



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

TUESDAY, NOVEMBER 14, 2023

Pursuant to a Public Notice dated October 18, 2023, the Annual Meeting of the Board of Directors of the Arizona Life and Disability Insurance Guaranty Fund (“ALDIGF”) was convened on November 14, 2023, at 10:01 a.m. in a hybrid virtual and live 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
John R. Mathews, Esq., CPA	Secretary/Treasurer
Robert C. Corn	Director
Elizabeth “Betsy” A. Heisler	Director
Michael Hickey	Director
Tod D. Lashway, CLU, ChFC, LUTCF	Director
Gregg Martino	Director
Paul Matson, CFA, FCSI	Director
Randi F. Reichel, Esq.	Director

Also present at the meeting were:

Barbara D. Richardson	Cabinet Executive Officer, Arizona Department of Insurance and Financial Institutions (DIFI)
Lynette Evans	Assistant Arizona Attorney General
Jonathan Buenaventura	Portfolio Manager, Global Liquidity Solutions, Allspring Global Investments
Erik Persson	Vice President, Insurance Solutions, Allspring Global Investments
Lori D. Nestor	ALDIGF Executive Director

Sharyn Kerr ALDIGF Administrative
Support Specialist

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

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

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

2. APPROVAL OF PREVIOUS MINUTES

Upon a motion made by Director Tod Lashway and seconded by Director Paul Matson, the minutes of the Meeting of the Board of Directors held May 16, 2023 were unanimously approved as previously circulated.

3. FINANCIAL REPORTS AND ANY RELATED MATTERS

a. Review of the Performance of the ALDIGF Investment Portfolios through October 31, 2023.

The Chair recognized Executive Director Lori Nestor, who introduced Mr. Erik Persson, Vice President, Insurance Solutions, and Mr. Jonathan Buenaventura, Portfolio Manager, Global Liquidity Solutions, both with Allspring Global Investments, for a report regarding the performance of the ALDIGF investment portfolios through October 31, 2023. Mr. Persson began by confirming that he has assumed the role of ALDIGF relationship manager at Allspring and by providing an overview of the firm. Mr. Persson then recognized Mr. Buenaventura who noted that the large strikes in the American automobile and other sectors during the last quarter were reflective of what is happening in the minds of employees and American citizens as a result of high inflation rates. The “Fed” was still concerned about inflation being well above the 2% target rate, and expectations were that rates will be held at the current level until June 2024 when a down turn is expected. He stated that Allspring is monitoring what the Fed is doing with regard to inflation. Mr. Buenaventura indicated that, since the end of the last quarter, 3-month rates had increased by 7 basis points (bps), 6-month rates by 6 bps, and 1-year rates by 4 bps, yielding an increase on the “back end” of the curve. He reported that the ALDIGF portfolio had outperformed the benchmark, largely due to the strategy used to maintain liquidity without having to sell. That strategy continued to be to preserve principal and maintain liquidity while

taking advantage of opportunities as they come up, and it is a good time to lock in rates where possible.

Mr. Buenaventura pointed out that ALDIGF portfolio changes over time demonstrate sky rocketing yields, from near zero to nearly 5% on a book yield basis since inception, and duration has remained fairly steady. Short duration review indicates rates at over 5%, up from just over 3% since 2022.

Mr. Buenaventura then presented Allspring's "Big Six Summary" Market Review, which indicated resilient growth with tightening financial conditions. Employment was normalizing to pre-COVID levels. Inflation was expected to be slowed by a halt in rate hikes by the Fed. However, Mr. Buenaventura pointed out that legislative dysfunction and widening fiscal deficits are adding to market volatility. He concluded by sharing that rates were at the top of the range across asset classes, so it was the time to lock them in before they start to decrease. No questions or discussion followed this report.

b. Review of the financial condition of ALDIGF through October 31, 2023.

