

REPORT OF EXAMINATION  
OF THE  
CALIFORNIA LIFE AND HEALTH  
INSURANCE GUARANTEE ASSOCIATION  
AS OF  
JUNE 30, 2019

Filed on June 19, 2020

## TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION .....	1
ASSOCIATION HISTORY .....	2
MANAGEMENT AND CONTROL:.....	2
Management Agreements.....	4
TERRITORY AND PLAN OF OPERATION.....	6
REINSURANCE: .....	8
INVOLVEMENT WITH INSOLVENT INSURERS.....	8
FINANCIAL STATEMENTS: .....	12
Statement of Financial Position as of June 30, 2019 .....	13
Statements of Activities for the Year Ended June 30, 2019 .....	14
Statements of Changes in Members' Net Deficit from July 1, 2014 through June 30, 2019 .....	15
Statements of Cash Flows for the Year Ended June 30, 2019.....	16
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	17
Assessments Receivable .....	17
Amounts Held in NOLHGA Escrow .....	17
Reserves for Obligations to Policyholders of Impaired and/or Insolvent Insurers and Administrative Expenses .....	18
Members' Deficit .....	19
SUMMARY OF COMMENTS AND RECOMMENDATIONS: .....	19
Current Report of Examination.....	19
Previous Report of Examination.....	19
ACKNOWLEDGMENT .....	20

Oakland, California  
June 3, 2020

Honorable Ricardo Lara  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

**CALIFORNIA LIFE AND HEALTH INSURANCE GUARANTEE ASSOCIATION**

(hereinafter also referred to as the Company) at its home office located at 2377 Gold Meadow Way, Suite 100, Gold River, California 95670.

**SCOPE OF EXAMINATION**

The previous examination of the Association was made as of June 30, 2014. This examination covered the period from July 1, 2014 through June 30, 2019. The examination included a review of the Association's practices and procedures, Board and Committees meeting minutes, an examination of management records, tests, and analyses of detailed transactions within the examination period, and an evaluation of assets and a determination of liabilities as of June 30, 2019, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Association's operations were reviewed, including the following area that requires no further comment: organizational records. This examination report includes findings of facts and general information about the Association and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but were separately communicated to other regulators and/or the Association.

## ASSOCIATION HISTORY

The association was organized on February 10, 1994 by the California State Legislature by merging the Robbins-Seastrand Health Insurance Guaranty Association into the California Life and Health Insurance Guaranty Association. The Association retains the rights, property, and obligations of the predecessor associations.

The Association was organized pursuant to, and operates in accordance with, Division 1, Part 2, Article 14.7, Section 1067 of the California Insurance Code. In addition, the Association operates under a Plan of Operation approved by the California Department of Insurance. The purpose of the Association is to provide insolvency insurance for each member insurer and discharge its obligations under its insurance policies and to protect the policyholders against loss arising from the failure of an insolvent member insurer. All companies holding certificates of authority to write life, annuity, or health insurance in California automatically become members of the Association.

## MANAGEMENT AND CONTROL

The Board of Directors (Board), consisting of thirteen representatives from life and health insurance companies, manages the business and affairs of the Association. In order to provide for staggered terms of directors, the Board is currently divided into three classes: one class with four directors whose terms expire in 2021; a second class with five directors whose terms expire in 2022; and a third class with four directors whose terms expire in 2023. The Association notifies and requests written approval from the Insurance Commissioner of the elected Board. At each annual meeting, the class of directors (and each director in such class) elected to succeed those whose terms expire shall be elected for a term of office for three years.

As of June 30, 2019, there were approximately 755 life and health insurance companies that were subject to the California Life and Health Insurance Guarantee Association Act and therefore are members of the Association.

The Association's Plan of Operation provides that the number of Directors shall consist of thirteen members. The California Insurance Code Section 1067.06 states that the

number of directors shall consist of not less than nine nor more than 13 member insurers. Following are the Member Company Board of Directors and their named representative and principal officers of the Association serving on June 30, 2019:

Member Company Directors

<u>Member Company Director and Location</u>	<u>Named Representative and Title</u>
Aetna Life Insurance Company Blue Bell, Pennsylvania	Gregg S. Martino Assistant Vice President and State Government Relations
Allstate Life Insurance Company Lincoln, Nebraska	Sonya Ekart Associate Counsel
Anthem Blue Cross Life and Health Insurance Company Thousand Oaks, California	Mildred M. Moon Staff Vice President, Taxation
Cigna Health and Life Insurance Company Sacramento, California	Crystal Jack Director, State Government Affairs
Lincoln National Life Insurance Company Fort Wayne, Indiana	Stephen E. Rahn Senior Vice President, Associate General Counsel and Head of Public Policy
Massachusetts Mutual Life Insurance Company Boston, Massachusetts	Dominick Ianno Head of State Government Relations
Metropolitan Life Insurance Company Washington, D.C.	Michael B. Hickey Government Relations Counsel
Northwestern Mutual Life Insurance Company Milwaukee, Wisconsin	Andrew T. Vedder Vice President – Solvency Policy & Risk Management
Pacific Life Insurance Company Newport Beach, California	Art Panighetti Assistant Vice President, Enterprise Risk Management

