

—MISSOURI—
LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION

2023

Annual Report

**ANNUAL REPORT OF THE
MISSOURI LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION
FOR FISCAL YEAR ENDING DECEMBER 31, 2023**

Prepared for

The Director of the Missouri Department of Commerce and Insurance

Prepared by

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

Board of Directors
of the

Missouri Life and Health Insurance Guaranty Association

COMPANY

REPRESENTATIVE

American Family Life Insurance Company

David Monaghan

Blue Cross/Blue Shield of Kansas City

Coni Fries

Everlake Life Insurance Company

Sonya Ekart

Farm Bureau Life Insurance Company of Missouri

Joel Schroer

HMO Missouri

Christine Cappiello

Kansas City Life Insurance Company

Malika Simmons

Metropolitan Tower Life Insurance Company

Kerri Cutry

Ozark National Life Insurance Company

David R. Melton

Shelter Life Insurance Company

Teresa Magruder

UnitedHealthcare

David Hill

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ANNUAL REPORT OF THE MISSOURI LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION FOR THE YEAR ENDING DECEMBER 31, 2023

The Annual Report of the Missouri Life and Health Insurance Guaranty Association (the "Association") for the year ending December 31, 2023, 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, 2023, there are 859 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, 443 have authority to sell life insurance, 426 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 2023, 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 in a hybrid format on May 24, 2023. Three member insurers were elected to serve on the Board of Directors for terms that will expire in 2026. 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, 2023, are listed below.

Three-year term ending 2024

American Family Life Insurance Company
Blue Cross/Blue Shield of Kansas City
Shelter Life Insurance Company

David Monaghan
Coni Fries
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.)

Three-year term ending 2026

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

Officers & Executive Committee

The Officers elected at the May 24, 2023, 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 2023, 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. The Executive Committee also represents the Board on the Joint Administrative Committee pursuant to the Joint Administrative Agreement with the Missouri Property & Casualty Insurance Guaranty Association.

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, 2023, 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 Administrative 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 167 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 51 small-value life insurance policies and administer the remaining Missouri policies for Lincoln Memorial Life Insurance Company. 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, 2023, 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, 2023, 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, 2023, 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

2023 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 2023.

2023 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 2023.

INSOLVENCIES

The following insolvent estates were open at the end of 2023. 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.

<u>1995</u> National Heritage Life Insurance Company (DE)	<u>2010</u> National States Insurance Company (MO)
<u>1999</u> First National Life Insurance Company of America (MS)	<u>2013</u> Lumbermens Mutual Casualty Company (IL)
<u>2006</u> Shelby Casualty Insurance Company (TX)	<u>2017</u> American Network Insurance Company (PA) Penn Treaty Network America Insurance Company (PA)
<u>2008</u> Lincoln Memorial Life Insurance Company (TX)	<u>2022</u> North Carolina Mutual Life Insurance Company (NC) Time Insurance Company (WI)

Continental Security (Peoples Mutual Assessment Business)

The Association continues to handle the administration of this block of business. As of the end of 2023, there were 51 active policies representing approximately 79 insured lives. The Association paid 7 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: 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. As a result, guaranty associations were not triggered with respect to Pavonia.

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.

Receivership Proceedings: Each of the three insurers has substantial affiliated investments. Due to concerns over the liquidity and value of those affiliated investments, the North Carolina Insurers were placed in rehabilitation on June 27, 2019. (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 has reported that with the application of the law, there was a negative surplus (as of June 30, 2023) for all three companies as follows: SNIC, negative \$143 million; BLIC, negative \$126 million; and CBLIC, negative \$1.178 billion.)

As discussed further below, the Rehabilitator (on behalf of the North Carolina Insurers) entered into a Memorandum of Understanding and an Interim Amendment to Loan Agreement with Lindberg and certain affiliated entities of Global Growth in furtherance of seeking to maximize the value of and generate liquidity from the affiliated investments. As further described below, Lindberg refused to close the agreements and the Rehabilitator filed an action to enforce the terms of the agreements.

On March 12, 2021, the Rehabilitator filed a petition seeking to place SNIC into liquidation. Initially, the petition was stayed pursuant to a settlement under which GBIG Holdings agreed to pay monthly claims and expenses. After GBIG Holdings stopped paying the invoices on several occasions, the Rehabilitator renewed the petition for liquidation. The company was placed into liquidation on May 2, 2023. GBIG Holdings has appealed the liquidation order, though the order remains in effect pending the appeal. Guaranty associations are providing coverage while the case is being appealed.

On November 1, 2022, the Rehabilitator filed a petition 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 denied GBIG Holdings, as stockholder, of 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, the Order will become effective the first month-end occurring on or after ninety (90) days after the favorable conclusion of all appeals.

On January 27, 2023, GBIG Holdings filed a Notice of Appeal of the Order of Liquidation with the North Carolina Court of Appeals. As of December 2023, all briefings have been completed in the case and pursuant to the Court of Appeals' calendar notice, a hearing was held on January 24, 2024, with no oral argument permitted. On March 5, 2024, the Court of Appeals issued an Order affirming the Order of Liquidation against BLIC and CBLIC. The Order is subject to appeal to the North Carolina Supreme Court.

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 (the "Counterparties") regarding approximately \$1.2 billion in affiliated loans and related agreements. The MOU and IALA 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 Counterparties 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: (i) the MOU is an enforceable agreement and subject to specific enforcement; (ii) the defendants breached the MOU by, among other things, failing to transfer ownership of the affiliated loans; and (iii) 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).