The Chair then recognized Executive Director Nestor, who stated that ALDIGF financial statements for October 31, 2023 had been provided in the meeting materials. She indicated that the statement's Balance Sheet demonstrated assets, liabilities and equity on an accrual basis and showed a cash asset balance of \$31,967,792. The Year-to-Date Comparison document provided information about profit and loss on an accrual basis. Ms. Nestor pointed out that, of the approximate \$6.7 million in accrued expenses, about \$550,000 consisted of administrative expenses, on trend with prior years' expenses. The Year-to-Year Comparison showed a comparison of the financial activity between this year (2023) and last. Early access receipts were substantially up—almost double—due largely to distributions received from Penn Treaty and ANIC following the Supreme Court's decision earlier in the year regarding claims above guaranty fund limits. Ms. Nestor indicated that the investment income outlined was also more positive. She then reviewed the Schedule of Cash Balances by Fund, which illustrated a breakdown of the Fund's cash asset balance into ALDIGF's individual accounts. Ms. Nestor noted that the Life Account had a balance of \$3,220,243.03, the Disability Account had a balance of just under \$15 million, the Annuity Account had a balance of \$11,557,455, and the Administrative Account had a balance of \$2,246,157. No questions or discussion followed this report.

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

The Chair entertained a motion to enter into Executive Session to receive information concerning the financial condition of certain member insurers. The motion was made by Secretary/Treasurer Mathews, was seconded by Director Lashway, and the motion carried. The Board entered into Executive Session at 10:34 a.m. No members of the Public were present. The Chair entertained a motion to exit that was made by Director Reichel and seconded by Director Matson. Executive Session was adjourned at 10:53 a.m. and the Chair moved out of Executive Session.

5. REPORT CONCERNING THE DETECTION AND PREVENTION OF INSOLVENCIES

The Chair recognized Executive Director Nestor who reported that no one had been available from the DIFI Financial Affairs Division (FAD) to present a report to the Board, however, FAD staff expressed their thanks to the Guaranty Funds for helping to provide support for continuing education efforts where insolvency and financial examination is concerned. She explained that ALDIGF provided funding for four FAD examiners to attend the 2023 Society of Financial Examiners (SOFE) career development seminar in July. Each presentation of the seminar was designed to focus on aspects of insurance insolvency regulation and the NAIC Risk Focus Financial Surveillance Process. Ms. Nestor indicated that the estimated amount for ALDIGF should be approximately \$5,587, and that the total amount had been split with the Arizona Property and Casualty Insurance Guaranty Fund. Ms. Nestor requested that the Board ratify her decision to pay that amount of the cost. The Chair entertained a motion that was made by Secretary/Treasurer Mathews, seconded by Director Martino and carried.

6. ELECTION OF OFFICERS AND APPOINTMENT OF STANDING COMMITTEES

The Chair opened the floor for discussion and proposed the following slate of officers.

Germaine L. MarksChair

Mark A. HaydukovichVice Chair

Elizabeth A. Heisler Secretary/Treasurer

The Chair noted that Director Heisler is still awaiting official approval to act in an officer capacity from her company. In the event that such is not received, the Chair asked if Secretary/Treasurer Mathews would be willing to return to his current post as Secretary/Treasurer. Mr. Mathews replied that he would be willing to do so. The Chair indicated that a motion to adopt the proposed slate of officers would be entertained. Such a motion was made by Director Lashway, seconded by Director Reichel and carried.

The Chair moved on to discuss standing committees and indicated no changes would be made to the current ones, with the exception of the substitution of Secretary/Treasurer Heisler for Director Mathews as Secretary/Treasurer on the Executive Committee.

The Chair then commented about term expiration and indicated that the process for reappointment to this Board is a lengthy one. The Board is still awaiting the appointment of at least one new member that has been ongoing for close to a year now. She stated that she believed reappointments were in process for members whose terms expire this year.

