

—MISSOURI—
LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION

2024

Annual Report

ANNUAL REPORT OF THE
MISSOURI LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION
FOR FISCAL YEAR ENDING DECEMBER 31, 2024

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

TABLE OF CONTENTS

ABOUT	1
BOARD OF DIRECTORS	1
OFFICERS & EXECUTIVE COMMITTEE	2
NOMINATING COMMITTEE.....	2
ATTORNEYS	2
LITIGATION	2
AUDITORS	3
OFFICE OF THE EXECUTIVE DIRECTOR	3
FINANCIAL REPORTS	3
ASSESSMENTS	3
INSOLVENCIES	4
Continental Security (Peoples Mutual Assessment Business).....	4
Executive Life Insurance Company.....	4
Global Bankers Insurance Group.....	5
Lincoln Memorial Life Insurance Company	10
National States Insurance Company.....	13
North Carolina Mutual Life Insurance Company	15
Penn Treaty/American Network	17
Senior Health Insurance Company of Pennsylvania.....	21
FINANCIAL REPORTING AND AUDIT AS OF DECEMBER 31, 2024	30
INDEPENDENT AUDITOR’S REPORT	30
FINANCIAL STATEMENTS	32
NOTES TO FINANCIAL STATEMENTS	36

ANNUAL REPORT OF THE MISSOURI LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION FOR THE YEAR ENDING DECEMBER 31, 2024

The Annual Report of the Missouri Life and Health Insurance Guaranty Association (the "Association") for the year ending December 31, 2024, 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, 2024, there are 878 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, 484 have authority to sell life insurance, 437 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 2024 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 22, 2024. Three member insurers were elected to serve on the Board of Directors for terms that will expire in 2027. 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, 2024, are listed below.

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
Kansas City Life Insurance Company
Ozark National Life Insurance Company

Christine Cappiello
Malika Simmons
David R. Melton

Three-year term ending 2027

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

David Monaghan ¹
Coni Fries
Teresa Magruder (Vice-Chair)

OFFICERS & EXECUTIVE COMMITTEE

The Officers elected at the May 22, 2024, 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
Teresa Magruder, Vice-Chair
David Hill, Secretary/Treasurer

Everlake Life Insurance Company
Shelter Life Insurance Company
UnitedHealthcare

During 2024, the Executive Committee continued the practice of meeting on a quarterly basis and the Committee’s Q4 quarterly meeting was instead held as a meeting of the Board of Directors so that the Board could consider an assessment. 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 and 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 English & Monaco, P.C., 2701 West Main Street, Suite 201, Jefferson City, MO 65102. The primary contacts are Ann Warren and Mark Warren.

LITIGATION

As of December 31, 2024, there was no active litigation where the Association is a defendant.

¹ David Monaghan represented American Family Life Insurance Company until his retirement at year end. On December 26, 2024, the Director of the Department of Commerce and Insurance approved Chelsea Chaney as the company’s new representative upon Mr. Monaghan’s retirement.

AUDITORS

The audit of the Association’s financial statement for the year ended December 31, 2024, was performed by Wipfli of St. Charles, MO. Detailed financial information for the Association for the year ended December 31, 2024, is shown in the audited financial report prepared by Wipfli.

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 and 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 (Chair)
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 and Casualty Insurance Guaranty Association. The Association continued its administrative responsibilities for approximately 156 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 47 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.

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, 2024, are included with this report. Further, the notes to the financial statements are also included as an integral part of the report. Wipfli conducted the independent audit of the financial records of the Association.

ASSESSMENTS

2024 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 2024.

2024 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. On November 5, 2024, the Board of Directors authorized an assessment of approximately \$20 million to carry out the Association’s duties with regard to two insolvencies: Colorado Bankers Life Insurance Company and Bankers Life Insurance Company.

INSOLVENCIES

The following insolvent estates were open at the end of 2024. 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.

1995

National Heritage Life Insurance Company (DE)

1999

First National Life Insurance Company of America (MS)

2008

Lincoln Memorial Life Insurance Company (TX)

2010

National States Insurance Company (MO)

2013

Lumbermens Mutual Casualty Company (IL)

2022

North Carolina Mutual Life Insurance Company (NC)

2024

Colorado Bankers Life Insurance Company (NC)

Bankers Life Insurance Company (NC)

Opticare of Utah, Inc. (UT)

Continental Security (Peoples Mutual Assessment Business)

The Association continues to handle the administration of this block of business. As of the end of 2024, there were 47 active policies representing approximately 74 insured lives. The Association paid 3 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 completed the withdrawal program in November 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 from the CSA. In the fourth quarter of 2021, Universal Fidelity Life Insurance Company began servicing a portion of SNIC's business, and Actuarial Management Resources (AMR) began servicing BLIC's and CBLIC's business. Policyholders and agents were notified in writing of the transition.

In 2024, the task force entered into a Service Agreement with AMR. Effective November 30, 2024, AMR began servicing BLIC's and CBLIC's guaranty association-covered contracts on behalf of the guaranty associations.

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.

For BLIC and CBLIC, the task force completed its review of the reinsurance agreements in force, and there were 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 asked 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.

On February 1, 2024, the Bankruptcy Court entered an order holding the JPLs and their counsel in contempt of court for filing the Amended Complaint in violation of the bankruptcy court's Stay Order. As a sanction, the Bankruptcy Court ordered the JPLs' counsel's firm, Stevens & Lee, to pay the Receiver's attorneys' fees in the amount of \$670,292.04 (the "Sanction Order"). The JPLs were also required to file a restated amended complaint that removed all new allegations and causes of action against the insurance companies.

Criminal & Civil Actions Against Lindberg

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. In May 2024, Lindberg was found guilty of federal bribery and fraud in a retrial.

Fraud: In February 2023, a federal grand jury indicted Lindberg, charging him with fraud and deceiving the North Carolina Department of Insurance. In November 2024, Lindberg pleaded guilty to one count of conspiracy to commit offenses against the United States—including wire fraud, investment adviser fraud, and crimes in connection with insurance business—and one count of money laundering conspiracy.

