The Missouri Life and Health Insurance Guaranty Association

2022 Annual Report

ANNUAL REPORT OF THE
MISSOURI LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION
FOR FISCAL YEAR ENDING DECEMBER 31, 2022

Prepared for

The Director of the Missouri Department of Insurance,
Financial Institutions and Professional Registration

Prepared by

Tamara W. Kopp, Executive Director
Missouri Life and Health Insurance Guaranty Association

April 30, 2023

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ANNUAL REPORT OF THE
MISSOURI LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION
FOR THE YEAR ENDING DECEMBER 31, 2022

The Annual Report of the Missouri Life and Health Insurance Guaranty Association (the "Association") for the year ending December 31, 2022, is herewith submitted to the Director of the Missouri Department of Commerce and Insurance ("DCI") and the Board of Directors.

ABOUT

The Association was created to protect against the failure in performance of contractual obligations under life, health, and annuity policy, plans, or contracts because of the impairment or insolvency of a member insurer that issued the policies or contracts. To provide this protection, the Association was created to pay benefits and continue coverage. Association members are subject to assessment to provide funds to carry out the purposes of the Association.

The Association was established by House Committee Substitute for Senate Bill 430 as truly agreed to and finally passed by the Second Session of the 84th General Assembly and signed by the Governor of the State of Missouri on June 28, 1988. (430 §§ 1, 2, A.L. 2018 H.B. 1690). Member insurers elected an initial board of directors at the Association's organizational meeting on August 17, 1988.

As of December 31, 2022, there are 850 companies licensed to sell life, health, or annuity contracts and by the terms of §§ 376.715 to 376.758, RSMo, are deemed to be members of the Association. Of the member companies, 473 have authority to sell life insurance, 432 have authority to sell health insurance, and there is one health service corporation.

Members of the Association meet annually in person, virtually, or by proxy, typically in May of each year to elect Directors. Immediately following the Annual Meeting of the Membership, the newly elected Board of Directors meets to elect officers. Directors and officers receive no compensation for their service to the Board and Association but are entitled to reimbursement of expenses related to Association activities.

BOARD OF DIRECTORS

The Board of Directors consists of not less than seven nor more than 11 member insurers. At the end of 2022, the Board consisted of 10 member insurers. Directors are elected each year by the member insurers at the Annual Meeting of the Membership and serve three-year terms.

The Annual Meeting of the Membership was held virtually on May 18, 2022. Four member insurers were elected to serve on the Board of Directors for terms that will expire in 2025. Immediately following the Annual Meeting of the Membership, during the Annual Meeting of the Board of Directors, the Board of Directors elected officers to serve for a one-year term, or until a successor is duly elected.

The Board of Directors and their designated representatives as of December 31, 2022, are listed below.

Three-year term ending 2023

HMO Missouri	David Smith
Kansas City Life Insurance Company	Malika Simmons
Ozark National Life Insurance Company	David R. Melton

Three-year term ending 2024

American Family Life Insurance Company	David Monaghan
Blue Cross/Blue Shield of Kansas City	Coni Fries
Shelter Life Insurance Company	Teresa Magruder (Vice-Chair)

Three-year term ending 2025

Everlake Life Insurance Company	Sonya Ekart (Chair)
Farm Bureau Life Insurance Company of MO	Joel Schroer
Metropolitan Tower Life Insurance Company	Kerri Cutry
UnitedHealthcare	David Hill (Sec./Treas.)

OFFICERS & EXECUTIVE COMMITTEE

The Officers elected at the May 18, 2022, Annual Meeting of the Board of Directors are listed below. In accordance with Article III.B.2. of the Plan of Operation (the "Plan"), the officers of the Association constitute the Executive Committee.

Sonya Ekart, Chair	Everlake Life Insurance Company
Teresa Magruder, Vice-Chair	Shelter Life Insurance Company
David Hill, Secretary/Treasurer	UnitedHealthcare

During 2022, the Executive Committee continued the practice of meeting on a quarterly basis. Under Article III.B.2. of the Plan, the Executive Committee is involved with the ongoing functions and the administrative duties of the Association as may occur between meetings of the Board of Directors. Minutes of all meetings of the member insurers, the Board of Directors, and the Executive Committee are on file at the office of the Association in Jefferson City, Missouri.

NOMINATING COMMITTEE

The Nominating Committee is appointed by the Board each year as provided by the Plan, Article III.A.3. The Nominating Committee is responsible for the selection of member insurer nominees to succeed Board members whose terms expire at the Annual Meeting of the Membership. The member insurer nominees and their representatives are submitted to the Director of the Department of Commerce and Insurance for approval prior to being elected by member insurers, in accordance with § 376.722, RSMo.

ATTORNEYS

Legal Counsel for the Association is Lathrop GPM, 2345 Grand Boulevard, Suite 2200, Kansas City, Missouri 64108. The primary contact is Michael W. (“Mick”) Rhodes, Senior Counsel.

LITIGATION

As of December 31, 2022, there was no active litigation where the Association is a defendant.

OFFICE OF THE EXECUTIVE DIRECTOR

Tamara W. Kopp continues as the Executive Director for the Association under a Joint Administration Agreement with the Missouri Property & Casualty Insurance Guaranty Association. The Association remains engaged with the National Organization for Life and Health Guaranty Associations (“NOLHGA”) to monitor potential insolvencies and engages with regulators and troubled company practitioners on the International Association of Insurance Receivers (“IAIR”) Board of Directors (since 2019). The

Association is further engaged by serving on the following NOLHGA task forces for the following insolvencies:

Senior American Insurance Company
Global Bankers
Lincoln Memorial Life Insurance Company
National States Insurance Company

Like most state guaranty associations, the Association funds many of its obligations by contracting with various third-party administrators through NOLHGA-facilitated agreements. The Association also handles some of its obligations in-house with seven employees shared with the Missouri Property & Casualty Insurance Guaranty Association. The Association continued its administrative responsibilities for approximately 196 long-term care ("LTC") policies that were issued by two insolvent insurers: Life and Health Insurance Company of America and National States Insurance Company. Local Association staff also collect premium and pay claims on 67 small-value life insurance policies. In addition to being able to more closely control the expenses of providing administrative services, handling the administration with local staff provides for more precise and timely responses to Missouri consumers.

AUDITORS

The audit of the Association's financial statement for the year ended December 31, 2022, was performed by Williams-Keepers LLC, 2005 West Broadway, Suite 100, Columbia, Missouri 65203. The primary contact is Nick Mestres, CPA. Detailed financial information for the Association for the year ended December 31, 2022, is shown in the audited financial report prepared by Williams-Keepers LLC.

FINANCIAL REPORTS

The Association's financial records are the subject of an annual independent audit. The Board of Directors and committees review interim financial reports and transactions. The audited financial statements as of and for the year ending December 31, 2022, are included with this report. Further, the notes to the financial statements are also included as an integral part of the report. Williams-Keepers LLC, conducted the independent audit of the financial records of the Association.

ASSESSMENTS

2022 Class A Assessment

The Board is authorized under § 376.735, RSMo, to make either a pro-rata or a non-pro-rata Class A assessment of the member insurers for the purpose of providing funding to cover Association administrative expenses. The Association allocates administrative expenses among all insolvencies. Pro-rata Class A assessments may be credited against future Class B assessments. It was not necessary to levy a Class A assessment during 2022.

2022 Class B Assessment

The Board is authorized under § 376.735, RSMo, to make a Class B assessment, to the extent necessary to carry out the Association's powers and duties regarding an impaired or insolvent insurer. Assessments for funds to meet the Association's duties regarding an impaired or insolvent insurer are not made until necessary to implement the purposes of §§ 376.715 to 376.758, RSMo. It was not necessary to levy a Class B assessment during 2022.

INSOLVENCIES

The following insolvent estates were open at the end of 2022. The year indicates the year of insolvency and the abbreviation following the company name identifies the domestic regulator. This report includes a narrative for those estates, either open or closed, that generated material Association activity during the report year.

1989
American Mutual Liability Insurance Company (MA)

1995
National Heritage Life Insurance Company (DE)

1998
Centennial Life Insurance Company (KS)

1999
First National Life Insurance Company of America (MS)

2006
Shelby Casualty Insurance Company (TX)

2007
Benicorp Insurance Company (IN)

2008
Lincoln Memorial Life Insurance Company (TX)

2010
National States Insurance Company (MO)
Universal Life Insurance Company (AL)

2013
Lumbermens Mutual Casualty Company (IL)

2017
American Network Insurance Company (PA)
Penn Treaty Network America Insurance Company (PA)

2022
North Carolina Mutual Life Insurance Company (NC)
Time Insurance Company (PR)

Continental Security (Peoples Mutual Assessment Business)

The Association continues to handle the administration of this block of business. As of the end of 2022, there were 67 active policies that represented approximately 107 insured lives. The Association paid 13 death claims. The block volume continues to decline. Administrative expenses for handling this block of business exceed the policyholder assessments.

Executive Life Insurance Company

Executive Life Insurance Company ("ELIC") was a large issuer of life insurance, structured settlement annuities, group annuities, and guaranteed investment contracts issued to pension plans and municipalities. The products were aggressively marketed and guaranteed at very competitive rates of return. To enhance its competitive position, ELIC was heavily invested in junk bonds. When the junk bond market collapsed in the early 1990s, policyholder withdrawals at ELIC accelerated dramatically, creating a liquidity crisis at the company, and ultimately leading to a conservation order on April 11, 1991, followed by a liquidation order on December 6, 1991.

Estate Closure

The California Insurance Commissioner filed a Request for Dismissal with the Superior Court of California on August 9, 2022, which resulted in the ELIC estate being closed effective August 15, 2022. The Association makes annual contributions to support ELIC policies.

OUTLOOK

The NOLHGA task force will continue to provide support to the participating guaranty associations with respect to their Article 22 and 23 payment obligations.

Global Bankers Insurance Group

Four insurers—Colorado Bankers Life Insurance Company (CBLIC), Bankers Life Insurance Company (BLIC), Southland National Insurance Corporation (SNIC), and Pavonia Life Insurance Company of Michigan (Pavonia)—are part of a group of insurance companies known as Global Bankers Insurance Group (GBIG), which in turn is part of a larger group of companies known as Global Growth (f/k/a Eli Global), which is owned by Greg Lindberg. The Global Bankers Task Force has primarily focused its attention on activities related to the three North Carolina–domiciled insurers that were ordered into rehabilitation June 27, 2019: SNIC, BLIC, and CBLIC.

Pavonia

Pavonia had positive capital and surplus, did not have troubled affiliated investments, and therefore was not expected to trigger guaranty associations. However, it was placed in rehabilitation to facilitate a sale of the company by GBIG Holdings to Aspida Holdco LLC. Following GBIG Holdings' refusal to close on the sale, the Rehabilitation Court issued orders approving the rehabilitation plan providing for the sale of Pavonia to Aspida pursuant to a stock purchase agreement, and granting Aspida's subsequent motion for specific enforcement of the stock purchase agreement. In response, GBIG Holdings filed an appeal with the Michigan Court of Appeals and a separate lawsuit in New York seeking to block the sale.

On March 25, 2021, the Michigan Court of Appeals issued its opinion and order reversing the decision of the trial court granting specific performance, vacating the orders memorializing the trial court's rulings, and remanding the matter to the trial court for further proceedings to resolve certain issues raised in the appeal.

