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

TUESDAY, MAY 10, 2022

Pursuant to a Public Notice dated April 7, 2022, the Meeting of the Board of Directors of the Arizona Life and Disability Insurance Guaranty Fund ("ALDIGF") was convened on May 10, 2022, at 10:01 a.m. in a virtual video conference format using Google Meet. Germaine L. Marks, Esq., Chair of the Board, determined that a quorum was present and called the meeting to order.

Present at the meeting were the following members of the Board of Directors:

- Germaine L. Marks, Esq. .......................................................... Chair
- Mark A. Haydukovich, ChFC, CLU, CPA, FLMI, CFA .......................................................... Vice Chair
- John R. Mathews, Esq., CPA .......................................................... Secretary/Treasurer
- Robert C. Corn .......................................................... Director
- Elizabeth A. Heisler .......................................................... Director
- Michael Hickey .......................................................... Director
- Tod D. Lashway, CLU, ChFC, LUTCF .......................................................... Director
- Gregg Martino .......................................................... Director
- Paul Matson, CFA, FCSI .......................................................... Director
- Randi F. Reichel, Esq. .......................................................... Director

Also present at the meeting were:

- Evan G. Daniels .......................................................... Director, Arizona Department of Insurance and Financial Institutions (DIFI)
- Tom O’Malley .......................................................... SVP, Portfolio Specialist, Allspring Global Investments
- Lynette Evans .......................................................... Assistant Arizona Attorney General
- Lori D. Nestor .......................................................... ALDIGF Executive Director
- Maria Souza .......................................................... ALDIGF Controller
- Sharyn Kerr .......................................................... ALDIGF Administrative Support Specialist
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1. ANNOUNCEMENT CONCERNING THIS MEETING’S ANTI-TRUST AND CONFLICT OF INTEREST COMPLIANCE

The Chair announced that the Meeting would be conducted in accordance with the Fund’s Anti-Trust Compliance Policy and in compliance with Arizona law concerning the disclosure of conflicts of interest with regard to any matter before the Board for consideration.

2. RECOGNITION OF MEMBER’S SERVICE TO THE BOARD.

The Chair recognized Director Tod Lashway with gratitude for his many years of service as Chair of the ALDIGF Board.

3. APPROVAL OF PREVIOUS MINUTES

Upon a motion made by Director Lashway and seconded by Secretary/Treasurer John Mathews, the Minutes of the Meeting of the Board of Directors held November 9, 2021 were unanimously approved as previously circulated.

4. FINANCIAL REPORTS AND ANY DISCUSSION AND ACTION RELATED THERETO AS FOLLOWS:

a. Review of investment activity of ALDIGF through March 31, 2022, including composition of the portfolio, average duration of the portfolio, and performance of the portfolio;

The Chair recognized Executive Director Nestor who introduced Mr. Tom O’Malley, Senior Vice President, Portfolio Specialist, Insurance Solutions, Allspring Global Investments, for a report regarding the performance of the APCIGF investment portfolios through March 31, 2022.

Mr. O’Malley began by discussing the performance of the ALDIGF investment portfolio in the first quarter of 2022. He indicated that the portfolio return was down 63 basis points versus the benchmark, which is a blend of the six-month treasury bills and the one-year treasury index. It is rare that negative returns are seen in the front end of the market, however, negative returns were seen throughout the market in general. He predicted that for this high-credit quality, short-duration portfolio, going forward there is opportunity to generate some real income on the portfolio.

Mr. O’Malley then provided the characteristics of the portfolio as of the end of March 2022. He indicated that was showing a market value of over $19 million with a purchase/earning yield at 56 basis points. The effective maturity of the portfolio was 7 years average duration, with credit quality of AA+. Mr. O’Malley advised that the composition of the portfolio consisted of nearly
50% treasuries, about 40% corporate bonds and commercial paper, and just under 20% mortgage-backed securities. He also stated that the duration profile (a measurement of the interest rate sensitivity) of about 40% of the portfolio was very short at under a quarter of a year with some duration out one to three years. He explained that the investment policy for this portfolio allows a maximum duration of one year with any one single security having a maximum of three years.

Mr. O’Malley advised that the portfolio changes over time follow the fall in short interest rates to single-digit numbers during the pandemic, but also that yields are now climbing due to the changes in interest rates in the market. The Federal Reserve is aggressively pulling back after years of enormous amounts of liquidity being injected into the market in an attempt to aid recovery from the COVID-19 pandemic. As a result, he indicated an expectation that the earning power of the portfolio will increase.

In summary, Allspring believes that market growth in 2022 is expected to be above trend, with anticipated normalized growth to about an annualized 4%. The employment labor market strength should continue, as should persistent inflation due to the Russia/Ukraine war and Chinese COVID-19 pandemic lockdowns. It’s expected that removal of monetary stimulus by the Fed will bring up short rates, but international issues such as the Russia/Ukraine war continue to create uncertainty in global trade, politics and markets. Although the first quarter realized a negative return, Mr. O’Malley believes there is an opportunity within the constraints of the portfolio guidelines to increase its yield as it benefits from the activity that is occurring in the markets.