<u>Member Company Director and Location</u>	<u>Named Representative and Title</u>
Prudential Insurance Company of America Phoenix, Arizona	Germaine Marks Vice President, Government Affairs
Transamerica Life Insurance Company San Francisco, California	Diana M. Marchesi Retired
United Healthcare Insurance Company Little Rock, Arkansas	Nick Thompson Senior Vice President, Regulatory Affairs
West Coast Life Insurance Company Birmingham, Alabama	Barrie B. Stokes Senior Vice President, Senior Associate Counsel Government Affairs

#### Principal Officers

<u>Name</u>	<u>Title</u>
Todd R. Thakar	Executive Director
Candie Kinch	Director of Finance
Holly O'Connor	Director of Operations

#### Management Agreements

Professional Service Agreement: Effective August 1, 1998, the Association entered into a Professional Service Agreement (Agreement) with Guarantee Association Administration, LLC, to manage the affairs of the Association. The Agreement was replaced by the Agreement for Administrative Services with The Thakar Group, Inc. that went into effect on June 1, 2017. Total fees paid by the Association to Guarantee Association Administration, LLC under the Agreement in fiscal year (starting July 1 and ending June 30) 2015, 2016, and 2017 were \$341,500, \$432,000, and \$466,500, respectively.

Agreement for Administrative Services: The Association entered into an Agreement for Administrative Services (Agreement) with The Thakar Group, Inc. (The Thakar Group) to perform the Association's management, administrative services, and functions effective

June 1, 2017. According to the terms of the Agreement, the Executive Director, as an independent contractor, shall manage the operations of the Association and perform the administrative functions and services necessary or appropriate for the Association in fulfilling its duties, responsibilities, and obligations (Administrative Services). This Agreement replaced the previous Professional Service Agreement entered into by Association with Guarantee Association Administration, LLC, that was in effect since August 1, 1998. The California Department of Insurance approved the Agreement with The Thakar Group on June 20, 2017. Total fees paid by the Association to The Thakar Group under the Agreement in fiscal year 2018 and 2019 were \$655,643 and \$621,000 respectively.

The Thakar Group performs all services as delegated by the Association's Board of Directors (the Board). Services that are performed include: maintain office, handle communications, record keeping, filing, storage, assessments of the member companies, administration of claims, communication with National Organization of Life and Health Insurance Guaranty Associations (NOLHGA), attend NOLGHA task force meetings, monitor insolvencies of the member companies, communicate with the Board, and maintain the needed systems and employees to handle all affairs of the Association as an independent contractor. The Association itself has no employees and personnel servicing the Association are provided by The Thakar Group.

Third Party Administrator Administrator Agreements: The Association is party to Third Party Administrator Agreements signed by NOLGHA with various claims administrators who collect premiums of life, health, and annuity contracts for liquidations assigned to the Association. The third party administrators used by the Association as of June 30, 2019 are as follows:

Third Party Administrator	Line of Business	Insurance Company & its affiliate
TriPlus Services, Inc.	Health	Penn Treaty Network America Insurance Company American Network Insurance Company
SOBC Darag Services Company Ltd	Health	Northwestern National Insurance Company American Network Insurance Company
Insurance Administrative Solutions, LLC	Life	Booker T. Washington Insurance, Inc. Universal Life Insurance Company
Special Deputy Receiver of Lincoln Memorial Life Insurance Company	Life	Lincoln Memorial Life Insurance Company National Prearranged Services, Inc.
Disability RMS	Health	Golden State Mutual

TERRITORY AND PLAN OF OPERATION

Insurance companies writing life and health insurance business in California [certain companies are specifically exempted pursuant to California Insurance Code (CIC) Section 1067.04(i) (1 through 8)] are required to participate in the California Life and Health Insurance Guarantee Association. If an admitted life and health insurance company becomes insolvent, the Association administers covered policyholder claims and assesses each life and health insurance company up to 2% of written premium in the appropriate line of business. CIC Section 1067.08 allows member insurers to surcharge policies to recover health insurance account and assessments.

