

REPORT OF EXAMINATION
OF THE
CALIFORNIA LIFE AND HEALTH
INSURANCE GUARANTEE ASSOCIATION
AS OF
JUNE 30, 2023

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Filed on July 25, 2024

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Sacramento, California
July 22, 2024

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 Association). The Company's home office is located at 2999 Douglas Boulevard, Suite 180, Roseville, California 95661.

SCOPE OF EXAMINATION

The previous examination of the Association was made as of June 30, 2019. This examination covered the period from July 1, 2019 through June 30, 2023. 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 the assets and a determination of liabilities as of June 30, 2023, 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 and two public members, 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 2024; a second class with five directors whose terms expire in 2025; and a third class with four directors whose terms expire in 2026. 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, 2023, there were approximately 741 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 thirteen member insurers and that the Board shall also include two additional members who represent the public generally. Following are the member companies on the Board and their named representative, the public member directors, and the principal officers of the Association serving as of June 30, 2023:

Member Company Directors

<u>Member Company Director and Location</u>	<u>Named Representative and Title</u>
Aetna Life Insurance Company Hartford, Connecticut	Gregory S. Martino ¹ Assistant Vice President of State Government Relations
Anthem Blue Cross Life and Health Insurance Company Thousand Oaks, California	Mildred M. Moon ² Staff Vice President, Taxation
Cigna Health and Life Insurance Company Philadelphia, Pennsylvania	Amy Lazzaro Managing Director, Regulatory Affairs
Everlake Life Insurance Company Northbrook, Illinois	Sonya Ekart Associate Counsel
The Lincoln National Life Insurance Company Greensboro, North Carolina	Carrie Hartgen State Relations
The Massachusetts Mutual Life Insurance Company Springfield, Massachusetts	Dominick Ianno Head of State Government Relations

Member Company Director and Location

Named Representative and Title

Metropolitan Life Insurance Company
Tampa, Florida

Darrie Jordan
Assistant Vice President, State Advocacy
and Supervision

The Northwestern Mutual Life Insurance
Company
Milwaukee, Wisconsin

James Frasher
Vice President, Insurance and Operations
Counsel

Pacific Life Insurance Company
Newport Beach, California

Jennifer Webb ³
Assistant Vice President, Government
Affairs

Prudential Insurance Company of America
Newark, New Jersey

Germaine Marks
Vice President, Government Affairs

Transamerica Life Insurance Company
Cedar Rapids, Iowa

Diana M. Marchesi ⁴
Director of State Government Affairs, Vice
President and Associate General
Counsel (Retired)

United Healthcare Insurance Company
Hartford, Connecticut

Joy Higa
Senior Vice President, Regulatory Affairs

West Coast Life Insurance Company
Birmingham, Alabama

Gregory Redmond
Vice President, Government Affairs

Public Member Directors

Alan Acosta
Vacancy⁵

Subsequent changes in the Board:

1. Gregory S. Martino was replaced by Marc Reece, effective October 5, 2023.
2. Mildred M. Moon was replaced by Christine Cappiello, effective May 7, 2024.
3. Jennifer Webb was replaced by Kari Turigliatto, effective April 1, 2024.
4. Diana M. Marchesi was replaced by Brenda Calman, effective January 1, 2024.
5. Ronald Coleman Baeza was elected to be the public member director, effective March 6, 2024.

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

Agreement for Administrative Services: Effective June 1, 2017, the Association entered into an Administrative Services Agreement (Agreement) with The Thakar Group, Inc. (Thakar Group). The Thakar Group is owned by Todd R. Thakar, who is the Association's Executive Director. According to the terms of the Agreement, the Thakar Group 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. The Thakar Group performs all services as delegated by the Board, including: maintenance of an office, handling 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 NOLHGA 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. The Association itself has no employees. The California Department of Insurance approved this Agreement on June 20, 2017. The Agreement was amended to increase the monthly payment to the Thakar Group, effective January 1, 2022 and January 1, 2023, respectively, which were approved by the Board. Total fees paid by the Association to the Thakar Group under the Agreement in fiscal year 2020, 2021, 2022, and 2023 were \$630,000, \$630,000, \$642,000, and \$678,540, respectively.

