



**MINUTES OF THE COMBINED ANNUAL MEETING AND EXECUTIVE SESSION
 OF THE
 BOARD OF DIRECTORS
 OF THE
 ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND**

TUESDAY, NOVEMBER 1, 2022

Pursuant to a Public Notice dated October 17, 2022, the Annual Meeting of the Board of Directors of the Arizona Life and Disability Insurance Guaranty Fund (“ALDIGF”) was convened on November 1, 2022, at 10:01 a.m. in a combined in-person and virtual video conference format using Google Meet. Germaine L. Marks, Esq., Chair of the Board, determined that a quorum was present and called the meeting to order at 10:01 a.m.

Present at the meeting were the following members of the Board of Directors:

Germaine L. Marks, Esq.	Chair
Mark A. Haydukovich, ChFC, CLU, CPA, FLMI, CFA ..	Vice Chair
John R. Mathews, Esq., CPA	Secretary/Treasurer
Robert C. Corn	Director
Elizabeth A. Heisler	Director
Tod D. Lashway, CLU, ChFC, LUTCF	Director
Gregory Martino	Director
Paul Matson, CFA, FCSI	Director
Randi F. Reichel, Esq.	Director

Also present at the meeting were:

Thomas O’Malley	SVP, Portfolio Specialist, Allspring Global Investments
Joel A. Glover, J.D.	Partner, Faegre Drinker Biddle & Reath, LLP
Jennifer R. Tewhill.....	CPA, John C. Todd II, P.C. Certified Public Accountants
Lynette Evans.....	Assistant Arizona Attorney General
Zachary Howard.....	Assistant Arizona Attorney General
Liane Kido.....	Deputy Receiver, Arizona Department of Insurance & Financial Institutions (DIFI)

Kurt Regner.....	Assistant Director, Financial Affairs Division, DIFI
Lori D. Nestor	ALDIGF Executive Director
Maria Souza	ALDIGF Controller
Sharyn Kerr	ALDIGF Administrative Support Specialist

The following matters were discussed, considered and decided at the meeting:

1. ANNOUNCEMENT CONCERNING ALDIGF’S CONFLICT OF INTEREST POLICY AND ANTI-TRUST COMPLIANCE

The Chair announced that the Meeting would be conducted in accordance with ALDIGF’s Conflict of Interest Policy and in compliance with Arizona law concerning the disclosure of conflicts of interest with regard to any matter before the Board for consideration.

2. APPROVAL OF PREVIOUS MINUTES

Upon a motion made by Director Randi Reichel and seconded by Vice Chair Mark Haydukovich, the minutes of the Meeting of the Board of Directors held May 10, 2022 were unanimously approved as previously circulated.

3. FINANCIAL REPORTS AND ANY RELATED MATTERS

a. Report of investment activity of ALDIGF through September 30, 2022.

The Chair recognized Executive Director Nestor who introduced Mr. Tom O’Malley, Senior Vice President, Portfolio Specialist, Insurance Solutions, Allspring Global Investments, for a report regarding the performance of the ALDIGF investment portfolio through September 30, 2022.

Mr. O’Malley began by presenting a review of the portfolio performance through September 2022. He indicated that rising interest rates in both the national and international markets had been impacting portfolio performance, resulting in negative return numbers for approximately the past year. The portfolio was down 15 basis points against the blended index of the six-month “T bill” and a one-year treasury index.

Mr. O’Malley then provided the characteristics of the portfolio as of the end of September 2022. He stated that the value was a little over \$19 million. The purchase yield, or the earning power of the portfolio, was over 2% with maturity being approximately $\frac{3}{4}$ year duration. Mr. O’Malley said that the portfolio continued to maintain high AA+ credit quality with yield maturity approaching 4%. The

portfolio's market sectors consisted of approximately 2% in cash, 44% in treasury/securities, 39% in corporate bonds, and 14% in mortgage-backed securities. He stated that it was designed to be "liquid" and not to be dramatically impacted by changing interest rates.

Mr. O'Malley then discussed portfolio changes over time, including book yield (earning yield), market yield and duration. The Treasury yield curve, from 4 basis points to over 3 1/4% interest range, reflected the "Feds" active positioning in increasing Fed fund rates to combat inflation pressures. The expectation was that Fed funds would continue to be aggressively increased until some slowing was seen on the jobs front. Upward pressure was expected to continue on short-term interest rates, which was anticipated to provide a significant reinvestment opportunity as a good portion of the portfolio matured within the next six months.