After the remand, the Receiver for Pavonia, GBIG Holdings, and Aspida negotiated a settlement. As part of the settlement, Pavonia sold Global Bankers Insurance Group, LLC (GBIG, LLC)—a direct subsidiary of Pavonia that provided all executive management, regulatory oversight review, and administrative services for Pavonia's operations—to Aspida. Another part of the settlement granted GBIG Holdings time to refinance the debt that it owed to Aspida. With that time, GBIG Holdings successfully refinanced the Aspida debt through Axar Capital, LLC. GBIG also proposed a sale of Pavonia to Axar Capital LLC and filed a Form A for the proposed sale with the Michigan Insurance Department, which subsequently approved the transaction.

In September 2022, the Rehabilitation Court approved the sale of Pavonia to Axar Capital, LLC. The rehabilitation was terminated on September 14, 2022.

The North Carolina Insurers

Insurance Business: SNIC's insurance obligations are primarily small value life insurance policies, generally related to burials. The insurance obligations of BLIC and CBLIC are primarily annuities with some life and health insurance.

Reported Financial Condition: Each of the three insurers has substantial affiliated investments. On July 26, 2019, a change in North Carolina law applied limits to the affiliated investments, causing the vast majority of $1.2 billion in loans held by the three insurers to be non-admitted. The Receiver reported that with the application of the law, there was a negative surplus (as of June 30, 2022) for all three companies as follows: SNIC, negative $190 million; BLIC, negative $104 million; and CBLIC, negative $1.142 billion.

BLIC & CBLIC: On November 1, 2022, the Rehabilitator filed a petition in the court seeking to place BLIC and CBLIC into liquidation. The Receivership Court responded by scheduling a hearing on the petition on November 21, 2022. During the hearing, the court ruled that GBIG Holdings, as stockholder, lacked standing but allowed the company to participate in the hearing for the purpose of presenting opposing arguments. The court also denied GBIG Holdings' request for discovery and request for continuance and indicated the court would grant the Rehabilitator's petition and issue a liquidation order for BLIC and CBLIC.

On December 30, 2022, the Receivership Court issued an Order granting the petition for liquidation of BLIC and CBLIC. Per the terms of the Order, (1) the Order will become effective on March 31, 2023, if there are no appeals; and (2) if the Order is appealed, the Order will become effective the first month-end occurring on or after 90 days following the favorable conclusion of all appeals. NOLHGA has not entered an appearance in the receivership and did not appear during the November 21 hearing.

SNIC: On March 12, 2021, the Rehabilitator filed a petition in the court seeking to place SNIC into liquidation. On April 14, 2021, GBIG Holdings filed an objection to the Liquidation Petition. After a hearing before the court, the Rehabilitator and GBIG Holdings filed a Joint Motion to Stay the Proceedings on June 8. 2021. The court granted the Joint Motion to Stay on July 7, 2021.

Pursuant to a settlement agreement, GBIG Holdings was obligated to fund SNIC's monthly cash requirement for claims and expenses (each a "Monthly Cash Requirement") on a monthly basis, beginning in May 2021. The Rehabilitator reserved the right to ask the Court to move forward with the Liquidation Petition in the event GBIG Holdings does not fund the Monthly Cash Requirement in any given month.

A liquidation hearing was scheduled for March 2022 due to GBIG Holdings' failure to fund the Monthly Cash Requirement. However, the Stay of Liquidation Order was renewed at the March 2022 hearing after GBIG Holdings replenished the Escrow Fund and recommitted to pay the Monthly Cash Requirement. At the hearing, GBIG Holdings consented to liquidation if it failed to pay the Monthly Cash Requirement in the future (assuming SNIC was then insolvent).

MOU & IALA Litigation: On June 27, 2019, the three North Carolina insurers entered into a Memorandum of Understanding (MOU) and an Interim Amendment to Loan Agreement (IALA) with Lindberg; Academy Association, Inc.; and Edwards Mill Asset Management, LLC, regarding approximately $1.2 billion in affiliated loans and related agreements. The MOU and IALA agreements included, but were not limited to, the following: (1) the immediate partial amendment of, among other things, the interest rate and repayment terms of various affiliated loans through the IALA; (2) the global restructuring of various affiliated companies through the formation of a new holding company; and (3) the global restructuring and modifications of all affiliated loans, including assignment of the loans to the new holding company.

The restructuring was supposed to be completed by September 30, 2019; it was not due to the failure by the defendants to close. Accordingly, the Rehabilitator, on behalf of the three insurance companies, filed a lawsuit on October 1, 2019, in state court in North Carolina, pending before the same judge handling the receiverships. The trial commenced on June 21, 2021, and concluded on June 30, 2021.

On May 18, 2022, the court issued a 45-page order holding that: (1) the MOU is an enforceable agreement and subject to specific enforcement; (2) the defendants breached the MOU by, among other things, failing to transfer ownership of the affiliated loans; and (3) that Lindberg committed fraud by making false statements regarding authority related to transactions contemplated in the MOU. The court awarded specific enforcement of the MOU, and if specific performance is not available, then at least $116.7 million in compensatory damages plus punitive damages (treble damages).

The defendants allegedly have taken no steps to implement the MOU and have appealed the decision. On August 20, 2022, the Court ruled that the defendants could post documentary security with the Clerk to obtain a stay of the order pending appeal. Briefing on the appeal is scheduled to commence in January 2023.

Moratorium & Withdrawal Program: At the time of the rehabilitation, the court entered a moratorium prohibiting withdrawals, loans, and surrenders, subject to hardship provisions. In September 2020, the court modified the moratorium to allow a partial withdrawal program that allowed annuity contract owners to withdraw 10% of the account value up to a maximum of $15,000 per contract owner. In addition, under the court order, annuity owners with a current account value of less than $1,000 would receive the account value unless the contract owner opted out and elected to retain their annuity. The program was

communicated to policyholders in late 2020 and concluded on April 30, 2021. Approximately 43,000 policyholders submitted requests totaling approximately $46.5 million.

In November 2022, the Receiver filed a motion for instruction to correct policy maturity errors regarding CBLIC annuity riders and a motion to modify the Moratorium to allow annuity owners to be paid annuity account interest, prospectively. No response has been filed to these motions, no hearing has been scheduled, and no order has been entered.

Criminal Charges: On March 5, 2021, Lindberg was convicted of conspiracy to commit honest wire fraud and attempted bribery of the North Carolina Insurance Commissioner. Lindberg appealed the conviction, and in June 2022 the U.S. Fourth Circuit Court of Appeals overturned the conviction. A new trial has been scheduled for March 2023.

On December 22, 2022, Chris Herwig, who served as the Global Insurers' Chief Investment Officer/Treasurer, pled guilty to crimes in connection with insurance business, wire fraud, money laundering, transactional money laundering, and investment adviser fraud.

Administration – Cost Sharing: The three North Carolina insurers, in addition to Pavonia and other affiliates, were participants in a cost-sharing agreement (CSA) that preceded rehabilitation. The agreement provided for administrative services to be provided by GBIG, LLC, a subsidiary of Pavonia, with costs allocated among the entities.

On July 8, 2021, the CSA terminated when GBIG, LLC, was acquired by Aspida Holdco, LLC, an indirect subsidiary of Ares Management Corporation. GBIG, LLC, formally changed its name to Aspida Financial Services, LLC. The North Carolina insurers entered into a Transition Services Agreement with Aspida Financial Services, LLC, to replace the services rendered under the CSA.

On October 13, 2021, the North Carolina insurers obtained the court's permission to transfer the servicing of a portion of their business to new third-party administrators (TPAs) at a reduced cost from the CSA. In the fourth quarter of 2021, Universal Fidelity Life Insurance Company began servicing a portion of SNIC's business, and Actuarial Management Resources (AMR) began servicing BLIC's and CBLIC's business. Policyholders and agents were notified in writing of the transition. The task force is in initial discussions with AMR regarding a potential service agreement should BLIC and CBLIC enter liquidation.

Reinsurance Agreements: There are multiple reinsurance agreements involving each of the North Carolina insurers. Among those, SNIC, as reinsurer, entered into a reinsurance agreement relating to approximately $100 million in insurance obligations with an unaffiliated North Carolina insurer, North Carolina Mutual Life Insurance Company, that is in liquidation. The agreement was modified in 2020 to eliminate a trust agreement; at the end of 2020, SNIC provided notice that it would no longer honor its obligations under the reinsurance agreement.

For BLIC and CBLIC, the task force is beginning to review the reinsurance agreements in force, the potential impact on guaranty associations, and strategies for dealing with them. While there is a significant reinsurance agreement between BLIC and CBLIC in which BLIC ceded obligations to CBLIC (which is anticipated to be terminated upon the liquidation order becoming effective), there do not appear to be significant reinsurance treaties in which CBLIC or BLIC has ceded material risk to third parties.

ULIC, PBLA & Complaint: Universal Life Insurance Company (ULIC) is a Puerto Rico–domiciled life insurance company that previously entered into a reinsurance and trust agreement dated June 30, 2017, with PB Life and Annuity Co., Ltd. (PBLA), an affiliate of Global Growth Holdings, Inc. PBLA is a Bermuda–domiciled insurer. On September 18, 2020, the Bermuda Monetary Authority presented a petition to the Supreme Court of Bermuda to wind up PBLA. The court appointed Joint Provisional Liquidators (JPLs), which commenced an ancillary bankruptcy proceeding in New York by filing a Verified Petition for relief under Chapter 15 of the United States Bankruptcy Code.

As a result of a prior arbitration related to the breach of the reinsurance and trust agreement, ULIC obtained a final judgment against PBLA in the amount of approximately $524 million plus interest. ULIC asked the JPLs to institute litigation to void certain transfers made by PBLA for the benefit of certain third parties, but the JPLs declined to do so. As a result, ULIC filed a complaint (the ULIC Complaint) and is pursuing voidable transfer claims directly against third parties in the ancillary bankruptcy proceeding.

The ULIC Complaint was filed against approximately 50 named defendants, including Lindberg, companies that were wholly owned and controlled by Lindberg, and certain unaffiliated financial institutions. The ULIC Complaint asserts claims for voidable transfer, unjust enrichment, conversion, constructive trust, fraud, and breach of fiduciary duty; it seeks recovery of at least $524 million plus interest and includes a jury demand. Lindberg filed a motion to dismiss asserting, among other things, that the court lacks personal and subject matter jurisdiction and that ULIC failed to plead the facts necessary to establish an alter ego theory and/or pierce the corporate veil.

In April 2022, the court entered an order dismissing the ULIC Complaint due to a lack of subject matter jurisdiction. Subject matter jurisdiction was addressed in almost all the motions to dismiss that had been filed, including the motion filed on behalf of Lindberg. The primary argument in favor of dismissal due to lack of subject matter jurisdiction was that ULIC's claims were not "related to" PBLA's bankruptcy because any recovery would benefit ULIC rather than PBLA's estate.

ULIC is continuing its judgment collection efforts in two ways. First, through a charging order, ULIC is seeking to receive Lindberg's economic interests in assets and affiliated entities. The other collection effort relates to ULIC seeking to force Lindberg to sell his shares of Global Growth, which ULIC could consider buying.

Lastly, on January 4, 2023, the JPLs for PBLA filed a complaint in the Bankruptcy Court for the Southern District of New York for $735 million against Lindberg, the North Carolina Insurance Commissioner, BLIC, CBLIC, and SNIC. The complaint alleges substantial financial improprieties.

OUTLOOK

For BLIC and CBLIC, notwithstanding the appeal and the delayed effectiveness of the liquidation order, the Global Bankers Task Force is continuing its efforts to ensure the guaranty associations will be prepared to meet their obligations upon being triggered. Among other activities, task force representatives are exploring a TPA agreement and analyzing issues affecting affected associations, including coverage obligations, reinsurance, assessments, policyholder distributions, assets, and early access.

For SNIC, the task force will continue to monitor GBIG Holdings' obligations under the settlement agreement and continue communications and coordination with the North Carolina Receiver, North Carolina regulators, and the guaranty associations.