7. 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. Southland National Insurance Company (SNIC)

Executive Director Nestor reported that the “Board Report” provided in the meeting materials contained the report regarding claim activity for the companies listed in the Agenda in lieu of a verbal review of each individual company. The report contained information regarding amounts paid for each company through September 2023, as well as the anticipated liabilities owed between now and year’s end (broken down by account), and the anticipated, ultimate liabilities for each company as well.

Ms. Nestor further reported regarding Lincoln Memorial Life Insurance Company, advising the Board that the agreement with that TPA stopped in September of 2023. All of the claims data and materials necessary to process claims has been sent to ALDIGF, and Ms. Nestor indicated that resulting claims would be handled in house. The policyholder list has dwindled and only five of the policyholders therein appear to have been born after 1923. Many others may have already passed, so minimal activity is expected.

Ms. Nestor further reported that ALDIGF has received its 2024 funding estimate for Penn Treaty and ANIC claims. The estimated amounts to be paid in 2024 to LTC Re for Arizona claim funding are \$6,194,000 for Penn Treaty and \$92,000 for ANIC, for a combined estimated total of \$6.3 million due March 1, 2024.

No questions or discussion followed this portion of the report.

b. Report regarding claims appeals, if any.

Executive Director Nestor reported that there are no pending claims appeals.

c. Discussion and possible action regarding assessments.

Executive Director Nestor reported that ALDIGF has conducted assessments to pay its Penn Treaty/ANIC liabilities each year in the recent past. However, she stated that there is a surplus in the Disability Account this year with an account balance of \$15 million. Paying the estimated \$6.3 million due in 2024 out of this surplus would leave a balance of \$8.6 million, which Ms. Nestor indicated to be sufficient for anticipated liabilities from other companies for which the Fund is activated at this time. As a result, Ms. Nestor stated that she doesn't believe it is necessary to conduct an assessment at this time for the Disability Account. The Chair asked if there is any discussion. Director Lashway and Director Mathews agreed that an assessment moratorium would be welcome. Ms. Nestor confirmed that the current balance in the Disability Account contains the early access distribution amounts received. The Chair agreed with the recommendations in light of the current surplus of funds, and it was decided that an assessment should not be authorized for the Disability Account at this time.

Ms. Nestor indicated that administrative expenses appear to be on trend and that the Administrative Account appeared to be sufficiently funded to meet those expenses for at least a couple of years. She did not recommend conducting an assessment for that account at this time as a result. Ms. Nestor went on to indicate that ALDIGF was not yet activated for Colorado Bankers Life or for Bankers Life, however, ALDIGF is able to authorize an assessment in one year and call it in the next if necessary. She advised that ALDIGF has annual assessment capacity of \$116 million for annuities and approximately \$56 million for life insurance, which should be plenty to provide for any anticipated liability for Colorado Bankers and Bankers Life should the associated appeal be denied. The Chair entertained a discussion and indicated that she did not recommend that the Board authorize and call an assessment in 2023. Directory Lashway stated that he agreed and it was decided that no assessment would be authorized for the remaining accounts at this time.

d. 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 2023 in the amounts of \$47,171 and \$53,584 respectively.

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

e. Discussion and possible action regarding revisions to the ALDIGF Plan of Operation ("Plan").

The Chair stated that one of the proposed changes to the Plan of Operation (the Plan) addressed the current lack of a Nominating Committee for this Board. The Chair then recognized Executive Director Nestor for further, who reported that a red-lined version of the current Plan had been provided to Board members ahead of the meeting. Ms. Nestor recommended updating the format of the Plan if the proposed changes were adopted as well.

Ms. Nestor indicated that the first change proposed for the Plan was to add a Nominating Committee to the Board's list of committees.

Ms. Nestor said that the second proposal was to officially change the language designating the Annual Meeting day to Tuesday. The Plan currently reflected meeting on Monday unless otherwise designated by the Chair, however, the Board had historically met on Tuesdays. The Chair suggested a designated week of the month for that meeting rather than a designated day. Director Matson agreed, and the Chair indicated that the recommendation be changed to reflect that the Annual Meeting be held in the first week of September.