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.

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.

Agent's Class Action: A group of insurance agents have filed suit against Lindberg, alleging failure to pay commissions on CBLIC policies.

2024 Task Force Activity

During 2024, the task force focused on (1) preparing for guaranty association activation in BLIC and CBLIC; (2) implementing guaranty association coverage under the BLIC and CBLIC administrative agreements; (3) communicating with the Receiver and North Carolina regulators regarding BLIC and CBLIC; (4) preparing preliminary calculations 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, 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 guaranty association Board meetings; (8) responding to inquiries from certain regulators, the press, and policyholders; (9) working with a consultant to perform due diligence on AMR to investigate and verify its abilities to handle a mass surrender of annuities; (10) negotiating a Service Agreement with AMR for the administration of guaranty association-covered obligations in CBLIC and BLIC; (11) holding a series of Town Hall meetings to discuss assessment and coverage issues for BLIC and CBLIC; (12) monitoring and analyzing the North Carolina rehabilitation proceedings and various other litigation matters; and (13) preparing a schedule of task force activities and guaranty association decisions to prepare for liquidation.

Outlook

The task force will continue to oversee the administration of the participating guaranty associations' covered obligations under the TPA Agreements and monitor the receivership estate and various related litigation cases.

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 and Health Insurance Guaranty Association was approximately \$94.6 million. The only proposal received on the Lincoln Memorial block was not accepted.

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

In 2019, an additional assumption transaction was completed with Liberty Bankers/Capitol Life for the Reduced Paid-Up block of business. The initial closing took place on May 1, with a final accounting on October 1. Total funding was \$5.9 million.

Remaining Block: After the assumptions, there was one remaining block of business. Known as the MTW block, it had an estimated face amount of \$3.5 million. Cleanup efforts on the remaining in-force policies were completed during 2021 to prepare for eventual administration by the guaranty associations. The SDR continued to administer this block under the Service Agreement until August 31, 2023.

The Missouri Life and Health Insurance Guaranty Association took over administration of Missouri resident policies in September 2023.

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.

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.

In August 2017, the United States Court of Appeals for the Eight Circuit reversed the judgment and remanded it to the District Court for retrial to the bench on a more limited damage theory. The remanded bench trial began in St. Louis on November 28, 2018, and was concluded in March 2019. On July 3, 2019, final judgment was entered in favor of the plaintiffs in the amount of \$99,497,290 (the order was issued on December 4 after numerous appeals to correct mathematical errors). On February 21, 2020, attorney fees and expenses of \$7,144,502 were awarded to the plaintiffs in addition to the July 2019 judgment of \$99.5 million. Various appeals were filed by both defendants and plaintiffs regarding the judgment and fee award. All briefings were completed during July 2020.

Oral argument took place in January 2021 in the Eighth Circuit Court of Appeals. On August 30, 2021, the Appellate Court affirmed the district court’s rulings in favor of the plaintiffs (judgment in the amount of \$72,287,615; punitive damages in the amount of \$15,000,000; revised interest in the amount of \$12,209,675; and attorney fees and costs in the amount of \$7,144,502). In September 2021, PNC paid \$111,031,594 (which includes post-judgment interest) to the plaintiffs, settling all further litigation.

Criminal Prosecutions: 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

2024 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) provided transition services through March 30, 2024. Policy records for each of the guaranty associations were transferred to QUEST.

As of August 31, 2023, guaranty associations had 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. Bank accounts held by the TPA and by NOLHGA for claims funding and TPA fees were closed in 2024.

Closing of the Estate

The estate has reserved approximately \$700,000 for the SDR and subcontractor administration costs and to close the receivership. At this time, the SDR estimates that the NPS estate will have approximately \$22 million to distribute according to claim classification. The NPS estate has Class 1 claims for final administration costs relating to closing of the estate (estimated to be approximately \$700,000). There are no Class 2 claims because NPS was not an insurance company, no known Class 3 (U.S. government) claims, and no approved Class 4 claims. There is \$30,634,353 in approved Class 5 claims, from NPS's obligation to pay (1) "growth" or inflation protection to funeral homes that sold NPS pre-need contracts and (2) "orphan" pre-need contract claims not eligible for guaranty association coverage. The SDR does not anticipate significant future litigation recoveries.

Outlook

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 in early 2025.

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,² was appointed Rehabilitator, and Bruce Baty was named Special Deputy Receiver.

² The Department of Insurance, Financial Institutions and Professional Registration is now known as the Department of Commerce and Insurance.

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

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

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

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

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

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

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

2024 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.

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. In addition, in partnership with TPA, the task force will engage an outside firm to provide potential solutions on completion of various tasks for the pending escheat/unclaimed property reviews.

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. There are 25 affected guaranty associations.

The bulk of the business (administered at the NCM office) consisted 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 appeared 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).

Two reinsurance agreements had a significant negative impact on NCM's financial status. The SDR sued to recover approximately \$34 million from Port Royal Reassurance; the assets securing the agreement appear to have been misappropriated (in 2020, Bradley Reifler, the owner of Port Royal, pled guilty to one count of wire fraud in relation to the agreement; he was sentenced to 5 years in prison and ordered to pay NCM \$20.3 million, and the SDR sought additional damages in civil court—see "2024 Activity," below). The reserve credit taken by NCM at year-end 2017 for this agreement was approximately \$28 million.

The other reinsurance agreement involved Southland National Insurance Corporation. Reserve credits taken by NCM were approximately \$102 million. However, performing assets backing the treaty were 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 elected to participate in both agreements. The Receivership Court had scheduled a hearing on December 20, 2021, to consider the liquidation petition, but 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.

Beginning in mid-December 2022, administration of covered obligations had 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 had been collected and delivered to the guaranty associations as coordinated through NOLHGA and the GA Coordinator (Mark Femal). Claims had been paid by the guaranty associations as coordinated through NOLHGA and the GA Coordinator. Coverage limits were being applied.

