

ANNUAL REPORT OF THE ACTIVITIES
OF THE ILLINOIS LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION
FOR FISCAL YEAR 2010

TO THE DIRECTOR OF INSURANCE FOR THE STATE OF ILLINOIS

The Annual Report of the activities of the Illinois Life and Health Insurance Guaranty Association ("Association") for the fiscal year that began October 1, 2009 and ended September 30, 2010, is herewith submitted.

MEMBERSHIP, DIRECTORS AND OFFICERS

As of September 30, 2010, there were 1,124 companies subject to the Illinois Life and Health Insurance Guaranty Association Law, Illinois Insurance Code, Chapter 73, Article XXXIII-1/2, Chapter 215, section 5/531, et seq., (the Act), and therefore 1,124 Members of the Association, an increase of two Members from a year ago. On September 30, 2010 the Board of Directors of the Association was made up of the following nine Member Insurers:

<u>Member Insurer</u>	<u>Term to Expire</u>	<u>Representative</u>
Allstate Life Insurance Company	2012	John R. Mathews Counsel-Law & Regulation
Country Life Insurance Company	2013	Wade Harrison Senior Vice President

Guarantee Trust Life Insurance Company	2011	Arthur G. Fess Vice President
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<u>Member Insurer</u>	<u>Term to Expire</u>	<u>Representative</u>
Health Care Service Corporation	2012	Thomas C. Lubben Vice President, Corporate Secy.
MTL Insurance Company	2011	Janis D. Potter, Vice President
Principal Life Insurance Company	2012	Merle T. Pederson Counsel - Government Relations
Prudential Insurance Company of America	2013	Frederick P. McGarvey Vice President, Government Affairs
State Farm Life Insurance Company	2011	Deena H. Wheeler Counsel
Trustmark Insurance Co.	2013	Raymond Lester Vice President & Assoc. General Counsel

The officers of the Association elected by the Directors at the Board's Annual Meeting held on January 19, 2010, were:

<u>Office</u>	<u>Member Representative</u>
Chairman of the Board	John R. Mathews
Vice Chairman of the Board	Thomas C. Lubben
Secretary-Treasurer	Janis D. Potter

The full Board met three times during the fiscal year. Those

meetings were: The Annual Meeting, held in-person on January 19, 2010; and, regular meetings, both telephonic, held on August 2, 2010 and September 28, 2010.

Financials

During fiscal year 2010 the Association levied and called one Class A (Administrative) assessment of \$400 per Member Insurer.

The Board called a portion of a deferred assessment levied with respect to the Lincoln Memorial Life Insurance Company (TX) in 2008, and levied two new Class B (Insolvency) assessments in fiscal 2010 to provide the funding needed for the Association to meet its statutory obligations with respect to two new Member Insurer liquidations, Medical Savings Insurance Company (IN) and Imerica Life and Health Insurance Company (AR). The Board also made several assessment refunds to its Member Insurers. The refunds were funded largely by distributions made to the Association of assets available within the liquidation estates of insolvent Member Insurers from Receivers appointed to administer the estates of the insolvent insurers by the respective domiciliary state liquidation courts.

- The Class B (Insolvency) assessment refunds that the Association made available to Member Insurers in 2010 totaled \$16,907,000. Of the \$16,907,000 assessment refunds, \$2,981,000 was related to the Life Insurance and Annuity Account, and

\$13,926,000 was related to the Health Account.

- Member Insurers may request refunds be paid to them in cash or they may have them applied as credits against future assessments. During the fiscal year ended September 30, 2010, Member Insurers requested cash refunds of \$3,238,460. The balances are held by the Association to the credit of the Member Insurers accounts.

The complete assessment history of this Association, from its creation on January 1, 1980, through September 30, 2010, is reported, by insolvency and by line-of-business, in **Exhibit I** appended to the text portion of this report. (Assessments reflected in **Exhibit I** are net of abatements, if any.) A two-page summary of assessments made and assessments collected appears at the end of **Exhibit I**.

The audited Financial Statements attached to and made a part of this report are rendered as of September 30, 2010.

Cash Flow Management

The Association manages its cash flow with the following goals in mind:

(1) To fulfill its statutory coverage obligations, either alone, or, cooperatively, in concert with other state guaranty associations also affected by the insolvency of a Member Insurer

that is licensed in multiple states, through the Association's membership in the National Organization of Life and Health Insurance Guaranty Associations ("NOLHGA"). The Association's principal statutory obligation is to protect in-force, covered life insurance policies, non-cancelable health insurance policies and annuity contracts issued by Member Insurers which have become insolvent and ordered into liquidation, causing them to be fulfilled and/or continued for covered persons (who are principally Illinois residents) to the extent provided by the Act. Such coverage obligations may be fulfilled by arranging, and funding, assumption reinsurance agreements with the most appropriate bidder(s) from among qualified bidding insurance companies, or, alternatively, by the Association assuming the obligations unto itself and continuing to provide the protection afforded by the covered policies and contracts of the insolvent Member Insurer within the limits set forth in the Act;

(2) To assess Member Insurers as accurately as possible for those amounts needed to enable the Association to fulfill its statutory obligations on a timely and equitable basis, recognizing that initial assessment levy amounts can only be based on the facts known at the time the assessments are made. Several factors can affect this equation. Accurate up-to-date financials for insolvent Member Insurers are likely to be unavailable in the early stages of

a liquidation. The statute contemplates that the assets of an insolvent company's estate should be made available to the guaranty association (pursuant to a process referred to as "early access") to enable it to meet the insolvent insurer's obligations as they arise. Sometimes such estate assets are not available to the Association until long after the Association's obligations must be met, for any one of a variety of reasons. The records of the insolvent Member Insurer may be in disarray. The receiver may need time to dispose of illiquid assets and to determine an appropriate amount the receiver can make available for an "early access" distribution to the Association. Assets that otherwise might have been available for early distribution to the Association from the estate may need to be set aside to support the Receiver's litigation against third parties. As a consequence, the Association's initial assessment of its solvent member insurers may be significantly larger than the Members' ultimate exposure. This initial over-assessment is then balanced out by subsequent refunds to Member Insurers when asset distributions are made to the Association by the receiver.

(3) To avoid unnecessary disruption to Member Insurers' cash flow, to (generally) call and collect only such portion of an assessment as the Board believes will be needed to timely meet the Association's known insolvency obligations, until the obligations

of the Association for the insolvent insurer's coverage can be determined with more certainty; and,

(4) To abate such levied assessment amounts as may later be determined to have been unneeded.

Historical Activity With Respect To Insolvent Insurers

For almost the first two years of its existence, from its statutory creation on January 1, 1980, through November of 1981, the Association was not activated by the liquidation of any insolvent insurer licensed to do business in Illinois. On December 4, 1981, the Association was activated, for the first time, by the insolvency of Security Mutual Casualty Company. That insolvency did not require a Class B (Insolvency) assessment by the Association.

In 1983, the Association was activated by three insolvencies of Member Insurers. In the years since then, the list of insolvencies has lengthened, as shown on the following pages:

<u>Insolvency (State of Domicile)</u>	<u>Calendar Year Activated</u>	<u>Calendar Year Closed</u>
Security Casualty Life Insurance Company (IL)	1981	1989
Iowa State Travelers Mutual Assurance Company (IA)	1983	1991
Modern Life & Accident Insurance Company (IL)	1983	1988
Georgetown Life Insurance Company (IL)	1983	1990
United Savings Life Insurance Company (IL)	1985	1989
California Life Insurance Company (CA)	1986	1993