On June 19, 2023, a three-judge panel for the North Carolina Court of Appeals affirmed the Trial Court's conclusions. The court also concluded that the Receiver was entitled to money damages, in addition to specific performance, and remanded the case to the Trial Court for further proceedings in that regard. Review from the North Carolina Supreme Court was sought by the defendants.

On December 13, 2023, the North Carolina Supreme Court accepted certiorari for the limited purpose of reviewing whether reliance is reasonable in a claim for fraud in the inducement when a party fails to exercise due diligence; the court denied certiorari for all other purposes. The parties have submitted

briefing to the North Carolina Supreme Court requesting clarification over whether the specific performance award can be enforced while the Supreme Court is reviewing the fraud issue.

Moratorium, Corrections, Interest Only & Withdrawal Programs: 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 crediting errors regarding CBLIC annuity riders and a motion to modify the moratorium to allow annuity owners to elect to be paid annuity account interest, prospectively. According to the Receiver, the policy crediting errors have now been corrected.

In August 2023, the Receiver, with court approval, initiated a 25% partial withdrawal program for BLIC and CBLIC annuity owners. The program is mandatory, with the exception of a small group of policyholders who have non-waivable surrender charges. The Receiver has commenced the withdrawal program and hopes to complete it by late Spring in 2024.

Criminal & Civil Actions Against Lindberg:

- (i) *Bribery:* 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 the Spring of 2024.
- (ii) *Fraud:* In February 2023, a federal grand jury indicted Lindberg, charging him with fraud and deceiving the North Carolina Department of Insurance. The Department of Justice has announced that it will schedule the trial approximately three months after the bribery retrial.
- (iii) *Civil RICO:* In June 2023, a civil RICO suit was filed by the Receiver accusing Lindberg and other defendants of, among other matters, misusing insurance company funds, including by making irresponsible investments.
- (iv) *SEC:* In August 2022, the SEC charged Lindberg and others with defrauding insurers out of more than \$75 million through a series of undisclosed transactions and fees. The trial is scheduled for April 2025.
- (v) *Agents' Class Action:* A group of insurance agents have filed suit against Lindberg, alleging failure to pay commissions on CBLIC policies. The trial is scheduled for April 2024.

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. 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. 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 negotiations with AMR for 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, which 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.

The task force completed its review of the reinsurance agreements in force for BLIC and CBLIC, and there are no material agreements relating to guaranty association coverage obligations. While there was a significant reinsurance agreement in which BLIC ceded obligations to CBLIC, the agreement was terminated with court approval and was unwound in connection with the 25% withdrawal program.

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 Company, 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) that 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 because 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 LLCs. The other collection effort relates to ULIC seeking to force Lindberg to sell his shares of Global Growth, which ULIC could consider buying.

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, SNIC, and other parties. The complaint alleges substantial financial improprieties. The North Carolina Insurers filed a motion to stay the adversary proceeding against the Global Insurers subject to the JPLs obtaining the Receivership Court’s permission for the JPLs to prosecute their claims. The Bankruptcy Court granted the motion to stay on March 10, 2023. The JPLs appealed the Bankruptcy Court’s order to the Southern District of New York. Appeal briefing is closed and awaiting court order.

On May 22, 2023, the JPLs moved the Receivership Court for permission to prosecute their claims against the North Carolina Insurers. The Receivership Court denied the JPLs’ motion on July 5, 2023.

At the February 27, 2023, hearing on the motion to stay, the JPLs’ counsel requested permission to file an

amended complaint that added PBLA as a plaintiff to the first count of the complaint. The Bankruptcy Court stated that PBLA would be allowed to make the amendment so long as the amendment did not involve the North Carolina Insurers. On September 27, 2023, the JPLs filed the Amended Complaint in the Bankruptcy Court the complaint includes new allegations and seven new causes of action against the North Carolina Insurers, including racketeering charges against CBLIC, and seeks additional relief against the Global Insurers, including a declaratory judgment voiding the MOU.

The Receiver for the Global Insurers filed a Sanctions Motion that the JPLs and their counsel should be held in contempt and that sanctions should be imposed because the JPLs violated the Bankruptcy Court's order to stay the proceedings against the Global Insurers (the "Stay Order") when the JPLs filed their Amended Complaint. Through the Sanctions Motion, the Global Insurers ask the Bankruptcy Court to dismiss the Amended Complaint with prejudice, award the Global Insurers their attorneys' fees and costs in connection with the Amended Complaint and the Sanctions Motion, and enter monetary sanctions against the JPLs or their counsel to deter future violations of court orders.

2023 Task Force Activity

During 2023, the task force focused on: (1) preparing for guaranty association activation in SNIC; (2) implementing guaranty association coverage under the SNIC administrative agreements; (3) communicating with the Receiver and North Carolina regulators regarding BLIC and CBLIC; (4) preparing a preliminary calculation of guaranty association coverage amounts for CBLIC and BLIC; (5) providing guidance to guaranty associations on coverage determinations for CBLIC and BLIC, including with respect to the Moody's adjustment, joint deferred annuities, annuities with multiple owners, non-individually owned annuities, and residency issues; (6) providing support on guaranty association assessment issues for CBLIC and BLIC; (7) communicating with guaranty associations and participating at association Board meetings; (8) responding to inquiries from certain regulators, the press, and policyholders; (9) negotiating a Service Agreement with AMR for the administration of guaranty association-covered obligations in CBLIC and BLIC; (10) holding a series of Town Hall meetings to discuss assessment and coverage issues for BLIC and CBLIC; (11) monitoring and analyzing the North Carolina rehabilitation proceedings and various other litigation matters; and (12) preparing a schedule of task force activities and guaranty association decisions to prepare for the possibility that the liquidation order for BLIC and CBLIC becomes effective in 2024.

