

Katie M. Hobbs
 Governor

Barbara D. Richardson
 Director

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

WEDNESDAY, NOVEMBER 6, 2024

Pursuant to a Public Notice dated October 18, 2024, the Annual Meeting of the Board of Directors of the Arizona Life and Disability Insurance Guaranty Fund (“ALDIGF”) was convened on November 6, 2024, at 10:01 a.m. in a virtual 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.

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
Robert C. Corn	Director
John R. Mathews, Esq., CPA	Director
Shelby Cuevas	Director
Michael Hickey	Director
Tod D. Lashway, CLU, ChFC, LUTCF	Director
Gregg Martino	Director
Randi F. Reichel, Esq.	Director

Also present at the meeting were:

Barbara D. Richardson	Director, Arizona Department of Insurance and Financial Institutions (DIFI)
Robert Absey	Managing Director, Head of Insurance Solutions, Allspring Global Investments
Dean Meddaugh, CFA	Senior Portfolio Manager, Global Liquidity Solutions, Allspring Global Investments
Jeff Weaver, CFA	Senior Portfolio Manager, Global Liquidity Solutions, Allspring Global Investments
Jennifer Tewhill, CPA	John C. Todd II, P.C. Certified Public Accountants
Lynette Evans, Esq.	Assistant Arizona Attorney General
Liane Kido, Esq.	DIFI Deputy Receiver
Lori D. Nestor	ALDIGF Executive Director
Stephanie Martinez	ALDIGF Claims Manager
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 ANTI-TRUST POLICY AND CONFLICT OF INTEREST COMPLIANCE

The Chair announced that the meeting would be conducted in accordance with ALDIGF’s Anti-Trust 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. INTRODUCTION OF NEW GUARANTY FUND STAFF MEMBERS

The Chair recognized Executive Director Lori Nestor for the introduction of one new ALDIGF Staff member. Director Nestor introduced and welcomed Claims Manager, Stephanie Martinez, who joined the Guaranty Funds on May 28th of 2024.

Ms. Nestor also took the opportunity to let Board members know that she had delayed her retirement from DIFI until the end of January 2025 to allow more time to complete ongoing projects and also to find a successor for her position.

3. APPROVAL OF PREVIOUS MINUTES

Upon a motion made by Director Hickey and seconded by Director Corn, the minutes of the meeting of the Board of Directors held April 8, 2024 were unanimously approved as previously circulated.

4. ELECTION OF OFFICERS AND APPOINTMENT OF STANDING COMMITTEES

The Chair began by providing a report of the first meeting of the Board’s Nominating Committee which was held on October 28, 2024. That Committee recommended the following slate of officers:

Chair Germaine L. Marks, Esq.

Vice Chair Mark A. Haydukovich, ChFC, CLU, CPA, FLMI, CFA

Secretary/Treasurer Elizabeth “Betsy” A. Heisler

The Chair indicated that standing committee membership would remain as is with the addition of Director Martino joining the Investment Committee.

A motion was made by Director Mathews to approve the slate of officers presented. The motion was seconded by Vice Chair Haydukovich and passed unanimously.

5. FINANCIAL REPORTS AND ANY RELATED MATTERS

- a. Report concerning the financial audit of ALDIGF for the year ended December 31, 2023.

The Chair recognized Executive Director Nestor who introduced Jennifer Tewhill of John C. Todd II, P.C. Ms. Tewhill was the lead auditor who conducted the 2023 audit of ALDIGF. Ms. Tewhill noted that the audit report, which was distributed to the Board prior to this meeting, rendered a clean opinion. The report consisted of the financial statement and a letter regarding Communication with Those Charged with Governance. It reflected that no issues were found with the presentation of the financial statements. Ms. Tewhill indicated that no implementation of new accounting standards occurred, no significant unfavorable developments were noted, and no findings or weaknesses in internal controls were found. She also pointed out that there were no disagreements with management cited in the Communication to Those Charged with Governance. No questions or discussion followed Ms. Tewhill's report.

b. Review of the Performance of the ALDIGF Investment Portfolios through September 30, 2024.

The Chair again recognized Executive Director Nestor, who introduced Mr. Robert Absey Managing Director, Head of Insurance Solutions, Allspring Global Investments, for a report regarding the performance of the ALDIGF investment portfolios through September 30, 2024.