Continental Bankers Life Ins. Co. of the South (TN)	1986	1993
National Investors Life Insurance Company (AK)	1986	1990
Farm & Ranch Life Insurance Company (KS)	1987	1998
Lumbermans Life Insurance Company (IN)	1988	1997
First Transcontinental Life Ins. Corp. (WI)	1988	1993
First Columbia Life Insurance Company (LA)	1988	1997
Associated Life Insurance Company (IL)	1989	2001
United Fire Insurance Company (IL)	1989	2001
American Mutual Liability Insurance Company (MA)	1989	1998
Knickerbocker Life Insurance Company (TX)	1989	1997
Missouri National Life Insurance Company (MO)	1989	1996
Amalgamated Labor Life Insurance Company (IL)	1989	2008
Patriot Life Insurance Company (IL)	1989	1995
American Independence Life Insurance Company (MO)	1990	1996
Life of Indiana Insurance Company (IN)	1990	1999
Great Southwest Life Insurance Company (TX)	1990	
Provident Insurance Company (IL)	1991	1995
Legacy Life Insurance Company (NE)	1991	1996
Midwest Life Insurance Company (LA)	1991	
Underwriters Life Insurance Company (SD)	1991	1999
Mutual Security Life Insurance Company (IN)	1991	2005
Executive Life Insurance Company (CA)	1991	
Lincolnwood National Life Insurance Company (IL)	1991	2001
Inter-American Insurance Company of Illinois (IL)	1991	2004
Diamond Benefits Life Insurance Company (AZ)	1992	1995
Fidelity Bankers Life Insurance Company (VA)	1992	
AMS Life Insurance Company (AZ)	1992	
Guarantee Security Life Insurance Company (FL)	1992	
Investment Life Insurance Company of America (NC)	1993	2008
American Integrity Life Insurance Company (PA)	1993	
New Jersey Life Insurance Company (NJ)	1993	1999
Pacific Standard Life Insurance Company (CA)	1994	2005
Mutual Benefit Life Insurance Company (NJ)	1994	
Consumer United Insurance Company (DE)	1994	
Old Colony Life Insurance Company (GA)	1994	2008
Consolidated National Life Insurance Company (IN)	1994	1999
Prestige Casualty Life Insurance Company (IL)	1994	
Confederation Life Insurance Company (MI)	1994	
Kentucky Central Life Insurance Company (KY)	1994	
Summit National Life Insurance Company (PA)	1994	2007
Supreme Life Insurance Company (IL)	1995	2001
National American Life Insurance Company (PA)	1996	2005
	Calendar	Calendar
	Year	Year
Insolvency (State of Domicile)	Activated	Closed

Centennial Life Insurance Company (KS)	1998	
The Universe Life Insurance Company (ID)	1998	
Statesman National Life Insurance Company (TX)	1999	2005
First National Life Insurance Co. of America (MS)	1999	
Franklin American Life Insurance Company (TN)	1999	
American Chambers Life Insurance Company (OH)	2000	
American Unified Life and Health Insurance Co. (IL)	2000	
Illinois HealthCare Insurance Company (IL)	2000	
Acceleration National Insurance Company (OH)	2001	
Reliance Insurance Company (PA)	2001	
Gallant Insurance Company (IL)	2002	
Valor Insurance Company (IL)	2002	
Oak Casualty Insurance Company (IL)	2002	
Legion Indemnity Company (IL)	2003	
Home Insurance Company (NH)	2003	
Legion Insurance Company (PA)	2003	
Villanova Insurance Company (PA)	2003	
London Pacific Life and Annuity Company (NC)	2004	
Life and Health Insurance Company of America (PA)	2004	
Municipal Insurance Company of America (IL)	2007	
Lincoln Memorial Life Insurance Company (TX)	2008	
Medical Savings Insurance Company (IN)	2009	
Imerica Life and Health Insurance Company (AR)	2010	

The Association has collected \$312.6 million in assessments since 1983. \$514.7 million has been paid out by the Association since 1983, made up of \$140.9 million paid out in benefits, \$341.3 million in reserve transfers (i.e., assumption reinsurance considerations) and \$26.9 million in insolvency-related expenses and \$5.6 million in administrative expenses. Subsequent recoveries from the estates of insolvent companies to-date have totaled \$186.3 million. Premiums collected of \$17.6 million, and net interest earned of \$68.6 million and other receipts of \$.6 million have reduced the out-of-pocket cost of insolvencies to Association Member Insurers, to \$241.6 million, without calculating the cost of

the time-value of money. As of the 2010 fiscal year-end, the Association has been activated with respect to a total of 71 member insurers. Over the span of that 31 years the Association's books with respect to 50 of those 71 insolvencies have been closed upon fulfillment by the Association of its statutory duties. There was an "inventory" of 21 open member insurer insolvency estates at 2010 fiscal year-end.

An overview of the Association's activity with regard to open insolvency estate activity during the fiscal year ended September 30, 2010 is provided in the following pages. [The term "estate," as used in this report, refers to the Association's books and records that pertain to the Association's obligations arising from the insolvency of a particular member insurer, as distinguished from the legal entity also described as the insolvent insurer's "estate" managed by the Receiver, which represents the legal extension of the insolvent insurer in rehabilitation or liquidation.]

Additional historical information regarding most open insolvency estates has been reported by the Association in prior years' annual reports. Separate and distinct "final" reports have been rendered to the Director from time-to-time as the Association has closed its books on specific insolvency estates. Estates which closed prior to the beginning of this fiscal year are not covered

in this report.

1. GREAT SOUTHWEST LIFE INSURANCE COMPANY (TX)

This Texas company was placed in liquidation on August 28, 1990. Although never licensed in Illinois itself, Great Southwest apparently had acquired some Illinois-resident annuity contractholders by assumption reinsurance from Old First Columbia. Under the statute as revised in September of 1989, the Association determined that it was required to assume these obligations, subject to statutory limitations. Distributions from the liquidator of \$130,401 have been received. Claim liabilities paid totaled \$114,336 for life insurance policies and \$100,775 for allocated annuities as of September 30, 2010. This estate was closed January 19, 2010.

2. THE MIDWEST LIFE INSURANCE COMPANY (LA)

Domiciled in Nebraska until 1990 when it re-domesticated in Louisiana, this company was placed under voluntary conservation by order of a Louisiana district court on April 10, 1991. The Illinois Department of Insurance, on April 12, 1991, issued an Order of Suspension against the Company, effective April 26, 1991. The Louisiana District Court entered an Order for Liquidation on August 26, 1991, calling for all policies to be cancelled pursuant to Louisiana law. At that point in time, Louisiana had no life and

health guaranty association.

Midwest Life was licensed in 29 states, of which Illinois was one. The major emphasis of its business was group single premium deferred and immediate annuities, accident and health insurance and a small amount of life insurance.

After payment of benefits to policyholders/beneficiaries of over \$1.1 million, the remaining balance of the Association's liability was transferred to Standard Life Insurance Company of Indiana in December of 1992 by the payment of \$407,924. The Association has received distributions from the receiver of \$614,095. This estate was closed January 19, 2010.

3. EXECUTIVE LIFE INSURANCE COMPANY (CA)

Executive Life Insurance Company ("ELIC") was a California-domiciled insurer that wrote life insurance, structured settlement annuities, group annuities, and guaranteed investment contracts. ELIC invested heavily in the junk bond market seeking returns to offset the very competitive rates of return it guaranteed under its insurance contracts. When the junk bond market collapsed in late 1990 and early 1991, ELIC faced a liquidity crisis due to substantial increases in policyholder withdrawals. The California court placed ELIC under a conservation order on April 11, 1991. A liquidation order was entered on December 6, 1991.

The covered insurance policy obligations for all of the affected guaranty associations were transferred to Aurora National

Life Assurance Company ("Aurora") in 1993 as part of the court approved Rehabilitation Plan. Through the Enhancement Agreement to the Rehabilitation Plan, the guaranty associations make annual payments to Aurora to satisfy their obligations to policyholders. The Association continues to fund its annual installment payment obligations to Aurora. Total payments to Aurora since 1991, as of fiscal year-end 2010, are \$156.7 million.

Additional payments will be due each April from the Association for non-surrenderable contracts until all such contracts are fully paid, terminated, or the Association defeases its future obligations to Aurora with a single present value payment.

Claim liability as of September 30, 2010 is \$30,387,974.

4. AMS LIFE INSURANCE COMPANY (AZ)

On March 27, 1992, the Superior Court of the County of Maricopa, State of Arizona, entered an Order of Rehabilitation finding AMS Life Insurance Company ("AMS"), an Arizona corporation, insolvent and appointing the Arizona Director of Insurance as Receiver. On September 3, 1992, the company was the subject of a Final Order of Liquidation which fixed creditors' rights retroactively, as of March 27, 1992, and activated the Association.

The order included a moratorium on withdrawals of values from policies and established hardship criteria.

Although AMS was a domestic insurer of Arizona on the date it

was found to be insolvent, AMS had formerly been an Illinois domestic insurer with the name American Mid-States Life Insurance Company. While AMS was licensed and had also written business in Arizona, Indiana, Iowa, South Dakota and Texas, approximately 87% of policy liabilities were the responsibility of the Illinois Association, initially estimated to equal about \$70 million.

The Association entered into an Interim Agreement with the Receiver on June 24, 1992, wherein the Receiver agreed to act as administrator for billing and collection of premium and payment of claims, and the Association agreed to provide funding for payment of certain claims. An Early Access Agreement was entered into with the Receiver on October 23, 1992. However, due to litigation brought against the Receiver, estate assets were not immediately available for distribution under the early access agreement. Thus, the Interim Agreement was extended and a Claims Payment Agreement ultimately entered into with the Receiver whereby the Association provided funds for benefits payable to Illinois residents. During this interim period, a total of \$4.5 million in AMS claims, including hardship distributions, was paid by the Administrator on behalf of the Association.