Outlook

In anticipation that BLIC and CBLIC could become subject to a final liquidation order sometime in 2024, the task force will work with the guaranty associations to develop a mechanism to provide coverage when activated.

For SNIC, the task force will continue to oversee the administration of the participating guaranty associations' covered obligations under the TPA Agreements; monitor GBIG Holdings' appeal of the liquidation order; and consider the potential sale of the covered business upon the favorable resolution of the appeal.

The timing of guaranty association triggering is and subject to the North Carolina Supreme Court's review of the North Carolina Court of Appeals' March 5, 2024 Order affirming the Order of Liquidation against BLIC and CBLIC.

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

2023 Activity

Claims & Premium Administration

Participating guaranty associations terminated the service agreement with the SDR effective August 31, 2023. Staff at JoAnn Howard and Associates (the SDR) will provide transition services and answer any guaranty association inquiries for a period of six months. Policy records for each of the guaranty associations have been transferred to QUEST, NOLHGA's online insolvency library.

As of August 31, 2023, guaranty associations have funded approximately \$485.7 million for death claims (this includes the \$94.6 million funding (by the Texas guaranty association) for the Memorial Service block assumed by Investors Heritage 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 under 7,000 (Lincoln only) at the end of December 2023.

Premium collections made by the SDR on behalf of the guaranty associations continued through late 2017, when premiums ceased as a result of the first assumption agreement with Liberty Bankers. Through December 2019, approximately \$32 million had been received. Premiums were 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. Efforts to close the bank accounts held by the TPA are ongoing and should be completed early in 2024.

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

The task force will work with the SDR to complete all tasks related to the transfer of administration of the remaining policies to the guaranty associations during the first quarter of 2024. The Litigation Oversight Committee continues to oversee the actions against third parties and any potential settlement and/or asset recovery scenarios. The task force will continue to work with the SDR to coordinate transfer and/or abandonment of assets to facilitate the closing of the estate.

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.

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

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 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.

2023 Activity

Biweekly claims funding and monthly premium collections on the remaining business continued throughout the year. The task force approved an amended TPA service agreement with Davies Life & Health, Inc., that included an annual administrative fee rate increase structure. The task force also approved a plan for a claims audit of the TPA in conjunction with the Life and Health Insurance Company of America and Senior American Insurance Company Task Forces. The audit should be completed by year-end, with a report on the findings submitted soon after.

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.

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 Special Deputy Receiver (SDR).

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 the liquidation date, the life block had 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 appeared 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 appeared to be covered. The health insurance reserves were 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.

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 2022.

Early in 2022, the Receiver notified the task force of a ransomware attack on NCM that occurred in December 2021. This delayed for weeks not only the hearing on the liquidation petition but also policy administration and claims payments 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.

2023 Activity

Beginning in mid-December 2022, administration of covered obligations has been accomplished through the Service Agreement with the Receiver. Administrative expenses have been allocated to guaranty associations but paid with estate assets as early access distributions. Premiums have been collected and delivered to the guaranty associations as coordinated through NOLHGA and the GA Coordinator (Mark Femal). Claims have been 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.

NCM was a party to several reinsurance agreements. The task force and affected guaranty associations have decided not to pursue succession to the rights of the Receiver to the Opt Re and Wilton Re reinsurance agreements. NCM is also the ceding insurer under 7 reinsurance agreements with Minnesota Life, 14 with Securian Life, and 1 with North American Life. Because NCM did not issue the policies that it ceded to those companies, the obligations would be covered by the issuing insurers. The guaranty associations would not succeed to these reinsurance agreements, and the Receiver anticipates terminating them as part of the liquidation.

Negotiations with MetLife regarding reinsurance of the group of FEGLI policies (conversion life insurance policies issued by NCM when federal employees left the MetLife group coverage) concluded. The task force’s plan is to fund covered obligations with estate reserves, which will be treated as early access. The agreement and opt-out package were sent to all affected guaranty associations in December. All affected associations are participating.

NCM had issued a group life policy for employees and retirees. The North Carolina guaranty association settled with all 18 employees, and affected guaranty associations made settlement offers to the 114 retirees. These offers are all close to being resolved.

In May, the task force sent out a Request for Proposal (RFP) seeking bids to assume the majority of NCM’s business (those policies with reliable policyholder information), but there were no bids. In August, the task force sent out another RFP for assumption reinsurance and/or long-term administration. That RFP produced five responses, and the task force is evaluating an assumption reinsurance bid first.

The Omnibus Proof of Claim was filed timely by October 31, 2023.

Outlook

The task force’s focus for the beginning of 2024 will be on evaluating and negotiating a bid for assumption reinsurance and long-term administration. We will also continue to pursue the termination of the contract with the Selman TPA and the transfer of those policies to the SDR. The task force will continue to monitor policy and claims administration by the SDR, as well as any ongoing litigation.

Penn Treaty/American Network

Penn Treaty Network America Insurance Company (www.penn treaty.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.)

Run-Off of Guaranty Association Liabilities in Liquidation

LTC Reinsurance PCC (LTC Re), the captive insurance company established by the guaranty associations to serve as the vehicle to run off guaranty association–covered liabilities, 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.

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

National Rate Increase Strategy

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. The impact of the implemented rate increases and benefit modifications was approximately \$458 million (calculated on liquidation date liabilities, present valued at 4.25%).

