



**Arizona Life & Disability Insurance Guaranty Fund**

Arizona Department of Insurance and Financial Institutions

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

TUESDAY, NOVEMBER 9, 2021

Pursuant to a Public Notice dated November 2, 2021, the Annual Meeting of the Board of Directors of the Arizona Life and Disability Insurance Guaranty Fund (“ALDIGF”) was convened on November 9, 2021, at 10:00 a.m. Tod D. Lashway, 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:

Tod D. Lashway, CLU, ChFC, LUTCF .....	Chair
Mark A. Haydukovich, ChFC, CLU, CPA, FLMI, CFA ..	Vice Chair
John R. Mathews, Esq., CPA .....	Secretary/Treasurer
Elizabeth A. Heisler .....	Director
Robert C. Corn .....	Director
Germaine “Gerrie” L. Marks, Esq .....	Director
John J. (Jay) Sheehy III .....	Director
Michael Hickey .....	Director
Randi F. Reichel, Esq. ....	Director
Paul Matson, CFA, FCSI .....	Director
Gregg Martino .....	Director

Also present at the meeting were:

Lynette Evans .....	Assistant Arizona Attorney General
Jennifer Wisely .....	Certified Public Accountant, John C. Todd II, P.C.
Tom O’Malley .....	SVP, Portfolio Specialist, Allspring Global Investments fka Wells Fargo Asset Management
Evan G. Daniels .....	Director, Arizona Department of Insurance and Financial Institutions (DIFI)
Kurt Regner .....	Assistant Director, Financial Affairs Division, DIFI

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Lori D. Nestor .....	ALDIGF Executive Director
Maria Souza .....	ALDIGF Controller
Sharyn Kerr .....	ALDIGF Administrative Support Specialist

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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. INTRODUCTION OF NEW BOARD AND GUARANTY FUND STAFF MEMBERS**

The Chair recognized Executive Director Lori Nestor for the introduction of one new ALDIGF Board Member and one new staff member. Director Nestor introduced and welcomed Gregg Martino to the Board and Sharyn Kerr to the ALDIGF Staff.

**3. APPROVAL OF PREVIOUS MINUTES**

Upon a motion made by the Director Gerrie Marks and seconded by Vice Chair Mark Haydukovich, the minutes of the Meeting of the Board of Directors held May 11, 2021 were unanimously approved as previously circulated.

**4. FINANCIAL REPORTS AND ANY DISCUSSION AND ACTION RELATED THERETO AS FOLLOWS:**

- a. **Report of Audit Committee regarding the results of the independent financial audit for the year ending December 31, 2020:** The Chair recognized Ms. Jennifer Wisely of John C. Todd II, P.C. and also recognized Secretary John Mathews as Chair of the Audit Committee for the purpose of giving a report of the independent audit.

Report of the independent audit: Secretary Mathews stated that the audit was successful, but requested that Ms. Wisely and Executive Director Nestor explain how the current financial statements are different from previous statements as previous statements were based on a modified cash basis of accounting as opposed to the current accrual basis. Director Mathews then recognized Ms. Wisely, who reported that the introductory section of the current statements, the Management Discussion and Analysis (MDA), contains more detail and additional information

as result of switching to the accrual basis of accounting. Such information will allow for comparison of assets and activity between years as ALDIGF goes forward. Ms. Wisely further explained that there are three financial statements presented this year: Statement of Net Position (“balance sheet”), Statement of Revenues Expenses and Changes in Fund Net Position (“income statement”), and Statement of Cash Flows (converts changes in net position to cash activity). She also mentioned that the Footnotes of the financial statements are now more robust than before, as they provide information relevant to accrual that was not previously provided.

Ms. Wisely further stated that the other documents in the audit include a report on internal control and compliance. One item was noted therein regarding the review and analysis of the reports ALDIGF receives from TriPlus, a third party organization that handles claims payment. The audit indicated that monitoring of those reports was not always done, however Ms. Wisely indicated that this has been addressed by Executive Director Nestor to prevent it from happening again in the future. She also stated that no difficulties or disagreements with management were encountered during the performance of the audit, as addressed in the final document in the review, *Communication With Those Charged With Government of the Organization*.

Secretary Mathews commented that the Board has a clean opinion and new financials that are more fulsome and that Executive Director Nestor will be producing monthly financials this way as well. There were no other questions or comments. A motion was made by Secretary Mathews to accept the audit report, which was seconded by Director Marks and approved by the Board.

The Chair then recognized Executive Director Nestor who provided a report on ALDIGF’s conversion from a modified cash to accrual basis. She indicated that the conversion is still a work in progress. Accounting firm Eide Bailly was engaged to provide tools and training on the new basis of accounting and to create an accrual set of 2020 financials. However, the training they provided was minimal and no tools were provided for continuing on a monthly basis. Executive Director Nestor chose not to engage them further as a result, and ALDIGF’s Controller, Maria Souza, will work with both the State’s General Accounting Office and John C. Todd (on a consulting basis) to ensure that the monthly reports are accurately and appropriately produced. Executive Director Nestor stated that the conversion process is currently approximately 50 percent complete.