A transfer of a portion of the AMS policy obligations, the life block, took place on February 25, 1993. The Association participated in the closing of a reinsurance agreement with Jackson

National Life Insurance Company by the transfer of \$2,845,626 to meet the Association's obligation to holders of life policies.

Annuity business (which had been the subject matter of prior AMS reinsurance treaties) was recaptured to permit that business to be included in the AMS bid package, to make the AMS block more attractive to bidders. The process of assembling the final bid package continued through mid-1993. Twelve bidders responded to the offering memorandum, but only one was determined by the NOLHGA task force to possess the requisite attributes of adequate surplus, licensing in the necessary states, a rating that inspired confidence and sufficient surplus so that assumption of the business would pose no strain on its future operations. That company was Security First Life Insurance Company, with principal offices in California.

The Association transferred a total of \$49.8 million to the assumption reinsurers. \$2.2 million went to Jackson National; and, \$47.6 million went to Security First. The Receiver transferred an additional \$28.7 million to reinsurers on the Association's behalf in the way of early access to estate assets.

The Board took its original assessment action, prospectively, on July 1, 1992. The assessment was to be effective as of the date on which the liquidation order was actually entered, in order to swiftly fund the Association's obligations that would be arising

from the insolvency of AMS. The Board's July 1992 assessment action was challenged, however, by an appeal made to the Illinois Director of Insurance by a member insurer, as having been made in anticipation of and prior to the Association's actual activation on September 3, 1992, and alleged to be beyond the power of the Board. In 1995 the Director invalidated the Board's 1992 assessment. [The Board took identical prospective assessment action again, in 1995, prior to the Director's decision, as more fully explained in the paragraph on Guarantee Security Life Insurance Company, which follows later in this report.] Assessments were re-levied and appropriate adjustments made.

A distribution on February 1, 1996 from the Receiver for AMS of \$11.6 million resulted in a refund to member companies on November 6, 1996. The distribution received on April 2, 1998, of \$11.2 million resulted in a refund to member companies of \$13.4 million on October 15, 1998. Additional distributions were received from the receiver on May 17, 2002, June 14, 2004, and December 26, 2006 in the amounts of \$5.8 million, \$2.2 million and \$.9 million respectively. An assessment refund of \$1 million was made on January 11, 2007.

The Arizona receiver had brought suit against the actuarial firm, J. Huell Briscoe and Associates, and two other defendants which suit eventually was tried. On September 5, 2001, the Arizona

court entered judgments against the defendants in the amount of \$17.5 million. However, an appeal was taken and the lower court decision was reversed. Negotiations continued between the receiver and the defendants at fiscal year end.

The Arizona receiver wished to close its books on the AMS Life Insurance Company, in liquidation. Among its assets were various outstanding and uncollected judgments and assignments of certain monthly renewal commissions due to the estate pursuant to various settlement agreements. In lieu of abandoning the judgments and commission assignments, the Receiver sought to assign all rights in the judgments and commissions to the Illinois Life and Health Insurance Guaranty Association, as the Association has 87% of the liability, for the benefit of the Association and other Participating State Guaranty Associations. The Association agreed to accept the assignment of the Receiver's rights in the judgments and commissions.

5. FIDELITY BANKERS LIFE INSURANCE COMPANY (VA)

This Virginia company was placed in receivership on May 13, 1991, and then ordered into liquidation on September 29, 1992. The company's principal lines of business were annuities and life insurance. Fidelity Bankers was licensed in 50 jurisdictions, including Illinois.

Hartford Life agreed to assume the business pursuant to a rehabilitation plan in June 1993. In September 1993, thirty-nine participating guaranty associations, including Illinois, entered into Supplementary Agreements with the Fidelity Banker's Deputy Receiver. The participating guaranty associations understood they were agreeing that the statutory GA protections that existed in 1993 would remain their obligations through expiration of the seven-year rehabilitation plan under which the Fidelity Bankers policies were to be restructured before they were transferred to Hartford in June 2000. Fidelity Bankers was converted to a mutual insurance company in December 1993, and its name was changed to First Dominion Mutual Life Insurance Company.

The Rehabilitation Plan approved by the Virginia court had contained a Plan Credit provision and a Plan Dividend provision. The Plan Credit was designed to compensate policyholders for loss of interest and loss of liquidity during Fidelity Banker's time in receivership until the Hartford closing. The Plan Dividend was designed to compensate policyholders during the seven-year plan for loss of interest and loss of liquidity due to the restructuring of their contracts upon their transfer to Hartford.

In 2000, the participating guaranty associations (including ILHIGA) disagreed with the Deputy Receiver's calculation of the amount the guaranty associations were obligated to contribute under

the Supplementary Agreement in order to meet their statutory obligations. The GA's believed their statutory obligations on the date they were activated were the extent of their obligations. The receiver took the position that GA obligations rose during the rehabilitation period and were increased by the Plan Credit and Plan Dividend provisions. A settlement was negotiated by the Fidelity Bankers Task Force on behalf of all 39 participating GAs.

A transfer to Hartford, the reinsurer, in the amount of \$429,062, was made by ILHIGA (to be credited to the Hartford accounts of Illinois Fidelity Banker policyholders) in satisfaction of the Association's negotiated settlement.

No known claim liability exists as of September 30, 2010.

6. GUARANTEE SECURITY LIFE INSURANCE COMPANY (GSLIC) (FL)

On May 16, 1991, the Florida Department of Insurance placed this Florida company under administrative supervision. Under the Florida Insurance Code, such a proceeding is intended to permit and promote the return of troubled insurers to financial health without resort to delinquency proceedings under Chapter 631, Florida Statutes.

The facts learned through the administrative supervision process led to the Department's decision to seek an Order of Rehabilitation from the Circuit Court of Florida, Second Judicial

Circuit in and for Leon County, Florida. The Order was granted on August 12, 1991. On December 2, 1992 a final Order of Liquidation was entered by the court, thereby triggering the Association.

In an effort to protect policyholders of Guarantee Security, and those impacted by its insolvency, the affected guaranty associations and the Receiver proposed an agreement, subject to the approval of the regulators of the affected states, to the creation and licensing of a new life insurance company, domiciled in Florida, the stock of which would be owned by the affected state guaranty associations, including Illinois. Regulator approval was ultimately obtained in all cases. This company, given the name Guaranty Reassurance Corporation (GRC), was created to enable the guaranty association system to hold GSLIC assets for later sale under commercially reasonable conditions. By this means the guaranty associations were able to agree to a restructuring percentage (which benefited the uncovered creditors) substantially higher than would have been realized from a "fire sale" of the assets under a traditional straight liquidation scenario.

Under the court-approved agreement between the receiver and the affected state guaranty associations, working together through a NOLHGA task force and the Florida Department of Insurance, the assets and policyholder liabilities of GSLIC were transferred to GRC on April 13, 1993. Under the terms of the agreement, the

guaranty associations (a) provided the funds needed for GRC to meet current policy obligations (i.e., pay benefits) and (b) assured the Florida Department of Insurance of GRC's ongoing capitalization at a level no less than 5% of liabilities.

On July 1, 1992 the Association's Board made an assessment of \$6 million against the life sub-account and \$19 million against the allocated annuity sub-account, such assessments to be effective, "prospectively", upon the date the Florida court entered its order of liquidation with a finding of insolvency, which would activate the Association. As noted above, that date was December 2, 1992.

Pursuant to a call approved on June 7, 1993, \$1.8 million was billed against the Life sub-account and \$5.7 million was billed against the Annuity sub-account. Pursuant to a call approved on August 25, 1994, \$250,000 was billed and collected against the Life sub-account and \$1,100,000 was billed and collected against the Annuity sub-account. Pursuant to a call approved on March 23, 1995, \$1.5 million was billed against the Life account and \$5.0 million against the Annuity sub-account. The Association transferred \$3,104,187 to Guaranty Reassurance Corporation on April 6, 1993 and \$4,914,560 on April 29, 1994.