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 allowed 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 was structured to result in early access assets being allocated among the guaranty associations in proportion to their covered liabilities as of the liquidation date. The true-up was scheduled to be completed in early 2023.

2023 Activity

Policy & Claims Administration

The task force continued to provide oversight of policy and claims administration activity in 2023. 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 implementation of two ancillary 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 March 2023, task force representatives worked with LTC Re on the launch of an electronic visit verification (EVV) program for home healthcare claims administered by Davies. AssuriCare (which was acquired by CHCS Services/Wellcove in 2023) administers the EVV program for private and family caregivers. 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 to monitor the EVV program and its results.

Task force representatives, through PACA and the C&S Committee, also worked with Davies on updates to the reasonable and customary charge process, the redesign of policyholder satisfaction surveys, a claims audit, and escalated matters.

National Rate Increase Strategy

The task force's rate increase subgroup continues to work with Davies and illumifin on the implementation of rate increases and benefit modification elections, including in those states where rate increases are being phased in over several years. As of year-end 2023, rate increases are still being phased in in two states.

Estate Asset Allocation

The early access true-up was completed in February 2023, effective as of January 1, 2023. For guaranty associations that are members of LTC Re, the true-up was implemented through notional accounting. For opt-out guaranty associations, the true-up amount due (in the aggregate) was transferred from LTC Re to NOLHGA and was incorporated in the estate asset distribution to the guaranty associations in the following months.

The result of the Pennsylvania Supreme Court's October 2022 decision was that all estate assets not necessary to pay the Receiver's expenses would be distributed to the guaranty associations. The task force and its legal counsel coordinated with the Receiver and his legal counsel on the necessary court filings and the logistics for transferring the Companies' assets to the guaranty associations.

In April 2023, the Commonwealth Court approved the Receiver's Applications seeking to make two asset distributions from each company to the guaranty associations. On May 1, the Receiver distributed \$178 million to NOLHGA; on May 15, the Receiver distributed an additional \$19.2 million to NOLHGA. NOLHGA allocated and distributed the assets to the guaranty associations based on their liquidation date covered liabilities. Some guaranty associations asked NOLHGA to transfer a portion or all of their estate assets to LTC Re.

The Receiver held back \$25 million (\$19 million in Penn Treaty and \$6 million in ANIC) to pay the expenses of the Receiver. Any assets not used to pay those expenses will be distributed to the guaranty associations before the Penn Treaty and ANIC estates are closed.

In light of the Pennsylvania Supreme Court's decision, the Receiver determined that it was not necessary to agree to the valuation and classification of each guaranty association claim. The Receiver and NOLHGA entered into a Settlement Agreement, under which the parties agreed that the guaranty associations' claims would be satisfied by the transfer to the guaranty associations of all assets not necessary to pay the expenses of the Receiver, without a detailed calculation or classification of such claims. The parties agreed that this resolution would not be cited as precedent in any future proceeding. The Commonwealth Court approved the Settlement Agreement on December 28, 2023.

American Independent Network Insurance Company

American Independent Network Insurance Company (AINIC) is a wholly owned subsidiary of ANIC, domiciled and licensed as a health insurer only in New York. AINIC wrote long-term care (LTC) business only in New York until Penn Treaty and ANIC went into rehabilitation. The company has been in runoff since then. AINIC's policies continued to be administered by Penn Treaty until Penn Treaty sold most of its operational infrastructure to TriPlus Services (now Davies Life & Health, Inc.) in 2019. Davies has administered AINIC's policies since then.

On March 30, 2023, AINIC was placed in rehabilitation. In September 2023, the New York Superintendent of Insurance filed a petition for liquidation, and a liquidation order was issued on September 26, 2023.

In May 2023, New York's Life Insurance Guaranty Corporation statute was amended to extend coverage to health and LTC insurance written by health insurers. Prior to that amendment, no guaranty association protection was available for AINIC policyholders. Under the amended statute, all AINIC policyholders will be covered by the New York guaranty corporation up to its \$500,000 limit.

While New York is the only guaranty association affected by the AINIC liquidation, the liquidation is relevant to the Penn Treaty/ANIC liquidation because AINIC is a wholly owned subsidiary of ANIC. The Penn Treaty/ANIC Receiver will need to address the relationship with AINIC when closing the Penn Treaty/ANIC estates.

Communications

The task force continued to communicate with the affected guaranty associations as needed in 2023, providing reports on the status of Penn Treaty/ANIC at each MPC meeting. Task force representatives also regularly communicated and worked closely with LTC Re, Davies, and the Receiver.

Outlook

In 2024, the task force expects to focus on the closing of the Penn Treaty/ANIC estates. The Receiver intends to take the steps necessary to discharge the liquidation and close the estates in 2024. Those steps include multiple court filings/approvals, notice to policyholders and interested parties, and the final distribution of estate assets to the guaranty associations. It appears that the path is clear for this to be accomplished in 2024, but unknown contingencies could arise.

The task force will continue to monitor the performance of LTC Re and collaborate with LTC Re on issues of common interest. 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 the EVV program) and oversee the final stages of rate increase implementation.

The task force will monitor the AINIC liquidation and consider whether it has any effect on Penn Treaty/ANIC. In addition, task force representatives will continue to meet regularly with the Receiver's

team to discuss asset distribution, the closing of the estates, AINIC, and other issues related to the liquidation.

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.

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
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

Amicus Parties: Twenty-seven insurance commissioners filed an amicus brief in support of the Intervening Regulators' appeal (Alaska, Arizona, Arkansas, Connecticut, the District of Columbia, Idaho, Indiana, Iowa, Louisiana, Maryland, Mississippi, Montana, New Hampshire, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Rhode Island, South Carolina, South Dakota, Utah, Vermont, West Virginia, Wisconsin, and Wyoming).

