

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Missouri Life and Health Insurance Guaranty Association for the period ended December 31, 2011

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, 2011, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration 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 findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

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, 2011, 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) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) 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 11th day of June, 2013.



A handwritten signature in black ink, appearing to read "John M. Huff".

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
**MISSOURI LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

AS OF
DECEMBER 31, 2011



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
PERIOD COVERED.....	1
PROCEDURES.....	1
SUMMARY OF SIGNIFICANT FINDINGS	2
SUBSEQUENT EVENTS	2
ASSOCIATION HISTORY.....	2
GENERAL.....	2
MEMBERSHIP.....	3
AFFILIATIONS.....	3
CORPORATE RECORDS.....	3
MANAGEMENT AND CONTROL	4
BOARD OF DIRECTORS.....	4
COMMITTEES.....	4
OFFICERS.....	4
INSOLVENCIES.....	5
ASSESSMENTS AND REFUNDS.....	6
FIDELITY BOND AND OTHER INSURANCE.....	6
EMPLOYEE BENEFITS.....	7
ACCOUNTS AND RECORDS.....	7
FINANCIAL STATEMENTS	7
ASSETS.....	8
LIABILITIES AND NET ASSETS.....	8
STATEMENT OF ACTIVITIES.....	9

COMMENTS ON FINANCIAL STATEMENT ITEMS..... 10
EXAMINATION CHANGES..... 10
GENERAL COMMENTS AND/OR RECOMMENDATIONS 10
ACKNOWLEDGMENT 11
VERIFICATION 11
SUPERVISION..... 12

Jefferson City, Missouri
May 10, 2013

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

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

Missouri Life and Health Insurance Guaranty Association

hereinafter referred to as "the Association" or "MLHIGA". Its administrative office is located at 994 Diamond Ridge, Suite 102, Jefferson City, Missouri, 65109, telephone number (573) 634-8455. The examination began on February 25, 2013, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope financial examination of the Association was made as of December 31, 2006, and was conducted by examiners from the State of Missouri. The current full scope financial examination covered the period from January 1, 2007 through December 31, 2011, and was conducted by examiners from the State of Missouri. The examination also included the material transactions and/or events occurring subsequent to December 31, 2011.

Procedures

This examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The examination used mostly a substantive based approach to test material assets and significant liabilities. Limited testing of internal controls was performed due to the small size of the Association's operations.

The examiners relied upon information supplied by the Association's independent auditor, Williams-Keepers, LLC, of Jefferson City, Missouri, for its audit covering the period from January 1, 2011 through December 31, 2011. Areas in which the testing and results from the CPA workpapers were relied upon in our examination included internal control identification, internal control walkthroughs, bank confirmations, investment market value testing, journal entry testing, unrecorded liability testing, and fraud risk assessment.

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.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2011 through the date of this report.

ASSOCIATION 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) states that the Association will provide coverage for policies and contracts up to the following benefit limits:

- Cash Value or Surrender Value of Annuities - \$100,000
- Cash Value or Surrender Value of Life Insurance Policies - \$100,000
- Death Benefits of Life Insurance Policies - \$300,000
- Unpaid Health Insurance Claims - \$100,000

Membership

As of December 31, 2011, there were 858 companies licensed to sell life, health, or annuity policies in Missouri. Pursuant to Section 376.717 RSMo, all insurers with authority to sell life, health, and annuity policies in Missouri are members of the Association and must remain 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, dated May 8, 2001 between MPCIGA and MLHIGA specifies the manner to allocate joint expenses between the two entities. All joint expenses are paid initially 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.

CORPORATE RECORDS

Section 376.740 RSMo (Plan of Operation Required, Approval of Director-Provisions of Plan) 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 for the examination period. Numerous revisions to the Plan of Operation were made effective June 1, 2009. Below is a summary of the significant changes or modifications that occurred:

- Remove the weighting of votes for directors to fill Board vacancies based upon premiums written of member insurers.
- Prohibit the election of two directors from the same affiliated insurers.
- Modify the notification and approval process with the Missouri DIFP for newly elected directors.
- Establish an Audit Committee as a standing committee of the Board.
- Require a majority Board approval for a line of credit.
- Eliminate the requirement for a majority Board approval to commence or settle material legal actions.
- Eliminate the requirement to hold annual Board meetings in Jefferson City, Missouri.
- Allow for funds to be maintained for future contingent losses.
- Expand the appeals process for a member insurer.

