

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

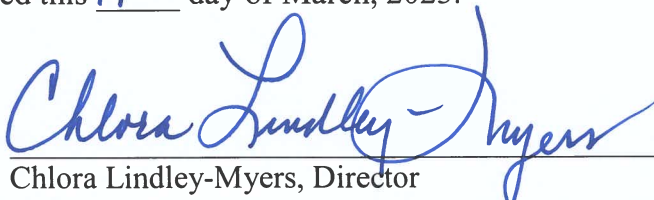
ORDER

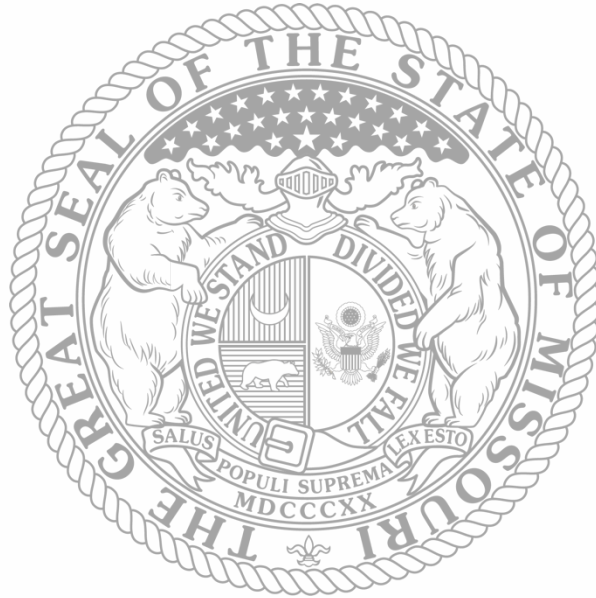
After full consideration and review of the report of the financial examination of Missouri Life and Health Insurance Guaranty Association for the period ended December 31, 2021, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Missouri Life and Health Insurance Guaranty Association as of December 31, 2021 be and is hereby ADOPTED as filed and for Missouri Life and Health Insurance Guaranty Association to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 14th day of March, 2023.




Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

MISSOURI LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

AS OF
DECEMBER 31, 2021

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Jefferson City, MO
January 19, 2023

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

Missouri Life and Health Insurance Guaranty Association

hereinafter referred to as such, as MLHIGA, or as the Association. Its administrative office is located at 2210 Missouri Boulevard, Jefferson City, Missouri, 65109. The fieldwork for this examination began on June 1, 2022, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a single-state financial examination of MLHIGA. The last examination of the Association by the Department covered the period of January 1, 2011 through December 31, 2016. The current examination covers the period of January 1, 2017 through December 31, 2021, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

This examination was conducted using the guidelines set forth by applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri. Standard examination procedures were modified as necessary under the circumstances.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

MLHIGA was created on August 13, 1988, pursuant to Sections 376.715 to 376.758 of the Revised Statutes of Missouri (RSMo), which is referred to as the "Missouri Life and Health Insurance Guaranty Association Act." The Association is a tax-exempt, non-profit legal entity established to cover the policies and contracts issued to Missouri residents by member insurers that have been determined to be insolvent by a court of competent jurisdiction in any state. Residency in the State of Missouri shall be based upon the date that an insurer is determined insolvent by a court order. The Association is authorized to assess its members in order to fulfill its obligations.

Section 376.717 RSMo (Coverages provided, persons covered) sets the benefit limits of policies and contracts for which the Association is liable. Below is a summary of the maximum amounts that can be paid by the Association, per policy:

<u>Policy or Contract Type</u>	<u>Policy Limit</u>
Cash Value or Surrender Value of Annuities	\$ 250,000
Cash Value or Surrender Value of Life Insurance Policies	100,000
Death Benefits of Life Insurance Policies	300,000
Unpaid Health Insurance Claims	500,000
Disability and Long-Term Care Claims	300,000
Corporate Owned Life Insurance (Per Owner)	5,000,000

Section 376.720 (Association, created – accounts – director to supervise) requires all activities to be segregated into the following three accounts: (1) health, (2) life insurance, (3) annuity. Thus, assessments, claim payments, net assets (surplus), and other transactions are recorded in separate general ledger accounts for each of these three account types.

Membership

As of December 31, 2021, there were 850 companies licensed to sell life, health, or annuity policies in Missouri. Pursuant to Section 376.717 RSMo, all insurers with the authority to sell life, health, and annuity policies in Missouri are members of the Association as a condition of their authority to transact insurance in Missouri.