A review of the "Big Six" drivers of economic growth indicated a slowing in growth while labor market strength persisted. Inflation was expected to remain elevated for another six to nine months. No change was expected in fiscal activity. Fear of global stagflation (low growth/high inflation) was causing elevated global market volatility, however dollar strength remained heightened.

A brief discussion regarding potential Environmental, Social & Governance (ESG) legislation followed Mr. O'Malley's report. Mr. O'Malley assured the Board that Allspring actively monitors and is aware of ESG concerns. He did not anticipate any such legislation to impact the ALDIGF portfolio.

b. Report concerning the financial audit of ALDIGF for the year ended December 31, 2021.

The Chair again recognized Executive Director Nestor, who reported that an audit of the ALDIGF 2021 financials had been completed. Ms. Nestor then recognized Ms. Jennifer Tewhill of John C. Todd II, P.C. for a report regarding that audit.

Ms. Tewhill began by noting that the structure of the report was different from previous reports with the Opinion section of the report being placed first. The general content of the report remained the same. She mentioned that another significant change was to the Management Discussion Analysis (MD&A) section of the report, as that report will now be comparative to allow the reader to compare current and prior year data. She indicated that the MD&A also provides narrative to explain any changes between the two years presented. The actual financial statements, however, are not comparative and present only a single year. Ms. Tewhill indicated that no issues were found with the financial statement presentation, and the audit opinion was a clean one.

Ms. Tewhill then discussed the auditors' "Internal Control over Financial Reporting" document, and stated that no deficiencies were found in internal controls. No questions or discussion followed.

Ms. Tewhill then discussed the auditors' "Communication with Those Charged with Governance at or Near the Conclusion of Audit" document. She explained that the document indicates whether any difficulties were encountered during the audit. Ms. Tewhill reported that no difficulties were found in performing and completing this audit, and that Guaranty Fund staff was very helpful. No questions or discussion followed.

c. Review of the financial condition of ALDIGF through September 30, 2022.

The Chair recognized Executive Director Nestor, who presented a "Balance Sheet" for ALDIGF as of September 30, 2022. Ms. Nestor indicated that the Balance Sheet provided information about current and anticipated assets, current and anticipated liabilities, and escrow. She further explained that future assets consisted primarily of unbilled assessments to fund future liabilities for the claims of Penn Treaty policyholders.

Ms. Nestor then presented the "Profit & Loss YTD Comparison" report and commented that there was little noteworthy activity in September other than a slight investment loss as mentioned by Mr. O'Malley during his report. She did note an increase in Fund staff salaries and associated expenses due to a permanent, 10% increase in salary for all Arizona employees.

Ms. Nestor then presented a "Year to Year Comparison" report, which compared profit and loss between 2021 and 2022. She indicated that travel expenses had been higher in 2022 due to an increase in attendance of in-person meetings following a lessening of COVID-19 pandemic fears.

Executive Director Nestor then indicated that a new document was included with the financial report for this meeting. She explained that the "Schedule of Cash Balances by Fund" provided a quick glimpse of the cash balance in each account of ALDIGF. She indicated that this document will be provided going forward in future reports to the Board.

No questions or discussion followed this report.

4. UPDATE REGARDING COMPASS COOPERATIVE MUTUAL HEALTH NETWORK (MERITUS MUTUAL).

The Chair introduced Mr. Joel Glover, Partner, Faegre Drinker Biddle & Reath, LLP. Mr. Glover is current counsel to the Receiver for Compass Cooperative Mutual Health Network, Inc., dba Meritus

Mutual Health Partners (Meritus Mutual), and Compass Cooperative Health Plan, Inc., dba Meritus Health Partners (Meritus Health Network).