NCM was a party to several reinsurance agreements. The task force and affected guaranty associations 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 in 2023. The task force's plan funds covered obligations with estate reserves, which are treated as early access. The agreement and opt-out package were sent to all affected guaranty associations in December 2023. All affected associations are participating. A 100% Coinsurance agreement was signed in the spring of 2024.

NCM had issued a group life policy for employees and retirees. Settlements have been entered into between the guaranty associations and the employees and retirees related to insurance benefits.

In May 2023, 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 2023, the task force sent out another RFP for assumption reinsurance and/or long-term administration. That RFP produced five responses, and the task force evaluated an assumption reinsurance bid first.

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

2024 Activity

The task force's main objective in 2024 was to negotiate an Assumption Reinsurance Agreement (for policies with reliable data) and an Administrative Services Agreement for retained obligations and to assist in the negotiations for an asset purchase agreement between the reinsurer and the Receiver.

Negotiations with EquiTrust Life Insurance Company to assume the NCM policies with reliable data and administer the remaining business were completed in September. The agreement and opt-out package were sent to all affected guaranty associations soon after, and all affected guaranty associations participated in the early closing on October 4. The guaranty associations' liabilities consisted of:

- \$120.18 million of covered reserves
- Negative \$6.5 million enhancement fee
- \$3.77 million in policy loans
- \$1.18 million in due/deferred premiums
- \$100,000 asset purchase price
- \$60.0 million in early access from the liquidator

For a total liability of \$61.63 million.

NOLHGA wired \$49.35 million to EquiTrust on October 4 on behalf of the participating guaranty associations. EquiTrust also received \$60 million from the liquidator as well as \$11.7 million from the Alabama guaranty association (on October 29). The asset purchase agreement also closed in 2024.

On November 7, 2024, a Joint Motion for Consent Judgment was filed with respect to Bradley Reifler, the owner of Port Royal Reassurance Company. Under the proposed Consent Judgment, Reifler consented to judgment in the amount of \$60,966,060 in damages; \$2,693,000 in attorneys' fees; and post-judgment interest at the legal rate. The roughly \$60 million judgment represents treble damages for the \$20,322,220 in compensatory damages—i.e., the remainder of the \$34 million in assets that was placed in the reinsurance trust and not recovered. At this time, we are not aware whether or to what extent Reifler would be able to satisfy the criminal restitution (\$20.3 million) or the civil judgment (roughly \$60 million).

Outlook

In 2025, the task force will focus on implementing the Assumption Reinsurance Agreement and transitioning to long-term policy administration by EquiTrust, as well as a final accounting that will occur late in the year. The task force will continue to monitor 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 completed in February 2023 and effective as of January 1, 2023.

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.

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) was 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. The New York guaranty corporation engaged Davies to continue to administer the AINIC policies in liquidation.

2024 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.) Through 2024, the Policy and Claims Administration (PACA) Working Group and the Coordination and Strategy (C&S) Committee oversaw policy and claims administration activities.

In 2024, leadership of LTC Re and NOLHGA proposed a realignment in TPA oversight that ultimately was approved by the task force, LTC Re Board, and certain health insurers party to the Settlement Agreement that created PACA and the C&S Committee. Accordingly, effective January 1, 2025, PACA and the C&S Committee dissolved and the TPA Oversight Committee (TOC) was formed to take their place. TOC is expected to take other steps to streamline the oversight of policy and claims administration activities.

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. In 2024, LTC Re decided to discontinue the wellness program by year-end 2024.

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 to review fraud/waste/abuse red flags identified through EVV.

Task force representatives, through PACA and the C&S Committee, also worked with Davies on the implementation of machine learning and virtual worker programs designed to create efficiencies in claims processing and identify fraud/waste/abuse.

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 2024, rate increases are still being phased in in one state.

Actuarial Update

The task force's actuarial consultants (illumifin) prepared the annual liability update for Penn Treaty/ANIC. At the April MPC meeting, illumifin presented its analysis of actual versus expected experience in liquidation. Overall, liabilities are lower than expected due in large part to the success of the rate increase program. In addition, claims have been lower than expected due to policyholder behavior and the impact of the COVID-19 pandemic.

Estate Asset Allocation & Estate Closing

After receiving approval from the Commonwealth Court, the Receiver sent notice to all claimants of his final accounting and plan for distribution of estate assets. The plan for distribution of estate assets included an administrative holdback to be used to pay remaining estate/Receiver expenses. The Receiver proposed that any funds ultimately unused from the administrative holdback would escheat to the Commonwealth of Pennsylvania. NOLHGA objected, claiming that any unused funds should be transferred to the affected guaranty associations. NOLHGA and the Receiver came to a settlement of this issue, which was presented to the Commonwealth Court in September and ultimately approved.

In October, the Receiver filed an application for approval of the final distribution of assets. After receiving approval from the Commonwealth Court in November, the Receiver distributed approximately \$18 million from Penn Treaty and \$6 million from ANIC to NOLHGA for allocation among the affected guaranty associations.

In November, the Receiver filed an application seeking discharge of the liquidation. That application was approved on December 24, and the Penn Treaty and ANIC estates were closed by year-end. Closing the estates by year-end 2024 will permit AINIC to take advantage of certain tax attributes in its final tax filing in 2025.

The Receiver held back approximately \$1 million for remaining administrative expenses. If holdback assets in excess of \$50,000 remain in late 2026, the Receiver will distribute such excess assets to the affected guaranty associations.

American Independent Network Insurance Company

The AINIC liquidation was closed, and AINIC was deemed dissolved on July 24, 2024. All remaining assets of AINIC, save an administrative holdback of \$1.25 million, were transferred to the New York guaranty corporation. No estate assets were allocated to policyholder claims in excess of guaranty corporation limits. The New York guaranty corporation continues to run off the AINIC policies in liquidation.

