session.

The Chair determined that an additional Executive Session was not necessary.

Item # 9. Call to the Public.

The Chair made a call to the Public, to which there was no response.

Without objection, the Meeting was adjourned at 12:12 p.m.

Respectfully submitted,

John R. Mathews
John R. Mathews (Nov 23, 2020 11:24 CST)

John R. Mathews, Esq., CPA
Secretary/Treasurer

Approved:

Tod Lashway
Tod Lashway (Nov 23, 2020 10:38 MST)

Tod D. Lashway, CLU, ChFC, LUTCF, CLTC
Chair

Dated: Nov 23, 2020