The timing of guaranty association triggering is unclear.

Lincoln Memorial Life Insurance Company

Lincoln Memorial Life Insurance Company and its parent, Memorial Service, sold life insurance policies to fund pre-need funeral home service arrangements. The pre-need funeral contracts were marketed primarily through an affiliated company—National Prearranged Services, Inc. ("NPS"). NPS was also brought under the oversight of the Texas Department of Insurance as part of the 2008 rehabilitation and liquidation orders. Both insurance companies were domiciled in Texas, while NPS was a Missouri-based company. As of the liquidation date, the insurance companies were owned directly or indirectly by Forever Enterprises, Inc., which in turn was owned by National Heritage Enterprises, Inc. National Heritage was controlled by the RBT Trust II, a family-owned trust controlled by the Cassity family.

A Liquidation Plan was developed for the guaranty associations to essentially run off the insurance

business using the Special Deputy Receiver ("SDR") as their third-party administrator for claims ("TPA"). The plan was approved by the Texas Receivership Court and became effective on September 22, 2008. It calls for the policies to be allocated between Standard Policies (those owned by an individual, with the beneficiary being an estate or funeral home, etc.) and Disputed Policies (those in which NPS and various trusts associated with NPS listed themselves as the owner, took policy loans, issued replacement term policies for whole-life policies, or where certain other specified activities took place).

As of the liquidation date, the insurance companies combined had approximately 200,000 policies in force, with $600 million (not including assumption treaties discussed below) in face amounts.

Assumption Reinsurance

A small block of business (approximately $52 million face amount) was discovered that had been transferred to North America Life Insurance Company under an indemnity reinsurance treaty. All records and administration of the business were also transferred. In turn, North America retroceded a portion of the block to North Carolina Mutual Life Insurance Company along with all administrative functions. The guaranty associations negotiated a Service Agreement during the fall of 2008 to provide for administration of the policies.

Subsequent to those agreements, an Assumption Reinsurance Agreement was negotiated in which each company assumed the policies that it was administering. The Assumption Agreement closed on December 30, 2008, with no guaranty association funding since assets transferred under the original reinsurance treaties supported the covered obligations. Final closing occurred by March 2009, with the approvals received from the various insurance departments and assumption certificates being issued.

A request for proposal ("RFP") was undertaken during the summer of 2010 for the in-force blocks of both Lincoln Memorial and Memorial Service. Solicitation letters were mailed to 235 entities, with 2 companies submitting proposals. This resulted in the assumption of the Memorial Service block of business by Investors Heritage Life Insurance Company. That transaction closed on July 6, 2011. Assumption funding for this transaction by the Texas Life & Health Insurance Guaranty Association was approximately $94.6 million. The only proposal received on the Lincoln Memorial block was not accepted.

During 2017, certain remaining life insurance policies and the related pre-need contracts were assumed by the Liberty Bankers Life/The Capitol Life Insurance Companies. The initial closing on the transaction took place on November 1, 2017, with the final accounting taking place on November 30, 2018 (see below). Total funding was $118.3 million.

There are two remaining blocks—approximately 9,500 policies with $5.3 million in estimated reserves.

Estate Distributions

Guaranty associations have received $77.7 million in early access distributions ($75 million cash and $2.7 million from deposits held in various states).

Legal Activity

***Civil Litigation*:** On August 6, 2009, the SDR, NOLHGA, and certain individual guaranty associations filed an action in the federal district court in St. Louis, Missouri. The original complaint asserted more than 30 claims for relief (including a federal RICO claim) and named over 40 defendants, including Cassity family members, related companies, professional advisors, banks, and an accounting firm. All affected states are participating in this third-party litigation except Alabama, Alaska, Connecticut, Delaware, Florida, Hawaii, Maine, North Carolina, Pennsylvania, South Carolina, Vermont, and Virginia. Alabama, North Carolina, South Carolina, and Virginia have deposits exceeding their obligations.

A first amended complaint was filed on July 12, 2010. After the court denied preliminary motions to

dismiss but requested clarification regarding the various causes of action, a second amended complaint was filed on January 28, 2011. A third amended complaint was filed on April 30, 2012, which added new defendants and expanded allegations against certain existing defendants. This filing led to a new round of dismissal requests from the defendants. Those motions were denied, except those relating to newly pled aiding and abetting claims against certain defendants, which were dismissed by the court in September 2012.

In July 2011, the court granted the government's request for a partial stay of the civil proceedings in light of then-pending criminal indictments against a number of the individual defendants (described below). As a result of the stay, all testimonial discovery (except written discovery between the plaintiffs and the Bank Defendants) was postponed until the criminal proceedings were completed in late 2013. Documentary discovery involving any defendants was unaffected by the stay and remained ongoing throughout 2012 and 2013.

In addition to the usual activity occurring between the parties, on September 13, 2013, the court ordered the U.S. Marshals to seize and oversee the transfer of records that were hidden in crypts at two cemeteries associated with the Forever Defendants. Additionally, plaintiffs needed to file additional discovery and deposition requests to certain defendants to get them to produce documents and witnesses.

Due to the completion of the criminal trial activities (see below), activity in the civil litigation increased during 2013 and 2014. On April 16, 2013, the court issued the Case Management Order, setting a jury trial to begin on February 2, 2015, and last up to 11 weeks. The discovery process continued throughout 2014 and into 2015, and both the SDR and NOLHGA continued to respond to interrogatories and requests by certain Bank Defendants to produce documents that were received during the year. Additionally, plaintiffs had served numerous discovery requests on various defendants, including the Bank Defendants. Various hearings were held during December 2014 and January 2015 to resolve any remaining issues.

Prior to the 2015 trial, the plaintiffs settled with all defendants except for two: PNC Bank and Forever Enterprises. The trial with the remaining defendants began on February 2 and lasted almost six weeks. The jury awarded the plaintiffs damages of $355 million, plus punitive damages of $35.55 million, against PNC Bank and $100 million against Forever Enterprises (because Forever has no assets, the latter judgment is considered uncollectable). Post-trial, PNC Bank successfully moved to reduce the damage award against it by $101.6 million due to settlements entered into by the plaintiffs with other defendants in the case. PNC Bank appealed the judgment to the Eighth Circuit Court of Appeals. The plaintiffs in turn cross-appealed on several issues. See below for further discussion.

***Criminal Litigation*:** Federal authorities indicted six individuals (all of whom were also named defendants in the civil proceeding involving guaranty associations). The indictments alleged 50 counts against those defendants and sought recoupment of their assets. The criminal trial was scheduled to last 12 weeks, commencing August 5, 2013. Prior to commencement of the trial, five defendants (Province, D. Cassity, B. Cassity, Wittner, and Sutton) accepted plea agreements. One defendant (David Wulf) went to trial and was convicted on all counts.

Below is a summary of the criminal cases. All defendants began serving their sentences in January 2014.

	Result	Sentence	Forfeitures	Restitution Award	Status	Approximate Number of Months Served
Doug Cassity	Pled guilty	115 months	$3.7 million plus PLICA shares	$435 million	Released May 2020 due to COVID; passed away on May 31, 2020	77 months
Randy Sutton	Pled guilty	84 months	None	$435 million	Passed away in prison on Dec. 9, 2014	11 months

Howard Wittner	Pled guilty	36 months	$1.9 million	$10.5 million	Released Oct. 2014 due to health	9 months
David Wulf	Convicted	120 months	None	$435 million	Released in May 2020 due to COVID	77 months
Brent Cassity	Pled guilty	60 months	$3.7 million plus PLICA shares	$435 million	Released in May 2017	41 months
Nicki Province	Pled guilty	18 months	None	$435 million	Released in Jan. 2015	12 months

2022 ACTIVITY

Claims & Premium Administration

As of December 30, 2022, guaranty associations have funded approximately $485.5 million for death claims (this includes the $94.6 million assumption funding by the Texas guaranty association for Memorial Service Life and $124.1 million for the Lincoln Memorial block assumed by Liberty Bankers/Capitol Life). In-force policy counts have decreased from an initial count of 211,957 (both Lincoln and Memorial) at liquidation to just under 7,200 (Lincoln only) at the end of December 2022. Remaining face amounts covered by guaranty associations total approximately $10.2 million as of December 2022.

Premium collections were made by the SDR on behalf of the guaranty associations through late 2017 (premiums ceased because of the assumption agreement with Liberty Bankers). Through December 2019, approximately $32 million had been received. Premiums had been forwarded to NOLHGA on a quarterly basis and were subsequently disbursed to the guaranty associations or held in an escrow account used to fund claims.

Legal Activity

***Litigation Recoveries*:** A settlement involving BMO/Winner Road and certain trusts was concluded, approved by the court, and funded in 2022 in the amount of approximately $1 million for eventual distribution under the Joint Prosecution Agreement. To date, the plaintiffs have received approximately $259.3 million in settlement, forfeiture, and restitution payments from certain defendants. The guaranty associations' share of this is approximately $200.5 million.

OUTLOOK

Covered claims will continue to be funded by the guaranty associations on approximately a monthly basis. The NOLHGA Task Force will seek to transfer administration of the remaining policies to the guaranty associations. The Task Force is continuing to work with the SDR to coordinate transfer and/or abandonment of assets to facilitate the closing of the estate.

The Litigation Oversight Committee continues to oversee the actions against third parties and any potential settlement and/or asset recovery scenarios.

National States Insurance Company

National States Insurance Company wrote life, accident and health, long-term care (LTC), home healthcare, and Medicare Supplement insurance policies and was licensed in 37 states (Alabama, Arizona, Arkansas, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Carolina,

North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, and Wisconsin). A large part of the LTC business was concentrated in Florida, where National States experienced adverse financial results due to inadequate rates and an inability to gain regulatory approval for rate increases.

On April 1, 2010, the Circuit Court of Cole County, Missouri, issued a consent Judgment of Rehabilitation based on the hazardous financial condition of National States Insurance Company. John Huff, Director of the Department of Insurance, Financial Institutions and Professional Registration,[1] was appointed Rehabilitator, and Bruce Baty was named Special Deputy Receiver.

An assumption transaction with United Security Assurance ("USA") covering approximately 5,700 non-Florida, non-return-of-premium LTC policies was executed and approved pre-receivership. On August 31, 2010, the Receiver filed his First Semiannual Report with the supervising court and advised the court that rehabilitation was not feasible. In mid-September, the Receiver accepted a bid from Oxford Life Insurance Company for the Medicare Supplement block and proceeded to negotiate a transfer of the business, which was approved by the supervising court on October 8, 2010. The transfer encompassed approximately 33,300 policies, with an effective date of September 1, 2010, and included a 25% reduction in agent commissions.

On October 28, 2010, the Receiver filed a petition for the liquidation of National States. On November 15, the court entered an order of liquidation with a finding of insolvency against the company and approved the Early Access Agreement and Service Agreement between NOLHGA and the Receiver. The task force executed a Joint and Common Interest Agreement with the Receiver on January 21, 2011. NOLHGA filed an appearance in the receivership proceedings.

On May 23, 2011, the MPC authorized an Assumption Reinsurance Agreement with Family Life Insurance Company and the National States Liquidator concerning National States's life policies. National States's life block comprised approximately 60,000 simple-issue burial life policies with average face amounts of around $8,700, which were primarily whole life policies with an average annual premium per policy of $450. The business was 90% reinsured under treaties with four reinsurers. The agreement was approved by the Receivership Court on July 15, 2011.

In October 2011, an opt-out package was sent to the affected guaranty associations concerning the Northstar reinsurance treaty, in which RGA replaced Northstar. There were no opt-outs. This agreement was approved by the court on October 31, 2011. The Family Life assumption agreement opt-out package was sent to the guaranty associations on December 29, 2011, with a January 28, 2012, deadline. There were no opt-outs.