Ms. Nestor explained that the third proposed change was to reword the paragraph that currently bars claims not filed within four months. She indicated that ALDIGF statutes allow for the Board to make a resolution stating that all claims not filed within four months of the notice to creditors be barred. She suggested that that method worked well for Property and Casualty claims but didn't seem to always work well for Life and Disability claims. Ms. Nestor provided the example of long term care policies where coverage continues and the policy was still active long after notices have been sent to creditors. Claims continue to be received on those policies more than 4 months after the notice to creditors has been sent as well. Changing the wording slightly would allow the Fund to make a specific time limit if necessary instead of barring everything. Director Lashway inquired whether this change would create issues if/when the Fund steps into the role of

acting insurer. He pointed out that sometimes claims are received years in arrears, particularly in the case of death claims, so the proposed change in language may not work well in those cases. The Chair asked Attorney General Lynette Evans to research the issue, who stated that she would and provide her findings to the Board. Vice Chair Haydukovich asked if it would be easier to bar a claim but then permit it when needed, or if it would be better to change the language of the Plan as suggested.

Ms. Nestor went on to list other, minor recommended changes to the Plan for the purpose of modernizing it: items such as allowing the Fund to conduct electronic banking, payments, meetings, notices, etc. Her last recommendation was to reword the language that pertains to check signatures to make the language plainer. She advised that such modification was done in the APCIGF Plan of Operation as well, and that the language followed the Department of Administration's mandates regarding the number of signatures required on checks. She also recommended that the Claims Manager's authority be raised to \$150,000 to match the authority provided for APCIGF. While ALDIGF rarely writes checks for claims, and issuing one of that magnitude would be even rarer, but the rising cost of claims would suggest an increase. Director Mathews inquired as to whether this change would align with the rules of the Department of Insurance and Financial Institutions for checks. Ms. Nestor replied that it would, and also stated that the Fund is already operating consistent within the department's rules.

The Chair entertained a motion to adopt the proposed changes, however, it was decided that the AG's office would review the redlined version and provide any necessary comments or recommendations. A decision regarding whether to adopt the proposed changes would be made once that was completed.

f. Discussion and possible action concerning ALDIGF/DIFI administrative and technology cost allocation.

Executive Director Nestor reminded the Board that it approved a request for funding from then DIFI Director Daniels at the May 2021 meeting to help pay for Information Technology and Administrative Services provided to ALDIGF by DIFI. At that time, a \$40,000 allocation to DIFI was approved. However, based on a review of the DIFI budget, CEO Barbara Richardson has suggested that it would be appropriate to revise that funding amount to \$15,000 per fiscal year. Such payment would be tracked separately on the Fund's financial reports and would be continued until the Board takes further action to discontinue or modify it. The Chair entertained a motion to revise the appropriation to \$15,000 per fiscal year that was made by Director Lashway, seconded by Director Matson and carried.

g. Discussion regarding coverage for jointly-owned annuities.

The Chair commented that the Board await review by the AG before taking any action regarding recommendations from the NOLHGA Coverage Claims Committee for such annuities. She indicated that further discussion would take place then as to what position the Board wants to take with regard to associated coverage.

The Chair then entertained a motion to affirm application of the Moody's Clause to benefits provided as called for in the ALDIGF statutes. Secretary/Treasurer Mathews made the motion, which was seconded by Vice Chair Haydukovich and carried.

8. EXECUTIVE SESSION TO CONFER WITH LEGAL COUNSEL

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

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

It was decided that the next meeting of the Board of Directors will be held on **Tuesday, May 14, 2024** and again **Wednesday, November 13, 2024**.

10. 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, upon a motion made by Director Matson and seconded by Director Mathews, without objection, the meeting was adjourned at 11:26 a.m.

Dated this 14th day of November, 2023 and respectfully submitted,

APPROVED:

GERMAINE L. MARKS, ESQ.

ELIZABETH A. HEISLER

CHAIR OF THE BOARD

SECRETARY/TREASURER