Mr. Absey introduced his attending colleagues, Mr. Dean Meddaugh and Mr. Jeff Weaver, and provided an overview of the firm, its history and services. He then recognized Mr. Weaver who began his report with a review of the Executive Summary covering the third quarter of 2024. He indicated that the "Fed" eased monetary policy during that time and that interest rates had decreased accordingly to their current rate of 4.75%. Yields from fixed income instruments had also come down as a result. Mr. Weaver indicated that the expectation was that the Fed would continue to ease interest rates, beginning with a 25-basis point cut November 7, and another 25-point cut in December. It was expected that short term rates would in turn follow. He then provided a summary of the "Big Six" drivers of the economy, noting that the U.S. economy continues to be a strong one. Employment continued to be strong as well, with a 4.1% unemployment rate, while inflation was continuing to slowly decrease toward the Fed's target of 2%. From a fiscal standpoint, Mr. Weaver indicated that large deficits are expected to remain and even grow under the new presidential administration which was resulting in an increase in long term yields. Weaker growth was taking place in the international market with similarly subdued inflation and global central banks easing rates. Mr. Weaver summarized his "Yield Range by Asset Class" report by indicating that rates had come down and are expected to continue decreasing. He said that because it is expected that short-term rates will go down accordingly, the portfolio would be structured longer than benchmarks.

Mr. Weaver then recognized Mr. Meddaugh who provided a review of the portfolio performance. He indicated that the focus has been on book returns due to the buy and hold nature of the portfolio. However, he pointed out that the one-year total return was an impressive 6.39% compared to the book return rate of 5.10%. Overall the portfolio had enjoyed a 5% yield, but he warned that it would be difficult to maintain that in the current environment despite having currently locked them in. Mr. Meddaugh stated that portfolio positioning had generally been centered around having ample liquidity for needs, with \$7 million currently available and an

additional \$1.5 million available the following week. Despite maintaining liquidity needs, however, he indicated that it had been possible to extend the portfolio beyond the duration benchmark and that those portfolio changes over time reflected an increase in the book yields along with the extension in duration. Mr. Meddaugh indicated that book yields were locked in at that time, however, they were expected to begin to decrease with market yields as reinvestment occurs.

c. Review of the financial condition of ALDIGF through September 30, 2024.

Executive Director Nestor began by noting that internal financial reports were provided to Board members in the meeting materials. She indicated that the Balance Sheet provided presented assets and liabilities, both short and long term, on an accrual basis, but didn't reflect the anticipated exposure from the Bankers Life and Colorado Bankers Life insolvencies. Ms. Nestor further pointed out that the Profit and Loss Year-to-Date statement indicated that the operating income for the year showed a negative balance. She explained that was because there was sufficient surplus in the Disability Account to cover 2024 payments for Penn Treaty/ANIC liabilities and therefore no assessment funds were received. However, the payment was made and it far exceeded any receipts since that time. Ms. Nestor mentioned that the Year-to-Year Comparison showed that early access distributions in 2024 were down slightly from 2023 due to ALDIGF receiving a large Penn Treaty distribution in 2023. An additional distribution of just under \$1 million was expected before year's end. She then reviewed the Schedule of Cash Balances by Fund, which tracks cash movement and provides a snapshot of the balances in each of ALDIGF's accounts, as follows:

Life Account	\$3,055,898.81
Disability Account	\$9,184,494.85
Annuity Account	\$11,557,455.22
Administrative Account	\$3,304,589.97

6. REPORT CONCERNING THE DETECTION AND PREVENTION OF INSOLVENCIES

The Chair inquired as to whether there was a report concerning the detection and prevention of insolvencies to which Executive Director Nestor replied that no one from the DIFI Financial Affairs Division (FAD) was present. However, FAD had reported to Ms. Nestor that they knew of no domestic companies of sufficient concern to bring to the attention of the Board. Ms. Nestor indicated that ALDIGF did participate in relative continuing education efforts, however, by supporting attendance of FAD staff at the 2024 Society of Financial Examiners (SOFE) career development seminar as had been the practice. The seminar provides specific training on the NAIC Risk Focus Surveillance Program which is highly beneficial in the detection and prevention of insolvency. Support was provided in conjunction with the Arizona Property and Casualty Insurance Guaranty Fund and the total cost of attendance was approximately \$8200, of which ALDIGF's cost was half (\$4100). Ms. Nestor asked that the Board ratify her decision to support this effort. A motion to do so was made by Director Lashway, was seconded by Director Corn, and the motion carried.

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

Executive Director recommended an Executive Session to further discuss confidential matters regarding certain insurers that the Board should be made aware of. The Chair then entertained a motion to move into Executive Session. A motion was made by Director Mathews, seconded by Director Cuevas and carried. Members of the public, including the Allspring attendees, were excused from the meeting. The Board then entered into Executive Session at 10:38 a.m. Without further motion, the Chair moved out of Executive Session at 10:43 a.m.