On October 20, 2011, NOLHGA, on behalf of the guaranty associations, filed an Omnibus Proof of Claim with the Receiver. The life policy Assumption Agreement with Family Life was closed on February 16, 2012, with an effective date of October 1, 2011.

In June 2012, Swanson & Associates and Strohm Ballweg performed an audit on the LTC claims. Return-of-premium ("ROP") issues were reviewed and evaluated, with new procedures for handling post-liquidation ROP being instituted. The task force tested the waters to see if there was any interest for the non-LTC health business. This small block of business consisted of approximately 3,100 guaranteed renewable policies.

Family Life tendered an offer to assume these non-LTC health policies, excluding approximately 410 policies that might be subject to the Patient Protection and Affordable Care Act if assumed by Family Life. On October 1, 2012, an MPC resolution was adopted authorizing the task force to finalize the Assumption Reinsurance Agreement with Family Life. An opt-out package was sent to the guaranty associations on

[1] The Department of Insurance, Financial Institutions and Professional Registration is now known as the Department of Commerce and Insurance.

October 8, 2012, with a November 7, 2012, deadline. There were no opt-outs. On October 26, 2012, the court approved the agreement. The transaction closed on November 30, 2012, with an effective date of December 1, 2012. The 410 policies that were not assumed will continue to be administered by National States along with the LTC policies.

A review of ROP provisions was completed during 2013. Ongoing guaranty association funding continues for those obligations deemed covered by the applicable guaranty association. An updated Proof of Claim was filed with the Receiver in November 2017. An interim distribution of $8.4 million ($4.9 million of estate cash and $3.5 million in deposits) was made during 2018. A final estate distribution in the amount of $4 million was received in December 2020 and distributed in January 2021. Overall, 8.81% of expense and policy-level claims were recovered from estate distributions.

2022 ACTIVITY

Biweekly claims funding and monthly premium collections on the remaining business continued throughout the year. The former TPA, TriPlus Services, Inc., merged with Davies Life & Health, Inc., and the task force addressed transition-related matters resulting from the merger, including a review of the communications to affected policyholders and guaranty associations. The task force also coordinated with several task forces (Life & Health Insurance Company of America, Penn Treaty/ANIC, and Senior American Insurance Company) and Davies to address policy variance requests raised by policyholders affected by Hurricane Ian.

OUTLOOK

The task force will continue to oversee biweekly claims funding and monthly premium collection by Davies; monitor Davies's privacy/security procedures compliance; and monitor liquidation court filings and progress by the Liquidator's team on possible estate closure in 2023.

The Association will continue administering LTC policies for Missouri insureds.

North Carolina Mutual Life Insurance Company

North Carolina Mutual Life Insurance Company (NCM), based in Durham, North Carolina, was founded in 1898 and offered life insurance and annuities as well as accident and health products to individuals and groups. On December 3, 2018, NCM was placed into rehabilitation with the consent of the company's Board of Directors. Although the rehabilitation proceedings were initially confidential and sealed by court order, on February 1, 2019, an order was entered to unseal the court file. Among other things, the Rehabilitation Order included a moratorium on surrenders and loans subject to a case-by-case review. Don Roof of Examination Resources, Inc., was appointed as the Deputy Receiver.

According to the Schedule T of the 2019 Annual Statement. NCM was licensed in 23 states. It appears there are 25 affected guaranty associations.

The bulk of the business (administered at the NCM office) consists of small whole life face amount policies utilized in the pre-need and final expense markets, FEGLI, annuities, and a very small block of health policies. There is also a small block of universal life policies being administered by an unrelated third-party, Selman.

As of October 31, 2022, the life block has approximately $529 million in death benefits, of which $525 million appears to be covered by the guaranty associations. Net cash values were approximately $131 million, of which over $130 million appears to be covered. In addition, there is a very small block of annuities with a cash surrender value of $3.2 million, of which almost $2.8 million appears to be covered. The health insurance reserves are less than $84,000.

Over 70% of death benefits are covered by 6 states (Alabama, Georgia, Maryland, North Carolina, Pennsylvania, and Virginia). The universal life and annuity blocks were determined to be subject to

Moody's interest rate rollback and roll-forward adjustments.

There are two reinsurance agreements that have had a significant negative impact on NCM's financial status. The Deputy Receiver is seeking to recover approximately $34 million from Port Royal Reinsurance; the assets securing the agreement appear to have been misappropriated. The reserve credit taken by NCM at year-end 2017 was approximately $28 million.

The other reinsurance agreement involves Southland National Insurance Corporation. Reserve credits taken by NCM were approximately $102 million. However, performing assets backing the treaty are lacking, leaving an approximate shortfall of $50 million. Provisions for both treaties were made in NCM's financial statements, leading to an approximate surplus deficit of $76 million at year-end 2020.

Representatives from NOLHGA and the NCM Task Force have had continuing discussions with representatives of the North Carolina Department of Insurance and the Deputy Receiver since the company was ordered into rehabilitation. A review of the NCM service operations was undertaken by Strohm Ballweg in late 2020, along with an ongoing review of the quarterly financial statements.

On September 24, 2021, the Commissioner filed a petition for liquidation with a finding of insolvency. In anticipation of a liquidation order, Service and Early Access Agreements were finalized and a 30-day opt-out process was undertaken with affected guaranty associations. All guaranty associations have elected to participate in both agreements. The Receivership Court had scheduled a hearing on December 20, 2021, to consider the liquidation petition. That hearing was delayed to early 2022.

2022 ACTIVITY

Early in 2022, the Receiver notified the task force of a ransomware attack on NCM that occurred in December 2021. This delayed not only the hearing on the liquidation petition but also policy administration and claims payments for weeks as the company's IT system had to be rebuilt. The task force engaged Mandiant (a cybersecurity firm) to confirm that there was no loss or theft of data and that the rebuilt system was secure.

Ongoing monitoring of the estate, litigation, and reinsurance activities continued throughout the year by NOLHGA and representatives from the North Carolina Department. Analysis of policy-level data began mid-year to prepare for a liquidation effective date.

On October 11, 2022, a hearing took place before Judge Graham Shirley of the Superior Court of Wake County, North Carolina, regarding the petition filed by the Receiver for an order of liquidation with a finding of insolvency. Judge Shirley entered a verbal order granting the petition on the basis that liquidation was necessary for the protection of the company's policyholders. The order was drafted with an effective date of October 31, 2022.

Administration of covered obligations will be done through the Service Agreement with the Receiver. Administrative expenses will be allocated to guaranty associations but paid with estate assets as early access distributions. Premiums will be collected and delivered to the guaranty associations as coordinated through NOLHGA and the GA Coordinator (Mark Femal). Claims will also be paid by the guaranty associations as coordinated through NOLHGA and the GA Coordinator. Coverage limits, including the Moody's adjustment, statutory limits, and the California guarantee association's 80/20 split, are being applied.

OUTLOOK

The task force's focus for the beginning of 2023 will be on implementing the Service Agreement with the Receiver as TPA. The task force will continue to examine several guaranty association coverage obligation issues, company financials, policyholder dividends, FEGLI, group life settlements, and reinsurance agreements. The task force will also continue to monitor any ongoing litigation.

Penn Treaty/American Network

Penn Treaty Network America Insurance Company (www.penntreaty.com) and its wholly owned subsidiary, American Network Insurance Company ("ANIC"), both Pennsylvania domestic life insurance companies, were placed in rehabilitation on January 6, 2009, and in liquidation on March 1, 2017. (For a complete history of the receiverships of the Companies, please see the annual reports from prior years.)

The captive insurance company established by the guaranty associations to serve as the vehicle to run off guaranty association–covered liabilities, LTC Reinsurance PCC (LTC Re), began operations in early 2017 and reinsured the covered obligations of most affected guaranty associations on March 1, 2017. LTC Re manages the collective asset management and oversees the administration of the covered policies on behalf of its 45 member guaranty associations. After an interim period during which Penn Treaty staff under the direction of the Receiver provided policy and claims administration services for the guaranty associations, NOLHGA and LTC Re entered into a long-term servicing agreement with TriPlus Services, Inc. At the same time, in the fall of 2019, TriPlus acquired most of Penn Treaty's infrastructure, including its IT platform, and made offers of employment to most Penn Treaty employees. In September 2020, TriPlus was acquired by Davies.

In liquidation, the guaranty associations implemented a national rate increase strategy for the Companies' policies. Rate increases were approved in all 48 states where filings were made. As of September 30, 2022, the impact of the implemented rate increases and benefit modifications was approximately $458 million (calculated on liquidation date liabilities, present valued at 4.25%).

2022 ACTIVITY

Policy & Claims Administration

On July 1, 2022, TriPlus merged with and into its affiliate, Disability Management Services, Inc. The merged entity was rebranded "Davies Life & Health, Inc." Peter Lucas, the former CEO of TriPlus, became the CEO of Davies Life & Health. The merger did not result in any changes to the day-to-day servicing of Penn Treaty and ANIC policies.

The task force continued to provide oversight of policy and claims administration activity in 2022. Davies administers Penn Treaty and ANIC policies covered by the 45 guaranty associations that are members of LTC Re and two guaranty associations that access Davies' services through NOLHGA. (Three guaranty associations administer their covered policies in-house.) The Policy and Claims Administration (PACA) Working Group and the Coordination and Strategy (C&S) Committee oversee policy and claims administration activities. PACA and the C&S Committee both include task force representatives.

The task force also monitored the development of two new programs. In late 2021, LTC Re engaged Assured Allies to offer a wellness program to a cohort of policyholders as a two-year pilot program. Task force representatives worked with LTC Re and Assured Allies on the launch of the pilot program and are monitoring the results.

In 2022, task force representatives worked with LTC Re to explore the implementation of an electronic visit verification (EVV) program for home healthcare policies administered by Davies. After an RFP process, the parties selected AssuriCare and are working on the launch of an EVV program for private and family caregivers in early 2023. The EVV program is designed to help identify fraud/waste/abuse, promote efficiencies in the claims submission process, and improve the policyholder experience. The task force and LTC Re are working closely with AssuriCare and Davies on the launch of the EVV program and its integration with Davies' claims administration processes.

National Rate Increase Strategy

The task force's rate increase subgroup continues to work with Davies and illumifin (formerly LTCG) on the implementation of rate increases and benefit modification elections, including in those states where rate increases are being phased in over several years.

Over-Limit Claim Litigation

In March 2019, the Receiver filed an Application for Declaration regarding Policyholder Claims for Non-GA Policy Benefits, asking the Commonwealth Court to confirm that the Receiver could use estate assets to pay policyholder benefits in excess of guaranty association coverage limits. In two orders issued in 2021 (one by a three-judge panel and the second *en banc*), the Commonwealth Court denied the Receiver's Application. The Receiver appealed the Commonwealth Court's decision to the Pennsylvania Supreme Court. The parties—the Receiver, UnitedHealth and Elevance Health (the health insurers that opposed the Application in the Commonwealth Court), and NOLHGA (which intervened for the limited purpose of addressing the Receiver's position that guaranty association claims are limited to their administrative expenses and their subrogated interest in covered policyholder claims)—filed briefs with the Pennsylvania Supreme Court in April through June 2022. The National Association of Insurance Commissioners and American Council of Life Insurers filed amicus briefs in support of the Receiver's appeal.

In October 2022, the Pennsylvania Supreme Court (without hearing oral argument) affirmed the Commonwealth Court's order, which held that the Receiver may not use estate assets to pay policyholder claims in excess of guaranty association coverage. This concluded the litigation and will allow the Receiver to move forward with a plan to distribute the Companies' assets.