Communications

The task force continued to communicate with the affected guaranty associations as needed in 2024, providing reports on the status of Penn Treaty/ANIC at each MPC meeting. The task force published its Lessons Learned Report in September and held a lessons learned panel during the NOLHGA Annual Meeting in October. Task force representatives also regularly communicated and worked closely with LTC Re, Davies, and the Receiver.

Outlook

In 2025, 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 the negotiation of an extension of the Service Agreement with Davies, and oversee the final stages of rate increase implementation.

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.

The Rehabilitator filed an Amended Rehabilitation Plan on October 21, 2020, and a Second Amended Rehabilitation on May 3, 2021. The Rehabilitator attempted to address comments raised by interested parties in the Amended Plans.

Hearing on the Second Amended Plan: Interested parties were permitted to submit comments on the Second Amended Plan and/or to intervene in the Commonwealth 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 hearing on the Second Amended Plan took place 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 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. 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: 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, which was denied on August 25, 2021.

Following a hearing on September 8, 2021, the court issued an order approving a Settlement Agreement under which SHIP paid the intervening agents \$350,000 and committed to pay additional amounts if SHIP remains in rehabilitation for a certain period of time.

Approval 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 & Affirmance of Plan Approval

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.

Twenty-seven insurance commissioners filed an *amicus* brief in support of the Intervening Regulators' appeal. Through the spring of 2022, 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). 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.

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 2023 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.

Rehabilitation Plan Implementation

In accordance with the Approved Plan, 12 states elected to opt out of the Plan's rate approval provisions. 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. Over time, additional regulators approved the rate increases or otherwise reached a settlement with the Rehabilitator allowing the Approved Plan to be implemented in their states.

The Rehabilitator completed Policyholder Election Package mailings to most policyholders in January and May 2022. The Rehabilitator delayed implementation of the elections selected by policyholders until September 2023 (or later for some policyholders) due to ongoing court proceedings.

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. The Louisiana and South Carolina regulators did not respond, and the court did not issue an order.

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’s appeal of the issuance of the preliminary injunction was pending as of year-end 2023.

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 appealed. The Rehabilitator’s appeal of the issuance of the preliminary injunction was pending as of year-end 2023.

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. The status of the actions as of year-end 2023 was:

- Iowa: State court issued a temporary injunction, and the Rehabilitator appealed.
- New Jersey: The Commissioner’s Application for a preliminary injunction was pending.
- North Carolina: The state court denied the Commissioner’s application for a preliminary injunction in January, and the Commissioner appealed.
- North Dakota: The court issued a preliminary injunction, and the Rehabilitator filed a Motion for Reconsideration or Clarification.

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 were issued in the following 11 jurisdictions: Alaska, Arkansas, Connecticut, District of Columbia, Maine, Maryland, Montana, Ohio, Utah, Vermont, and Washington.

2024 Activity

Pennsylvania Supreme Court Opinions

On January 24, 2024, the Pennsylvania Supreme Court issued its opinions regarding the Order affirming the approval of the Rehabilitation Plan. The majority and dissenting opinions both found that several issues raised by the Regulators were issues raised on behalf of policyholders and because the Regulators were not appearing on behalf of policyholders, the Regulators did not have standing to raise these issues. The majority opinion evaluated whether the Plan unlawfully displaces regulatory authority of other state regulators and whether the Full Faith and Credit clause was violated. The majority found that the Rehabilitator has sweeping and unqualified power in rehabilitation and that the Full Faith and Credit clause was not violated. The dissenting opinion agreed that the Rehabilitator had broad authority but found the rehabilitation statutes do not give the Rehabilitator the right to violate other state laws. The dissenting justices would have held that the court abused its discretion by approving the Plan.

Pennsylvania Commonwealth Court Proceedings

SHIP Annual Report: On March 31, 2024, the Rehabilitator filed SHIP’s Annual Report. The Annual Report provided updates on SHIP’s Funding Gap (\$1.1 billion as of December 31, 2023); pending litigation; SHIP’s rehabilitation expenses (\$10.8 million in 2023; \$42.9 million through year-end 2023); asset recovery efforts; and policyholder elections under the Plan.

Rule to Show Cause Actions: On August 23, 2024, the Rehabilitator asked the court to terminate the RTSC against the Louisiana regulator. On May 24, 2024, the Rehabilitator filed a petition for RTSC against the Iowa regulator, and on November 15, 2024, the court issued the RTSC. Similarly, on May 24, 2024, the Rehabilitator filed a petition for RTSC against the North Dakota regulator; on November 15, 2024, the court issued the RTSC.

Other State Court Proceedings

As of December 2024, the status of the state court actions was:

- Iowa: The Rehabilitator appealed the issuance of the temporary injunction in April 2023. The Rehabilitator voluntarily dismissed the appeal in July 2024. The Iowa Commissioner filed a Motion for Summary Judgment related to his application for a permanent injunction, which is pending. A trial on the permanent injunction is scheduled for June 2025.
- Louisiana: The Rehabilitator filed a motion to dismiss the appeal of the preliminary injunction due to settlement in July 2024.
- New Jersey: The Commissioner's Application for a preliminary injunction is pending, and case management conferences were held in 2024. A status conference is scheduled for January 2025.
- North Carolina: The state court denied the Commissioner's application for a preliminary injunction in January. The Commissioner appealed, but the appeal did not move forward. The Rehabilitator characterizes the matter as settled.
- 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 2023. The Commissioner filed a Motion for Summary Judgment related to his application for a permanent injunction. The Motion for Summary Judgment is pending.
- South Carolina: The South Carolina regulator and the Rehabilitator submitted a joint agreement to dismiss and terminate litigation in April 2024.
- Washington: The Commissioner's Petition for Declaratory Judgment regarding the cease and desist order remains pending, with little public activity in 2024.

Rehabilitation Plan Implementation

Phase One elections have been implemented for most policyholders, and endorsements have been sent to policyholders. Election packages have not been sent to Iowa and North Dakota policyholders due to ongoing litigation. More than half of the policyholders have elected to take the rate increase to retain benefits.

