

**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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, 2016, 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 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, association history, management and control, insolvencies, assessments and refunds, fidelity bond and other insurance, employee benefits, accounts and records, financial statements, comments on financial statement items, examination changes and general comments and/or 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, 2016 be and is hereby ADOPTED as filed and for Missouri Life & 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 28th day of February, 2018.

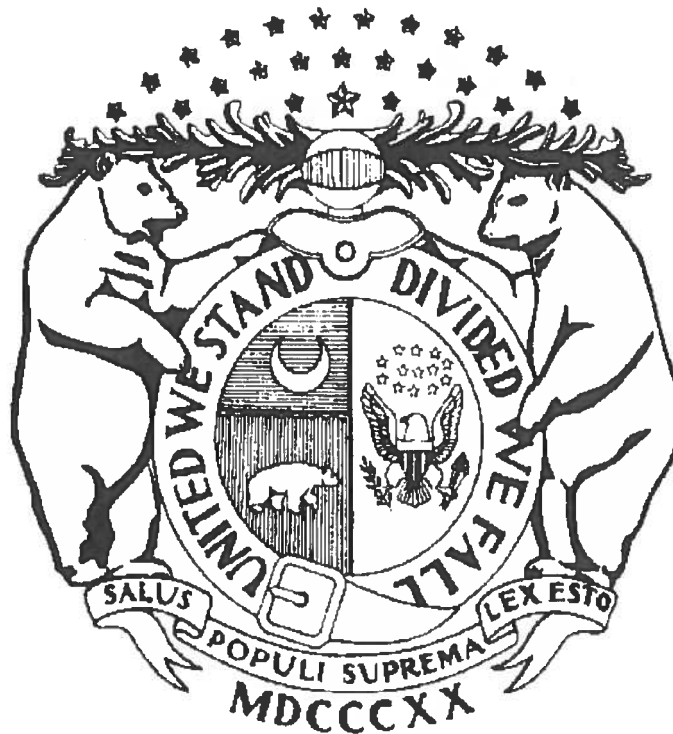



Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

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

**AS OF
DECEMBER 31, 2016**

FILED
MAR 12 2018
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



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

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Jefferson City, Missouri
December 14, 2017

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
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 the Association or MLHIGA. Its administrative office is located at 2210 Missouri Boulevard, Jefferson City, Missouri, 65109, telephone number (573) 634-8455. The examination began on August 29, 2017, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a single-state examination of the Association. The prior full-scope financial examination of MLHIGA covered the period of January 1, 2007, through December 31, 2011. The current full-scope financial examination covers the period of January 1, 2012, through December 31, 2016. The examination also included the material transactions and/or events occurring subsequent to December 31, 2016.

Procedures

This examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (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 Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Association and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Association's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Association were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of this examination an adjustment is identified, the impact of such adjustment will be documented separately following the Association's financial statements.

This examination report includes significant findings of fact and general information about the Association and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Association.

Reliance Upon Others

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, 2016 through December 31, 2016. 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 findings, or material changes to the financial statements noted during the examination.

SUBSEQUENT EVENTS

On March 1, 2017, Orders of Liquidation were issued by the Commonwealth Court of Pennsylvania for Penn Treaty Network American Insurance Company (Penn Treaty) and its wholly-owned subsidiary, American Network Insurance Company (ANIC), both Pennsylvania domestic life insurers. The financial obligation of the Association in terms of funding the covered contractual obligations is estimated at \$14 million.

Effective November 1, 2017, the Association, along with the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) and various other state life and health insurance guaranty associations, entered into an assumption reinsurance agreement with Liberty Bankers Life Insurance Company and The Capitol Life Insurance Company (Capitol Life). Under the agreement, the Association's remaining covered obligations of the Lincoln Memorial Life Insurance Company (Lincoln Memorial Life) insolvency were assumed by Capitol Life in exchange for consideration including a \$44 million promissory note and \$15,535,000 in cash. The Board of Directors approved a Class B assessment of \$17,500,000 to partially fund the cost of the agreement. The agreement resulted in the transfer of all of the liabilities related to the Lincoln Memorial Life insolvency from MLHIGA to Capitol Life, with the exception of a few blocks of business. The Association estimates the reserves for these retained liabilities at approximately \$5 million.

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) sets the benefit limits of policies and contracts for which the Association is liable. The statute was revised in 2013 to change the benefit limits for those claims in regard to a member insurer that was first placed under an order of rehabilitation or under an order of liquidation if no order of rehabilitation was entered, on or after August 28, 2013. The revision also added policy types which were not previously specified in the statute. The revised and previous benefit limits are outlined below:

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

Membership

As of December 31, 2016, there were 839 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.