Third Party Administrator Agreements: The Association is party to Third Party Administrator Agreements entered into by NOLHGA 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, 2023 are as follows:

<u>Third Party Administrator</u>	<u>Line of Business</u>	<u>Insolvent Insurance Company & Affiliate</u>
Davies Life & Health, Inc.	Health	Penn Treaty Network America Insurance Company American Network Insurance Company
Insurance Administrative Solutions, LLC	Life	Universal Life Insurance Company
Special Deputy Receiver for North Carolina Mutual Life Insurance Company	Annuity, Health, and Life	North Carolina Mutual Life Insurance Company

TERRITORY AND PLAN OF OPERATION

Insurance companies licensed to write life and health insurance business in California, with the exception of those entities specifically exempted pursuant to California Insurance Code (CIC) Section 1067.04(l), are required to participate in the Association. If a member insurer becomes insolvent, the Association administers the covered policyholder claims of the insolvent insurer and can assess each member insurer up to 2% of written premium in the appropriate line of business to provide funds necessary to carry out the powers and duties of the Association. CIC Section 1067.08 allows member insurers to surcharge policyholders to recover health insurance account 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

the 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 December 31, 2023, the Association's health insurance benefits are limited to the lesser of (1) the contractual obligations of the policy; or (2) \$654,237.59.

When a life or 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.

Class B Assessments are accrued as of the date authorized 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 CIC Section 1067.02.

As of June 30, 2023, the Association continues to satisfy its statutory obligations to policyholders for 45 insolvent insurers, both active and inactive. During the fiscal year ended June 30, 2023, the Association paid \$33.2 million in policyholder claims for the Penn Treaty Network America Insurance Company and American Network Insurance Company insolvencies, and \$219 thousand to policyholders in other insolvencies. Since inception, the Association has made \$1.583 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>
Executive Life Insurance Company	1991
Great Republic Insurance Company	1991
Inter-American Insurance Company of Illinois	1991
Mutual Security Life Insurance Company	1991
Legacy Life Insurance Company	1991
Midwest Life Insurance Company	1991
Fidelity Bankers Life Insurance Company	1992
Investment Life Insurance Company of America	1993
American Integrity Insurance Company	1993
New Jersey Life Insurance Company	1993
Consumers United Insurance Company	1994
Kentucky Central Life Insurance Company	1994
Mutual Benefit Life Insurance Company	1994
Old Colony 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 Company	1998
Centennial Life Insurance Company	1998
Universe Life Insurance Company	1998

<u>Insolvency</u>	<u>Year Activated</u>
First National Life Insurance Company of America	1999
International Financial Services Life Insurance Company	1999
Statesman National 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
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
American Network Insurance Company	2017
Penn Treaty Network America Insurance Company	2017
Northwestern National Insurance Company	2019
Time Insurance Company	2019
North Carolina Mutual Life Insurance Company	2022

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:

Global Bankers Group

Monarch Life Insurance Company

Senior Health Insurance Company of Pennsylvania

PHL Variable Insurance Company

FINANCIAL STATEMENTS

The following financial statements are based on the financial statements filed by the Association with the California Department of Insurance and present the financial condition of the Association for the period ending June 30, 2023. 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.

Statements of Financial Position as of June 30, 2023

Statements of Activities for the Year Ended June 30, 2023

Statements of Changes in Members' Net Deficit from July 1, 2019
through June 30, 2023

Statements of Cash Flows for the Year Ended June 30, 2023

Statements of Financial Position
as of June 30, 2023

<u>Assets</u>		<u>Notes</u>
Cash and cash equivalents	\$ 9,648,189	
Investments	54,775,077	
Estate distribution receivable/other receivables	2,818	
Assessment receivable:		
Declared, but not yet called	16,499,999	(1)
Amounts held in NOLHGA escrow	6,405	(2)
Total Assets	<u>\$ 80,932,488</u>	
<u>Liabilities</u>		
Reserves for obligations to policyholders of impaired and/or insolvent insurers and administrative expenses	\$ 96,724,554	(3)
Other liabilities	276,648	
Total liabilities	97,001,202	
<u>Commitments and Contingencies</u>		
Members' deficit	(16,068,714)	(4)
Total Liabilities and Members' Deficit	\$ 80,932,488	