Estate Asset Allocation

Pursuant to the Early Access Agreements with the Receiver, Penn Treaty and ANIC estate assets were used to pay guaranty association claims and expenses until the assets preliminarily allocated to the associations were exhausted (in December 2017 for Penn Treaty and April 2020 for ANIC). Assets were used to pay claims and expenses as they came due and were not distributed in proportion to each guaranty association's covered liabilities. In 2022, the task force and its consultants developed a methodology for the true-up of early access assets. The true-up will result in early access assets being allocated among the guaranty associations in proportion to their covered liabilities as of the liquidation date. The task force expects the true-up to be completed in early 2023.

The result of the Pennsylvania Supreme Court's October 2022 decision is that all estate assets not necessary to pay the Receiver's expenses will be distributed to the guaranty associations. The distribution of assets is subject to the approval of the Commonwealth Court. The task force and its legal counsel are coordinating with the Receiver and his legal counsel on the necessary court filings and the logistics for transferring the Companies' assets to the guaranty associations. The additional asset distribution is expected in the first half of 2023. The Receiver will hold back some assets for receivership expenses and for the wind-down of the Companies.

Communications

The task force continued to communicate as needed in 2022, providing reports on the status of Penn Treaty and ANIC at each MPC meeting. Task force representatives regularly communicated and worked closely with LTC Re, Davies, and the Receiver.

OUTLOOK

In 2023, the task force expects to focus on the early access true-up and the additional estate asset distribution. The Receiver plans to make lump sum asset transfers (from Penn Treaty and ANIC) to NOLHGA for distribution to the guaranty associations. The task force's actuarial, financial, and legal advisors will work with the task force and NOLHGA on the allocation of those assets among the guaranty associations.

The task force also will continue to coordinate with LTC Re and Davies on policy and claims administration

matters (including monitoring the wellness pilot program and implementation of the EVV program) and oversee rate increase implementation.

The task force expects the Receiver to move toward winding down the Companies once the estate assets are distributed and a plan is in place for the future of ANIC's New York subsidiary, American Independent Network Insurance Company (AINIC). (AINIC is licensed only in New York and is not in receivership. AINIC's future needs to be addressed before ANIC can be dissolved.) Once the Receiver is discharged and the estates are closed, any assets that were not used for receivership expenses will be distributed to the guaranty associations.

The timing of estate closure is unknown.

Task force representatives will continue to meet regularly with the Receiver's team to discuss asset distribution, the eventual closing of the estates, the New York subsidiary, and other issues related to the liquidation. The task force will continue to collaborate with LTC Re on issues of common interest.

Senior Health Insurance Company of Pennsylvania

The Senior Health Insurance Company of Pennsylvania (SHIP), under various names, has existed as a Pennsylvania-domiciled insurer since 1887. The company grew by merging with other insurers and acquiring blocks of business through assumption reinsurance. In 2008, the company (then known as Conseco Senior Insurance Company) was transferred by its owner, Conseco, Inc., to the Senior Health Care Oversight Trust (the Trust) and was renamed Senior Health Insurance Company of Pennsylvania. The transfer was subject to the approval and oversight of the Pennsylvania Insurance Department (PID). SHIP and its liabilities were severed from Conseco so that SHIP could complete a solvent runoff of its long-term care (LTC) insurance policies. At the time SHIP was transferred to the Trust, it had 152,000 LTC policies in force. As of year-end 2019, SHIP had 45,000 LTC policies in force.

From 2008 through 2019, SHIP's governance and operations were controlled by the Trust. A majority of the five trustees were former insurance regulators. SHIP outsourced its operational and policy/claims administrative functions; LTCG serves as TPA for SHIP. In addition, SHIP's affiliate, Fuzion Analytics, provides block management, fraud mitigation, data analytics, and claims management services. SHIP's employees and operational assets were transferred to Fuzion in 2014. Fuzion was a wholly owned subsidiary of the Trust until 2019, when the PID approved the Trust's contribution of Fuzion to SHIP.

As of December 31, 2018, SHIP reported negative capital and surplus of $467 million. In light of this financial disclosure, NOLHGA formed the SHIP Monitoring Group in 2019. The group established communications with the PID and its advisors and monitored publicly available information about SHIP. Each quarter in 2019, SHIP reported decreases in its capital and surplus and ultimately disclosed that it was working with the PID on a corrective action plan. That corrective action plan was never released to the public.

Pennsylvania Commonwealth Court—Rehabilitation Proceedings

Rehabilitation Order: On January 23, 2020, Pennsylvania Insurance Commissioner Jessica Altman asked the Pennsylvania Commonwealth Court to place SHIP in rehabilitation. The Trust and SHIP's Board of Directors consented to the rehabilitation (with a majority of the trustees and a majority of SHIP's directors voting in favor of consenting). On January 29, 2020, the Pennsylvania Commonwealth Court placed SHIP in rehabilitation, appointed Commissioner Altman as Rehabilitator, and appointed Patrick Cantilo as Special Deputy Rehabilitator. The Order of Rehabilitation required the Rehabilitator to file a plan of rehabilitation by April 22, 2020. NOLHGA's SHIP Task Force officially was constituted shortly after SHIP was placed under the Order of Rehabilitation.

Rehabilitation Plan: The Rehabilitator filed a proposed Rehabilitation Plan (the Plan) on April 22, 2020. The core of Phase One of the Plan involves providing policyholders with options to increase premium rates or reduce policy benefits so that all policyholders are paying at least the "If Knew" premium for their

benefits (basically, the "If Knew" premium is the premium the insurer would have charged from inception, had it known then what it knows now, to produce a target loss ratio of 60%). Depending on the results of Phase One, a second phase may be necessary.

In Phase Two, policyholders not paying a "Self-Sustaining Premium" would be required to elect a rate increase or benefit reduction option that would result in the premium being at the self-sustaining level for the benefits provided. In essence, the Plan requires policyholders to fill the asset deficit by accepting rate increases, benefit reductions, or both. The rate increases and benefit modifications would be made as part of the Plan approved by the Court. The Rehabilitator would not seek approval from other state regulators.

Intervention & Formal Comments: The Commonwealth Court issued a Case Management Order which, among other matters, permitted interested parties to intervene in the proceedings and/or submit formal comments on the Plan. On July 30, 2020, NOLHGA filed an application for limited intervention in the SHIP Court proceedings. The Court granted NOLHGA's limited intervention on September 15, 2020. Several other parties also intervened—the Maine, Massachusetts, and Washington insurance regulators (Intervening Regulators); a group of agents; a group of health insurers; two individual policyholders; and two insurers that were party to indemnity reinsurance agreements with SHIP. The intervening parties (including NOLHGA), a few additional state regulators, the Trust, and a few dozen policyholders filed formal comments in September 2020.

Amended Plan: The Rehabilitator filed an Amended Rehabilitation Plan on October 21, 2020. The amendments responded to issues raised in the formal comments and included clarifying revisions. In response to the objections raised by the Intervening Regulators, the Rehabilitator added an issue-state rate approval option to the Amended Plan. This option permits state regulators to opt out of having the Rehabilitator and the Court approve rate increases under the Amended Plan. If a state elects to opt out, the Rehabilitator will file a rate application in that state. If the opt-out state's Commissioner approves the rates as filed within 60 days, the policyholders in that state will have the same rate increase and benefit modification options under the Amended Plan as policyholders from participating states. If the opt-out state's Commissioner denies the rate application in whole or part or fails to act on the application within 60 days, the policyholders in the opt-out state will still be subject to the Amended Plan but will have certain options that are different and possibly less beneficial than those available to policyholders in participating states. In addition, the Amended Plan excluded three indemnity reinsurance agreements (where SHIP was the reinsurer) in response to concerns raised by NOLHGA and other parties. The Rehabilitator began working with the issuing insurers to terminate those reinsurance agreements.

Comments on Amended Plan: The Court permitted all parties that submitted formal comments on the Plan to file formal comments on the Amended Plan. Most formal commenters, including NOLHGA, submitted formal comments on the Amended Plan in November 2020. In response to these comments, the Rehabilitator filed a Second Amended Plan on May 3, 2021.

Hearing on the Second Amended Plan: From January through early May 2021, the Court held pre-hearing conferences and the parties submitted pre-hearing memoranda in advance of the hearing on the Second Amended Plan. With Judge Leavitt of the Pennsylvania Commonwealth Court presiding, the hearing on the Second Amended Plan took place (in person) on May 17–21, 2021. The Rehabilitator presented witnesses (Patrick Cantilo, Special Deputy Rehabilitator; Mark Lambright, Oliver Wyman; and Vince Bodnar, Oliver Wyman) in support of approval. The Intervening Regulators' witness (Frank Edwards of INS Consulting) testified as to the data he reviewed and the impacts of the Second Amended Plan in support of the Intervening Regulators' opposition to the Plan. The NOLHGA witnesses (Peter Gallanis of NOLHGA and Matt Morton of LTCG (now illumifin)) testified as to the background on the guaranty system, guaranty association rights and obligations in liquidation, NOLHGA's monitoring of the SHIP proceedings, issues that NOLHGA identified with respect to the Second Amended Plan, analysis of impaired/insolvent insurers, application of guaranty association coverage, and the Penn Treaty premium rate increase program. NOLHGA did not take a position on approval. The intervening agents participated to assert rights to commission payments. Two SHIP policyholders testified remotely as to certain concerns they had with

SHIP and the Second Amended Plan. The intervening health insurers participated in the hearing but did not present witnesses.

At the close of the testimony, the Rehabilitator's counsel made an oral motion seeking a judgment (in the nature of a directed verdict) against the Intervening Regulators regarding the issue-state rate approval option. The Rehabilitator argued that the Intervening Regulators did not present evidence supporting either their interest in or harm from this feature of the Plan. In response, counsel for the Intervening Regulators argued that this motion raised a legal issue that should be the subject of post-hearing briefing. Following argument, Judge Leavitt granted the Rehabilitator's motion, but indicated that the Intervening Regulators could file a motion for reconsideration following the hearing.

Post-Hearing Activity: Each of the parties (other than the intervening agents, for the reasons discussed below) filed proposed findings of fact, conclusions of law, and/or recommendations regarding the Second Amended Plan and responses to other parties' filings. The Intervening Regulators filed an application for reconsideration of the Court's order granting the Rehabilitator's motion for judgment with respect to the issue-state rate approval option. On August 25, 2021, the Court issued an order denying the Intervening Regulators' application.

On July 23, 2021, the Rehabilitator and the intervening agents filed a Joint Application for Approval of a Settlement Agreement. Following a hearing on September 8, 2021, the Court issued an order approving the Settlement Agreement. Under the settlement, SHIP paid the intervening agents $350,000. If SHIP is still in rehabilitation on the third anniversary of the settlement, SHIP will pay the intervening agents 50% of their commissions as they become due for up to four years, provided SHIP still remains in rehabilitation. In exchange, the intervening agents withdrew their objections to the Plan.

Approval & Filing of Second Amended Plan: On August 25, 2021, the Court issued an order and opinion approving the Second Amended Plan. Among other matters, the Court found that the Rehabilitator did not abuse her discretion in formulating the Second Amended Plan, the Second Amended Plan will reduce or eliminate SHIP's funding gap, the Second Amended Plan will eliminate SHIP's inequitable and discriminatory premium rate structure, the rate increase/approval mechanism is permissible, and the Second Amended Plan is fair and equitable.