The Association has the responsibility to pay and discharge covered claims of member insurers as of the date a court of competent jurisdiction declares such insurer insolvent and a liquidator is appointed. Covered claims primarily include the policy obligations of insolvent insurers arising from life, health, annuity, and supplemental policies and contracts coverage (exclusive of those lines not included per CIC Section 1067.02).



The Association allocates its claim payments and costs, incurred or estimated to be incurred, to one or more of the following categories: (a) life claim, (b) annuity contracts, and (c) health claims. Separate premium charges (assessments) are required for each category. The assessments from each category are used to pay the claims and costs allocated to that category.

CIC Section 1067.02 establishes that the benefits for covered life and annuity claims are limited to the lesser of: (1) eighty percent of the contractual obligations for each policy or contract, or (2) \$250,000 of the present value of an annuity contract, \$100,000 of cash surrender value of a life insurance policy, or \$300,000 in life insurance death benefits.

The health insurance benefit limit was set at \$200,000 in 1991 and adjusts up or down based on the increase or decrease in the health care component of the Consumer Price Index. As of June 30, 2019, the health insurance benefits are limited to the lesser of (1) the contractual obligations of the policy, or (2) \$585,782.

When a life and health insurance company becomes insolvent, the control of its assets transfers to the state insurance liquidator in its domiciliary state. The liquidator uses the assets of the insolvent insurance company to settle the outstanding liabilities of the company. Liquidators may advance estate distributions to the Association prior to settlement of the insolvent insurance company's outstanding debts. The Association recognizes these advances as revenue when received. The advances are utilized to discharge claims against the insolvent insurance companies. The respective liquidator can recall these advances, in whole or in part. The Association recognizes any recall of advances when notified by the liquidator or receiver.

To the extent that assets, including advances from liquidators, are insufficient to discharge the Association's obligations, the Association assesses member insurers when determined necessary by the Board of Directors. Conversely, to the extent the assets exceed the ultimate cost of claim obligation for insolvent insurers, the excess fund balance, if any, will be refunded or applied to reduce future assessments by the Association in the appropriate category.

Assessments are accrued as of the date declared by the Board and become due from the member insurers no less than thirty days after assessed. The rate of assessment to each member insurer is initially based on the average written premium for the three years preceding the insolvency, as shown on the annual financial statements filed with the California Insurance Commissioner, as adjusted by exclusions pursuant to the CIC Section 1067.02.

As of June 30, 2019, the Association continues to satisfy its statutory obligations to contract-holders for 44 insolvent insurers, both active and inactive. For the year ended June 30, 2019, the Association paid \$48.2 million in policyholder claims for the Penn Treaty Network America Insurance Company and America Network Insurance Company insolvencies. Since inception, the Association has made \$1.4 billion in claims and reinsurance payments to California policyholders.

### REINSURANCE

Traditional reinsurance, entered into by member insurers prior to their insolvencies, is administered by the liquidator of the insolvent member insurer and is therefore excluded from the Association's financial statements. Reinsurance recoveries made by the liquidator may be advanced to the Association subject to the priority needs of the estate in liquidation. Ancillary liquidations may also have a demand on assets recoverable, including reinsurance recoverables and special and statutory deposits. Under California Insurance Code Section 1067.07(o), upon a liquidation or rehabilitation order, the Association may elect to succeed to the insolvent member insurer's reinsurance contract for which the Association has underlying coverage obligations. To do so, the Association must pay all the unpaid premiums due under the reinsurance contract due before and after the liquidation or rehabilitation order.

### INVOLVEMENT WITH INSOLVENT INSURERS

Since its inception, the Association has been responsible for the payment of benefits to California policyholders and contract holders of the following insolvent member insurance companies:

<u>Insolvency</u>	<u>Year Activated</u>
Great Republic Insurance Company	1991
Midwest Life Insurance Company	1991
Legacy Life Insurance Company	1991
Executive Life Insurance Company	1991
Fidelity Bankers Life Insurance Company	1992
Investment Life Insurance Company of America	1993
Inter-American Insurance Company of Illinois	1991
Mutual Security Life Insurance Company	1991
New Jersey Life Insurance Company	1993
American Integrity Insurance Company	1993
Mutual Benefit Life Insurance Company	1994
Old Colony Life Insurance Company	1994
Consumers United Insurance Company	1994
Kentucky Central Life Insurance Company	1994
Summit National Life Insurance Company	1994
Confederation Life Insurance Company (U.S.)	1994
National American Life Insurance Company of PA	1995
Supreme Life Insurance Company of America	1995
American Western Life Insurance Company	1997
American Standard Life & Accident Insurance	1998
Centennial Life Insurance Company	1998
Universe Life Insurance Company	1998
Statesman National Life Insurance Company	1999
First National Life Insurance Company of America	1999
International Financial Services Life Insurance Company	1999
American Chambers Life Insurance Company	2000
Combined Benefits Insurance Company	2000
Reliance Insurance Company	2001
Legion Insurance Company	2003
Villanova Insurance Company	2003
London pacific Life and Annuity Company	2004
Lincoln Memorial Life Insurance Company	2008
Medical Savings Insurance Company	2009