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 DIFP. The members of the Board of Directors elected and serving, as of December 31, 2016, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Sonya Ekhart	Senior Attorney, Allstate Life Insurance Company
Coni K. Fries	Vice President, Blue Cross and Blue Shield of Kansas City
Carol Gilmore	Accounting Director, Farm Bureau Life Insurance Company of Missouri
Michael Hickey	Assistant Vice President, General American Life Insurance Company
Timothy Langland	Assistant General Counsel, Kansas City Life Insurance Company
Teresa Magruder	Vice President, Shelter Life Insurance Company
David R. Melton	Vice President and Legal Counsel, Ozark National Life Insurance Co.
David Monaghan	Government Affairs Counsel, American Family Mutual Insurance Co.
David Smith	Regional Vice President - Governmental Affairs, Health Alliance Life Insurance Company

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’ meetings. 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 when a vacancy occurs on the Board of Directors.

Officers

The officers elected and serving as of December 31, 2016, 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.

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. There were no amendments or changes during the period under examination.

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.

INSOLVENCIES

As of December 31, 2016, the Association administered 18 open insolvencies. The Lincoln Memorial Life and National States Insurance Company insolvencies represent a majority of the Association's exposure for open insolvencies with reserves for potential claims of approximately \$96.3 million and \$5.7 million, respectively. No significant insolvencies occurred during the examination period that represented a material amount of coverage for Missouri residents.

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

New Insolvencies (2012 to 2016):

<u>Insurance Company</u>	<u>State of Domicile</u>	<u>Liquidation Date</u>
Lumbermens Mutual Casualty Company	Illinois	5/10/2013
SeeChange Health Insurance Company	California	1/28/2015

Closed Insolvencies (2012 to 2016):

<u>Insurance Company</u>	<u>State of Domicile</u>	<u>Closed Date</u>
Fidelity Bankers Life Insurance Company	Virginia	9/26/2012
London Pacific Life and Annuity Company	North Carolina	12/18/2012
Consumers United Insurance Company	Delaware	10/3/2013
American Chambers Life Insurance Company	Illinois	12/2/2013

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 \$4 million in 2012, \$4 million in 2013, and \$12 million in 2014 were collected from member insurers during the examination period. All of these assessments were necessary to fund policy benefits for the Lincoln Memorial Life 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, 2016, MLHIGA and MPCIGA jointly employed seven 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 expense reimbursement, life insurance, disability insurance and paid time off. Employees are also eligible to participate in Association-sponsored 401(k) and 457 retirement plans. The Association makes contributions to the 401(k) plan equal to 8% of employee's annual salary, while the 457 plan is employee funded through optional contributions. 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 Organization of Life and Health Insurance Guaranty Associations. 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, present the financial condition of the Association for the period ending December 31, 2016. 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, 2016

Cash and Cash Equivalents	\$ 5,605,267
Investments	18,207,022
Accounts Receivable	100,391
Unbilled Assessments	88,686,975
Furniture and Equipment	17,400
Other Assets	<u>42,239</u>
TOTAL ASSETS	<u>\$112,659,294</u>

Liabilities and Net Assets
as of December 31, 2016

Accounts Payable	\$ 21,741
Accrued Liabilities	151,053
Reserves for Claims Payable	<u>105,365,387</u>
TOTAL LIABILITIES	\$105,538,181
Net Assets - Unrestricted	<u>7,121,113</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$112,659,294</u>

Statement of Income
For the Year Ended December 31, 2016

Liquidation Distributions	\$ 417,224
Net Investment Return	65,530
Allocation to Missouri P&C Association	194,759
Premium Income	638,552
Change in Unbilled Assessments	(561,426)
Miscellaneous Income	<u>238</u>
Total Support and Revenues	<u>\$ 754,877</u>
Claim Benefits (Net of Reserve Changes)	\$ 241,174
Assumption Reinsurance Ceding Costs	46,485
General and Administrative Expenses	886,066
NOLHGA Fees	<u>329,977</u>
Total Expenses	<u>\$1,503,702</u>
Change in Unrestricted Net Assets	<u><u>\$ (748,825)</u></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. In addition to the undersigned, Emily Pennington, AFE and Brian Hammann, CPA, examiners for the DIFP, participated in this examination.

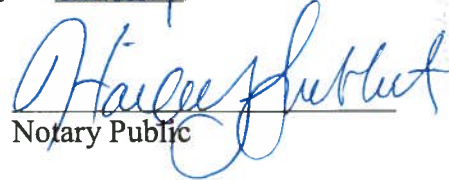
VERIFICATION

State of Missouri)
County of Cole)

I, Shannon W. Schmoeger, 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.


Shannon W. Schmoeger, CFE, ARe
Examiner-In-Charge
DIFP

Sworn to and subscribed before me this 26 day of January, 2018.

My commission expires: March 30, 2019 
Notary Public



HAILEY LUEBBERT
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: March 30, 2019
Commission Number: 16634366

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, except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.



Levi Nwasoria, CFE, CPA
Audit Manager
DIFP