Oral Argument: 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 (the 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.

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 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.

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.

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 limited benefit modifications options available.

The Rehabilitator completed Policyholder Election Package mailings to most policyholders in January and May 2022. During 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 its decision on the appeal.

In February 2022, Jessica Altman resigned as Pennsylvania Insurance Commissioner. Michael Humphreys was appointed Acting Commissioner and succeeded Altman as Rehabilitator of SHIP. (Humphreys was confirmed as Commissioner in June 2023.)

Other Pennsylvania Commonwealth Court Activity

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.

Related Court Proceedings

In addition to the opposition in Pennsylvania, insurance regulators also 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. The state court issued a preliminary injunction against Plan implementation on February 3, 2022. The Rehabilitator has appealed.

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 preliminary injunction. The Rehabilitator has appealed.

Following the Plan approval, actions were brought by insurance commissioners in four other 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.

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.

2023 Activity

Pennsylvania Supreme Court—Affirmance of Commonwealth Court's Approval of Plan

On June 20, 2023, the Pennsylvania Supreme Court issued a per curiam order affirming the Commonwealth Court's Approval of the SHIP Rehabilitation Plan without opinions. As of year-end 2023, the Supreme Court had not issued its opinions.

Intervening Regulators' Applications to Extend Time to File Petition for Writ of Certiorari to U.S. Supreme Court: The U.S. Supreme Court granted two Applications by the Intervening Regulators to extend the deadline for filing a Petition for Writ of Certiorari in August and late September pending the Pennsylvania Supreme Court's issuance of the opinions supporting its judgment. The Intervening Regulators did not file a petition for cert with the U.S. Supreme Court by the extended deadline.

Pennsylvania Commonwealth Court Proceedings

SHIP Annual Report: On April 10, 2023, the Rehabilitator filed SHIP's Annual Report. The Annual Report provided updates on SHIP's Funding Gap (\$1.4 billion as of December 31, 2022); pending litigation; SHIP's general insurance expenses (\$30.26 million in 2022) and rehabilitation expenses (\$9.6 million in 2022); asset recovery efforts; and policyholder elections under the Plan.

Other State Court Proceedings

As of December 2023, the status of the state court actions that commenced prior to 2023 was:

- Iowa: State court issued a temporary injunction in March. The Rehabilitator has appealed.
- Louisiana: The Rehabilitator's appeal of the preliminary injunction issued in 2022 is pending.
- New Jersey: The Commissioner's Application for a preliminary injunction is pending.
- North Carolina: The state court denied the Commissioner's application for a preliminary injunction in January. The Commissioner has appealed.

- North Dakota: The court issued an Order denying the Rehabilitator’s Motion to Dismiss and granting the Commissioner’s Motion for Preliminary Injunction in September. The Rehabilitator filed a Motion for Reconsideration or Clarification, which is pending.
- South Carolina: The Rehabilitator’s appeal of the issuance of the preliminary injunction is pending. The Rehabilitator is taking the position that the preliminary injunction expired 30 days after the Pennsylvania Supreme Court issued its order affirming approval of the Plan.

In addition, in November 2023, the Washington Office of the Insurance Commissioner filed a Petition for Declaratory Judgment against SHIP in state court, asking the court to find that the cease and desist order issued by the Commissioner in 2022 is a valid and enforceable order and that the Commissioner has authority to take reasonable measures to require SHIP to comply with the order. As of year-end 2023, SHIP had not responded to the Petition.

Rehabilitation Plan Implementation

In September 2023, the Rehabilitator implemented elections for most policyholders. Elections were not implemented in September if a policyholder had a change in status since their election or the policyholder had not yet made an election.

Eighty-five percent (85%) of the 23,000+ policyholders made elections, and others were assigned the default option. Over half (54%) elected to keep full benefits and pay rate increases.

Policyholders who had a change in status since their original election were sent election packages in late 2023. Their elections were expected to be effective in early 2024.

About three thousand (3,000) policyholders had not received an Election Package mailing as of year-end 2023. This group includes policies in certain states that opted out and did not approve rate increases (Connecticut, Idaho, Iowa, Maryland, and North Dakota) and policies in a state where court proceedings were pending before the mailings and are still pending (Louisiana).

The Rehabilitator has stated that Phase One could run for four years before a decision is made whether to move to Phase Two or liquidate the company.

Estate Asset Recovery Litigation

The Rehabilitator initiated three pieces of asset recovery litigation in 2022, all of which continue:

- *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. The court overruled the defendants’ preliminary objections.
- *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 Roebing 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. The matter remains in a preliminary stage.
- *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*. The case management plan leads to a trial in spring/summer 2024.

The following action was filed by SHIP's former outside auditors:

- *Eide Bailly v. Humphreys*: This action was filed in the U.S. District Court for the District of Minnesota. Motions to dismiss are pending, and the parties are in discovery disputes. A scheduling order leads to trial in early 2025.