- b. Review of investment activity of ALDIGF through September 30, 2021, including composition of the portfolio, average duration of the portfolio, term of individual**

**investments, and performance of the portfolio:** The Chair recognized Mr. Tom O'Malley of Allspring Global Investments, fka Wells Fargo Asset Management, for a recap of ALDIGF's investment portfolio. He indicated that interest rates are still low and are expected to be for some time. Mr. O'Malley advised that the market value of the portfolio as of September 30, 2021 was about \$18.46 million, and its effective maturity was just under one year. The portfolio continued to have high average credit quality at AA+. The composition of the portfolio was about 48% in treasury securities, about 30% in corporate securities, and about 20% in mortgage-backed securities, with the remainder in cash or money market funds. Mr. O'Malley further indicated that approximately 35% of the portfolio had a duration of under a quarter of the year, about 26% was in the one- to two-year duration bucket and about 17% was in the two- to three-year bucket. He advised that the portfolio's yield has dropped due to the COVID-19 pandemic-related drop in interest rates, and although some maturities have been extended to capture higher yields as interest rates pick up, short rates remain very constrained due to the pandemic. Mr. O'Malley further advised that the Federal Reserve has been assisting markets with liquidity to help keep interest rates low, however, they have pronounced that over time they will taper that liquidity source and eliminate it by about mid-2022. The market is expected to reaccelerate following the waning of the pandemic, inflation is expected to run "hot" for several more quarters, and tighter monetary policies are on the horizon. COVID-19 is still an international concern but there is some global economic recovery so greater growth is expected.

- c. **Review of the financial condition of ALDIGF through September 30, 2021:** The Chair recognized Executive Director Lori Nestor who stated that the financial statements provided through September 30, 2021 are based on the new accrual basis of accounting. As a result, the balance sheet now presents both assets and liabilities. The assets include cash and current assets as well as unbilled assessments (previously unrecognized). The liabilities will reflect both those anticipated to be paid this current year and ALDIGF's ultimate long-term liability estimates. Ms. Nestor advised that the September statements reflect estimates that were derived at the end of 2020. Liability estimates are not received more than annually and usually arrive in the fourth quarter which makes it a challenge to maintain them on a monthly basis. She also stated that the profit and loss comparison documents provided were created on an accrual basis. They demonstrate that the majority of the receivership distributions received in 2021 were received in September, which consisted primarily of Arizona's share of the judgment proceeds that we collected as result of NOHLGA and joint Guaranty Funds litigating against responsible parties in the Lincoln Memorial insolvency. Investment returns depicted therein are also lower than preferred, but ALDIGF staff salaries and related expenses are higher than usual because DIFI rolled those the amounts appropriated by the Board toward support services into those two line

items. Ms. Nestor stated that the appropriated costs will be broken out in future financial statements. Overall, in a year-to-year comparison with 2020, receivership distributions are up but investment returns and travel expenses are down as both have been impacted by the pandemic. There were no questions or comments from the Board at the end of this report.

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

After skipping ahead to Item 6 of the Agenda, the Chair circled back to Item 5 and entertained a motion to move into Executive Session to receive information concerning the financial condition of certain member insurers. Such a motion was made by Vice Chair Haydukovich, seconded by Director Marks and carried by the Board. The Board entered Executive Session at 10:42 a.m. and no members of the public were present. Executive Director Nestor reported on the status of four insurers, all of which are members of ALDIGF. Upon a motion made by Vice Chair Haydukovich and seconded by Director Marks, the Board voted unanimously to adjourn the Executive Session at 10:53 a.m.

**6. REPORT CONCERNING THE DETECTION AND PREVENTION OF INSOLVENCIES**

This report was moved to precede Item 5 of the Agenda. The Chair recognized Mr. Kurt Regner, DIFI Assistant Director of Financial Affairs. Mr. Regner stated that approval had been given by Executive Director Nestor for ALDIGF to pay for the cost of the Society of Financial Examiners (SOFE) seminar registrations at a total cost \$2075 to be split between the joint Arizona Guaranty Funds. He thanked the Board and indicated that three DIFI examiners attended the seminar and received worthwhile training.

**7. REPORT FROM THE EXECUTIVE DIRECTOR, DISCUSSION AND POSSIBLE ACTION REGARDING THE FOLLOWING:**

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

The Chair recognized Executive Director Nestor who directed attention to the “Board Report” that was provided to Board members which shows claims and liabilities for the companies listed below. Executive Director Nestor stated that she would not comment on every company but would comment further on ANIC and Penn Treaty.