Affiliations

The Association is jointly operated with the Missouri Property and Casualty Insurance Guaranty Association (MPCIGA). An Agreement between MLHIGA and MPCIGA specifies the manner to allocate joint expenses between the two entities. All joint expenses are initially paid by MLHIGA, which subsequently allocates expenses to MPCIGA. The allocation basis for joint expenses is in proportion to the percentage of time spent by each employee on each entity's business and affairs.

The original Agreement with MPCIGA, dated May 8, 2001, was replaced by a new Agreement, dated June 29, 2020, in order to add a new section that establishes a Joint Administration Committee. The Committee is comprised of the officers of MPCIGA and MLHIGA. The Committee is required to meet at least once per year to review and approve annual budgets, expense allocations, and compensation.

MANAGEMENT AND CONTROL

Board of Directors

The oversight of the Association's operations is performed by a Board of Directors that represent member insurers. Section 376.722 RSMo (Board of directors, established, members, how selected) requires that the number of directors shall consist of not less than seven nor more than eleven members. This statute also specifies that directors are to be elected by the member insurers of the Association, subject to approval by the Director of the Department.

Member insurers that serve on the Board of Directors are elected at the annual membership meeting. An elected member insurer designates an individual to serve as the representative on the Board of Directors. The elected members of the Board of Directors and the representatives serving, as of December 31, 2021, were as follows:

<u>Member Insurer</u>	<u>Member Representative and Title</u>
American Family Life Insurance Company	David Monaghan Governmental Affairs Counsel
Blue Cross and Blue Shield Kansas City	Coni Fries Vice President and Deputy General Counsel
Everlake Life Insurance Company	Sonya Ekart Senior Attorney
Farm Bureau Life Insurance Company of Missouri	Joel Schroer Senior Director
HMO Missouri, Inc.	David Smith Senior Director of Governmental Affairs
Kansas City Life Insurance Company	Malika Simmons Assistant Counsel
Metropolitan Tower Life Insurance Company	Kerri Cutry Assistant Vice President
Ozark National Life Insurance Company	David Melton Vice President and Legal Counsel
Shelter Life Insurance Company	Teresa Magruder Executive Vice President
United Health Care	David Hill Deputy General Counsel

Officers

The officers elected and serving, as of December 31, 2021, were as follows:

<u>Name</u>	<u>Office</u>
Sonya Ekart	Chair
Teresa Magruder	Vice Chair (Acting), Secretary, and Treasurer

The Association also employs an Executive Director, Tamara Kopp, who reports directly to the Board of Directors. This non-elected position is responsible for the planning and direction of all aspects of the Association's operational policies, objectives, initiatives, and statutory mandates. Tamara Kopp also serves in the Managing Secretary position, as appointed by Board resolution in May 2020. The Managing Secretary has the authority to negotiate and execute contracts on behalf of the Association.

Committees

The Plan of Operation requires the following committees:

- **Executive Committee:** Staffed by the elected officers and regularly meets three times per year to perform necessary functions and administrative duties in the intervening period between the annual Board of Directors meeting.
- **Audit Committee:** Responsible for the annual external audit, Department examinations, and any resulting recommendations.
- **Nominating Committee:** Responsible for recommending one or more nominees to fill any vacancies that exist on the Board of Directors.

The officers of the Association also serve on a Joint Administration Committee with the officers of the MPCIGA.

Corporate Records

Section 375.776 RSMo (Board of directors, selection, terms-powers and duties) requires that a Plan of Operation is to be maintained by the Association to establish various procedures for the Board of Directors, record keeping, and other operational matters. A review was made of the Plan of Operation, which was amended and restated on August 20, 2018. The amended and restated Plan of Operation included the following revisions: (1) further define the process for nominees to the Board of Directors and the role of the Nominating Committee, (2) expand the maximum number of members on the Board of Directors from nine to eleven, (3) modify the requirements for members serving on the Board of Directors, (4) add terms for member notification and attendance at Board of Directors and committee meetings, (5) allow for a written consent in lieu of meeting of the Board of Directors, (6) establish procedures to remove a member from the Board of Directors due to insolvency or impairment, (7) establish a conflict of interest policy and procedures, (8) establish procedures for approval of check and wire transfer limits and review of the investment policy, (9) establish a methodology to allocate any assessments for long-term care policies between the health account and the life and annuity accounts.

The minutes of the Board of Directors' and membership meetings were reviewed for proper approval of corporate transactions.