Actuarial Analysis

In June 2023, the task force provided to the guaranty associations potentially affected by the SHIP receivership updated liability estimates as of year-end 2022, prepared by illumifin 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, illumifin 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

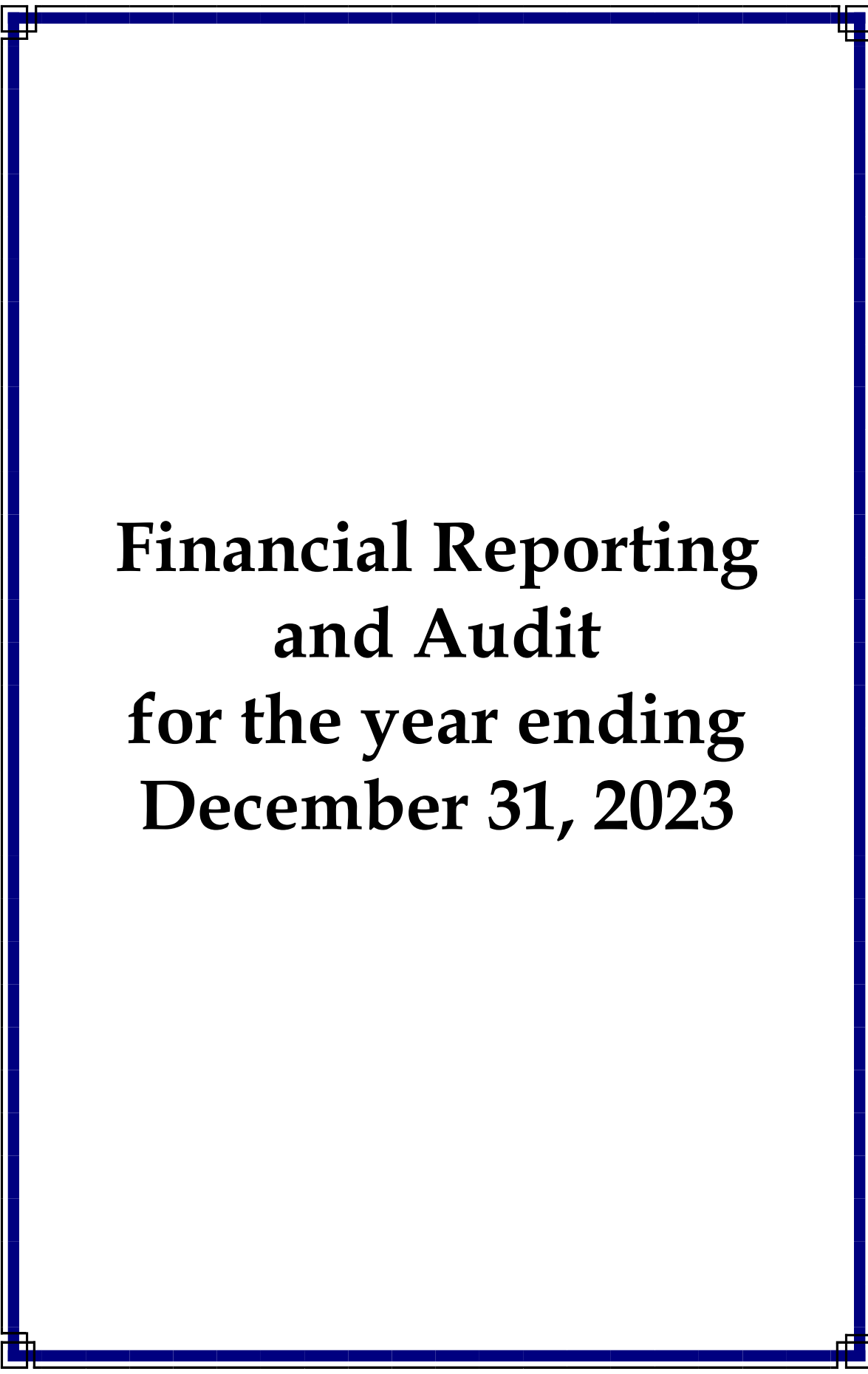
In 2023, the task force:

- Met by teleconference; 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 court proceedings in seven states.
- Monitored and reported on the Rehabilitator's asset recovery litigation.
- Monitored and reported on the 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's issuance of opinions supporting its *per curiam* order affirming the Commonwealth Court's Approval of the SHIP Rehabilitation Plan, the state court proceedings in seven states, and the asset recovery litigation. An updated actuarial analysis based on year-end 2023 data will be prepared in the first half of the year.

The task force will closely monitor the implementation of the Plan. Task force subgroups will continue to be active as necessary during 2024 with respect to the matters assigned to them, including appropriate liquidation contingency planning matters. The task force will continue to keep the affected guaranty associations informed of developments.



**Financial Reporting
and Audit
for the year ending
December 31, 2023**

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of the Missouri Life and Health Insurance Guaranty Association (the "Association"), which comprise the statement of financial position as of December 31, 2023, 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, 2023, and the changes in its net assets and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 audits. 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 accounting principles generally accepted in the United States of America, 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 GAAS, 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

Williams-Keepers LLC
Columbia, Missouri
March 26, 2024

MISSOURI LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

**STATEMENT OF FINANCIAL POSITION
December 31, 2023
(with comparative totals for December 31, 2022)**

	2023			2022
	Class A	Class B	Total	(Memorandum Only)
ASSETS				
Cash and cash equivalents	\$ 34,458	\$ 1,091,878	\$ 1,126,336	\$ 3,916,654
Investments	-	45,786,353	45,786,353	41,542,667
Accounts receivable, net	268,721	172,860	441,581	221,164
Interclass receivable (payable)	(172,146)	172,146	-	-
Unbilled assessments	-	1,336,319	1,336,319	1,336,319
Furniture and equipment, net of accumulated depreciation of \$43,071 and \$29,763 respectively	94,388	-	94,388	22,692
Operating lease right-of-use asset	142,824	-	142,824	-
Other assets	5,642	4,398	10,040	3,494
Total assets	\$ 373,887	\$ 48,563,954	\$ 48,937,841	\$ 47,042,990
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 40,987	\$ 1,336,746	\$ 1,377,733	\$ 1,371,658
Accrued liabilities	89,725	-	89,725	85,803
Operating lease liability	142,824	-	142,824	-
Reserves for claims payable	-	6,829,801	6,829,801	7,472,511
Total liabilities	273,536	8,166,547	8,440,083	8,929,972
NET ASSETS - WITHOUT RESTRICTIONS	100,351	40,397,407	40,497,758	38,113,018
Total liabilities and net assets	\$ 373,887	\$ 48,563,954	\$ 48,937,841	\$ 47,042,990