The minutes of the Board of Directors' meetings, membership meetings, and committee meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Association's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

The oversight of the Association's operation is performed by a Board of Directors that represent member insurers. The Plan of Operations sets the number of directors at nine, which complies with Section 376.722 RSMo (Board of Directors, Established, Members, How Selected). This statute requires that the number of directors shall be at least five but no more than nine. 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 Missouri DIFP. The Board of Directors elected and serving, as of December 31, 2011, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Sonya Ekhart	Associate Counsel, Lincoln Benefit Life Company
Coni Fries	Vice President, Blue Cross and Blue Shield of Kansas City
Carol Gilmore	Accounting Director, Farm Bureau Life Insurance Company of Missouri
Elizabeth Herbert	Vice President of Compliance, Union Security Insurance Company
Gary Hoffman	Chief Compliance Officer, Kansas City Life Insurance Company
Sheila Kenny	Government Relations Counsel, General American Life Insurance Co.
Teresa Magruder	Executive Vice President, Shelter Life Insurance Company
David Melton	Vice President and Legal Counsel, Ozark National Life Insurance Co.
David Monaghan	Government Affairs Counsel, American Family Mutual Insurance Co.

Committees

The Plan of Operation requires an Executive Committee, Audit Committee, and a Nominating Committee. The Executive Committee is staffed by the three elected officers and meets on a quarterly basis. The Executive Committee performs functions and administrative duties that occur in the interim period between the annual Board of Directors' meeting. In lieu of staffing an Audit Committee, the Board passed a resolution in 2009 to provide for the Executive Committee to perform the duties of the Audit Committee, which is primarily the facilitation of the annual audit by the external auditor. The Nominating Committee is staffed when necessary to recommend a new director for any vacancy that exists on the Board of Directors.

Officers

The officers elected by the Board of Directors and serving, as of December 31, 2011, were as follows:

<u>Name</u>	<u>Office</u>
Sonya Ekhart	Chairperson of the Board
David Monaghan	Vice Chair
Carol Gilmore	Secretary and Treasurer

Also serving in the non-elected position of Executive Director and Assistant Secretary is Charles Renn.

INSOLVENCIES

As of December 31, 2011, the Association administered 23 open insolvencies. Two significant insolvencies occurred during the examination period that represented a material amount of coverage for Missouri residents. Lincoln Memorial Life Insurance Company (Lincoln Memorial) was determined insolvent in 2008 and the Association's initial estimate of policy benefits was \$180 million due for Missouri residents. National States Insurance Company (National States) was determined insolvent in 2010 and the Association's initial estimate of policy benefits was \$26 million for Missouri residents. A majority of the Association's exposure for National States policies was eliminated with an assumption reinsurance agreement at the end of 2011.

Below is a listing of new insolvencies and closed insolvencies during the examination period:

New Insolvencies (2007 to 2011):

<u>Insurance Company</u>	<u>State of Domicile</u>	<u>Liquidation Date</u>
Benicorp Insurance Company	Indiana	10/5/2007
Lincoln Memorial Life Insurance Company	Texas	9/22/2008
Medical Savings Insurance Company	Indiana	2/26/2009
Imerica Life and Health Insurance Company	Arkansas	5/3/2010
Universal Life Insurance Company	Alabama	5/5/2010
National States Insurance Company	Missouri	11/15/2010

Closed Insolvencies (2007 to 2011):

<u>Insurance Company</u>	<u>State of Domicile</u>	<u>Closed Date</u>
Diamond Benefits Life Insurance Company	Arizona	11/19/2007
Kentucky Central Life Insurance Company	Kentucky	12/3/2007
Life & Health Insurance Company of America	Pennsylvania	12/27/2007
American Western Life Insurance Company	Utah	10/8/2008
American Integrity Insurance Company	Pennsylvania	6/9/2011

ASSESSMENTS AND REFUNDS

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.

Assessments of \$18 million in 2009 and \$12 million in 2011 were collected from member insurers during the examination period. Both of these assessments were necessary to fund policy benefits for the Lincoln Memorial insolvency.