Statements of Activities
for the Year Ended June 30, 2023

Revenue

Early access distributions from liquidators	\$ 25,289,313
Premiums	17,184
Investment income, net (less expense of \$50,011)	<u>823,274</u>
Total Revenue	<u>26,129,771</u>

Expenses

Program:

Benefits paid	230,810
Reinsurance payments	64,794
Legal and professional	129,755
NOLHGA taskforce expenses	315,082
Other direct expenses	1,961
Professional services contract	<u>447,836</u>
	<u>1,190,238</u>

General and Administration:

Legal and professional	179,118
Accounting and auditing	44,000
NOLHGA taskforce expenses and membership dues	113,657
Travel	53,977
General and administrative	83,929
Professional services contract	<u>230,704</u>
	<u>705,385</u>

Total Expenses	<u>1,895,623</u>
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Change in Member's Deficit Before Changes in Reserves	24,234,148
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Change in Reserves for Obligations to Policyholders of Impaired and/or Insolvent Insurers	<u>43,903,305</u>
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Change in Member's Deficit	<u>\$ 68,137,453</u>
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Statements of Changes in Members' Net Deficit
from July 1, 2019 through June 30, 2023

Balance, July 1, 2019	\$ (16,674,434)
Change in members' deficit	<u>(25,091,261)</u>
Balance, June 30, 2020	(41,765,695)
Change in members' deficit	<u>6,137,231</u>
Balance, June 30, 2021	(35,628,464)
Change in members' deficit	<u>(48,577,703)</u>
Balance, June 30, 2022	(84,206,167)
Change in members' deficit	<u>68,137,453</u>
Balance, June 30, 2023	<u>\$ (16,068,714)</u>

Statements of Cash Flows
for the Year Ended June 30, 2023

Reconciliation of Change in Members' Deficit to Net Cash from Operating Activities:	
Change in members' deficit	\$ 68,137,453
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	(43,903,305)
Net realized and unrealized (gain) on investments:	(104,375)
Decrease in:	
Amounts held in NOLHGA escrow	52,969
Increase in:	
Other liabilities	78,016
Net Cash Provided by Operating Activities	<u>24,260,758</u>
 Cash Flows from Investing Activities	
Cash received from sale of investments	4,474,440
Cash paid for purchases of investments	<u>(27,722,677)</u>
Net Cash Used in Investing Activities	<u>(23,248,237)</u>
 Net Increase in Cash and Cash Equivalents	1,012,521
 Cash and Cash Equivalents at Beginning of Year	<u>8,635,668</u>
 Cash and Cash Equivalents at End of Year	<u><u>\$ 9,648,189</u></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. The amount of Class A assessment is set on a non-pro rata basis. During the year ending June 30, 2020, the Board of Directors (Board) authorized a Class A Assessment of \$2,000 per member insurance company, to be collected in 2021.

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. They 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 member's 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 B assessments called or declared during the examination period ended June 30, 2023.

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

(2) Amounts Held in NOLHGA Escrow

This balance of \$6,405 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), 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 \$96.7 million liability reported by the Association at June 30, 2023, \$93.7 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 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. The examiner relied on estimates without testing, as provided by state insurance liquidators and as verified by NOLGHA's task forces.

(4) Members' Deficit

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, the member insurers would be assessed as soon as permitted by the California Insurance Code Section 1067.01(b). 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. As of June 30, 2023, the ultimate costs of administering the impaired or insolvent insurers exceeded the Association's assets, resulting in a member's deficit of \$16,068,714.

SUBSEQUENT EVENTS

On October 16, 2023, the Board of Directors authorized the Association to call a total of \$61.0 million Class B Assessment from the health member insurers to fund its Penn Treaty Network America Insurance Company and American Network Insurance Company obligations. The Association collected 98.7% of the Class B Assessment as of June 30, 2024.

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,

Gu, Mei Digitally signed by Gu, Mei
Date: 2024.07.25 11:14:45
-07'00'

Mei Gu, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
State of California

Chu, Kyo Digitally signed by Chu, Kyo
Date: 2024.07.25 11:24:38
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State of California