Mr. Glover provided some background information on the subject. He noted that both entities were placed into receivership, however, only Meritus Mutual qualified for coverage by the Guaranty Fund (ALDIGF). Administrative services for Meritus Mutual were provided by the Receiver under agreement with ALDIGF, and an Early Access Agreement was approved by the Court. Mr. Glover explained that in the years that followed, despite an order approving liquidation, CMS (Centers for Medicare & Medicaid Services) and the DOJ (US Department of Justice) reneged on commitments made, including promised payments to the Receiver. As a result, the Receiver participated in a class action suit for the unpaid risk corridor payments, and in a reinsurance claim, to collect what was owed. Mr. Glover indicated that settlement of the litigation was ultimately reached for payment from CMS of \$22 million and their agreement to follow whatever distribution framework the Receivership Court approved for the amount owed. He further indicated that such settlement is sufficient for the Receiver to honor all claims in the estate, except for the claim of the note holder. Such claims are in the process of being adjudicated, and ALDIGF's claim for \$3.3 million will be honored. A brief discussion regarding risk corridor claims in general followed Mr. Glover's report.

5. EXECUTIVE SESSION TO RECEIVE INFORMATION ABOUT THE FINANCIAL CONDITION OF ONE OR MORE MEMBER INSURERS.

The Chair entertained a motion to enter into Executive Session to receive information concerning the financial condition of certain member insurers. The motion was made by Director Tod Lashway, was seconded by Secretary/Treasurer John Mathews, and the motion carried. The Board entered into Executive Session at 10:50 a.m. No members of the Public were present. Chair Germaine Marks entertained a motion to exit Executive Session that was moved by Director Gregory Martino, seconded by Director Randi Reichel and carried. Executive Session was adjourned at 11:25 a.m.

6. REPORT CONCERNING THE DETECTION AND PREVENTION OF INSOLVENCIES

The Chair recognized Mr. Kurt Regner, Assistant Director, DIFI, who reported that in July 2022, the Arizona Guaranty Funds provided some funding for representatives of the DIFI Financial Affairs Division (FAD) to attend ongoing training for detection and prevention of insolvency. Mr. Regner reported that four FAD representatives attended a career-development seminar in July 2022 sponsored by the Society of Financial Examiners (SOFE). Presentations at the seminar were geared to enhance knowledge of aspects of insurance solvency regulation and the NAIC risk focus surveillance process. Sessions were also held that covered other regulatory topics such as risk governance, cyber security, examination, IT best practices and many others. Mr. Regner indicated that the total cost of attendance

was approximately \$10,384 and that ALDIGF would pay half of that amount. He expressed his appreciation to the Board for making it possible for his staff to attend the seminar.

A motion to ratify Executive Director Nestor’s decision to pay ALDIGF’s portion of the cost was made by Director Gregory Martino, seconded by Director Paul Matson and carried unanimously.

7. ELECTION OF OFFICERS AND APPOINTMENT OF STANDING COMMITTEES

The Chair indicated that existing officers were willing to continue in their current capacities and presented the slate of standing officers as follows:

- Chair Germaine Marks
- Vice Chair Mark Haydukovich
- Secretary/Treasurer John Mathews

A motion was made by Director Gregory Martino to recommend that standing officers be reappointed for another year. The motion was seconded by Director Tod Lashway and passed unanimously.

The Chair then stated that standing committee members would serve as currently slated. Such motion was made by Director Gregory Martino, seconded by Director Randi Reichel and carried.

8. REPORT OF EXECUTIVE DIRECTOR

a. Report regarding the status of claims, liabilities and other matters with regard to the following companies for which ALDIGF *has* been activated:

- i. Executive Life Insurance Company (ELIC)
- ii. Executive Life Insurance Company of New York (ELNY)
- iii. Life and Health Insurance Company of America (LHICA)
- iv. Lincoln Memorial Life Insurance Company
- v. National States Insurance Company
- vi. Penn Treaty/ANIC
 - 1. ALDIGF estimated funding liability for 2023
- vii. Senior American Insurance Company
- viii. Time Insurance Company

The Chair recognized Executive Director Nestor, who reported that the “Board Report” provided in the meeting materials contained the report regarding 2022 claim activity for the companies listed in the Agenda. She indicated that claims activity for 2022 had to date been relatively slow. Ms. Nestor mentioned that the report also included the funding estimates received from LTC Re regarding the ALDIGF portion of Penn Treaty liability. Those estimates indicated that no need

for additional funding was anticipated for ANIC liabilities in 2023. However, it was anticipated that ALDIGF would need to fund an estimated \$6,389,000 for Arizona Penn Treaty policyholder liabilities in March of 2023.