An unusual event occurred in March of 1995. One of the Association's member insurers protested, almost three years after the fact, the Board's 1992 assessment action. The protest was

based upon the Board's assessment action having been taken prior to the date the liquidation order was entered, i.e., in anticipation of such an order being entered. Since the ILHIGA Board's assessment was conditional upon such a liquidation order being entered, the member complained to the Illinois DOI that the Board's action was ultra vires, or beyond the scope of its statutory powers. A hearing officer was appointed. The hearing officer's recommendation (even though based upon an issue not even raised by the protesting insurer) was that the Association's Board action should be held to have been invalid. The Director adopted the hearing officer's recommendation, thereby invalidating the Board's July 1, 1992 assessment action taken to provide funds for the GSLIC insolvency. Following the Director's invalidation ruling, the Board made a "replacement" assessment for GSLIC in 1995. However, the 1992 assessment had already been called and collected. Member insurers had already taken offsets against their state fees and taxes based upon their payments. The remedial assessment action taken by the Board in 1995, albeit mirroring that action taken in 1992, could not technically support those already-taken offsets. The Board saw itself as faced with a choice: whether to seek judicial review of (i.e., appeal from) the Director's decision, or accept the decision upon assurance from the Director that no action would be taken prejudicial to member insurers for having taken

"early" tax offsets as a result of matters entirely outside of their control. That assurance was given by the Illinois DOI and the treatment accorded member insurers' tax offsets has been consistent with that determination and assurance, thereby avoiding a problem that would otherwise have been akin to the unscrambling of a scrambled egg.

On July 17, 1997, the Association's Board approved an assessment of \$4,500,000. This assessment was called on December 5, 1997. The Association transferred to Guaranty Reassurance Corporation the following amounts by line-of-business on the indicated dates:

<u>Date</u>	<u>Life</u>	<u>Annuity</u>	<u>Total</u>
April 6, 1993	\$ 724,209	\$ 2,379,978	\$ 3,104,187
April 24, 1994	1,141,327	3,773,233	4,914,560
April 17, 1995	1,379,449	4,560,464	5,939,913
April 9, 1996	1,173,999	3,881,246	5,055,245
October 23, 1997	<u>1,747,414</u>	<u>5,776,955</u>	<u>7,524,369</u>
Total	<u>\$6,166,398</u>	<u>\$20,371,876</u>	<u>\$26,538,274</u>

Distributions from the Receiver were received on October 6, 1997, in the amount of \$175,792, and on September 27, 2006, in the amount of \$2,933. On December 17, 1998, December 31, 2001 and December 18, 2003, dividends (distributions) were received from Guaranty Reassurance Corporation in the amounts of \$2,430,406, \$5,249,678,

and \$486,081, respectively. No known claim liability existed as of September 30, 2010.

7. AMERICAN INTEGRITY INSURANCE COMPANY (PA)

This Pennsylvania-domiciled insurer was declared insolvent when an Order of Liquidation was entered on June 25, 1993, by the Commonwealth Court of Pennsylvania.

American Integrity was a property and casualty company writing primarily health insurance, including long-term care, hospital indemnity, Medicare supplement, and some major medical business. It had about 71,400 policies in force, and was licensed in the District of Columbia and all states except Connecticut and Michigan.

A NOLHGA insolvency task force was formed, on which the Association served. An assumption agreement was entered into with UNUM Life Insurance Company of America for take-over of the American Integrity long-term care policies. A funds transfer to UNUM was made on May 31, 1994, for \$11,746,000 and another transfer on June 28, 1994 for \$627,495. Another assumption agreement was struck with Mega Life and Health Insurance Company for accident and health (non long-term care) policies. Funds were transferred on June 6, 1994 in the amount of \$311,700. Total distributions received from the Receiver as of September 30, 2010 are \$5.3

million.

No known claim liability as of September 30, 2010.

8. MUTUAL BENEFIT LIFE INSURANCE COMPANY (NJ) was a New Jersey-domiciled company writing life and annuity policies.

Mutual Benefit Life (MBL) was placed in rehabilitation by the New Jersey Superior Court on July 16, 1991 and a final order of liquidation was entered on October 10, 1993. Under the MBL Rehabilitation plan, Mutual Benefit policyholders who participated in the plan were to receive their guaranty association's support through restructured contracts issued by a newly created insurer known as MBL Life Assurance Corporation (MBLLAC). Those who opted-in would be subject to declining moratorium charges through 1999. Those who chose to opt-out would immediately receive approximately 55% of their account values, plus interest, from the estate of Mutual Benefit. The affected guaranty associations would then pay the balance due to those opt-out policyholders, up to their statutorily guaranteed limits. Contract values above covered amounts would receive only the share covered by estate assets.

Participating state guaranty associations were permitted to stand in the place of and acquire the contract rights of those residents of their states who opted-out of the Mutual Benefit Life Insurance Rehabilitation Plan and chose to take their guaranty

association statutory benefits up-front, at the out-set.

The Illinois Association did buy up the contracts of those Illinois residents who opted out of the plan. With the improvement in the economy and with careful asset management, MBLAC was able to meet the obligations of the restructured MBL contracts without the need for further support from the guaranty associations.

The estate of MBL was ultimately able to not only meet the demands of claimants at the policyholder level in full (including the claims of reimbursement for benefits paid by guaranty associations), but also had assets available to distribute to creditors at the next level down, the Class 4, or general creditor level. Included in the general creditor class were the claims of guaranty associations, not for their payment of policy benefits, but their earlier claims against Mutual Benefit Life (MBL) for assessments [Class A (Administrative) and Class B (Insolvency)] billed to and owed by MBL as a member insurer of the state guaranty associations prior to the liquidation date. ILHIGA received \$1,525,418 of the \$1,597,820 in outstanding assessments against MBL as a part of a settlement of such claims negotiated for the benefit of all state guaranty associations through the efforts of NOLHGA's MBL insolvency task force.

On July 2, 1999 the Association recovered its entire investment in the stock of MBLAC of \$2.38 million plus \$4 million

in investment income.

Mutual Benefit Life was closed January 19, 2010.

9. CONSUMERS UNITED INSURANCE COMPANY (DE) was a Delaware insurer, writing principally health, group accident and health, and some group life and annuity policies. Consumers United Insurance Company was placed under an order of conservation on February 2, 1993. The Delaware Chancery Court in and for New Castle County entered an order of liquidation on May 5, 1994, with a finding of insolvency, thereby activating the Association.

After a Receiver was appointed, the cancelable health business was cancelled and a determination of available assets was made. The amount needed to support a transfer of the liabilities for the Illinois life and annuity block of business to the assuming reinsurer, Unity Mutual Life Insurance Company, was \$294,238. The Association provided that amount. The reinsurance agreement was closed on February 13, 1995.

Payments of accident and health claims in the amount of \$134,118 and annuity claims in the amount of \$799 made by third party administrators administering the accident and health business were paid on behalf of ILHIGA.

No known claim liability exists as of September 30, 2010.

10. PRESTIGE CASUALTY LIFE INSURANCE COMPANY (IL) an Illinois-

domiciled company, was placed into liquidation on July 26, 1994 by the Circuit Court of Cook County, Illinois, County Department, Chancery Division. The Association was activated because Prestige held a license to sell health insurance and was therefore a member insurer. This estate was closed January 19, 2010.

11. KENTUCKY CENTRAL LIFE INSURANCE COMPANY (KY)

This Kentucky insurer was adjudicated to be insolvent by a court of competent jurisdiction on August 18, 1994, when a liquidation order was entered by the Franklin County, Kentucky, Circuit Court. However, due to a timely appeal taken from the court's order by the Kentucky Central board of directors, the Association could not consider itself to be activated because, in light of the appeal, the court's order had not become "final". The Kentucky Supreme Court unanimously affirmed the Franklin Circuit Court's August 18, 1994, order of liquidation (thereby activating ILHIGA) as well as its authorization of the assumption by Jefferson-Pilot Life Insurance Company of Greensboro, N.C. ("Jefferson-Pilot"), of the business of Kentucky Central Life Insurance Company. Kentucky Central's policies were assumed by Jefferson-Pilot with an effective date of May 3, 1995. Only 10% of the company's 332,643 policyholders elected to opt-out of the plan with Jefferson-Pilot by the May 1 opt-out deadline.

The Association has paid on behalf of Illinois residents to-date \$3.0 million. Estate distributions received to-date total \$3.5 million. This estate was closed January 19, 2010.

12. CONFEDERATION LIFE INSURANCE COMPANY (MI)

This Canadian insurer (which assumed Michigan-domiciliary status upon entering the U.S. through Michigan as its port-of-entry) had its U.S. Branch operations placed under an order of rehabilitation by a Michigan Court on August 12, 1994, the same day its Canadian operation was similarly dealt with in Canada. A NOLHGA Insolvency Task Force was formed. ILHIGA was assigned membership on the NOLHGA Task Force. The NOLHGA Confederation Life Task Force worked with the U.S. Deputy Rehabilitator, Victor Palmieri, on a plan to be negotiated with the Canadian liquidator to resolve cross-border issues.

On October 23, 1996, the Michigan Court entered an order of liquidation for Confederation Life (U.S.). No appeals were timely filed so the liquidation order became final under Michigan law on November 13, 1996. At the same time that the court entered the order of liquidation, it entered an order approving a plan for the liquidation of Confederation Life (U.S.). Those orders, entered nunc pro tunc to August 12, 1994, became final as of November 13,

1996.