The Rehabilitator has stated that it is unlikely that Phase Two will be pursued, and Phase One likely will continue for three years (from 2024).

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. The parties are engaged in mediation and discovery. A trial is scheduled to begin in September 2026.
- *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 parties continue to submit status reports.
- *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 parties are engaging in cross-motions for summary judgment.

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; the parties are in discovery disputes and pursuing mediation. A scheduling order leads to trial in August 2025.

Actuarial Analysis

In June 2024, the task force provided to the guaranty associations potentially affected by the SHIP receivership updated liability estimates as of year-end 2023, 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 2024, 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.
- Reengaged on liquidation contingency planning by beginning to explore reinsurance and long-term run-off options.

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 state court proceedings in four states, and the asset recovery litigation. An updated actuarial analysis based on year-end 2024 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 2025 with respect to the matters assigned to them, including appropriate liquidation planning matters. The task force will investigate the pursuit of a potential reinsurance transaction, the formation and use of a long-term run-off vehicle, and other long-term run-off options. The task force will continue to keep the affected guaranty associations informed of developments.

Time Insurance Company

Time Insurance Company, a Wisconsin domestic life and health insurance company, was placed in rehabilitation on July 29, 2020. The Rehabilitator filed a proposed rehabilitation plan with the Circuit Court of Dane County, Wisconsin, on September 25, 2020, and the rehabilitation plan was approved effective October 15, 2020.

Pre-Rehabilitation History

Time was incorporated in Wisconsin in 1892 and, in 1910, was reorganized as a stock company. It underwent several mergers and name changes over the years, including being formerly known as Fortis Insurance Company. Time grew to provide annuities, life insurance, disability insurance, long-term care (LTC) insurance, Medicare supplemental insurance, and health insurance across 49 states (all except New York) as well as the District of Columbia.

Time entered into multiple indemnity reinsurance agreements over the years. By 2015, it had ceded most of its business to reinsurers, all on a 100% coinsurance basis. In each of those situations, the reinsurers also became responsible for administration of the business. Time stopped issuing new policies in late 2014. Thereafter, the company kept its many reinsurance agreements in place and continued administration of a small block of retained life and health insurance policies that were not subject to any reinsurance agreement.

In late 2018, Haven Holdings Inc., a Puerto Rico corporation and international insurance holding company, acquired Time and redomesticated the company from Wisconsin to Puerto Rico. The Wisconsin Office of the Commissioner of Insurance (Wisconsin OCI) approved the acquisition and redomestication, subject to certain conditions. Following the transaction, Haven created segregated asset plans (SAPs) for Time's three largest reinsured blocks of business and treated those SAPs as exempt from Time's NAIC risk-based capital (RBC) calculations. Haven also proposed a transaction for Time to recapture the LTC block reinsured by John Hancock Life Insurance Company (U.S.A.). In response, in late 2019, the Wisconsin OCI issued a cease and desist order blocking the reinsurance recapture and raising issues with the SAPs and Time's RBC reporting, among other things. Several other states where Time was licensed issued similar orders.

As a result, Time entered into a Stipulation and Order with the Wisconsin OCI to effectuate Time's redomestication back to Wisconsin in early 2020. The blocks of business in the SAPs, including the associated assets and liabilities, were transferred back to Time's general account prior to the redomestication to Wisconsin, which was effective February 28, 2020. Upon its redomestication to Wisconsin, Time's RBC was at a mandatory control level. An order for rehabilitation of Time was entered on July 29, 2020.

Rehabilitation

On October 15, 2020, the court approved a three-part plan for rehabilitating Time, which included: (1) examination of the LTC block reinsured by John Hancock to evaluate the feasibility of a novation or similar transaction with Haven; (2) pursuit of assumption agreements with Time's non-LTC reinsurers; and (3) pursuit of a transaction to remove Time's risk exposure for the remaining (approximately 100) policies that were not subject to reinsurance agreements.

In furtherance of the rehabilitation plan, the Rehabilitator engaged Oliver Wyman Actuarial Consulting, Inc., to conduct an actuarial review of the LTC block. The Rehabilitator discussed and considered the feasibility of an LTC block transaction with Haven and John Hancock, but ultimately determined that such a transaction was not feasible.

Throughout the last quarter of 2020 and all through 2021, the Rehabilitator worked to negotiate assumption agreements for the transfer of five separate blocks of reinsured business, including the LTC block. The Rehabilitator also explored options for transferring Time's risk exposure for the remaining small block of non-reinsured business, but no assuming carrier could be found to take those policies.

By the end of 2021, assumption agreements transferring three of the five blocks of reinsured business had been finalized and closed: (1) National Health Insurance Company assumed approximately 92,356 health, disability, and life policies reinsured by it and Integon National Insurance Company (effective October 1, 2020); (2) Assurity Life Insurance Company assumed approximately 12 disability insurance policies reinsured by it (effective November 1, 2020); and (3) Loyal American Life Insurance Company assumed approximately 55 Medicare Supplement policies reinsured by Continental General Insurance Company (effective February 1, 2021). Efforts to reach agreement for the transfer of the remaining blocks continued into 2022.

During the first half of 2022, efforts were focused on getting the remaining reinsured blocks transferred off of Time's books. After many months of negotiations, agreements were reached with (1) John Hancock Life Insurance Company for the assumption of approximately 25,020 LTC policies that it previously reinsured

and administered, and (2) Talcott Resolution Life and Annuity Insurance Company for the assumption of approximately 47,683 life and annuity policies previously reinsured and administered by Talcott and Prudential. Both of those assumption transactions closed with an effective date of July 1, 2022.

Liquidation

Shortly thereafter, on July 13, a petition for liquidation of Time was filed with the court. The deadline for filing objections passed on August 29. No objections having been filed, and the court entered the liquidation order with an effective date of September 1, 2022.

As of the liquidation date, the only policies that Time had in force included 74 life and health policies (mostly hospital indemnity, except for three major medical policies) that remained in the non-reinsured block. These policies were written primarily in the early 1970s and were spread across 27 states, with most states having just a couple policies.