8. REPORT OF EXECUTIVE DIRECTOR

The Chair recognized Executive Director Nestor, who reported on the following matters:

- 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
 - vii. North Carolina Mutual Insurance Company
 - viii. Senior American Insurance Company
 - ix. Southland National Insurance Company

Executive Director Nestor advised that a report regarding claims activity for active insolvencies was provided in meeting materials. The report detailed what ALDIGF had paid in September of 2024, what it had paid year to date, and what it had paid since inception for the active companies. So far in 2024, she indicated that the greatest amount of activity had surrounded the insolvencies of Penn Treaty/ANIC, Senior American, Southland National and North Carolina Mutual.

Since the last meeting of this Board, Ms. Nestor reported that ALDIGF participated with other guaranty fund associations in an assumption reinsurance agreement with EquiTrust Life Insurance Company to assume the majority of the North Carolina Mutual policies in exchange for an enhancement fee from the participating guaranty funds. She explained that the biggest portion of that fee was paid for as early access by the liquidator with the guaranty funds also contributing modest amounts. The liquidator paid \$45,000 in early access fees on behalf of ALDIGF with ALDIGF directly paying an additional \$50,000 to transfer the remaining North Carolina Mutual

policies. ALDIGF's original estimated exposure in the North Carolina Mutual insolvency was \$600,000 but that had been reduced to less than \$50,000 with the October 4 closing of the agreement. Total policy benefits paid for this insolvency as of September 30, 2024 including the enhancement fee was just under \$175,000.

Executive Director Nestor further reported that since this Board's last meeting, ALDIGF received the estimate for the 2025 payment that will be due to fund Arizona's liabilities in the Penn Treaty/ANIC insolvencies. The estimated amount due for Penn Treaty was \$7,474,000 with an estimated amount due for ANIC of \$57,000 for a total of \$7,531,000 due on March 1. No questions or further discussion followed.

- b. Report regarding claims appeals, if any.

Executive Director Nestor reported that there were no claims 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 2024 in the amounts of \$46,111.00 and \$57,666.00 respectively.

Executive Director Nestor reported that the biggest majority of the work ALDIGF does to prepare for and handle insolvencies takes place within the Members Participation Council at NOLHGA, for which NOLHGA bills quarterly. These bills cover items like legal expenses, financial exams, actuarial studies and TPA fees. Assessments were billed as shown above and Ms. Nestor asked that the Board ratify her decision to pay the billed amounts. The Chair requested a motion to ratify the payments to NOLHGA which was moved by Director Hickey with a second by Director Mathews and carried.

- d. Update regarding Colorado Bankers Life Insurance Company (CBLIC) and Bankers Life Insurance Company (BLIC) insolvency.

Executive Director Nestor reported that the shareholder had filed a request to withdraw the petition to the North Carolina Supreme Court to review the liquidation order against CBLIC AND BLIC. The Court approved the petition August 23, 2024, thereby constituting a resolution of the appeal process and activation of the delayed liquidation activation date. She indicated that the liquidation activation date was therefore anticipated to be November 30, 2024.

Ms. Nestor reported that ALDIGF was participating with other guaranty fund associations to retain AMR to act as administrator of the Arizona Fund obligations in these insolvencies. AMR has been handling the rehabilitation stage of these insolvencies and had added staff to assist with the liquidation process. She advised that AMR is establishing a portal for all contract holders to use for obtaining information and forms with expected activation of the portal by early December. According to the Task Force, AMR issued preliminary notices to contract holders to advise them of anticipated liquidation and activation dates and to provide basic information. Additional notices

providing specific contract details and information regarding guaranty fund protection were due to be sent by the end of the year. Those notices will also provide instructions for accessing and using the portal as well as information on how to collect benefits.

Ms. Nestor stated that Arizona's anticipated exposure for these insolvencies consisted of 658 CBLIC annuities with a covered value of \$15.4 million and 153 BLIC annuities with a covered value of \$9.5 million, for combined Arizona annuity values of \$24.8 million. It was also anticipated that the insolvencies involved 764 CBLIC life insurance policies in Arizona with death benefit values of \$22.3 million, however reserves of only \$1 million. Ms. Nestor further stated that annuity surrenders and all claims would be processed in batches.