Ms. Nestor also explained that the Board Report includes a new insolvency, Time Insurance Company, which was declared insolvent on August 30, 2022. While most of that company's policies were ceded to reinsurers during rehabilitation, approximately 80 policies were not, including one Arizona policy. Ms. Nestor indicated that the Arizona policyholder had accepted a policy buy-out offer from ALDIGF of \$5500, and she did not expect any other liability payments related to this insolvency.

Executive Director Nestor went on to inform the Board that North Carolina Mutual Life Insurance Company had been declared insolvent, but that insolvency was too recent to be included in the Board Report for this meeting. She stated that the company wrote pre-need burial policies and annuities. Ms. Nestor indicated that 150 policies would be referred to ALDIGF as a result of the insolvency, inclusive of 2 annuities with value of approximately \$10,000. She stated that the remaining 148 life insurance policies represented an exposure of approximately \$600,000 to the ALDIGF life insurance account. Ms. Nestor indicated the current balance in that account appeared to be sufficient at \$3,425,000, so no assessments are anticipated for this exposure.

Following the Executive Director's report, Director Gregory Martino asked whether information was available regarding anticipated amounts and/or the timing of distributions to the guaranty associations following the Pennsylvania Supreme Court's recent decision in the Penn Treaty insolvency. Discussion ensued regarding whether such distribution would negate the need for an assessment at this time. Executive Director Nestor clarified that the anticipated funding request for 2023 received from LTC Re was a minor part of ALDIGF's total, current anticipated liability of approximately \$119 Million in that insolvency, and that payments are expected to be requested annually for some time. However, she indicated that she would reach out for current information regarding such distributions and share the information with the Board. Questions and discussion followed Ms. Nestor's report and particularly centered on conducting an assessment. Chair Germaine Marks moved ahead to Item 8.d as a result.

b. Report regarding claims appeals, if any.

Executive Director Nestor advised that there were no pending claim appeals at that time.

c. Discussion and possible action concerning ratification of the Executive Director's decision to pay the National Organization of Life and Health Insurance Guaranty Association

(NOLHGA) assessments for the first and second quarters of 2022 in the amounts of \$54,745.00 and \$54,236.00 respectively.

Executive Director Nestor requested that the Board ratify her decision to pay the NOLHGA assessments as stated in the agenda. A motion was made by Director Randi Reichel, seconded by Director Mark Haydukovich and carried.

d. Discussion and possible action regarding assessment for the Disability Account.

As indicated earlier in the Minutes, Item 8.d. was addressed during the presentation of Item 8.a. Discussion took place regarding the necessity and timing of such assessment. Executive Director Nestor recommended that an assessment in the \$6,389,000 estimated be called at this time in anticipation of the upcoming funding need for the Penn Treaty insolvency. She recommended that any receipts of future distribution amounts be maintained in the Disability Account for offset against future amounts due. A motion was made to call a Class B assessment in the amount of \$6,389,000 by Director Gregory Martino, was seconded by Director Tod Lashway and carried unanimously.

e. Discussion and possible action regarding ALDIGF authorized alternative representative for NOLHGA.

Executive Director Nestor reported that the NOHLGA bylaws require all members to have authorized representatives on file with NOHLGA. She stated that Director Tod Lashway had served as the alternative representative for ALDIGF for some time during his service as Board Chair, but clarification was needed due to the current change in Board leadership. Director Lashway indicated that he was willing to continue to serve in the capacity of alternative representative for ALDIGF, and no objection was raised by the Board. Director Lashway will continue in that capacity.

9. EXECUTIVE SESSION TO CONFER WITH LEGAL COUNSEL

The Chair determined that an Executive Session was not necessary at that time.

10. DETERMINATION OF THE DATE, TIME AND PLACE OF FUTURE MEETINGS

It was decided that the next meeting of the Board of Directors would be held on **Tuesday, May 16, 2023** at 10:00 a.m. Arizona time, followed by an annual meeting on **November 14, 2023** at 10:00 a.m. Arizona time.

11. CALL TO THE PUBLIC

The Chair made a call to the Public to which there was no response.

There being no further business to come before the Board, a motion to adjourn was moved by Director Gregory Martino, seconded by Director Randi Reichel and without objection, the meeting was adjourned at 11:41 a.m.

Dated this 1st day of November, 2022 and respectfully submitted,

APPROVED:

GERMAINE L. MARKS, ESQ.

JOHN R. MATHEWS, ESQ., CPA

CHAIR OF THE BOARD

SECRETARY/TREASURER