Agreement with respect to certain cross-border issues between the U.S. and the Canadian liquidators was subsequently reached, with the involvement and support of the NOLHGA Task Force. This was followed by a work-out plan for the estate of Confederation Life (US).

Under that plan, estate assets were allocated for the benefit of Confederation Life policyholders by block-of-business. Blocks of business were disposed of by various methods, some of which involved assumption reinsurance and others by workouts over time. The affected guaranty associations were given the option to either opt-in to the joint workout plan or to assume the affected business for which they were, respectively, responsible.

All affected guaranty associations opted-in to the plan on the basis of the business being divided into blocks and disposed of, by block, identified as follows:

- Corporate-owned Life Insurance (COLI);
- Bank-owned Life Insurance (BOLI);
- Payout Annuities, Separate Accounts & Liquidating Trust;
- Guaranteed Investment Contracts (GICs);
- Other Life/SPDA (Block A);
- Health and Other Individual Policies (Block B).

The blocks were disposed of as follows:

- COLI Block - assumed by Pacific Mutual Insurance Company; closed on June 2, 1997; guaranty associations contributed support through promissory notes;
- BOLI Block - Assumptively reinsured on April 1, 1997 by New York Life January 29, 2009 Annual Meeting of Members Insurance Company. (While twelve guaranty associations were affected, Illinois was not one of them because Illinois had no BOLI business.);
- Payout Annuity Block - these long-term obligations and the assets allocated to them were transferred to a separate account. The account is managed by a committee of three with nominees appointed by the three most-interested parties: the Liquidator; the payout recipients; and, the guaranty associations. The committee appointed Goldman Sachs Asset Management as Investment Manager; Allstate Life and Annuity Insurance Company as Liability Administrator and Price Waterhouse, LLP, as Consulting Actuary;
- GIC Block - payouts were made to GIC holders upon their exercise of one of several options in April or May 1997;
- Block A (Other Life and SPDAs) - to be assumed by Phoenix

Home Life Insurance Company without the need for contributions from the guaranty associations;

- Block B (Health and Other Individual Policies) - assumed by Hartford Life Insurance Company without the need for guaranty association funding.

NOLHGA's Confederation Life Insolvency Task Force continued to monitor the progress of all of the above transactions, including post closing true-up audits. Upon the sudden death of Charles La Shelle, Esq., of the Texas Guaranty Association in 2001, ILHIGA's Executive Director, Daniel A. Orth, III was named as the Successor Chairman of NOLHGA's Confederation Life Insurance Company Insolvency Task Force.

Through the course of the Confederation Life Insolvency, the Association paid \$22.7 million to reinsurers to fund the assumption of liability. It has been reimbursed the entire amount of benefits funded, as well as expenses incurred. The Association has also received \$2.58 million in interest from the Liquidator as reimbursement for the cost of funds for payments made.

In addition, assessments the Association had previously levied against Confederation Life as a member insurer prior to Confederation Life's insolvency, arising out of other insolvencies, which had previously gone unpaid, were recognized by the liquidator as valid general creditor level claims against the assets of the

estate. Those assessments have also been collected. The Association stands in a paid-in-full position today.

No known claim liability exists as of September 30, 2010.

13. CENTENNIAL LIFE INSURANCE COMPANY (KS)

This Kansas company was placed in liquidation on May 27, 1998. The company's principal lines of business were small group and individual accident and health insurance, and group long-term disability insurance. Centennial Life sold business in the District of Columbia, the Commonwealth of Puerto Rico, and all states except Maine, New York, and Rhode Island. United Chambers Life Insurance Company (of Ohio) agreed to furnish interim management services to the Centennial rehabilitator, and offered replacement coverage on a guaranteed issue basis.

In June, 1998, NOLHGA's Members Participation Council (MPC) recommended that the affected guaranty associations approve a service agreement with the Liquidator, under which the Liquidator would serve as administrator for the guaranty associations. In that role the Liquidator would collect premium and prepare claims for payment. Affected state guaranty associations that chose to participate in the service agreement would either (1) transfer funds to a guaranty association account from which the Liquidator would pay claims, or (2) issue their own checks upon receipt of

explanation of benefits forms from the Liquidator.

ILHIGA did not participate in the Service Agreement. Instead, ILHIGA engaged the services of R. N. Swanson & Associates to act as its administrator for Illinois policyholders. ILHIGA did participate in the Early Access Agreement; pursuant to which the guaranty association agreed that if assets of the estate were made available to them, should the Receiver need those funds at a later date the guaranty associations will give them back.

In October 1998, the Shawnee county District Court approved the Service and Early Access Agreements among the receiver, NOLHGA, and participating guaranty associations.

The small group business had experienced a heavy claims backlog, and in November 1998, the Task Force adopted procedures to improve claims processing and auditing procedures. At year-end 1998, there were over 57,000 claims. The claim inventory was down to 2,700 by July 1999.

The Task Force and the Liquidator negotiated an agreement, effective February 1, 1999, with Disability Management Alternatives, under which the Liquidator outsourced (sub-contracted) the administration of all long-term disability claims. Here, again, ILHIGA removed its portion of the long-term disability on-claim policies and brought them back to Illinois to be administered by the Association's TPA, R. N. Swanson and

Associates. \$2,323,843 has been paid in claims; \$664,476 of premiums has been received.

In May 1999, NOLHGA filed an omnibus proof of claim with the Liquidator on behalf of all 49 affected guaranty associations.

In August 1999, the Task Force agreed to sell a small block of miscellaneous policies that could not be cancelled. The block had an annualized premium of \$122,116, and reserves of \$153,198.

At the time of its liquidation, Centennial had been engaged in litigation with its primary reinsurer, AXA Re, and with Universe Life Insurance Company, an Idaho company in liquidation. Centennial settled its claim against AXA for approximately \$36 million, but received only \$24.8 million of the settlement funds. Because of litigation against AXA by Universe Life, AXA interpleaded the remaining settlement funds (\$11.2 million) into the Centennial liquidation court.

No known claim liability exists as of September 30, 2010.

14. THE UNIVERSE LIFE INSURANCE COMPANY (ID)

This Idaho company was placed in liquidation on December 4, 1998. The company's principal lines of business were long-term care, group universal health, and non-cancelable individual and group accident and health insurance. The company was licensed in 25 states, including Illinois. A NOLHGA Universe Life Insurance

Company Insolvency Task Force was formed and, upon review, reported that the Universe Life insolvency estate had assets of \$16.2 million, \$9 million of which were a receivable from the insolvent Centennial Life Insurance Company (KS) and not likely to be collected. The company shell (i.e., corporate charter) and its licenses were sold to Builders Financial Group to bring assets into the estate.

In April 1999 the Task Force filed an Omnibus Proof of Claim on behalf of all affected guaranty associations.

Effective July 1, 1999, Central States Health and Life Insurance Company of Omaha assumed the long-term care business, with approximately \$5.2 million in obligations. Including a negative ceding fee, participating guaranty associations funded approximately \$5.34 million to transfer the obligations.

No known claim liability exists as of September 30, 2010.

15. FIRST NATIONAL LIFE INSURANCE COMPANY OF AMERICA (MS)

This Mississippi company, controlled by the Thunor Trust, was placed in liquidation on June 29, 1999. First National Life Insurance Company of America (FNLICA) sold non-participating whole life insurance with annuity riders to U.S. military personnel on a government allotment basis. It was licensed to do business in the District of Columbia and 31 states, including Illinois.

NOLHGA's FNLICA Insolvency Task Force recommended a service agreement be entered into between the Receiver and the guaranty associations. The service agreement provided that the FNLICA Receiver would administer the business of FNLICA on behalf of the affected guaranty associations until the transfer of the business to the assuming carrier. The FNLICA service agreement provided for the continuation of premium collection for its policies through automatic bank checks and government allotments.

On November 29, 1999, the policies, along with assets to support reserves in the amount of \$2,567,706, were transferred to the reinsurer, Madison National Life Insurance Company. We have subsequently received \$136,821 in reimbursement distributions from the Receiver.

No known claim liability exists as of September 30, 2010.

16. FRANKLIN AMERICAN LIFE INSURANCE COMPANY (TN)

This Tennessee company, sold life insurance with an annuity accumulation fund rider. Controlled by the Thunor Trust, Franklin American was placed in liquidation on October 25, 1999. It was licensed to do business in 14 states, including Illinois.

We have transferred \$70,043 to the reinsurer, Investors Heritage Life Insurance Company, to-date.

No known claim liability exists as of September 30, 2010.