NOHLGA has established an interest-bearing escrow account as a vehicle for guaranty fund associations that wish to participate in it to prefund benefit obligations rather than paying for batches as they are processed. Ms. Nestor indicated that the use of such an escrow account does speed processing time and reduces some of the work for the guaranty fund staff. She stated that she'd reviewed the policies and procedures for these escrow accounts and she knew that account statements were generally provided to participants on a quarterly basis. However, Ms. Nestor asked for the Board's preference regarding ALDIGF participating in this escrow account. Director Lashway inquired as to whether funding would be for the full amount of the exposure or it could be funded in installments. Ms. Nestor replied that it could be done either way. Director Corn inquired as to the interest rate, which Ms. Nestor indicated had generally been comparable to the investment portfolio's interest rate in other similar accounts. Director Mathews asked whether estimates of how much ALDIGF would pay monthly from this account was available, to which Ms. Nestor replied that one hadn't yet been provided and wouldn't be available until the processing of batches in January. The Chair asked if the plan was to find a company that would assume the life business, and Ms. Nestor stated affirmatively so. Ms. Nestor also confirmed that early access is not likely to be available before the activation date. Further discussion took place regarding whether ALDIGF should participate in the escrow account, and it was ultimately agreed that ALDIGF will handle funding batches itself individually for now while monitoring and taking future action if necessary. The Board indicated that to be a more likely route to better transparency of expenditures.

e. ALDIGF assessments needs for 2024.

Executive Director Nestor reported that CBLIC and BLIC made up a vast majority of the current exposure to the ALDIGF Annuity account. The account had a balance of \$11.5 million with exposure for those two companies at just under \$25 million. Ms. Nestor reported that the Board decided to use \$6.5 million of the surplus in the Annuity Account and approved an \$18.5 million assessment at the ALDIGF April meeting. That assessment was billed on October 31 and had a payment due date of November 30. ALDIGF had collected just over \$1.3 million as of November 5 and payments were coming in. She reiterated that using that assessment and \$6.5 million of the current balance to pay claims would result in a \$5 million surplus remaining in the Annuity

Account for future insolvencies. Ms. Nestor did not recommend further assessment at that time for that account.

Regarding the Life Account, Ms. Nestor stated that CBLIC and BLIC represented the largest exposure with Arizona death benefits estimated at approximately \$22.5 million. ALDIGF also continued to pay claims as a result of the Southland National insolvency with death benefit exposure of \$4.7 million. The three companies combined presented a total exposure of \$27.2 million to the Life Account, although only CBLIC had Arizona life insurance policies; BLIC did not. The reserves for the Arizona life claims were a combined \$3.2 million, and the Life account balance was \$3 million. However, Ms. Nestor explained that only \$341,000 in Southland National claims had been paid from inception to date which may give an indication of expected rate of claim payment for CBLIC. She went on to advise that the NOLHGA MPC Task Force had engaged in an RFP process to find a solvent company to assume the CBLIC life insurance policies. Some ceding fee may be required if a buyer was found though it was expected to be low as the business appeared to be profitable. Based on information received from the Task Force that the business was marketable and a buyer was being sought, Ms. Nestor didn't recommend an assessment for the Life account. Ms. Nestor opened the floor for discussion, and it was agreed that an assessment would not be called for the Life Account at that time.

With regards to the Disability Account, Ms. Nestor reiterated that the estimated 2025 obligation for Penn Treaty/ANIC was a combined \$7,531,000. She explained that ALDIGF continued to pay benefits as a result of the Senior American insolvency with total remaining liability at \$1.3 million. Claims were also being paid for the Life and Health Insurance Company of America (LHICA) insolvency with possible exposure of \$1.6 million. The balance in the Disability Account was \$9.1 million. Ms. Nestor indicated that if ALDIGF used that surplus to fund the Penn Treaty/ANIC insolvency, it would leave an approximate balance of \$1.5 million which was under the estimated ultimate liability for Senior American and LHICA. Ms. Nestor therefore recommended that the Board consider an assessment for the Disability Account in either an amount sufficient to cover the anticipated liabilities of the smaller companies or the full amount of the Penn Treaty exposure. Director Lashway stated that he believed ALDIGF should conduct the assessment in the amount of the Penn Treaty exposure and the Chair agreed. Ms. Nestor recommended that ALDIGF assess an amount of at least \$7.5 million in order to cover that exposure. Director Lashway made a motion to conduct such an assessment with a second from Director Mathews; the motion carried.

9. EXECUTIVE SESSION TO CONFER WITH LEGAL COUNSEL

It was decided and agreed that an Executive Session was not necessary at this time.

10. DETERMINATION OF THE DATE, TIME AND PLACE OF FUTURE MEETINGS IN 2025

It was decided that the next meeting of the Board of Directors will be held on Tuesday, May 13, 2025, 10:00 a.m. and on Wednesday, November 12, 2025, 10:00 a.m.

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 made by Director Lashway with second by Director Martino, and without objection the meeting was adjourned at 11:18 a.m.

Dated this 6th day of November, 2024 and respectfully submitted,

APPROVED:

GERMAINE L. MARKS, ESQ.

ELIZABETH "BETSY" A. HEISLER

CHAIR OF THE BOARD

SECRETARY/TREASURER