INSOLVENCIES

As of December 31, 2021, the Association administered 18 open insolvencies. There were only two insolvencies that occurred in the examination period, as listed below:

<u>Insurance Company</u>	<u>State of Domicile</u>	<u>Liquidation Date</u>
Penn Treaty Network America Insurance Company	Pennsylvania	03/01/2017
American Network Insurance Company	Pennsylvania	03/01/2017

The most significant insolvency activity in the examination period involved Lincoln Memorial Life Insurance Company (Lincoln Memorial), which was a Texas domiciled insurer that became insolvent in 2008. Missouri policyholders represented the largest percentage of total policyholders for Lincoln Memorial. The assessments, litigation, claims and reserve activity for Lincoln Memorial are explained in the following sections.

ASSESSMENTS AND RECOVERIES

Assessments are levied at the discretion of the Board of Directors whenever funds are needed to pay claims and expenses. Per Section 376.735 RSMo (Assessments against members, when due, classes-amounts), assessments of member insurers are based upon each insurer's proportion of direct written premium to total direct written premium in Missouri for the three years prior to the year of insolvency of the insurer for which the assessment is necessary. Assessments require the approval of a majority of the Board of Directors. Per Section 376.737 RSMo (Deferment of assessment, how, when-maximum assessment-refund of, when), assessments are limited to 2% of the average annual premiums written in Missouri of each member insurer in any calendar year.

There were several assessments in the examination period that pertained to various insolvencies, which are summarized below:

<u>Insolvent Insurer</u>	<u>Year Levied</u>	<u>Assessment Amount</u>
Lincoln Memorial Life Insurance Company	2017	\$ 17,500,000
Penn Treaty Network America Insurance Company/ American Network Insurance Company	2017	10,858,000
National States Insurance Company	2017	6,408,239
Life and Health Insurance Company of America	2017	1,202,674
Lincoln Memorial Life Insurance Company	2018	20,000,000
Lincoln Memorial Life Insurance Company	2019	27,000,000
TOTAL		\$ 82,968,913

The National Organization of Life and Health Guaranty Associations (NOLHGA) is a voluntary association of state insurance guaranty associations from all 50 states. NOLHGA and several state insurance guaranty associations, including MLHIGA, filed a lawsuit in 2009 that sought restitution from over 50 defendants for losses that occurred in the Lincoln Memorial insolvency. One of the defendants was a bank that once held funds for Lincoln Memorial. The lawsuit alleged that the bank was liable for breach of trust regarding trust funds held for Lincoln Memorial policies. The lawsuit concluded in 2021 with a judgment and settlement that paid compensatory damages, punitive damages, interest and attorney fees totaling \$111.0 million to NOLHGA and participating state insurance guaranty associations. MLHIGA received \$32.2 million in 2021 from an allocation of the total settlement proceeds.

CLAIMS AND RESERVES

Below is a summary of the claim activity during the examination period. This summary includes both policy benefits and any claim adjustment expenses paid by the Association for Missouri policyholders.

<u>Insolvent Insurer (Year of Insolvency)</u>	<u>Claims Payments</u>
Lincoln Memorial Life Insurance Company (2008)	\$ 10,783,143
National States Insurance Company (2010)	2,568,712
All Other Combined	976,818
TOTAL	\$ 14,328,673

At the end of the prior examination, as of 12/31/2016, the Association held policy and claim reserves of \$105.4 million. The Lincoln Memorial insolvency accounted for \$96.3 million or 91% of these policy and claim reserves. An Assumption Reinsurance Agreement, effective October 1, 2017, ceded the majority of the Missouri policies for Lincoln Memorial to Capitol Life Insurance Company. As a result of this transaction, the Association's total policy and claim reserves were reduced to \$13.5 million at 12/31/2017.

An Assumption Reinsurance Agreement, effective May 1, 2017, ceded all Missouri policies for the insolvencies of Penn Treaty Network America Insurance Company and American Network Insurance Company. The policies were ceded to a captive reinsurer of NOLHGA, LTC Re PCC, which transferred policy reserves of \$13.4 million from the Association to the reinsurer.

Below is a summary of the Association's policy and claim reserves by insolvency, as of December 31, 2021:

<u>Insolvent Insurer (Year of Insolvency)</u>	<u>Reserves at 12/31/2021</u>
National States Insurance Company (2010)	\$ 2,920,854
Lincoln Memorial Life Insurance Company (2008)	1,733,271
Life and Health Insurance Company of America (2004)	312,362
Executive Life Insurance Company (1991)	153,413
Continental Security Life Insurance Company (1989)	55,425
TOTAL	\$ 5,175,325

NET ASSETS

The net assets reported in the Association’s financial statements represent the surplus of assets in excess of liabilities. Below is a summary of the yearly changes in net assets from the prior examination through the current examination period.