17. AMERICAN CHAMBERS LIFE INSURANCE COMPANY (OH)

American Chambers Life Insurance Company (ACLIC), an Ohio domestic, had its home office in Naperville, Illinois, until it was declared insolvent and ordered liquidated on May 8, 2000 by an Ohio court. It was licensed in 38 states. The affected states' guaranty associations, through NOLHGA, formed a task force to conduct the business of the guaranty associations more efficiently. ILHIGA was not initially assigned to NOLHGA's ACLIC Insolvency Task Force when it was formed in December of 1999. This was prior to the entry of the liquidation order, but in anticipation that a NOLHGA task force would be needed. When the liquidation order was entered and the insolvency announced, ILHIGA's administrator notified NOLHGA's MPC Chair that ILHIGA believed it should be added to the task force, both because Illinois had a significant portion of ACLIC's business and because ACLIC's home office was in Illinois. By that time the task force had acted to select the third party administrator (TPA) (that had been recommended by the court-appointed receiver) an Ohio TPA, Antares Business Solutions, wholly-owned by an Ohio medical insurer, Medical Mutual of Ohio (MMO). The parent company, MMO, agreed to act as guarantor for Antares' performance as TPA.

The performance of TPA duties on guaranty association business was deficient from the outset, with poor service, long telephone "hold" times, and inefficiency in every aspect of performance.

Ultimately, the task force demanded that parent MMO make good on its performance guarantee. More resources were thereupon devoted to the performance of critical tasks and service improved by the close of fiscal year 2000. \$4.3 million in claims had been paid as of September 30, 2010.

No known claim liability exists as of September 30, 2010.

18. AMERICAN UNIFIED LIFE AND HEALTH INSURANCE COMPANY (AULIC)(IL)

This Illinois domestic operated in Illinois, Indiana and Arkansas as a provider of complimenting indemnity coverage to the customers of its sister HMO, American Health Care Providers (AHCP). [AHCP HMO had been was found to be insolvent and was ordered liquidated by the Circuit Court of Cook County, Illinois, on May 11, 2000.] AULIC was declared insolvent and ordered liquidated by the Circuit Court of Cook County, Illinois on June 27, 2000.

AULIC appears to have had little or no health insurance business outside of the point-of-service (POS) product it sold as an adjunct to the HMO product sold by AHCP HMO. AHCP HMO enrollees were sold the AULIC product as a way to obtain coverage for services they chose to receive from providers that were outside of AHCP's network of providers.

AULIC coverage data appears not to have been separately maintained, but rather to have been drawn from the records

maintained by AHCP HMO. The AULIC claim information has been pieced together by R. N. Swanson and Associates, the third party administrator for ILHIGA.

The total amount of claims that have been paid to policyholders is \$2.2 million, and the total amount of payments to providers that have been paid is \$1.1 million. We have received \$806,858 in estate distributions from the receiver. This estate was closed January 19, 2010.

19. ILLINOIS HEALTHCARE INSURANCE COMPANY (IL)

This Illinois-domiciled life and health insurer was created in 1997 as an affiliate of a family-owned and managed Illinois company, American Union Life Insurance Company. It was ordered liquidated on June 30, 2000. Located in Bloomington, Illinois, it was licensed in three states: Illinois, Indiana and Ohio. It insured a total of 12,868 policyholders; 8,959 of them Illinois residents. Much of its business was major medical health insurance issued to individuals; most of it having been assumptively reinsured from its American Union affiliate.

R. N. Swanson and Associates serves as TPA for the guaranty associations of the three states affected, and has worked with the staff of Illinois' Office of the Special Deputy Receiver in gathering and processing policy information. All three state

guaranty associations gave their respective notices of non-renewal of the contracts; Illinois gave 180 days notice. \$12.9 million in claims had been paid as of the fiscal year-end, September 30, 2010. ILHIGA had collected \$5.3 million in estate distributions as of that date. Per the Association's actuaries, Oliver Wyman, claim liability at September 30, 2010 was \$39,400.

20. ACCELERATION NATIONAL INSURANCE COMPANY (OH)

On February 28, 2001, the Court of Common Pleas, Franklin County, Ohio declared Acceleration National Insurance Company insolvent. J. Lee Covington, II, Superintendent of Insurance, State of Ohio, was appointed Liquidator.

In a letter dated May 3, 2001, from the Office of the Ohio Insurance Liquidator, the Association was advised that due to the small number of policies involved, Lyndon Life Insurance Company had agreed to assume and reinsure all of Acceleration National's life and health obligations. It is believed, per the notice from the Ohio Receiver, that the reinsurance fully provides for payment to all policyholders and the Association will have no liability.

This estate was closed January 19, 2010.

21. RELIANCE INSURANCE COMPANY (PA)

Reliance Insurance Company, (Reliance) a Pennsylvania property and casualty insurer, was declared insolvent on October 4, 2001.

Reliance wrote a small amount of accident and health insurance, which became the responsibility of the state life and health insurance guaranty associations when the company became insolvent.

Through the fiscal year-end ILHIGA had paid \$544,657 in claims, and had received \$402,734 in estate recoveries. No known claim liability exists as of September 30, 2010.

22. GALLANT INSURANCE COMPANY (IL)

Gallant Insurance Company, (Gallant) was an insurer domiciled in Illinois. Gallant was found to be insolvent and was ordered to be liquidated by the Circuit Court of Cook County, Illinois, on August 23, 2002.

Gallant was a wholly-owned subsidiary of J and P Holdings Inc. It was member of the Warrior Insurance Group of Bedford Park, Illinois. Gallant was originally incorporated in November 1977 as the Allied American Insurance Company. The Gallant name was adopted in July 1995.

Gallant was licensed in the states of Illinois and Indiana, where it wrote primarily private passenger automobile liability insurance and a small amount of health coverage.

The Association has had no claim exposure arising out of this insolvency, but had incurred approximately \$3,500 in administrative

expenses.

This estate was closed January 19, 2010.

23. VALOR INSURANCE COMPANY (IL)

Valor Insurance Company, (Valor) was an insurer domiciled in Illinois. Valor was found to be insolvent and was ordered to be liquidated by the Circuit Court of Cook County, Illinois, on August 23, 2002.

Valor was a wholly-owned subsidiary of Gallant Insurance Company and was a member of the Warrior Insurance Group of Bedford Park, Illinois. Valor was incorporated in December 1989 as the Unicorn Insurance Company. Its name was changed to Hallberg Direct Insurance Company in 1992, and to Valor in July 1995.

Valor was licensed in the states of Illinois and Indiana, where it wrote primarily private passenger automobile liability insurance and a small amount of health coverage.

The Association has had no claim exposure arising out of this insolvency, but had incurred approximately \$5,400 in administrative expenses. This estate was closed January 19, 2010.

24. OAK CASUALTY INSURANCE COMPANY (IL)

Oak Casualty Insurance Company, (Oak) an Illinois-domiciled, mainly property and casualty company, was placed in liquidation on November 19, 2002. At that time, the Company had approximately

1800 individual accident and health policies in force, most of which were guaranteed renewable and non-cancelable. The accident and health business had been acquired by Oak when it merged with Industrial Casualty Company, a life and accident health insurer which had been licensed in nine states.

On the date of its liquidation, Oak was licensed only in Illinois, Florida and West Virginia. However, ILHIGA is also responsible for the accident and health policyholders who resided, on November 19, 2002, in Iowa, Michigan, Maryland, Montana, North Dakota and Wisconsin, the states in which Industrial Casualty Company had been licensed, but Oak was not.

On an inception-to-date basis, the Association has paid out \$927,176 in claim payments and has incurred \$671,301 in administrative expenses. It has received \$150,061 in estate recoveries as of September 30, 2010. The very high cost-to-benefit ratio arises from the fact that these are very small premium and small benefit policies.

On September 30, 2010, 415 Oak policies remained in force. Based on the Association's actuarial report, claim liabilities as of September 30, 2010 are \$277,713.

25. LEGION INDEMNITY COMPANY (IL)

Legion Indemnity Company, (Legion) was an Illinois domiciled insurer. An order of liquidation with a finding of insolvency was entered on April 9, 2003, by the Circuit Court of Cook County, Illinois.

Legion was an Illinois property and casualty company. It was licensed only in the state of Illinois; however, it operated on surplus lines or non-admitted basis in the District of Columbia, U.S. Virgin Islands and 49 other jurisdictions. In addition, the company wrote a small amount of accident and health insurance.

The Association incurred \$18,156 in administrative expenses and received \$18,154 in estate distributions.

This estate was closed January 19, 2010.

26. HOME INSURANCE COMPANY (NH)

The Home Insurance Company, a New Hampshire domiciled insurance company, was placed in liquidation by the Superior Court of Merrimack County, New Hampshire, on June 13, 2003.