- 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 2022: Executive Director Nestor indicated that ALDIGF has received the estimate for 2022 Penn Treaty and ANIC funding from LTCG, who have projected for the second year in a row that Arizona will not need to provide additional funding for ANIC. It is expected that Arizona's funding requirement for Penn Treaty obligations will be \$4,735,000, however, which will be due in March of 2022.

vii. Senior American Insurance Company

The Chair asked how ALDIGF's liability a year ago compared to this year's, to which Executive Director Nestor replied that last year ALDIGF assessed \$7.5 million for that liability. She indicated that the decrease in funding liability was reported to be from a lower than expected claim incidence, most likely associated with Coronavirus.

- b. **Report regarding claims appeals, if any:** Executive Director Nestor stated that there are no claims appeals that need to be addressed.
- 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 2021 in the amounts of \$49,434.00 and \$57,649.00 respectively:**

Executive Director Nestor requested that the Board ratify her decision to pay NOLHGA assessments for the first and second quarters of 2021 in the amounts indicated. A motion was made by Director Marks and seconded by Vice Chair Haydukovich. There was no discussion and the motion was carried unanimously by the Board.

- d. **Discussion and possible action regarding assessments for the Disability account and Administrative account:**

Disability Account: Executive Director Nestor stated that the current balance of the Disability account was approximately \$3,000,000, which was the estimated liability for Senior American Insurance Company and Life and Health Insurance Company of America. She recommended that the Board conduct an assessment for at least \$4,735,000 in order to meet the expected Penn

Treaty funding requirement due in 2022. There were no questions or comments by the Board. The Chair asked if the Board would like to entertain a motion to use the amount provided by Executive Director Nestor as the amount of the assessment for the purpose of covering ALDIGF's Penn Treaty liability and obligation. A motion to do so was made by Director Robert Corn, seconded by Director Randi Reichel, and was carried unanimously.

Administrative Account: Ms. Nestor indicated that the current balance in the Administrative account was approximately \$1.1 million with approximately \$650 – 700,000 of annual expenses. At the current expense rate, she estimated that account to be sufficiently funded through approximately March or April 2023. She advised that assessments are generally conducted toward the end of each year, and the account could require a loan from another account if any such assessment called for the Administrative Account at the end of 2022 remained outstanding by that time. Secretary Mathews commented that a \$700,000 assessment should alleviate such concerns. A motion was made by Secretary Mathews to approve such an assessment, which was seconded by Director Marks and was carried after no further discussion.

e. **Report, discussion and any necessary action regarding the permanent Virtual Office environment adopted by the Department of Insurance and Financial Institutions (DIFI) and ALDIGF's pending adoption of same:**

Executive Director Nestor advised that at the beginning of this fiscal year, DIFI reduced its office space and all of its employees became virtual office employees. ALDIGF has a dedicated workspace among the hoteling workspaces and offices provided by DIFI where staff can work in the office as necessary to carry out tasks such as printing and securely storing benefit checks. Due to the associated reduced capacity of storage space for paper records, those records have been digitized and are now electronically stored. ALDIGF staff is in the process of organizing those records and setting retention schedules set by both DIFI and the State of Arizona. Ms. Nestor stated that contact information remains the same for ALDIGF staff, except that the suite number has changed to Suite 261. She indicated that Board Member travel expenses can continue to be mailed as they were in the past, or can be emailed to [guarantyfunds@difi.az.gov](mailto:guarantyfunds@difi.az.gov), or to Executive Director Nestor at [lori.nestor@difi.az.gov](mailto:lori.nestor@difi.az.gov).

**8. ELECTION OF OFFICERS AND APPOINTMENT OF STANDING COMMITTEES**

The Chair opened the floor for discussion, introduced the current standing officers and requested nominations for the position of Chair. Secretary Mathews nominated Director Gerrie Marks for the position of Chair. A motion was then made by outgoing Chair Tod Lashway to have Director Marks

serve as Chair, which was seconded by Director Sheehy. The motion carried with no further discussion. Newly appointed Chair Gerrie Marks inquired whether the other Board Officers were willing to continue service, and both replied in the affirmative. A motion was then made by Director Michael Hickey for Mark A. Haydukovich to continue as Vice Chair and John R. Mathews to continue as Secretary/Treasurer of the Board. The motion was seconded by Director Paul Matson and carried unanimously. The Chair then indicated that she would take committee assignments under advisement for appointment of Board Members in the near future.

**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 2022 ALDIGF MEETINGS**

It was decided that the 2022 meetings of the Board of Directors will be held on **Tuesday, May 10, 2022** and **November 1, 2022**.

**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, without objection the meeting was adjourned at 11:10 a.m.

Dated this 15<sup>th</sup> day of November 2021 and respectfully submitted,

JOHN R. MATHEWS, ESQ., CPA

**APPROVED:**

TOD D. LASHWAY, CLU, ChFC, LUTCF

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SECRETARY

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CHAIR OF THE BOARD