<u>Insolvency</u>	<u>Year Activated</u>
Imerica Life and Health Insurance Company	2010
Universal Life Insurance Company	2010
Golden State Mutual Life Insurance Company	2011
Standard Life Insurance Company of Indiana	2012
Executive Life Insurance Company of New York	2013
Lumbermens Mutual Casualty Company	2013
SeeChange Health Insurance Company	2015
Penn Treaty Network America Insurance Company	2017
American Network Insurance Company	2017
North Carolina Mutual Life Insurance Company	2018
Northwestern National Insurance Company	2019

The Association has been monitoring other member insurance companies presently in conservation and rehabilitation where the Association may, at some time in the future, incur liability for benefit payments to California policyholders and contract holders. Companies in this category include:

Fremont Life Insurance Company

Monarch Life Insurance Company

Senior Health Insurance Company of Pennsylvania

Time Insurance Company

## FINANCIAL STATEMENTS

The following financial statements are based on the Annual Reports filed by the Association with the California Department of Insurance and present the financial condition of the Association for the period ending June 30, 2019. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements reported by the Association.

Statement of Financial Position as of June 30, 2019

Statements of Activities for the Year Ended June 30, 2019

Statement of Changes in Members' Net Deficit from July 1, 2014  
through June 30, 2019

Statements of Cash Flows for the Year Ended June 30, 2019

Statement of Financial Position  
as of June 30, 2019

<u>Assets</u>		<u>Notes</u>
Cash and cash equivalents	\$ 452,939	
Investments	40,226,245	
Estate distribution receivable	168,811	
Assessment receivable		
Called, net of allowance for uncollectible balances of \$648,430	218,855	(1)
Declared, but not yet called	16,499,999	(1)
Amounts held in NOLHGA escrow	<u>20,604</u>	(2)
 Total Assets	 <u>\$ 57,587,453</u>	
 <u>Liabilities</u>		
Reserves for obligations to policyholders of impaired and/or insolvent insurers and administrative expenses	\$ 74,015,134	(3)
Assessment refunds due to members	0	
Other liabilities	<u>246,753</u>	
 Total Liabilities	 \$ 74,261,887	
<u>Commitments and Contingencies</u>		
 Members' Deficit	 <u>(16,674,434)</u>	(4)
 Total Liabilities and Members' Deficit	 <u>\$ 57,587,453</u>	

Statements of Activities  
for the Year Ended June 30, 2019

<u>Revenue</u>	
Assessments declared, net of assessments rescinded	\$ (943,787)
Premiums	324
Early access distributions from liquidators	3,750,580
Interest income, less expense of \$31,006	<u>1,221,003</u>
Total Revenue	<u>4,028,120</u>
 <u>Expenses</u>	
Program:	
Benefits paid	273,759
Reinsurance payments	202,864
Legal and professional	110,707
NOLHGA taskforce expenses	946,419
Professional services contract	<u>360,180</u>
	<u>1,893,929</u>
 General and Administration:	
Legal and professional	80,334
Accounting and auditing	40,000
NOLGHA taskforce expenses and membership dues	95,915
Travel	113,373
Uncollectible (recovered) member assessments	(119,411)
General and administrative	20,974
Professional services contract	<u>260,820</u>
	<u>492,005</u>
 Total expenses	 <u>2,385,934</u>
 Change In Member's Deficit Before Changes In Reserves	 1,642,186
 Change In Reserves For Obligations To Policyholders Of Impaired And/or Insolvent Insurers	 <u>36,049,866</u>
 Change In Member's Deficit	 <u>\$ 37,692,052</u>



Statements of Changes in Members' Net Deficit  
from July 1, 2014 through June 30, 2019

Balance, July 1, 2014	\$ 28,168,026
Change in members' deficit	3,759,912
Balance, June 30, 2015	31,927,938
Change in members' deficit	(19,963)
Balance, June 30, 2016	31,907,975
Change in members' deficit	(433,494,911)
Balance, June 30, 2017	(401,586,936)
Change in members' deficit	347,220,450
Balance, June 30, 2018	(54,366,486)
Change in members' deficit	37,692,052
Balance, June 30, 2019	\$ (16,674,434)