The Association has paid out approximately \$7,800 in administrative expenses. This estate was closed January 2010.

27. LEGION INSURANCE COMPANY (PA)

Legion Insurance Company, (Legion) a Pennsylvania domiciled insurer was declared insolvent by the Commonwealth Court of Pennsylvania on July 25, 2003.

Legion was primarily a property and casualty insurer with health insurance representing a small portion of its business.

The Association has paid out approximately \$23,000 in administrative expenses and received \$34,917 in estate distributions.

This estate was closed January 19, 2010.

28. VILLANOVA INSURANCE COMPANY (PA)

Villanova Insurance Company, a Pennsylvania domiciled insurer was declared insolvent by the Commonwealth Court of Pennsylvania on July 25, 2003.

Villanova Insurance Company is primarily a property and casualty insurer with health insurance representing a small portion of its business.

The Association has paid out approximately \$15,600 in administrative expenses.

This estate was closed January 19, 2010.

29. LIFE AND HEALTH INSURANCE COMPANY OF AMERICA (PA)

This Pennsylvania writer of home service life and health, long-term care, annuity, disability income and hospital indemnity business, licensed in 29 states, was placed in liquidation on July 2, 2004. The company had assets of approximately \$50 million at year-end 2003.

The NOLHGA task force, on which ILHIGA serves as a member, immediately engaged the services of R. N. Swanson and Associates of Des Plaines, Illinois, to take over the administration of the business, (that which had not been the subject of assumption reinsurance transactions previously entered into by the rehabilitator) including premium collection and claim payments. The long-term care and disability income business was of special concern to the task force because of the vulnerability of policyholders dependent upon their periodic payments.

The Association had paid out \$2.5 million in policy benefits to insureds and reinsurers as of the fiscal year end, September 30, 2010, and had received \$1,383,545 in estate recoveries as of September 30, 2010.

Based upon the Association's actuarial report, there was a claim and policy liability of \$1,616,465 as of September 30, 2010.

30. LONDON PACIFIC LIFE AND ANNUITY INSURANCE COMPANY (NC)

This North Carolina issuer of annuity products, with residual sales of life insurance, was originally organized in 1927 as Dixie Life Insurance Company, with a name change to Southern Life Insurance Company in 1947. Southern Life was acquired by Liberty Life Insurance Company in 1996. The Southern Life shell was sold in 1989 to London Pacific Assurance Group, which changed the name

to London Pacific Life and Annuity.

London Pacific became the subject of a voluntary rehabilitation order in August of 2002. Cash payouts (except death claim payments) and payouts of annuity obligations, except certain hardship payments, were halted under a "Moratorium Order" dated August 23, 2002, to prevent a "run on the bank".

A NOLHGA London Pacific Insolvency Task Force was created in August, 2002, in early anticipation of a likely future need. The task force worked with the North Carolina Receiver in Rehabilitation and with interested bidders to develop a plan to protect policyholders. Several bids were received. A second round of bidding produced terms by which the Universal Life/Annuity Payout/Supplementary Contract blocks were to be transferred to Hartford Life at 100 percent of historical (pre-liquidation) statutory reserves as a straight assumption with no ceding allowance. The Deferred Annuity block was the subject of a separate, more complex, plan that provided contract-holders with several options, which were presented to them after London Pacific was ordered liquidated and the guaranty associations had been activated.

A final order of liquidation was entered on July 8, 2004 and the period for taking an appeal from that order expired on August

11, 2004. Deferred Annuity contract-holders were thereupon given two options:

- (1) Exchange Option. Contract-holders could elect to exchange their London Pacific Deferred Annuity, as a tax-free exchange under IRC Section 1035, for a Hartford Deferred Annuity with significantly different contract terms. The Hartford contract would come with a new multi-year surrender schedule. However, the Hartford exchange would reflect a transfer of a contract holder's covered account value at 100 cents on the dollar, as opposed to their receipt of the cash surrender values covered by the guaranty associations. Also, those electing the Hartford exchange would receive credit for the transfer of estate assets of 92 cents on the dollar for amounts above the guaranty association covered limits, plus a 5% Hartford "enhancement".
- (2) Stay-back Option. Contract-holders opting for the "stay-back" would continue their contracts through their guaranty association, retaining the rights they had with their original London Pacific contracts, to be administered by the TPA for the guaranty associations. They could maintain them in force, surrender them at any time for their cash surrender value, or exchange them under a 1035 exchange for a contract with any other carrier (subject to guaranty association limits). For

its part, the receiver would immediately cash out uncovered (over-limit) surrender values, with the option to the contract-holders to include the funds from the receiver, along with the GA payments as a part of any immediate 1035 exchange.

Those contract - holders whose contracts were close to the end of their London Pacific surrender schedule were most likely to "stay-back". The Association had paid \$7,202,494 in policy benefits to insureds and reinsurers and has received approximately \$4,330,000 in estate recoveries as of fiscal year end, September 30, 2010.

No claim liability was established as of September 30, 2010.

31. MUNICIPAL INSURANCE COMPANY OF AMERICA (IL)

On October 24, 2007 an Agreed Order of Liquidation with a finding of insolvency was entered against Illinois-domiciled Municipal Insurance Company of America ("MICA") by the Circuit Court of Cook County, Illinois, County Department, Chancery Division. Michael T. McRaith, Director of Insurance of the State of Illinois, was affirmed as statutory liquidator of MICA.

MICA wrote life, health and annuity policies. The Schaumburg, Illinois-based third-party administrator (TPA) Group Administrators, Ltd. which had served as MICA's group business

administrator prior to liquidation, was retained to continue to serve as third-party administrator for MICA's health business. Most policies were terminated as of February 29, 2008. A few groups were terminated effective March 15, 2008 as that was their paid-to-date.

The Indiana Life and Health Insurance Guaranty Association was also activated by this insolvency. The health claims and fees paid by the Association to Group Administrators included some amounts that related to Indiana residents. Reconciliation has been made of the amount due to ILHIGA from the Indiana Guaranty Association.

Philadelphia American Life Insurance Company ("PALIC") entered into an assumption reinsurance agreement with the Illinois and Indiana guaranty associations to assume the life and annuity business effective January 31, 2008. The Association paid PALIC \$2,902,378 (\$664,052 for life and \$2,238,326 for annuity) to assume and reinsure this business.

Through the 2010 fiscal year-end the Association paid \$9,599,754 in claim and policy benefits; \$7,576,342 was paid by the Receiver on behalf of the Illinois Association as early access.

No claim liability was established as of September 30, 2010.

32. LINCOLN MEMORIAL LIFE INSURANCE COMPANY (TX)

Lincoln Memorial Life Insurance Company ("Lincoln") is a Texas

domiciled life insurance company licensed in 44 states. On September 22, 2008, orders (1) appointing the Texas Commissioner of Insurance as Liquidator, (2) approving a liquidation plan and (3) issuing a permanent injunction staying litigation against Lincoln were entered by the Texas Receivership Court. The orders also placed into liquidation certain Lincoln affiliates, Memorial Service Life Insurance Company (MSL), and National Prearranged Services, Inc., (NPS). Memorial Service Life Insurance Co. is a Texas-only insurer. NPS is a non-insurance company affiliate of Lincoln Memorial. Under the liquidation plan, the participating guaranty associations will cover the death benefits guaranteed by the insurance policies issued by Lincoln Memorial and Memorial Service.

The majority of the affected insurance policies had been issued to fund "pre-need" funeral service contracts purchased by consumers through NPS. Approximately 16,000 Lincoln policies were issued on the lives of insureds that were residents of Illinois, with an estimated face amount of approximately \$60 million.

The affected guaranty associations contracted with Donna Garrett, the Texas Special Deputy Receiver, for her and her staff to provide claims processing and administration services. The Association prefunding of claims totaled \$12,942,262 from which claims of \$12,185,971 were paid. Based upon the Association's

actuarial report, there is a claim and policy liability of \$48,829,138 as of September 30, 2010.

33. MEDICAL SAVINGS INSURANCE COMPANY (IN)

On December 1, 2008, an Order of Rehabilitation was entered by an Indiana court against Medical Savings Insurance Company (MSIC), an Indiana domestic health insurer, commencing voluntary rehabilitation proceedings. MSIC's business consisted primarily of high-deductible health insurance policies, many of which were coupled with health savings accounts. Some of the policies also included term life riders. In accordance with a court-approved transition plan, the majority of the business was voluntarily terminated on or before December 31, 2008, and rewritten by Golden Rule Insurance Company (GRIC), an Indiana domestic health insurer and member of the United Healthcare family of companies, who has a product line that includes high-deductible health insurance policies for individuals and their families.