A third-party administrator (TPA) was retained to administer the business on behalf of participating guaranty associations. Of the 27 guaranty associations with in-force policies, 19 (having a total of 47 policies) elected to participate in the TPA Service Agreement, and 8 (having a total of 27 policies) decided to self-administer their policies. While the monthly rate for the Service Agreement was relatively low, the cost on a per-policy basis is higher for smaller blocks of business than for much larger blocks, and the per policy cost will continue to grow as the block declines. Moreover, with the limited exception of the major medical policies, these were all very low benefit/low face value and low premium policies.

With those considerations in mind, the guaranty associations decided to offer buyouts with respect to the life and hospital indemnity policies. The buyout offers were designed to provide policyholders with full compensation for their policies plus some additional financial incentive, which would be offset by the ongoing savings in administrative costs that would result from voluntary surrenders.

During the first half of 2023, policy and claims administration continued under the TPA Service Agreement while the participating associations continued to process additional buyout offers and acceptances. The buyout offers were largely successful. As of year-end 2023, only 5 of the 47 policies administered by the TPA remained in force, and just 12 of the 27 policies administered by individual guaranty associations remained. The Service Agreement was terminated effective July 31, and the last few remaining policies were taken in-house by the guaranty associations. Several of the guaranty associations indicated that additional offers would be extended or were being considered.

Throughout the remainder of 2023, task force efforts were focused on asset recovery. An Omnibus Proof of Claim was prepared and submitted on behalf of all affected associations in advance of the March 1 deadline, and the Proof of Claim was supplemented thereafter through December 31. Task force representatives reviewed and monitored estate financial reports and developments with respect to the claims process and engaged in discussions with the Liquidator's team concerning allowance and priority treatment of various components of guaranty association claims and expenses.

2024 Activity

Discussions and negotiations with the Liquidator's team ultimately resulted in a significant increase in allowed claims, including some liquidation planning expenses. A notice of determination was issued on March 27, 2024. No objections having been filed, distributions were approved by the court thereafter on May 30, 2024. The task force worked through and developed recommendations concerning the allocation of various components of allowed expenses and provided the proposed allocation schedules to affected guaranty associations, along with an explanatory memorandum, on August 8. The funds were released to the affected guaranty associations shortly thereafter on August 15.

The guaranty associations ultimately received estate distributions totaling just over \$3.4 million, including 100% of their post-liquidation claims and expenses, and approximately 28% of their pre-liquidation planning expenses. No further distributions are expected, and the estate is now closed.

Outlook

Following completion of the distribution allocation and release of funds to the affected guaranty associations, the task force's principal activities were complete, apart from some minimal support for guaranty associations still administering policies. No significant task force activity is expected in 2025.

Missouri Life and Health Insurance Guaranty Association

Financial Statements

For the Years Ended December 31, 2024 and 2023



WIPFLI

Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of Missouri Life and Health Insurance Guaranty Association (the "Association"), which comprise the statement of financial position as of December 31, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2024, 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 ("GAAP").

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with GAAP, 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.

Auditor's 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 auditor's 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 GAAS 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 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 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.

Other Matter

The financial statements of the Association for the year ended December 31, 2023, were audited by another auditor, whose report dated March 26, 2024 expressed an unmodified opinion on those financial statements.



Wipfli LLP

St. Louis, Missouri
March 18, 2025

Missouri Life and Health Insurance Guaranty Association

Statement of Financial Position

<i>As of December 31,</i>	2024			2023	
	Class A	Class B	Total	(Memorandum Only)	
ASSETS					
Cash and cash equivalents	\$ 78,893	\$ 29,532,737	\$ 29,611,630	\$	1,126,336
Investments	-	29,385,063	29,385,063		45,786,353
Accounts receivable	70,581	151,687	222,268		441,581
Interclass receivable	(21,186)	21,186	-		-
Unbilled assessments	-	1,336,319	1,336,319		1,336,319
Advance to receivers	-	9,971,456	9,971,456		4,398
Furniture and equipment, net of accumulated depreciation of \$71,414 and \$43,071, respectively	84,671	-	84,671		94,388
Operating lease right-of-use asset	128,507	-	128,507		142,824
Other assets	6,557	-	6,557		5,642
Total assets	\$ 348,023	\$ 70,398,448	\$ 70,746,471	\$	48,937,841
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 40,870	\$ 1,336,319	\$ 1,377,189	\$	1,377,733
Accrued liabilities	78,295	-	78,295		89,725
Operating lease liability	128,507	-	128,507		142,824
Reserves for claims payable	-	30,497,645	30,497,645		6,829,801
Total liabilities	247,672	31,833,964	32,081,636		8,440,083
NET ASSETS - WITHOUT RESTRICTIONS	100,351	38,564,484	38,664,835		40,497,758
Total liabilities and net assets	\$ 348,023	\$ 70,398,448	\$ 70,746,471	\$	48,937,841

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

Missouri Life and Health Insurance Guaranty Association

Statement of Activities

<i>Years Ended December 31,</i>	2024			2023
	Class A	Class B	Total	(Memorandum Only)
SUPPORT AND REVENUES				
Liquidation distributions	\$ -	\$ 743,602	\$ 743,602	\$ 910,236
Net investment return	2,810	2,396,840	2,399,650	2,071,201
Allocations to Class B	300,865	-	300,865	374,989
Premium income	-	212,485	212,485	236,395
Assessment income	-	19,997,610	19,997,610	-
Miscellaneous income	240	-	240	220
Total support and revenues	303,915	23,350,537	23,654,452	3,593,041
EXPENSES				
Claims benefits and processing, net of changes in revenues	-	24,284,978	24,284,978	183,848
Assumption reinsurance ceding costs	-	421,434	421,434	24,589
Litigation fees	-	9,732	9,732	16,713
National Organization of Life and Health Insurance Guaranty Associations	-	166,451	166,451	231,580
General and administrative	303,915	-	303,915	376,578
Allocations from Class A	-	300,865	300,865	374,989
Total expenses, net of changes in reserves	303,915	25,183,460	25,487,375	1,208,297
Change in net assets	-	(1,832,923)	(1,832,923)	2,384,744
Net assets, beginning of year	100,351	40,397,407	40,497,758	38,113,014
Net assets, end of year	\$ 100,351	\$ 38,564,484	\$ 38,664,835	\$ 40,497,758