Rehabilitation Plan Implementation

In accordance with the Approved Plan, 12 states (Alabama, California, Connecticut, the District of Columbia, Hawaii, Iowa, Idaho, Maryland, North Dakota, Ohio, South Dakota, and West Virginia) elected to opt out of the Plan's rate approval provisions. The Rehabilitator began filing applications for those states to approve the rate increases provided by Phase One of the Plan in late 2021.
In accordance with the Approved Plan, the Rehabilitator filed with the PID an actuarial memorandum in support of the Phase One premium rate increases. On December 22, 2021, the Rehabilitator filed an application with the Court advising of the PID's approval and seeking the Court's acknowledgement and approval to use the Phase One rates.

On November 8, 2021, the Rehabilitator filed an application for the Court to approve the Rehabilitator's statement regarding restructuring of insurance liabilities in accordance with the Approved Plan. On

December 28, 2021, the Court approved the Rehabilitator's restructuring statement and authorized the Rehabilitator to proceed in accordance with the statement.

On October 1, 2021, the Intervening Regulators filed an application with the Court to stay the Approved Plan pending the resolution of their appeal to the Pennsylvania Supreme Court (see below). On November 4, 2021, the Court denied the Intervening Regulators' application for a stay.

Pennsylvania Supreme Court – Appeal of Approved Plan & Application for Stay

Intervening Regulators' Notice of Appeal: On September 21, 2021, the Intervening Regulators filed a notice of appeal and jurisdictional statement indicating they were appealing the Court's orders to the Pennsylvania Supreme Court. The filings indicated the Intervening Regulators would challenge the Court's orders on the following grounds: (1) the Approved Plan not being feasible; (2) the Approved Plan not providing policyholders with value at least equal to what they would receive in liquidation; (3) the Court approving the Approved Plan based on a "legitimate and significant public policy purpose" standard rather than on what is in the best financial interest of the policyholders; (4) the Approved Plan substantially impairing policyholders' contract rights without a legitimate public policy purpose; (5) the Approved Plan not treating all policyholders equally, as required by Pennsylvania and federal law; (6) the Approved Plan violating the U.S. Constitution and exceeding Pennsylvania statutory authority by setting rates in states outside of Pennsylvania; and (7) the Court's approval of the issue-state rate approval option, and the Court's granting of the Rehabilitator's motion in the nature of a directed verdict on this issue.

On November 8, 2021, the Intervening Regulators filed an application for a Stay of the Approved Plan with the Pennsylvania Supreme Court, which was opposed by the Rehabilitator and the intervening health insurers.

Amicus Parties: On November 12, 2021, 19 state insurance commissioners (Arkansas, Connecticut, Idaho, Iowa, Louisiana, Maryland, Mississippi, Montana, New Hampshire, New Jersey, New Mexico, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Utah, Wisconsin, and Wyoming) filed a motion seeking permission to file amicus briefs in support of the Intervening Regulators' application for a stay. On December 21, 2021, 27 insurance commissioners filed an amicus brief in support of the Intervening Regulators' appeal. In addition to the original 19 commissioners, commissioners from Alaska, Arizona, the District of Columbia, Indiana, Ohio, Rhode Island, Vermont, and West Virginia were parties on the brief.

Related Court Proceedings

In addition to the opposition in Pennsylvania, insurance regulators also have filed court actions in their own states seeking injunctions that would prevent the Rehabilitator from implementing the Plan with respect to policies issued or policyholders resident in their states.

In 2020, Louisiana Commissioner James Donelon filed a Complaint for Declaratory Relief and Permanent Injunction against the Rehabilitator with the U.S. District Court for the Middle District of Louisiana. That Complaint ultimately was dismissed, and in late 2021, Commissioner Donelon filed a petition for a preliminary injunction, permanent injunction, and declaratory relief in Louisiana state court against implementation of the Plan in Louisiana.

In late 2020, South Carolina Director of Insurance Raymond Farmer filed a Complaint for Declaratory and Injunctive Relief against the Rehabilitator, Patrick Cantilo as Special Deputy Rehabilitator, and SHIP (the Defendants) with the Court of Common Pleas in the Fifth Judicial Circuit of South Carolina. In early 2021, the Defendants removed the matter to the U.S. District Court for the District of South Carolina and then filed a motion to dismiss. The matter was remanded to the state court, which granted Director Farmer's motion for a temporary restraining order while considering his motion for a temporary injunction.

2022 ACTIVITY

Pennsylvania Supreme Court—Appeal of Approved Plan

On January 31, 2022, the Pennsylvania Supreme Court denied the Intervening Regulators' Application for Stay. Through the spring, the parties filed briefs with the Supreme Court. On September 15, 2022, oral argument on the appeal was held in Philadelphia. The Supreme Court heard from the Intervening Regulators (as appellants) and the appellees (Rehabilitator, the intervening health insurers, and NOLHGA).

The focus areas were: (1) how the Plan affects policyholders, and whether it is the best option for policyholders; (2) what policyholders would receive in liquidation; (3) whether policyholder interest takes precedence over creditors and the public; (4) whether the Plan corrects the grounds for rehabilitation; and (5) receivership basics.

As of year-end 2022, the Supreme Court had not yet ruled on the appeal.

Pennsylvania Commonwealth Court Proceedings

Actuarial Memorandum: On February 2, 2022, the Court approved the Rehabilitator's application for approval of the Phase One premium rates and supporting actuarial memorandum and authorized the Rehabilitator to implement the Phase One Premium Rates.

Rule to Show Cause Actions: On March 25, 2022, the Rehabilitator filed an application for Rule to Show Cause (RTSC) directed to the Maine and Washington regulators to enjoin or nullify cease and desist orders against implementation of the Plan issued by the regulators. After briefing, on August 25, 2022, the Court ordered the Maine and Washington regulators to cease and desist from interfering with the implementation of the Plan. The Court ordered the Rehabilitator to implement the Plan without regard to the cease and desist orders issued in those states.

On June 8, 2022, the Rehabilitator filed an application for RTSC directed to the Louisiana and South Carolina regulators as to their plan injunction actions in state court. On July 7, 2022, the Court ordered the Louisiana and South Carolina regulators to respond to the RTSC application. The Louisiana and South Carolina regulators did not respond. There has been no further action by the Court or the Rehabilitator.

SHIP Annual Report: On March 31, 2022, the Rehabilitator filed SHIP's Annual Report. The Annual Report provided updates on SHIP's Funding Gap ($1.3 billion as of December 31, 2021); pending litigation; SHIP's general insurance expenses ($38.4 million in 2021) and rehabilitation expenses ($12.8 million in 2021); asset recovery efforts; and policyholder elections under the Plan.

State Regulatory & Court Proceedings

Actions Commenced Before Plan Approval: In the action filed by the Louisiana Insurance Commissioner, the state court issued a preliminary injunction against Plan implementation on February 3, 2022. The Rehabilitator has appealed.

In the action filed by the South Carolina Director of Insurance, the state court issued a preliminary injunction on January 20, 2022. The Rehabilitator has appealed.

Actions Commenced After Plan Approval: Following the Plan approval, actions were brought by insurance commissioners in four state courts—Iowa, New Jersey, North Carolina, and North Dakota— seeking to stop implementation of the Plan. The Rehabilitator removed all actions to the federal court and applied for consolidation and transfer with the U.S. Judicial Panel on Multidistrict Litigation. On June 1, 2022, the transfer was denied. All four cases were remanded to state courts.

As of December 2022, the status of the state court actions was:

- Iowa: A hearing on Commissioner Ommen's petition for an injunction and the Rehabilitator's Motion to Dismiss was scheduled for January 13, 2023.
- New Jersey: A hearing on Commissioner Caride's petition for an injunction and the Rehabilitator's Motion to Dismiss was held on November 29, 2022, and both remained under review by the Court.
- North Carolina: The state court appeared to have denied Commissioner Causey's application for a preliminary injunction, but the order was not publicly available.

• North Dakota: The state court had scheduled a hearing for January 3, 2023 (later rescheduled for January 31, 2023) on the Rehabilitator's Motion to Dismiss and Commissioner Godfread's Motion for Preliminary Injunction.

Cease & Desist Orders: In addition to seeking recourse through the courts, some insurance regulators issued cease and desist orders against implementation of the Plan in their states. Cease and desist orders have been issued in the following 11 states: Alaska, Arkansas, Connecticut, District of Columbia, Maine, Maryland, Montana, Ohio, Utah, Vermont, and Washington.

Rehabilitation Plan Implementation

The Rehabilitator made rate increase filings in the opt-out states in late 2021 and early 2022. Of the 12 regulators who opted out, 5 approved the Phase One rate increases in full and essentially opted back into the Plan. The other 7 did not approve rates in full, which under the Plan means that policyholders of policies issued in their states will pay rates approved by the issue-state regulator, will have their benefits reduced to levels supported by the "If Knew" premium, and will have more limited benefit modifications options available.

The Rehabilitator completed Policyholder Election Package mailings to most policyholders in January and May 2022. As of mid-July 2022, 93.3% of policyholders had responded with an election. A third mailing to 3,000 policyholders of policies issued in states that opted out and did not approve full rate increases is pending.

In April 2022, the Rehabilitator notified policyholders who already received an Election Package that the Rehabilitator would delay election implementation until the earlier of October 1, 2022, or the issuance by the Pennsylvania Supreme Court of decision on the appeal. In September 2022, the Rehabilitator announced a continued delay in implementation due, at least in part, to court proceedings. The Rehabilitator indicated that policyholders will be notified approximately 30 days before their elections become effective.

In February 2022, Jessica Altman resigned as Pennsylvania Insurance Commissioner. Michael Humphreys was appointed Acting Commissioner and succeeded Altman as Rehabilitator of SHIP.

Estate Asset Recovery Litigation

The Rehabilitator initiated three pieces of asset recovery litigation in 2022:

• *Humphreys v. Wegner, et. al.*: In this action filed in the Commonwealth Court in January 2022 against certain of SHIP's former officers and consultants, the Rehabilitator makes claims of breach of fiduciary duty, civil conspiracy, negligence, breach of contract, and negligent misrepresentation. The Rehabilitator is requesting judgment in excess of $500 million. Preliminary briefing is underway.
• *Humphreys v. Vanbridge, et. al.*: In this action filed in the Commonwealth Court in January 2022 against parties involved with the reinsurance transaction between SHIP and Roebling Re, the Rehabilitator makes claims of breach of contract, breach of fiduciary duty, civil conspiracy, and negligence. The Rehabilitator is requesting judgment in excess of $10 million. Preliminary briefing is pending.
• *SHIP v. XL Specialty Ins. Co.*: This action filed in federal court in Indiana (Southern District) in September 2022 involves a D&O insurance dispute related to coverage of SHIP's payment of former President/CEO Wegner's defense costs in Humphreys v. Wegner. As of October 2022, SHIP had reimbursed Wegner $190,000 in defense costs. XL Specialty's answer is pending.

Actuarial Analysis

In July 2022, the task force provided to the guaranty associations potentially affected by the SHIP receivership updated liability estimates as of year-end 2021, prepared by LTCG using its models and assumptions based on data provided by the Rehabilitator. The updated liability projections were presented to the MPC in July. In connection with its year-end liability update, LTCG also updated the in-force summaries for SHIP policies resident in each state. The task force distributed the year-end liability memo and in-force summaries to the affected guaranty associations.

Task Force Activities

In 2022, the task force:

- Conducted teleconferences and meetings; issued reports; and kept the MPC informed on developments, including through presentations at each MPC meeting.
- Coordinated and communicated with the PID and Rehabilitator on developments.
- Monitored and reported on receivership court proceedings, the Pennsylvania Supreme Court proceedings, and the state (and federal) court proceedings in 6 states and cease and desist orders in 11 states.
- Monitored and reported on the Rehabilitator's asset recovery litigation and monitored and reported on the delayed implementation of the Rehabilitation Plan.