MSIC was licensed in 35 states, including Alabama, Alaska, Arizona, Arkansas, California, Colorado, District of Columbia, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia,

Washington, and West Virginia.

MSIC was ordered into liquidation by the Indiana Court on February 26, 2009, and the Indiana Commissioner of Insurance was named as the Receiver. Policy administration for the limited remaining in-force block was continued by the affected guaranty associations, which contracted with the Receiver to administer the business, pending cancellation of the remaining business.

Payments through September 30, 2010 to insureds and reinsurer total \$852,228.

Based upon the Association's actuarial report, a claim and policy liability of \$511,064 remains as of September 30, 2010.

34. IMERICA LIFE AND HEALTH INSURANCE COMPANY (AR)

Imerica Life and Health Insurance Company is an Arkansas-domiciled company licensed in 33 states, including Alabama, Alaska, Arizona, Arkansas, California, Colorado, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maryland, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, South Carolina, Texas, Utah, West Virginia, and Wyoming. Imerica's corporate offices were located in Denver, and its claim operations were handled in New York under an Administrative Services Agreement with International Benefits

Administrators, L.L.C. ("IBA"). Imerica Life and Health Insurance Company was found to be insolvent and ordered liquidated on May 3, 2010, by the Circuit Court of Pulaski County, Arkansas.

Imerica wrote high-deductible health business and appears to have tripled the volume of its business between 2008 and 2009 in the hope that increased premiums would resolve the company's financial problems. The company was placed in rehabilitation on November 18, 2009, and ceased writing new business at that time, pursuant to restrictions imposed in the rehabilitation order. Efforts to find a replacement carrier were unsuccessful.

The affected state guaranty associations, through NOLHGA, retained IBA and the Receiver to provide post-liquidation policy and claims administration on behalf of the affected guaranty associations. The Task Force worked closely with the Receiver and IBA to keep multiple network provider systems in place and to ensure a smooth transition in claims administration and funding. Policy and claims administration continued throughout 2010.

The vast majority of Imerica business is expected to be terminated by December 31, 2010.

Imerica's corporate offices are to be closed by the end of January 2011. In addition, NOLHGA has provided notice to the Receiver and to IBA that policy and claims administration going forward will be handled by Task Force consultant R. N. Swanson and

Associates. Policy and claims administration is expected to continue throughout 2011.

Payments by ILHIGA for policyholder benefits through fiscal year-end 2010 were \$44,209. Based on the Association's Actuarial Report, a fiscal year-end claim liability of \$5,000 remained.

OTHER ACTIVITIES

The Association interacts, as appropriate, with its Member Insurers, with the Director of the Illinois Division of Insurance and his staff, with the Office of the Special Deputy Receiver, as well as foreign receivers, and with other state guaranty associations with respect to insolvency matters. The Association actively participated in 2010 with respect to suggesting revisions to the Illinois Life and Health Insurance Guaranty Association Act to adopt provisions consistent with the NAIC Model Life and Health Insurance Guaranty Association Act and the Association's Plan of Operation.

The Association was an active participant on 11 of NOLHGA's Members' Participation Council multi-state insolvency task forces during fiscal 2010, as well as in other NOLHGA activities designed to support swift, economic and accurate fulfillment of member state guaranty association obligations. The Association's Executive Director, Mr. Daniel A. Orth III, serves as the Task Force Chair

for NOLHGA's National Heritage Life Insurance Company Insolvency Task Force; and NOLHGA's Medical Savings Insurance Task Force; the successor Chair to NOLHGA's Confederation Life Insolvency Task Force; is a member of the NOLHGA Board's Guaranty System Modernization Task Force; is a member of NOLHGA's Communication Committee, serves as a member of NOLHGA's MPC Executive Committee, and Chairs the MPC Executive Committee Sub-group on Administrative Expenses. Mr. Orth is also active in the insurer insolvency receivership community, having actively participated for over 15 years through membership in the International Association of Insurance Receivers (IAIR). He was elected to and served two three-year terms on IAIR's Board of Directors, left the Board for a year, and was twice again elected to serve a 3-year term on IAIR's Board, of which two years remain. He actively participates as a member of IAIR's Accreditation and Ethics Committee and Chair's the Governance Committee and the Election Sub-committee.

Two members of the Association's Board of Directors also serve on the NOLHGA Board of Directors. John Mathews, who represents Allstate Life Insurance Company, chairs both the ILHIGA and the NOLHGA Boards; Merle Pederson past-chair of the NOLHGA Board, represents Principal Life Insurance Company.

COMMENTS AND RECOMMENDATIONS

Guaranty Act Coverage-Appeals

Part of the day-to-day activity of the Association is to make determinations as to whether claims presented for coverage under the Act are to be deemed covered by the Act or not. When a claim for coverage is denied by the Association, the claimant has the right to appeal the Board's decision to the Director, pursuant to §531.11(3).

In response to such appeals, the Director has typically appointed hearing officers to make findings of fact, to reach conclusions of law and to make recommendations to the Director with respect to decisions on such appeals. There have been occasions in the past when such hearing officers have had little or no previous exposure to the business of insurance, and especially to life and health insurance company insolvencies or to guaranty association statutory obligations, each of which are specialized and complex fields of law in their own right.

Hearing officers have, in the past, submitted their findings, conclusions and recommendations to the Director without simultaneous notice to either the Association or the appealing policyholder. The interested parties have therefore had no opportunity to comment upon the hearing officer's findings, conclusions and recommendations in advance of the Director's having

taken action on them. The parties have therefore first learned about the hearing officers' findings, conclusions and recommendations only after they have been adopted and made final.

The Association's Board recommends that the Director consider implementing a practice of directing a hearing officer to prepare "tentative" findings of fact, conclusions of law and recommendations and to serve copies of same on all parties at the same time they are handed to the Director, allowing the parties a reasonable opportunity to comment upon them before the Director adopts them. (A similar procedure is followed by the Illinois Commerce Commission before it issues a final decision after an evidentiary hearing.)

Such a procedure would afford the hearing officer(s) or the Director, or both, an opportunity to review the comments of the parties, if any, and to give consideration to suggested revisions of tentative findings, conclusions and recommendations before they become final. This would present an opportunity to avoid possible errors that might include the following:

- (1) findings for which there is no basis in the record;
- (2) conclusions that overlook and/or contradict provisions of the Guaranty Association Law;
- (3) decisions that inadvertently contradict or overrule prior determinations made by the Director.

All parties to the Director's administrative hearing process have a substantial interest in the Director's rendering final decisions that have the highest possible quality. The procedure suggested herein has the potential to add to that quality and to eliminate costly appeals from perceived errors.

The Board also urges the Director to appoint hearing officers who possess some background and experience with life and health insurance insolvency law, if not guaranty association law, *per se*, to increase the likelihood that the purposes of the Association's enabling act are understood and carried out.

Consumer Confusion

For many years now all insurers delivering policies of insurance in Illinois have been statutorily required by 215 ILCS 5/531.19 to enclose, along with the delivery of the policy, a "disclaimer" as to guaranty association coverage. The disclaimer notice has always contained two phone numbers: first, the Association's phone number; and second, the phone number of the Illinois Department of Insurance. The notice is not required to, nor does it, contain the phone number (or e-mail contact information) of the member insurer that issued the policy. Hundreds of policyholders call the Association, (and, no doubt, the Department) each year, to cancel coverage, to change beneficiaries,

to deny they ever intended to make a purchase, to confirm or certify coverage, and for various other coverage-related reasons for which the Association and the Department are powerless to help them. The carriers that issued their policies could, of course, help them, yet the carriers' phone numbers are not to be found on or with the disclaimer form.

The Association staff has certainly spent thousands of hours handling phone inquiries unrelated to guaranty association matters solely because the Association's phone number is found in the disclaimer and the issuing carrier's is not. Almost certainly the staff of the Department of Insurance has, as well. In fact, many policyholders tell us they cannot find their insurer's phone number anywhere in their policy-related materials.

The Association has directly sought the cooperation of the insurers whose policyholders seemed to be the most frequent callers, but that has produced scant relief over the years that this has persisted.

The Association believes that if the disclaimer form enclosed by the carrier with the delivery of each policy, was required to include the carrier's toll-free telephone number that the policyholder could call to contact his/her insurer with policy-related questions, it would greatly benefit the consumer. The Association pleads for the assistance of the Illinois Director of

Insurance to that end, by seeking an amendment to the wording used in the disclaimer, or by a Department of Insurance directive to all Illinois-licensed companies that their disclaimer form must also supply their policyholders with a toll-free customer service phone number to call to reach their carriers.

John R. Mathews
Chairman of the Board
Illinois Life and Health
Insurance Guaranty Association