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

Missouri Life and Health Insurance Guaranty Association

Statements of Functional Expenses

Years Ended December 31,	2024		2023	
	Program	General and Administrative	Program	General and Administrative
	Expenses		Expenses	
	Total	Total	Total	Total
Claims benefits and processing, net of changes in reserves	\$ 24,284,978	\$ -	\$ 24,284,978	\$ 183,848
National Organization of Life and Health Insurance Guaranty				
Associations	166,451	-	166,451	231,580
Assumption reinsurance ceding costs	421,434	-	421,434	24,589
Litigation fees	9,732	-	9,732	16,713
Salaries and benefits	-	177,267	177,267	249,394
Professional fees	-	44,535	44,535	43,197
Other	-	13,208	13,208	15,459
Travel	-	18,380	18,380	19,671
Rent and utilities	-	22,555	22,555	24,486
Equipment and supplies	-	2,454	2,454	5,689
Depreciation	-	21,618	21,618	13,194
Dues, fees, and subscriptions	-	3,898	3,898	5,488
Total	\$ 24,882,595	\$ 303,915	\$ 25,186,510	\$ 456,730
			\$ 376,578	\$ 833,308

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

Missouri Life and Health Insurance Guaranty Association

Statement of Cash Flows

<i>Years Ended December 31,</i>	2024			2023
	Class A	Class B	Total	Memorandum Only
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	\$ -	\$ (1,832,923)	\$ (1,832,923)	\$ 2,384,744
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	28,343	-	28,343	13,194
Realized gain on investments, net of change in unrealized gain	-	(1,432,478)	(1,432,478)	(1,312,370)
Change in accounts receivable	198,140	21,173	219,313	(220,417)
Change in advance to receivers		(9,967,058)	(9,967,058)	-
Change in other assets	(915)	-	(915)	(6,546)
Change in interclass receivable and payable	(150,960)	150,960	-	-
Change in accounts payable	(117)	(427)	(544)	6,075
Change in accrued liabilities	(11,430)	-	(11,430)	3,922
Change in reserves for claims payable	-	23,667,844	23,667,844	(642,710)
Net cash provided by operating activities	63,061	10,607,091	10,670,152	225,892
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	-	47,515,000	47,515,000	32,169,000
Purchase of investments	-	(29,681,232)	(29,681,232)	(35,100,320)
Proceeds from sales of equipment	-	-	-	10,839
Purchase of equipment	(18,626)	-	(18,626)	(95,729)
Net cash provided (used) by investing activities	(18,626)	17,833,768	17,815,142	(3,016,210)
Net change in cash and cash equivalents	44,435	28,440,859	28,485,294	(2,790,318)
Cash and cash equivalents, beginning of year	34,458	1,091,878	1,126,336	3,916,654
Cash and cash equivalents, end of year	\$ 78,893	\$ 29,532,737	\$ 29,611,630	\$ 1,126,336

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

Missouri Life and Health Insurance Guaranty Association

Notes to Financial Statements

Note 1: 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 2024 and 2023.

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, 2023, 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.

Missouri Life and Health Insurance Guaranty Association

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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 \$29,585,000 at December 31, 2024 and \$1,099,000 at December 31, 2023. 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, 2024 and 2023 to be fully collectible and has not recorded an allowance for credit losses.

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.

Missouri Life and Health Insurance Guaranty Association

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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, 2024 and 2023 totaled \$28,343 and \$13,194, respectively, however, a portion of depreciation expense is allocated to the Missouri Property and Casualty Insurance Guaranty Association pursuant to the contractual agreement described in Note 9. For the year ended December 31, 2024, \$6,725 of depreciation expense was allocated to the Missouri Property and Casualty Insurance Guaranty Association, for a net depreciation expense of \$21,618.

ASC 842 Lease Accounting

The Association is a lessee in a noncancelable operating lease. If the contract provides the Association the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. A right-of-use (ROU) asset and lease liability are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. The ROU asset is also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

The Association has elected to use a risk-free rate for a term similar to the underlying lease as the discount rate if the implicit rate in the lease contract is not readily determinable.

The ROU asset for operating leases is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. For operating leases with lease payments that fluctuate over the lease term, the total lease costs are recognized on a straight-line basis over the lease term.

For all underlying classes of assets, the Association has elected to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Association is reasonably certain to exercise. Leases containing termination clauses in which either party may terminate the lease without cause and the notice period is less than 12 months are deemed short-term leases with lease costs included in short-term lease expense. The Association recognizes short-term lease cost on a straight-line basis over the lease term.

The Association made an accounting policy election to not separate the lease components of a contract and its associated non-lease components. For all other underlying classes of assets, the Association separates lease and non-lease components to determine the lease payment.

Missouri Life and Health Insurance Guaranty Association

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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.

Revenue is recognized at the time the Board approves the assessments to its members.

Liquidation Distributions

Liquidation distributions represent distributions made by the receivers of insolvent estates to the Association based on claims paid and current claims being paid. Distributions occur when the insolvent insurer has funds available and at the discretion of the receiver. Due to the unpredictability of the timing of distributions, revenue is recognized when the distribution is received.

Premium Income

Premium income represents premiums that are received from insolvent companies. The Association collects premium payments on in-force policies that have not been transferred to another insurer. Due to the unpredictability of the timing of premiums received, revenue is recognized when the premium is received.

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.

Missouri Life and Health Insurance Guaranty Association

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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, 2024 have been evaluated through March 18, 2025, which represents the date the Association's financial statements were approved by management and, therefore, were available to be issued.