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, 2023

(with comparative totals for the year ended December 31, 2022)

	2023			2022
	Class A	Class B	Total	(Memorandum Only)
SUPPORT AND REVENUES				
Liquidation distributions	\$ -	\$ 910,236	\$ 910,236	\$ -
Net investment return	1,235	2,069,966	2,071,201	(1,056,284)
Allocations to Class B	374,989	-	374,989	344,960
Premium income	-	236,395	236,395	261,244
Miscellaneous income	220	-	220	223
Total support and revenues	376,444	3,216,597	3,593,041	(449,857)
EXPENSES				
Claims benefits and processing, net of changes in reserves	-	183,848	183,848	3,222,991
Assumption reinsurance ceding costs	-	24,589	24,589	23,804
Litigation fees	-	16,713	16,713	25,431
National Organization of Life and Health				
Insurance Guaranty Associations	-	231,580	231,580	274,273
General and administrative	376,444	134	376,578	368,649
Allocations from Class A	-	374,989	374,989	344,960
Total expenses, net of changes in reserves	376,444	831,853	1,208,297	4,260,108
Change in net assets	-	2,384,744	2,384,744	(4,709,965)
Net assets, beginning of year	100,351	38,012,663	38,113,014	42,822,983
Net assets, end of year	\$ 100,351	\$ 40,397,407	\$ 40,497,758	\$ 38,113,018

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, 2023

(with comparative totals for the year ended December 31, 2022)

	<u>Program</u>	<u>General and Administrative</u>	<u>2023 Total</u>	<u>2022 Total</u>
Claims benefits and processing, net of changes in reserves	\$ 183,848	\$ -	\$ 183,848	\$ 3,222,991
National Organization of Life and Health Insurance Guaranty Associations	231,580	-	231,580	274,273
Assumption reinsurance ceding costs	24,589	-	24,589	23,804
Litigation fees	16,713	-	16,713	25,431
Salaries and benefits	-	249,394	249,394	243,376
Professional fees	-	43,197	43,197	64,319
Other	-	15,459	15,459	22,672
Travel	-	19,671	19,671	12,502
Rent and utilities	-	24,486	24,486	14,852
Equipment and supplies	-	5,689	5,689	4,046
Depreciation	-	13,194	13,194	1,997
Dues, fees, and subscriptions	-	5,488	5,488	4,885
	<u>\$ 456,730</u>	<u>\$ 376,578</u>	<u>\$ 833,308</u>	<u>\$ 3,915,148</u>

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

	<u>Program</u>	<u>General and Administrative</u>	<u>2022 Total</u>
Claims benefits and processing, net of changes in reserves	\$ 3,222,991	\$ -	\$ 3,222,991
National Organization of Life and Health Insurance Guaranty Associations	274,273	-	274,273
Assumption reinsurance ceding costs	23,804	-	23,804
Litigation fees	25,431	-	25,431
Salaries and benefits	-	243,376	243,376
Professional fees	-	64,319	64,319
Other	-	22,672	22,672
Travel	-	12,502	12,502
Rent and utilities	-	14,852	14,852
Equipment and supplies	-	4,046	4,046
Depreciation	-	1,997	1,997
Dues, fees, and subscriptions	-	4,885	4,885
	<u>\$ 3,546,499</u>	<u>\$ 368,649</u>	<u>\$ 3,915,148</u>

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, 2023

(with comparative totals for the year ended December 31, 2022)

	2023			2022
	Class A	Class B	Total	(Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	\$ -	\$ 2,384,744	\$ 2,384,744	\$ (4,709,965)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:				
Depreciation	13,194	-	13,194	6,614
Realized (gain) loss on investments, net of change in unrealized (gain) loss	-	(1,312,370)	(1,312,370)	1,464,138
Change in accounts receivable	(205,569)	(14,848)	(220,417)	(111,171)
Change in other assets	(2,148)	(4,398)	(6,546)	(67)
Change in interclass receivable and payable	254,703	(254,703)	-	-
Change in accounts payable	5,648	427	6,075	4,441
Change in accrued liabilities	3,922	-	3,922	(1,496)
Change in reserves for claims payable	-	(642,710)	(642,710)	2,297,187
Net cash provided (used) by operating activities	<u>69,750</u>	<u>156,142</u>	<u>225,892</u>	<u>(1,050,319)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	-	32,169,000	32,169,000	56,215,000
Purchases of investments	-	(35,100,320)	(35,100,320)	(56,681,357)
Proceeds from sales of equipment	10,839	-	10,839	-
Purchase of equipment	(95,729)	-	(95,729)	(10,134)
Net cash (used) by investing activities	<u>(84,890)</u>	<u>(2,931,320)</u>	<u>(3,016,210)</u>	<u>(476,491)</u>
Net change in cash and cash equivalents	<u>(15,140)</u>	<u>(2,775,178)</u>	<u>(2,790,318)</u>	<u>(1,526,810)</u>
Cash and cash equivalents, beginning of year	49,598	3,867,056	3,916,654	5,443,464
Cash and cash equivalents, end of year	<u>\$ 34,458</u>	<u>\$ 1,091,878</u>	<u>\$ 1,126,336</u>	<u>\$ 3,916,654</u>

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 Department of Commerce and Insurance and exercises its powers through a Board of Directors. The Association is subject to the immediate supervision of the Missouri Director of Department of Commerce and 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 2023 and 2022.