OUTLOOK

The task force will continue coordination and communication with the PID and Rehabilitator on developments and will continue to monitor and report on receivership court proceedings, the Pennsylvania Supreme Court proceedings on the appeal, the state court proceedings in six states, and the asset recovery litigation. An updated actuarial analysis based on year-end 2022 data will be prepared in the first half of the year.

The task force will closely monitor the implementation of the Plan (if the Pennsylvania Supreme Court affirms approval) and any additional delays in implementation. Task force subgroups will continue to be active as necessary during 2023 with respect to the matters assigned to them. The task force will continue to keep the affected guaranty associations informed of developments.

Financial Reporting and Audit for the year ending December 31, 2022

WILLIAMS KEEPERS LLC
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Missouri Life and Health Insurance
Guaranty Association

Opinion

We have audited the accompanying financial statements of the Missouri Life and Health Insurance Guaranty Association (the "Association"), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses and cash flow for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri Life and Health Insurance Guaranty Association as of December 31, 2022, and the changes in its net assets and its cash flow for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with U.S. generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Williams-Keepers LLC
Columbia, Missouri
March 13, 2023

MISSOURI LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

STATEMENT OF FINANCIAL POSITION
December 31, 2022
(with comparative totals for December 31, 2021)

	2022			2021
	Class A	Class B	Total	(Memorandum Only)
ASSETS				
Cash and cash equivalents	$ 49,598	$ 3,867,056	$ 3,916,654	$ 5,443,464
Investments	-	41,542,667	41,542,667	42,540,450
Accounts receivable, net	63,152	158,012	221,164	109,993
Interclass receivable (payable)	82,557	(82,557)	-	-
Unbilled assessments	-	1,336,319	1,336,319	1,336,319
Furniture and equipment, net of accumulated depreciation of $29,763 and $23,149 respectively	22,692	-	22,692	19,172
Other assets	3,494	-	3,494	3,427
Total assets	$ 221,493	$ 46,821,497	$ 47,042,990	$ 49,452,825
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	$ 35,339	$ 1,336,319	$ 1,371,658	$ 1,367,217
Accrued liabilities	85,803	-	85,803	87,299
Reserves for claims payable	-	7,472,511	7,472,511	5,175,324
Total liabilities	121,142	8,808,830	8,929,972	6,629,840
NET ASSETS - WITHOUT RESTRICTIONS	100,351	38,012,667	38,113,018	42,822,985
Total liabilities and net assets	$ 221,493	$ 46,821,497	$ 47,042,990	$ 49,452,825

The notes to financial statements are an integral part of these statements.

MISSOURI LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2022
(with comparative totals for the year ended December 31, 2021)

	2022			2021
	Class A	Class B	Total	(Memorandum Only)
SUPPORT AND REVENUES				
Liquidation distributions	$ -	$ -	$ -	$ 515,972
Net investment return	155	(1,056,439)	(1,056,284)	(221,496)
Allocations to Class B	344,960	-	344,960	226,979
Litigation recoveries	-	-	-	32,225,820
Premium income	-	261,244	261,244	276,812
Miscellaneous income	223	-	223	212
Total support and revenues	345,338	(795,195)	(449,857)	33,024,299
CHANGE IN UNBILLED ASSESSMENTS	-	-	-	-
EXPENSES				
Claims benefits and processing, net of changes in reserves	-	3,222,991	3,222,991	202,323
Assumption reinsurance ceding costs	-	23,804	23,804	17,445
Litigation fees	-	25,431	25,431	111,154
National Organization of Life and Health Insurance Guaranty Associations	-	274,273	274,273	250,242
General and administrative	345,338	23,311	368,649	262,428
Allocations from Class A	-	344,960	344,960	226,979
Total expenses, net of changes in reserves	345,338	3,914,770	4,260,108	1,070,571
Change in net assets	-	(4,709,965)	(4,709,965)	31,953,728
Net assets, beginning of year	100,351	42,722,632	42,822,983	10,869,257
Net assets, end of year	$ 100,351	$ 38,012,667	$ 38,113,018	$ 42,822,985

The notes to financial statements are an integral part of these statements.

MISSOURI LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2022
(with comparative totals for the year ended December 31, 2021)

	Program	General and Administrative	2022 Total	2021 Total
Claims benefits and processing, net of changes in reserves	$ 3,222,991	$ -	$ 3,222,991	$ 202,323
National Organization of Life and Health Insurance Guaranty Associations	274,273	-	274,273	250,242
Assumption reinsurance ceding costs	23,804	-	23,804	17,445
Litigation fees	25,431	-	25,431	111,154
Salaries and benefits	-	243,376	243,376	162,413
Professional fees	-	64,319	64,319	63,413
Other	-	22,672	22,672	18,094
Travel	-	12,502	12,502	1,643
Rent and utilities	-	14,852	14,852	10,942
Equipment and supplies	-	4,046	4,046	2,159
Depreciation	-	1,997	1,997	1,100
Dues, fees, and subscriptions	-	4,885	4,885	2,664
	$ 3,546,499	$ 368,649	$ 3,915,148	$ 843,592

The notes to financial statements are an integral part of these statements.

MISSOURI LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2021

	Program	General and Administrative	2021 Total
Claims benefits and processing, net of changes in reserves	$ 202,323	$ -	$ 202,323
National Organization of Life and Health Insurance Guaranty Associations	250,242	-	250,242
Assumption reinsurance ceding costs	17,445	-	17,445
Litigation fees	111,154	-	111,154
Salaries and benefits	-	162,413	162,413
Professional fees	-	63,413	63,413
Other	-	18,094	18,094
Travel	-	1,643	1,643
Rent and utilities	-	10,942	10,942
Equipment and supplies	-	2,159	2,159
Depreciation	-	1,100	1,100
Dues, fees, and subscriptions	-	2,664	2,664
	$ 581,164	$ 262,428	$ 843,592

The notes to financial statements are an integral part of these statements.

MISSOURI LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022
(with comparative totals for the year ended December 31, 2021)

	2022			2021
	Class A	Class B	Total	(Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	$ -	$ (4,709,965)	$ (4,709,965)	$ 31,953,728
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:				
Depreciation	6,614	-	6,614	5,246
Realized (gain) loss on investments, net of change in unrealized (gain) loss	-	1,464,138	1,464,138	326,274
Change in accounts receivable	(20,424)	(90,747)	(111,171)	(55,882)
Change in other assets	(67)	-	(67)	(557)
Change in interclass receivable and payable	31,558	(31,558)	-	-
Change in accounts payable	7,706	(3,265)	4,441	3,103
Change in accrued liabilities	(1,496)	-	(1,496)	1,773
Change in reserves for claims payable	-	2,297,187	2,297,187	(675,969)
Net cash provided (used) by operating activities	23,891	(1,074,210)	(1,050,319)	31,557,716
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	-	56,215,000	56,215,000	41,500,000
Purchases of investments	-	(56,681,357)	(56,681,357)	(68,537,320)
Purchase of equipment	(10,134)	-	(10,134)	(11,134)
Net cash (used) by investing activities	(10,134)	(466,357)	(476,491)	(27,048,454)
Net change in cash and cash equivalents	13,757	(1,540,567)	(1,526,810)	4,509,262
Cash and cash equivalents, beginning of year	35,841	5,407,623	5,443,464	934,202
Cash and cash equivalents, end of year	$ 49,598	$ 3,867,056	$ 3,916,654	$ 5,443,464

The notes to financial statements are an integral part of these statements.

MISSOURI LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The Missouri Life and Health Insurance Guaranty Association Act ("Act") was passed by the Missouri Legislature in 1988 to protect policy owners, beneficiaries, annuitants, payees and assignees of life insurance policies, health insurance policies, annuity contracts and supplemental contracts, subject to certain limitations, against failure in the performance of contractual obligations due to the impairment or insolvency of the insurer issuing such policies or contracts. To provide this protection, the Missouri Life and Health Insurance Guaranty Association (the "Association") was created by Missouri Revised Statute 376.715 to guarantee payment of benefits and continuation of coverage. Any insurer or health services corporation licensed or holding a certificate of authority to transact in Missouri any kind of insurance for which coverage is provided under Missouri Revised Statute 376.717 is a member insurer of the Association. All member insurers are and must remain members of the Association as a condition of their authority to transact business in Missouri. Members of the Association are subject to assessments to provide funds to carry out the purpose of the Act.

The Association performs its functions under a plan of operation approved by the Missouri Director of Insurance and exercises its powers through a Board of Directors. The Association is subject to the immediate supervision of the Missouri Director of Insurance and the insurance laws of the State of Missouri.

Basis of accounting: The financial statements of the Association have been prepared on the accrual basis of accounting. Therefore, revenues are recognized when earned and expenses are recognized when incurred.

Financial statement presentation: The Association uses the American Institute of Certified Public Accountants' not-for-profit model for accounting and financial reporting. The Association reports information regarding its financial position and activities according to two classes of net assets: net assets with restrictions and net assets without restrictions. The Association had only net assets without restrictions during 2022 and 2021.

Summarized comparative total: The financial statements include prior year summarized comparative information in total, but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, it should be read in conjunction with the Association's financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Use of estimates: Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amount of assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and cash equivalents: Cash and cash equivalents include certain interest-bearing bank accounts and overnight repurchase agreements, which invest in various highly liquid investments. The Association considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of credit risk: Financial instruments that potentially subject the Association to concentration of credit risk consist primarily of cash on deposit, overnight repurchase agreements and investments. Periodically, the Association maintains cash on deposit at financial institutions in excess of amounts insured by the U.S. Federal Deposit Insurance Corporation (FDIC).

The Association held an overnight repurchase agreement balance of approximately $3,651,000 at December 31, 2022 and $5,180,000 at December 31, 2021. Overnight repurchase agreements are not secured. However, the Association requires that U.S. government and agency securities underlying the repurchase agreements must have a fair value of at least 100% of the cost of the repurchase agreement. The fair values of U.S. government and agency securities underlying repurchase agreements are determined daily.

Investments: Investments consist primarily of U.S. Government backed securities and are reported on the statement of financial position at fair value. Fair value is determined by quoted market prices for securities listed on national exchanges or over-the-counter markets. Purchases and sales of securities are recorded on a trade date basis. Realized investment gains and losses are determined on the specific identification basis. Dividends are recorded on the declaration date. Interest is recorded when earned.

Accounts receivable: Accounts receivable consist of amounts due from the Missouri Property and Casualty Insurance Guaranty Association and investment interest receivable. The Association considers all receivables at December 31, 2022 and 2021 to be fully collectible and has not recorded an allowance for doubtful accounts.

Unbilled assessments: Unbilled assessments represent an accumulation of all future assessments that may be made in order to cover the estimated claims and loss adjustment expenses of current insolvencies. The potential future assessment amount is estimated at the beginning of the liquidation of an insurer and is subsequently reduced as assessments are billed, as changes occur to estimated claims and loss adjustment expenses, or when a block of business is purchased by a third party.

Furniture and equipment: Purchases of furniture and equipment are recorded at cost. The costs of normal maintenance and repairs are expensed as incurred. Renewals and betterments are capitalized and depreciated over the remaining useful lives of the related assets on a straight-line basis over three to ten years. Depreciation expense for the years ended December 31, 2022 and 2021 totaled $6,614 and $5,246, respectively. A portion of this expense is allocated to the Missouri Property and Casualty Insurance Guaranty Association pursuant to the contractual agreement described in Note 9.

Assessments: For purposes of assessment, the Association maintains three accounts: (1) the accident and health insurance account; (2) the life insurance account; and (3) the annuity account. In order to provide funds necessary to carry out the powers and duties of the Association, the Board of Directors (Board) is authorized to assess the member insurers, in a combined assessment or separately for each account, at such time and for such amounts as the Board deems necessary.