Note 2: Liquidity and Availability of Financial Assets

The Association's financial assets available within one year from December 31, 2024 for general expenditures are as follows:

	2024	2023
Cash and cash equivalents	\$ 29,611,630	\$ 1,126,336
Investments due in one year or less	22,223,526	26,194,135
Accounts receivable	222,268	441,581
Total	\$ 52,057,424	\$ 27,762,052

As more fully described in Note 6, the Association 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.

Missouri Life and Health Insurance Guaranty Association

Notes to Financial Statements

Note 3: Investments

Investments consisted of the following at December 31, 2024 and 2023:

2024	Cost	Unrealized Gain (Loss)	Fair Value
Class B Fund			
U.S. agency bonds and notes	\$ 16,322,192	\$ (579,957)	\$ 15,742,235
U.S. Treasury securities	13,294,418	348,410	13,642,828
Total Class B investment securities	\$ 29,616,610	\$ (231,547)	\$ 29,385,063

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	\$ 46,573,497	\$ (787,144)	\$ 45,786,353

Contractual maturities of investment securities at December 31, 2024 are as follows, based on the expected call date:

	Amortized Cost	Unrealized Gain (Loss)	Fair Value
Class B Fund			
Due in one year or less	\$ 22,163,533	\$ 59,993	\$ 22,223,526
Due in one to five years	7,453,077	(291,540)	7,161,537
Total Class B investment securities	\$ 29,616,610	\$ (231,547)	\$ 29,385,063

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).

Missouri Life and Health Insurance Guaranty Association

Notes to Financial Statements

Note 3: Investments (Continued)

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

Level I - Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access.

Level II: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted 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. If the asset or liability has a specified (contractual) term, the Level II input must be observable for substantially the full term of the asset or liability.

Level III: Inputs that are unobservable inputs for the asset or liability.

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. There have been no changes in the methodologies used during the years ended December 31, 2024 and 2023.

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 preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Missouri Life and Health Insurance Guaranty Association

Notes to Financial Statements

Note 3: Investments (Continued)

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:

December 31, 2024	Level I	Level II	Level III	Total
<u>Assets</u>				
U.S. agency bonds and notes	\$ -	\$ 15,742,235	\$ -	\$ 15,742,235
U.S. Treasury securities	13,642,828	-	-	13,642,828
Total	\$ 13,642,828	\$ 15,742,235	\$ -	\$ 29,385,063

December 31, 2023	Level I	Level II	Level III	Total
<u>Assets</u>				
U.S. agency bonds and notes	\$ -	\$ 19,173,825	\$ -	\$ 19,173,825
U.S. Treasury securities	26,612,528	-	-	26,612,528
Total	\$ 26,612,528	\$ 19,173,825	\$ -	\$ 45,786,353

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

2024	Class A	Class B	Total
Change in unrealized gain (loss) on investments	\$ -	\$ 555,597	\$ 555,597
Net realized gain on sales	-	876,881	876,881
Interest income	2,810	1,432,478	1,432,478
Net investment return	\$ 2,810	\$ 2,396,840	\$ 2,399,650

2023	Class A	Class B	Total
Change in unrealized gain (loss) on investments	\$ -	\$ 1,043,950	\$ 1,043,950
Net realized gain on sales	-	268,420	268,420
Interest income	1,235	1,312,370	1,312,370
Net investment return	\$ 1,235	\$ 2,069,966	\$ 2,071,201

Missouri Life and Health Insurance Guaranty Association

Notes to Financial Statements

Note 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 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 \$30,500,000 and \$6,830,000 at December 31, 2024 and 2023, respectively. These reserves are based on estimates and, while management presently believes the estimate of reserves for claims payable at December 31, 2024 is adequate, the actual liability could vary considerably from the amount presented in the accompanying statement of financial position.

Note 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 \$300,865 and \$374,989 for the years ended December 31, 2024 and 2023, respectively.

Note 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% and 8.50% at December 31, 2024 and 2023, respectively) or 5.00%. There were no borrowings under this agreement during 2024 or 2023. The agreement expires on June 11, 2025.

Note 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 \$74,781 and \$65,245, for the years ended December 31, 2024 and 2023, respectively. Of the totals contributed for 2024 and 2023, the Missouri Property and Casualty Insurance Guaranty Association (MPCIGA) was allocated \$61,074 and \$46,235, respectively, pursuant to the contractual agreement described in Note 8.

Missouri Life and Health Insurance Guaranty Association

Notes to Financial Statements

Note 7: Employee Benefit Plans (Continued)

The Association also sponsored a 457 Pension Plan. Employees were eligible to participate in the plan immediately upon hire and were also vested in the plan immediately. The Association did not make any contributions to the plan. During 2024, the Association terminated this plan and transferred the funds to the respective participants' IRA accounts. At December 31, 2023, an investment, along with a corresponding accrued liability, of \$12,490 was recorded on the accompanying statement of financial position.

Note 8: Affiliate Agreement

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 \$988,949 and \$522,035 to MPCIGA for the years ended December 31, 2024 and 2023, respectively. On occasion, MPCIGA makes direct payments to the Association's vendors for expenses that are directly related to MPCIGA operations.

Note 9: Allocation of Expense 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.

Note 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 \$19,090 and \$19,437 for the years ended December 31, 2024 and 2023, 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.

Missouri Life and Health Insurance Guaranty Association

Notes to Financial Statements

Note 10: Lease Commitment (Continued)

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:

	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 19,090	\$ 19,437
ROU assets obtained in exchange for new operating lease liabilities	\$ -	\$ 149,983
Weighted-average remaining lease term in years for operating leases	8.50	9.50
Discount rate for operating lease	5.00%	5.00%

Minimum future lease payments for the operating leases at December 31, 2024 are as follows:

2025	\$	19,090
2026		19,090
2027		19,090
2028		19,090
2029		19,090
Thereafter		66,811
Total undiscounted cash flows		162,261
Less: present value discount		(33,754)
Total lease liabilities	\$	128,507

Note 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.