Statements of Cash Flows  
for the Year Ended June 30, 2019

Reconciliation Of Change In Members' Deficit	
To Net Cash From Operating Activities	
Change in members' deficit	\$ 37,692,052
Adjustments to reconcile change in members' deficit	
to net cash from operating activities:	
Reserves for obligations to policyholders of impaired	
and/or insolvent insurers and administrative expenses	(36,049,866)
Decrease (increase) in:	
Estate distribution receivable	(168,811)
Assessment receivable	1,082,841
Amounts held in NOLHGA escrow	347,220,450
Increase (decrease) in:	
Assessment refunds due to members	(4,251)
Other liabilities	(1,042,278)
Net Cash Provided By Operating Activities	<u>1,587,987</u>
Cash Flows From Investing Activities	
Cash received from sale of investments	125,750,000
Cash paid for purchases of investments	<u>(135,074,076)</u>
Net Cash Used in Investing Activities	<u>(9,324,076)</u>
Net Decrease In Cash And Cash Equivalents	(7,736,089)
Cash And Cash Equivalents At Beginning Of Year	<u>8,189,028</u>
Cash And Cash Equivalents At End Of Year	<u>\$ 452,939</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Assessments Receivable

There are two classes of assessments to member companies. Class A assessments are made for the purpose of meeting general and administrative expenses supporting the Association's activities which are not specifically related to a particular insolvency. Class B assessments relate to the amount necessary to carry out the duties of the Association with regard to California resident policyholders of impaired or insolvent insurance companies.

Class B assessments are allocated among member companies in the proportion that a member company's average annual premiums written in the State of California for each account, life, annuity, and health, for the three years prior to the year of liquidation. The total assessment to a single member company may not exceed 2% of the members' three-year average premiums. To the extent that assets exceed the ultimate cost of claim obligations for insolvent insurers, Class B assessments will be retained to reduce future Class B assessments or may be refunded to member insurers. There were no Class A or Class B assessments called or declared during the year ended June 30, 2019.

Assessments Receivable: Called, net of allowance for uncollectable balances, is comprised of \$219 thousand in assessment currently due.

Assessment Receivable: Declared, but not yet called, is comprised of \$16.5 million in assessments related to the Lincoln Memorial Life Insurance Company insolvency.

### (2) Amounts Held in NOLGHA Escrow

This balance of \$20 thousand represents the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) escrow accounts that are funded by the Association in order to expedite the funding of certain of its policyholder benefits and claim payments.

(3) Reserves for Obligations to Policyholders of Impaired and/or Insolvent Insurers and Administrative Expenses

On March 1, 2017, Penn Treaty Network America Insurance Company (Penn Treaty) and its wholly-owned subsidiary American Network Insurance Company (ANIC), Pennsylvania domiciled insurers, became subject to a liquidation order with a finding of insolvency and the Association became statutorily obligated to Penn Treaty's and ANIC's California resident policyholders. Of the \$74.2 million liability reported by the Association at June 30, 2019, \$70.4 million represents the estimated present value of the Association's obligations to Penn Treaty and ANIC policyholders.

The carried reserves are based on estimates provided by the state insurance liquidators and verified by NOLHGA task forces (who rely on the work of retained actuaries and consultants) on behalf of various state guaranty associations. The reserves are actuarial estimates based on underlying data maintained by various state insurance liquidators, reinsurers, or third parties. This information is not always available or reliable for an accurate estimate for future obligations. For this reason, it is not practical to extend procedures sufficiently to validate the data nor cost effective to have additional actuarial studies performed to determine reserve accuracy. Therefore, the examination was limited-in-scope as regards to the procedures used to verify the Association's reserves for obligations to policyholders of impaired and or insolvent insurers and administrative expenses, estimated at \$74.2 million. The examiner relied on estimates without testing, as provided by state insurance liquidators and as verified by NOLHGA's task forces.

(4) Members' Deficit

This negative balance of \$16.7 million represents the amount, if the maximum assessment together with the other assets of the Association does not provide amounts sufficient to carry out the responsibilities of the Association, would be assessed as soon as permitted by the California Insurance Code. Conversely, to the extent that the assets exceed the ultimate cost to the Association of an impaired or insolvent insurer, the excess may be retained by the Association to reduce future Class B assessments or distributed to member companies.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Association's officers and staff during the course of this examination.

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_

Donavan Han, CFE  
Examiner-In-Charge  
Senior Insurance Examiner, Specialist  
Department of Insurance  
State of California

\_\_\_\_\_/S/\_\_\_\_\_

Kyo Chu, CFE  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
State of California