Refunds may be issued to member insurers, pursuant to Section 376.737 RSMo, in any year in which the Association's assets are projected to exceed liabilities for the upcoming year. There were no refunds to member insurers during the examination period.

FIDELITY BOND AND OTHER INSURANCE

The Association is a named insured on a business owner's policy that covers losses resulting from fraudulent or dishonest acts of an employee. The Missouri Property and Casualty Insurance Guaranty Association is also a named insured on this bond. The bond provides coverage with a liability limit of \$500,000 and a \$500 deductible. This level of coverage complies with the suggested minimum coverage recommended by the NAIC Financial Examiner's Handbook.

The Association is also a named insured on the following other insurance policies: commercial general liability, commercial excess liability, business personal property, and worker's compensation and employer's liability.

EMPLOYEE BENEFITS

As of December 31, 2011, MLHIGA and MPCIGA jointly employed six employees located in an office in Jefferson City, Missouri. A variety of standard benefits are provided to the employees, which include the following: medical insurance, health savings account, dental and vision benefit reimbursement, life insurance, disability insurance, and personal time off (vacation / sick leave). Employees are also provided with a 401(k) savings / retirement plan, which provides for an employer contribution equal to 8% of annual salary each year. Benefit costs for joint employees are allocated to MPCIGA pursuant to an agreement that is described in the Affiliations section of this report.

ACCOUNTS AND RECORDS

The Association's financial statements are reported using Generally Accepted Accounting Principles (GAAP). A change to the GAAP accounting basis was made, effective January 1, 2010, from the modified cash basis that was previously used.

The CPA firm, Williams-Keepers, LLC, of Jefferson City, Missouri performed the audits of the Association's financial statements for each year of the examination period.

In-force listings of policies, policy face values, and related policy reserves for Missouri policyholders of insolvent insurers are provided by the National Association of Life and Health Insurance Guaranty Associations (NOLHGA). The Association relies upon the information provided from NOLHGA to record estimated reserves for claims payable and unbilled assessments.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Association for the period ending December 31, 2011. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the Comments on Financial Statement Items. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

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.

Assets
as of December 31, 2011

Cash and Cash Equivalents	\$ 4,315,529
Investments	23,821,959
Accounts Receivable	169,971
Unbilled Assessments	151,384,155
Furniture and Equipment	3,076
Other Assets	<u>2,402</u>
TOTAL ASSETS	<u>\$179,697,092</u>

Liabilities and Net Assets
as of December 31, 2011

Accounts Payable	\$ 14,856
Accrued Liabilities	42,448
Reserves for Claims Payable	<u>165,515,079</u>
TOTAL LIABILITIES	\$165,572,383
Net Unrestricted Assets	<u>14,124,709</u>
TOTAL LIABILITIES AND NET UNRESTRICTED ASSETS	<u>\$179,697,092</u>

Statement of Activities

For the Year Ended December 31, 2011

Assessment Income	\$11,997,320
Premium Income	3,689,176
Liquidation Distributions	8,502,471
Net Investment Return	98,309
Allocation to Missouri P&C Association	208,286
Change in Unbilled Assessments	(31,736,040)
Miscellaneous Income	<u>174</u>
Total Support and Revenues	(\$7,240,304)
Claim Benefits (Net of Reserve Changes)	(\$15,529,687)
Change in Loss and LAE Reserves	1,442,071
General and Administrative Expenses	2,038,899
NOLHGA Fees	<u>378,081</u>
Total Expenses	(\$11,670,636)
Change in Net Unrestricted Assets	<u>\$4,430,332</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.

ACKNOWLEDGMENT

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

VERIFICATION

State of Missouri)
County of Boone)

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 DIFP

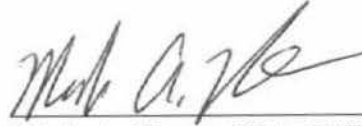
Sworn to and subscribed before me this 6th day of May, 2013.

My commission expires: May 1, 2016 Debbie J. Nolke
Notary Public

DEBBIE J. NOLKE
Notary Public - Notary Seal
STATE OF MISSOURI
County of Boone
My Commission Expires 5/1/2016
Commission #12413452

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 NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Mark A. Nance, CPA, CFE
Audit Manager
Missouri DIFP