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, 2022, 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 \$1,099,000 at December 31, 2023 and \$3,651,000 at December 31, 2022. 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, 2023 and 2022 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, 2023 and 2022 totaled \$13,194 and \$6,614, 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, 2023 have been evaluated through March 26, 2024, 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, 2023 for general expenditures are as follows:

Cash and cash equivalents	\$ 1,126,336
Investments due in one year or less	26,194,135
Accounts receivable, net	<u>441,581</u>
	<u>\$ 27,762,052</u>

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, 2023 and 2022:

	2023	Cost	Unrealized Gain (Loss)	Fair Value
Class B Fund				
U.S. agency bonds and notes		\$ 20,311,343	\$ (1,137,518)	\$ 19,173,825
U.S. treasury securities		26,262,154	350,374	26,612,528
Total Class B investment securities		<u>\$ 46,573,497</u>	<u>\$ (787,144)</u>	<u>\$ 45,786,353</u>
	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		<u>\$ 43,373,760</u>	<u>\$ (1,831,093)</u>	<u>\$ 41,542,667</u>

Contractual maturities of investment securities at December 31, 2023 are as follows, based on the expected call date:

	Cost	Unrealized Gain (Loss)	Fair Value
Class B Fund			
Due in one year or less	\$ 25,935,964	\$ 258,171	\$ 26,194,135
Due in one to five years	20,637,533	(1,045,315)	19,592,218
Total Class B investment securities	<u>\$ 46,573,497</u>	<u>\$ (787,144)</u>	<u>\$ 45,786,353</u>

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:

2023				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Investment securities	\$ -	\$ 45,786,353	\$ -	\$ 45,786,353
2022				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Investment securities	\$ -	\$ 41,542,667	\$ -	\$ 41,542,667

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

2023			
	<u>Class A</u>	<u>Class B</u>	<u>Total</u>
Change in unrealized gain (loss) on investments	\$ -	\$ 1,043,949	\$ 1,043,949
Net realized gain on sales	-	268,421	268,421
	-	1,312,370	1,312,370
Interest income	1,235	757,596	758,831
Net investment return	\$ 1,235	\$ 2,069,966	\$ 2,071,201
2022			
	<u>Class A</u>	<u>Class B</u>	<u>Total</u>
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)

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 \$6,830,000 and \$7,473,000 at December 31, 2023 and 2022, respectively. These reserves are based on estimates and, while management presently believes the estimate of reserves for claims payable at December 31, 2023 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 \$376,444 and \$345,338 for the years ended December 31, 2023 and 2022, respectively.

6. 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, 2023) or 5.00%. There were no borrowings under this agreement during 2023 or 2022. The agreement expires on June 13, 2023.

7. 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 \$65,245 and \$62,072, for the years ended December 31, 2023 and 2022, respectively. Of the totals contributed for 2023 and 2022, the Missouri Property and Casualty Insurance Guaranty Association (MPCIGA) was allocated \$46,235 and \$44,575, 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 \$12,490 at December 31, 2023 and \$11,948 at December 31, 2022, are recorded on the accompanying statement of financial position. The amounts represent employee contributions through December 31, 2023 and 2022, respectively.

8. CONTRACT

The Association maintains a joint administration 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 \$522,035 and \$709,879 to MPCIGA for the years ended December 31, 2023 and 2022, respectively. On occasion, MPCIGA makes direct payments to the Association's vendors for expenses that are directly related to MPCIGA operations.

9. 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.

10. LEASE COMMITMENT

The Association has a noncancelable operating lease for office space located in Jefferson City, Missouri, requiring monthly rental payments of \$6,363. The lease commenced July 1, 2023 and expires June 30, 2033. Lease expense paid totaled 19,437 and \$10,337 for the years ended December 31, 2023 and 2022, respectively. An amendment to the lease required 25% of the monthly rent payment to be made by the Association. MPCIGA, the Association's affiliate organization, is responsible for the remaining 75% of the monthly payment.

In evaluating contracts to determine if they qualify as a lease, the Association considers factors such as if it has obtained substantially all the rights to the underlying asset through exclusivity, if it can direct the use of the asset by making decisions about how and for what purpose the asset will be used, and if the lessor has substantive substitution rights, which may require significant judgement.

Operating lease right-of-use (ROU) assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The discount rate used to measure the ROU asset and lease liability is explicitly stated in the lease agreements. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The operating lease ROU asset also includes any consideration of the tenant improvement allowance amortized as a lease expense on the straight-line basis.

The Association's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Other information related to the previously described leases are as follows for the year ended December 31, 2023:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 19,437
ROU assets obtained in exchange for new operating lease liabilities	\$ 149,983
Weighted-average remaining lease term in years for operating leases	9.50
Discount rate for operating lease	5.00%

Minimum future lease payments for the operating leases at December 31, 2023 are as follows:

2024	\$ 19,089
2025	19,089
2026	19,089
2027	19,089
2028	19,089
Thereafter	85,900
Total undiscounted cash flows	181,345
Less: present value discount	(38,521)
Total lease liabilities	<u>\$ 142,824</u>

11. 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.