No questions or discussion followed Mr. O’Malley’s report.

b. **Review of the financial condition of ALDIGF through March 31, 2022**;

The Chair recognized Executive Director Nestor who indicated that the financial documents that were presented to the Board were created using the newly adopted accrual basis of accounting. She pointed out that the Balance Sheet therefore stated both collected and uncollected assets of ALDIGF with total checking and savings of approximately $20,803,000 and unbilled assessments of about $128,941,000 as of March 31, 2022. Ms. Nestor further advised that the Balance Sheet contained both ALDIGF current and long-term liabilities, inclusive of ALDIGF’s Penn Treaty exposure. She went on to point out that The Profit and Loss year-to-date comparison showed that the Fund has received approximately $500,000 in early access funds, but investment performance was actually negative in March. A year-to-year comparison of 2021 to 2022
indicated distribution collection already near what it was in 2021, but business as usual overall. Questions and discussion followed Ms. Nestor’s report, to which Ms. Nestor replied that the staff has progressed well with the new basis of accounting.

5. **EXECUTIVE SESSION TO RECEIVE INFORMATION ABOUT THE FINANCIAL CONDITION OF ONE OR MORE MEMBER INSURERS.**

The Chair recognized the Agenda item and recognized Executive Director Nestor, who advised that she had been in touch with the Financial Affairs division of the Department of Insurance and Financial Institutions (FAD). FAD had indicated that they had nothing to report at this time.

6. **REPORT CONCERNING THE DETECTION AND PREVENTION OF INSOLVENCIES**

Executive Director Nestor conveyed that FAD had further indicated that they had nothing remarkable to report regarding the prevention and detection of insolvencies.

7. **REPORT FROM THE EXECUTIVE DIRECTOR, DISCUSSION AND POSSIBLE ACTION REGARDING THE FOLLOWING:**

   a. **Report regarding the status of claims, liabilities and other matters with regard to the following companies for which ALDIGF has been activated.**

      i. Executive Life Insurance Company (ELIC)

      ii. Executive Life Insurance Company of New York (ELNY)

      iii. Life and Health Insurance Company of America (LHICA)

      iv. Lincoln Memorial Life Insurance Company

      v. National States Insurance Company

      vi. Penn Treaty/ANIC

      1. ALDIGF estimated funding liability for 2022

      vii. Senior American Insurance Company

The Chair again recognized Executive Director Nestor who reported that the insolvent companies shown on the Board Report were the ones that have presented the most activity to ALDIGF over the past few years. She indicated that the most notable activity was related to the payment issued to Penn Treaty. Ms. Nestor reiterated that ALDIGF received a funding estimate from LTC Re of
approximately $4,735,000 in October 2021 for Penn Treaty. She said that ALDIGF subsequently called an assessment to enable the Fund to meet that obligation, but ultimately only $4,519,000 was required. A payment in that amount was made in late February of 2022. Ms. Nestor then stated that the other payments indicated were primarily related to the Life and Health Insurance Company of America and Senior American Insurance Company insolvencies.

b. **Report regarding claims appeals, if any.**

The Chair inquired whether there were any claims appeals to report, to which Executive Director Nestor replied that there were none.

c. **Discussion and possible action concerning ratification of the Executive Director’s decision to pay the National Organization of Life and Health Insurance Guaranty Association (NOLHGA) 2022 annual dues of $65,432.00, and NOLHGA assessments for the second, third and fourth quarters of 2021 in the amounts of $57,649.00, $45,651.00 and $51,174.00 respectively.**

Executive Director Nestor asked that the Board ratify her decision to pay the NOLHGA dues and assessments billed as presented. A motion was made by Secretary/Treasurer Mathews and seconded by Director Lashway to ratify the payments. The motion was carried unanimously.

d. **Report regarding the status of the 2021 Assessments called for the Disability Account and Administrative Account.**

The Chair recognized Executive Director Nestor who reported that an assessment of $4,735,000 was called at the ALDIGF Annual Meeting in November of 2021 to meet claim obligations for the Penn Treaty insolvency, along with an assessment of $700,000 for the Fund’s administrative account. She indicated that all but approximately $45,000 of the combined amount of $5.4 million billed had been collected. Ms. Nestor stated that she believes that some of the outstanding $45,000 would be collected once the correct party is found for those companies. Follow-up billings have been sent, and Fund staff will continue working to collect the outstanding amounts due. However, she indicated that approximately $22,000 may be uncollectible due to mergers and companies no longer doing business. The Chair inquired whether an additional assessment would be necessary at this time, to which Ms. Nestor replied that she didn’t believe there to be a need to reallocate the uncollected amounts among member companies, as the obligation to Penn Treaty had been met and the Administrative Account had been funded with very nearly the $700,000 that was assessed.
8. ADDITIONAL EXECUTIVE SESSION, IF NECESSARY, PURSUANT TO A.R.S. § 38-431.03(A)(3) TO CONFER WITH COUNSEL WITH REGARD TO ANY ITEM INCLUDED WITHIN THIS NOTICE AND AGENDA.

The Chair recognized the Agenda item and Attorney General Lynette Evans, but indicated that there was no need to confer with counsel at this time.


It was determined that the next Annual Meeting of the Board will be held November 1, 2022, 10:00 a.m. It will be decided closer to that time whether the meeting will be held in person, virtually, or in hybrid format.

10. CALL TO THE PUBLIC

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

There being no further business to come before the Board, without objection the meeting was adjourned at 10:40 a.m.

Dated this 10th day of May, 2022 and respectfully submitted,

APPROVED:

JOHN R. MATHEWS, ESQ., CPA

GERMAINE L. MARKS, ESQ.

SECRETARY/TREASURER

CHAIR OF THE BOARD