Class A assessments are made for the purpose of meeting administrative costs and other general expenses and examinations not related to a particular impaired or insolvent insurer. The amount of any Class A assessment is determined by the Board and may be made on either a non-pro rata or pro rata basis. Non-pro rata assessments may not exceed $150 per member company in any one calendar year. Class A assessments are made to the extent necessary to carry out the powers and duties of the Association.

Class B assessments against member insurers for each account are in the proportion that the average premiums received on business in Missouri by each assessed member insurer on policies covered by each account for the three calendar years preceding the insolvent company's date of insolvency bears to the average of such premiums received on business in the state for the three calendar years preceding the insolvent company's date of insolvency by all assessed member insurers.

Expense classification: The Association classifies expenses as Class A or Class B based upon the statutory provisions of the Act. Class A expenses are administrative costs, legal costs and other costs not allocated to a particular impaired or insolvent insurer. Class B expenses are costs incurred to the extent necessary to carry out the powers and duties of the Association as it relates to the payment of the obligations of an impaired or an insolvent insurer.

Functional allocation of expenses: The costs of program and supporting services activities have been summarized on a functional basis in the Statement of Activities. The natural classification detail of those expenses has been summarized in the Statements of Functional Expenses. Certain costs that are attributable to more than one function have been allocated among the program and supporting services benefited using a single-rate method consistently applied based on a study of time and effort by employees.

Income taxes: The Association is exempt from income tax under Section 501(c)(6) of the Internal Revenue Code. Interest and penalties incurred, if any, related to annual Form 990 are reported within general and administration expenses on the accompanying statement of activities.

Subsequent events: Events that have occurred subsequent to December 31, 2022 have been evaluated through March 13, 2023, which represents the date the Association's financial statements were approved by management and, therefore, were available to be issued.

2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Association's financial assets available within one year from December 31, 2022 for general expenditures are as follows:

Cash and cash equivalents	$ 3,916,654
Investments due in one year or less	24,386,190
Accounts receivable, net	221,164
	$ 28,524,008

As more fully described in Note 7, the Association also maintains a line of credit of $5,000,000 with a bank, which it could draw upon in the event of an unanticipated liquidity need. The Association has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

3. INVESTMENTS

Investments consisted of the following at December 31, 2022 and 2021:

2022	Cost	Unrealized (Loss)	Fair Value
Class B Fund			
U.S. agency bonds and notes	$ 23,270,153	$ (1,671,273)	$ 21,598,880
U.S. treasury securities	20,103,607	(159,820)	19,943,787
Total Class B investment securities	$ 43,373,760	$ (1,831,093)	$ 41,542,667

2021	Cost	Unrealized (Loss)	Fair Value
Class B Fund			
U.S. agency bonds and notes	$ 15,832,364	$ (331,535)	$ 15,500,829
U.S. treasury securities	27,046,830	(7,209)	27,039,621
Total Class B investment securities	$ 42,879,194	$ (338,744)	$ 42,540,450

Contractual maturities of investment securities at December 31, 2022 are as follows, based on the expected call date:

	Cost	Unrealized (Loss)	Fair Value
Class B Fund			
Due in one year or less	$ 24,524,917	$ (138,727)	$ 24,386,190
Due in one to five years	18,848,843	(1,692,366)	17,156,477
Total Class B investment securities	$ 43,373,760	$ (1,831,093)	$ 41,542,667

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For assets and liabilities required to be reported at fair value, U.S. generally accepted accounting principles prescribes a framework for measuring fair value and financial statement disclosures about fair value measurements. A fair value hierarchy has been established that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The three levels of the fair value hierarchy as prescribed by GAAP are as follows:

Level 1 Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access.

Level 2 Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted market prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Observable inputs may include interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 Valuation is based on methodologies that are unobservable and significant to the fair value measure. These may be generated from model-based techniques that use at least one significant assumption based on unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Association's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

U.S. agency bonds and notes: U.S. agency bonds and notes are valued at the closing price reported in the market in which the individual security is traded. Other U.S. government bonds are valued at the closing price reported in the inactive market in which the bond is traded or valued based on yields currently available on comparable securities of issuers with similar credit ratings.

U.S. treasury securities: U.S. treasury securities are valued at the closing price reported in the market in which the individual security is traded.

The table below presents the Association's assets measured at fair value as of December 31, aggregated by the level in the fair value hierarchy within which those measurements fall:

2022	Level 1	Level 2	Level 3	Total
Assets				
Investment securities	$ -	$ 41,542,667	$ -	$ 41,542,667

2021	Level 1	Level 2	Level 3	Total
Assets				
Investment securities	$ -	$ 42,540,450	$ -	$ 42,540,450

Net investment return consisted of the following for the years ended December 31:

2022	Class A	Class B	Total
Change in unrealized gain (loss) on investments	$ -	$ (1,492,350)	$ (1,492,350)
Net realized gain on sales	-	28,212	28,212
	-	(1,464,138)	(1,464,138)
Interest income	155	407,699	407,854
Net investment return	$ 155	$ (1,056,439)	$ (1,056,284)

2021	Class A	Class B	Total
Change in unrealized gain (loss) on investments	$ -	$ (327,525)	$ (327,525)
Net realized gain on sales	-	1,251	1,251
	-	(326,274)	(326,274)
Interest income	11	104,767	104,778
Net investment return	$ 11	$ (221,507)	$ (221,496)

4. RESERVES FOR CLAIMS PAYABLE

The Association receives claims expense estimates from the National Organization of Life and Health Insurance Guaranty Association ("NOLHGA") and other entities. Management analyzes the information received from NOLHGA and other entities, industry trends and the effects of Missouri statute limitations on the estimates prior to arriving at the recorded estimated reserves for claims payable. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments of estimates are reflected in claims benefits and processing expenses in the accompanying statement of activities.

The total reserves for claims payable were approximately $7,473,000 and $5,175,000 at December 31, 2022 and 2021, respectively. These reserves are based on estimates and, while management presently believes the estimate of reserves for claims payable at December 31, 2022 is adequate, the actual liability could vary considerably from the amount presented in the accompanying statement of financial position.

5. PROGRAM EXPENSES

As explained in Note 1, the Association is statutorily required to account for transactions directly related to administration of the various insolvencies in one fund (Class B) and general and administrative expenses in another fund (Class A). By the very nature of the fund, all expenses recorded in Class B are program expenses. However, management and general expenses initially recorded in Class A are allocated to Class B based on periodic time and expense studies. Such allocations totaled $347,087 and $226,979 for the years ended December 31, 2022 and 2021, respectively.

6. LITIGATION RECOVERIES

Lincoln Memorial Life Insurance Company ("Lincoln Memorial") along with the affiliated Memorial Services Life Insurance Company and National Prearranged Services, Inc. ("NPS") were ordered liquidated by the Travis County, Texas Circuit Court in 2008. The insurance companies were part of a holding company system and had a direct relationship with the affiliate NPS, that sold pre-need funeral plans.

The Association participated with other affected guaranty associations and the special deputy receiver of the three companies in a civil suit against numerous defendants involved with the defunct companies. These defendants included banks, an investment firm, and an accounting firm. The civil litigation was filed in the United States District Court for the Eastern District of Missouri in St. Louis. As part of this litigation, a number of defendants settled with the guaranty associations and were dismissed from the litigation. The Association received $29,776,694 as its proportionate share of these settlements between 2014 and 2016.

One defendant did not settle. The trial began on February 2, 2015, and on March 9, 2015, the jury awarded $491 million in damages to the plaintiffs. The verdict was appealed by both parties. On August 17, 2017 the U.S. Court of Appeals, Eighth Circuit tendered a judgement affirming in part and reversing in part, the trial court's verdict. The case was remanded to the trial court for a retrial before the judge, and judgement was rendered in favor of the plaintiffs for $102 million in trust damages, punitive damages, and prejudgment interest. The defendant appealed the judgement, and the consolidated appeal was argued January 12, 2021. Final judgement on the appeal in favor of the guaranty associations was issued August 30, 2021. After the final judgment was paid, the Association received $32,225,820 as its proportionate share of the settlement in 2021.

7. LINE OF CREDIT

The Association maintains a $5,000,000 unsecured revolving line-of-credit which bears interest at the greater of 0.50% plus prime (7.50% at December 31, 2022) or 5.00%. There were no borrowings under this agreement during 2022 or 2021. The agreement expires on June 13, 2023.

8. EMPLOYEE BENEFIT PLANS

The Association sponsors a 401(k) Safe Harbor Pension Plan. Employees are eligible to participate in the plan after completion of twelve consecutive months of employment and 1,000 hours of service. Employees are vested in the plan immediately. The Association's contribution is based on a percentage of salaries as approved by the Board of Directors.

Contributions to the plan totaled $62,072 and $61,275, for the years ended December 31, 2022 and 2021, respectively. Of the totals contributed for 2022 and 2021, the Missouri Property and Casualty Insurance Guaranty Association (MPCIGA) was allocated $44,575 and $48,387, respectively, pursuant to the contractual agreement described in Note 9.

The Association also sponsors a 457 Pension Plan. Employees are eligible to participate in the plan immediately upon hire and are also vested in the plan immediately. The Association is not currently making contributions to the plan. An investment, along with a corresponding accrued liability, of $11,948 at December 31, 2022 and $12,669 at December 31, 2021, are recorded on the accompanying statement of financial position. The amounts represent employee contributions through December 31, 2022 and 2021, respectively.

9. CONTRACT

The Association maintains a joint adminstration agreement with MPCIGA whereby the Association provides common administration and management of both associations. The agreement is cancelable by either party by giving six months' notice and continues in existence until terminated. Each association is responsible for its proportionate share of employee and overhead expenses. Such expenses are allocated at cost in proportion to the estimated utilization by each association and the Association is reimbursed by MPCIGA accordingly. Allocation methods are reviewed periodically based on current operations and resources utilized by the associations. The Association allocated expenses of $709,879 and $717,851 to MPCIGA for the years ended December 31, 2022 and 2021, respectively. On occasion, MPCIGA makes direct payments to the Association's vendors for expenses that are directly related to MPCIGA operations.

10. ALLOCATION OF EXPENSES AMONG PROGRAM AND SUPPORTING SERVICES

The costs of program and supporting services activities have been summarized on a functional basis in the Statement of Activities. The natural classification detail of those expenses has been summarized in the Statement of Functional Expenses. The Association's policy is to not allocate any portion of general and administrative expenses to program expense.

11. LEASE COMMITMENT

The Association entered into a five-year non-cancelable lease for office space requiring monthly rental payments of up to $3,000 through April 30, 2022, as allocated to the Association pursuant to the contractual agreement described in Note 10. The Association executed a one-year extension to the lease requiring monthly rental payments of $3,090 through April 30, 2023. Office lease expense was $10,337 and $7,551 for the years ended December 31, 2022 and 2021, respectively.

The Association executed an additional extension to the lease for office space noted above requiring monthly rental payments of $3,300 from May 1, 2023, to September 30, 2023.

The Association entered into a ten-year lease for separate office space requiring monthly rental payments of $6,363. The Association expects the lease to begin in the second half of 2023. The lease agreement defined the Association as the tenant, and the Association will be responsible for payments of the lease. The Association will continue to allocate monthly rental payments to MPCIGA, the Association's affiliate organization, pursuant to the contractual agreement described in Note 10.

12. CONTINGENCIES

The Association is involved in litigation arising in the normal course of its business. In the opinion of management, the Association's recovery or liability, if any, under any pending litigation or administrative proceeding would not materially affect its financial position.