<u>As of Date</u>	<u>Net Assets/Surplus</u>	<u>Increase (Decrease)</u>
December 31, 2016	\$ 7,121,113	\$ --
December 31, 2017	1,834,412	(5,286,701)
December 31, 2018	9,308,898	7,474,486
December 31, 2019	10,611,543	1,302,645
December 31, 2020	10,869,259	257,716
December 31, 2021	42,822,985	31,953,726

The \$5.3 million decrease in net assets for 2017 was attributable to the Assumption Reinsurance Agreement for the Lincoln Memorial insolvency. The assessments to fund this large transaction were made over three years due to annual assessment limitations in Section 376.737 RSMo. There was a net shortfall in funds for the Lincoln Memorial transaction in 2017, but this was reversed by the \$7.5 million increase in net assets in 2018 from additional assessment income for Lincoln Memorial. The approximately \$32.0 million increase in net assets in 2021 was due to the litigation recovery regarding the Lincoln Memorial insolvency, which was previously described.

Refunds may be issued to member insurers with approval from the Board of Directors, pursuant to Section 376.737 RSMo, in any year in which the Association’s assets are projected to exceed obligations for the upcoming year. However, there were no refunds issued during the examination period.

ACCOUNTS AND RECORDS

Independent Auditor

The certified public accounting (CPA) firm, Williams Keepers, LLC, located in Jefferson City, Missouri, performed an audit of the Association’s financial statements for all years of the examination period. The CPA workpapers for the audit of the December 31, 2021 financial statements were reviewed and used in the course of the examination as deemed appropriate.

External Actuary

The Association does not utilize an external actuary to determine policy reserves for insolvencies. In-force listings of policies, policy face values, and related policy reserves for Missouri policyholders of insolvent insurers are provided by NOLHGA.

FINANCIAL STATEMENTS

The following financial statements are based on the financial statements filed by MLHIGA with the Missouri Department of Commerce and Insurance and present the financial condition of the Association for the period ending December 31, 2021. The accompanying “Comments on Financial Statement Items” section reflects any examination adjustments to the amounts reported and should be considered an integral part of the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the “Comments on Financial Statement Items” section. These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Association and noted in the workpapers for each individual financial statement item.

ASSETS

As of December 31, 2021

Cash and Cash Equivalents	\$ 5,443,464
Investments	42,540,450
Investment Income Due and Accrued	67,265
Receivable from MPCIGA	42,728
Unbilled Assessments	1,336,319
Other Assets	22,599
TOTAL ASSETS	\$ 49,452,825

LIABILITIES, CAPITAL AND SURPLUS

As of December 31, 2021

Reserves for Claims Payable	\$ 5,175,324
Ceded Reinsurance Payable	1,336,319
Accounts Payable and Accrued Liabilities	118,197
TOTAL LIABILITIES	\$ 6,629,840
NET ASSETS (SURPLUS)	\$ 42,822,985
TOTAL LIABILITIES AND NET ASSETS	\$ 49,452,825

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2021

Premium Income	\$ 276,812
Liquidation Distributions	515,972
Litigation Recoveries	32,225,820
Net Investment Return	(221,496)
Miscellaneous Income	212
Total Support and Revenues	\$ 32,797,320
Claim Benefits (Net of Reserve Changes)	\$ 202,323
Assumption Reinsurance Ceding Costs	17,445
Litigation Fees	111,154
General and Administrative Expenses	262,428
NOLHGA Dues and Fees	250,242
Total Expenses	\$ 843,592
CHANGE IN NET ASSETS	\$ 31,953,728

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2021, through the date of the report.

The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Department has been in communication with the Association regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Association and will take necessary action if a solvency concern arises.

ACKNOWLEDGMENT

The assistance and cooperation extended by Missouri Life and Health Insurance Guaranty Association during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Tim L. Tunks, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of Missouri Life and Health Insurance Guaranty Association, its agents or other persons examined, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Tim Tunks

Tim L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 22nd day of February, 2023.

My commission expires: March 30, 2023 *Hailey Luebbert*

Notary Public



HAILEY LUEBBERT
My Commission Expires
March 30, 2023
Osage County
Commission #15634366



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the guidelines set forth by applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri has been confirmed.



Sara McNeely, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance