Texas Life & Health Insurance Guaranty Association

2019 Annual Report

This annual report provides financial information and a summary report of the activities of the Texas Life & Health Insurance Guaranty Association ("Association") for fiscal year 2019. The information is general in nature and is not legal advice.

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Texas Life & Health Insurance Guaranty Association

REPORT FROM THE CHAIR

On behalf of the Texas Life and Health Insurance Guaranty Association ("Association"), I am pleased to submit the 2019 Annual Report. This is the 27th annual report since the Texas Legislature separated and privatized the Association's operations from within the Texas Department of Insurance in 1992.

The Association was activated to provide protection for Texas policyholders of one new insolvent member insurance company during 2019. There are also ongoing statutory protections being provided to policyholders for six member insurance companies that were ordered liquidated in prior years. As of year-end 2019, the Association estimated aggregate future costs of approximately $3.55 million to provide protection to Texas policyholders from these active insolvencies.

Legislation was enacted to change the Association's governing statute as of September 1, 2019. The revisions, detailed in the Annual Report, conform with recent revisions to the Life and Health Insurance Guaranty Association Model Act to promote uniformity of protection and preservation of the state-based guaranty association system.

Two directors, Dean Frigo and I, were reappointed to the Board of Directors on November 7, 2019 by Texas Commissioner of Insurance Kent Sullivan. Our new terms will expire on September 30, 2025. Director Tom Munson, after more than 15 years of service on the Association's Board, chose not to seek reappointment when his term expired on September 30, 2019. He continued to serve through year-end while the search for a replacement was being conducted.

Member insurers are subject to two types of assessments from the Association: Class A and Class B. Class A assessments provide the funding of administrative and general expenses not related to a specific insolvency. Class B assessments provide the Association with the funding to carry out its statutory duties and policyholder protection for specific insolvencies. There were no Class A or B assessments authorized during 2019.

The Association continued its high level of participation in the National Organization of Life and Health Insurance Guaranty Associations ("NOLHGA"). The Association chairs or serves on a number of insolvency task forces and other special-issue committees. The coordination of efforts and sharing of resources afforded through our membership in NOLHGA are vital to the efficient and timely delivery of the Association's statutory protection to Texas policyholders.

The Association continues its active role to protect Texas policyholders. We continue to meet the challenges of any economic, governmental, or legislative changes or issues that may arise, and as of this writing, are adapting to the effects of an unexpected COVID-19 pandemic. We perform the responsibilities entrusted to us with due diligence, transparency, and full disclosure. The Association uses all the tools at its disposal to protect Texas policyholders in the event of the insolvency and liquidation of a member insurance company.

Respectfully,

James G. Lewis, Chair of the Board of Directors

DESCRIPTION OF THE ASSOCIATION AND ITS BOARD OF DIRECTORS

The Texas Life and Health Insurance Guaranty Association ("Association") was created in 1973 by the Texas legislature as a nonprofit legal entity. It is governed by Chapter 463 of the Texas Insurance Code.

The purpose of the Association is to protect Texas resident policyholders and their beneficiaries in the event a member insurance company licensed to write life, accident and health, or annuity business in Texas is declared insolvent and liquidated by court order.

The Association is responsible for continuing insurance policy coverage for Texas policyholders, including paying claims and other policy benefits. The amount of protection for each type of policy benefit is subject to limitations in accordance with Texas law.

When a court finds an insurance company insolvent and orders it liquidated, a receiver takes over the insurer and liquidates the assets under the court's supervision. The Association is a claimant against the estate of the insolvent insurance company to the extent of the payments and benefits it provides to policyholders. The Association may recover a portion of its costs to protect the policyholders as the assets of the insolvent company are liquidated. If further funds are needed, the Association's Board of Directors determines the amount and levies an assessment, or bill, to the other member insurance companies.

Membership with the Association

An insurance company becomes a member when it is granted a certificate of authority, or license, by the Texas Department of Insurance. Membership is mandatory for all insurance companies licensed in Texas to write the types of life, accident and health, HMO, or annuity business protected by the Association.

An insurance company is excluded from membership if it is licensed by the Texas Department of Insurance as one of the following: (1) a fraternal benefit society, (2) a reciprocal or interinsurance exchange, (3) a mandatory state pooling plan, (4) a charitable gift-only annuity company, or (5) a program or entity similar to any of the above excluded entities.

Legislative Changes

In 2019, the Texas Legislature passed amendments to the Association's enabling and governing law. Senate Bill 1153 passed the Texas Senate on April 11, 2019 and the House on May 17, 2019 and was signed by Governor Abbott on May 21, 2019. The updates took effect on September 1, 2019. The amendments added previously excluded HMO companies as member companies of the Association. The amendments also altered the methodology for allocating and calculating the Association's Class B assessments for long-term care insurance obligations.

The amendments also updated the use of permissible meeting formats to include the use of teleconference, videoconference, or other similar telecommunication methods for Board of Director and Committee meetings.

Supervision of the Association

The Association's business and affairs are supervised by the Board of Directors. There are regular quarterly meetings of the Board of Directors each year, plus special meetings as may be required. Meetings are noticed and held in compliance with applicable open meetings law.

The governing documents of the Board and the Association are its Plan of Operation, Bylaws, and Chapter 463 of the Texas Insurance Code.

The nine members of the Association's Board of Directors are appointed by the commissioner of insurance. Five members must be officers or employees of member insurance companies—three that are from the top fifty premium writers in Texas and two from smaller companies. The remaining four directors are "public" and must be independent of the insurance industry. Directors are appointed to staggered six-year terms, and three directors' terms expire each odd-numbered year. A director can be appointed to unlimited terms.

Directors receive no compensation but are entitled to reimbursement of their expenses when involved with Association activities. Each director must file a personal financial statement annually with the Texas Ethics Commission on a prescribed form. Counsel to the Board, Counsel to the Association, and the Executive Director of the Association are compensated for their services.

BOARD OF DIRECTORS
as of December 31, 2019

James G. Lewis, Chair
President & CEO
Central Security Life Insurance Company
Richardson, Texas. Director since 2008
Current term expires September 30, 2025

James M. Harrison, Vice-Chair
Counsel, Government Relations
Principal Financial Group
Des Moines, Iowa. Director since 2007
Current term expires September 30, 2021

James E. Huckaby, Secretary
Executive Director -
Operations/Risk Management
Mesquite Independent School District
Mesquite, Texas. Director since 2013
Current term expires September 30, 2023

Dean Frigo, Treasurer
Retired City Government Executive
Amarillo, Texas. Director since 2007
Current term expires September 30, 2025

Ted Kennedy
Vice President, Co-Head State Government Affairs
American International Group, Inc.
Houston, Texas. Director since 2015
Current term expires September 30, 2023

Robin L. Vincent
Benefits Administrator
Harris County
Houston, Texas. Director since 2016
Current term expires September 30, 2021

Thomas Munson
President & CEO
Landmark Life Insurance Company
Brownwood, Texas. Director since 2016
Current term expired September 30, 2019

Pati McCandless
Vice President, State Health Policy
Blue Cross Blue Shield of Texas
Austin, Texas. Director since 2017
Current term expires September 30, 2023

David W. Sommer
Professor of Risk Management
St. Mary's University
San Antonio, Texas. Director since 2017
Current term expires September 30, 2021

Legal Counsel to the Board of Directors
B. Shelby Baetz
The Baetz Law Firm
Houston, Texas

Legal Counsel to the Association
Jacqueline Rixen
Law Office of Jacqueline Rixen
Austin, Texas

Executive Director
Bart A. Boles

BOARD COMMITTEES
as of December 31, 2019

Executive Committee	*Audit Committee*	*Assessment/Investment Committee*	*Personnel Committee*	*Legislative Committee*
James G. Lewis, Chair	Dean Frigo, Chair	James M. Harrison, Chair	Robin L. Vincent, Chair	Pati McCandless, Chair
James M. Harrison	Thomas Munson	Dean Frigo	James E. Huckaby	James M. Harrison
James E. Huckaby	James G. Lewis	Ted Kennedy	David Sommer	Ted Kennedy
Dean Frigo				

CORPORATE GOVERNANCE

The Association's corporate governance policies continue to be monitored and reviewed by the Board of Directors and its committees to maintain the integrity and transparency of the Association's activities. The primary governance documents are:

- ◊ Governing statute, Chapter 463 of the Texas Insurance Code
- ◊ Plan of Operation
- ◊ Bylaws
- ◊ Board of Directors Corporate Governance Guidelines
- ◊ Antitrust Compliance Policy and Annual Certification Form
- ◊ Policy Statement on Conflicts of Interest and Business Ethics and Annual Questionnaire
- ◊ Charter of the Audit, Assessment/Investment and Personnel Committees
- ◊ Business Continuity Plan
- ◊ Policy and Procedures Manual
- ◊ Privacy Policy
- ◊ Texas Open Meetings and Open Records Acts

On September 1, 2019, Senate Bill 1153 amending Texas Insurance Code Chapter 463, the Association's governing statute, became effective. The amendments are in line with nationwide efforts to address guaranty association protections in view of the changing landscape of life and health insurance. Significant changes include:

1. Adding Health Maintenance Organizations as member insurers
2. Changing assessments for long-term care obligations, and specifying how hybrid long-term care products are covered
3. Specifically excluding coverage for Medicaid policies or contracts
4. Clarifying that statutory interest rate adjustments do not apply to long-term care and health policies
5. Updating the procedures for the Association's board of directors and committees to meet via telephone or video conference

As part of the implementation of the amendments, the single page summary document required by Chapter 463.114 of the Texas Insurance Code that discloses the Association's general purpose and coverage limitations was revised to reflect changes affecting policyholders. In keeping with Texas Insurance Commissioner Kent Sullivan's "plain language" initiative, Texas Department of Insurance personnel assisted to make the document easier to read, and the Commissioner approved it on November 20, 2019. The Association distributed the new summary document to all member insurance companies with a notice of the requirement that, within 60 days after the Commissioner's approval date, they must attach the new summary document with each new policy that is protected by the Association. Member insurers are not required to distribute the new summary document to existing policyholders unless a policyholder requests it. Downloadable pdf versions of the new summary document in both English and Spanish were posted on the Association's website.

The Association's Plan of Operation was also amended to reflect the changes in Senate Bill 1153, including the detailed calculation for the assessments for long-term care obligations. Commissioner Sullivan approved the amended Plan of Operation, and it took effect on September 1, 2019.

Additional corporate governance activities conducted during 2019 include:

- enhancing hardware settings in response to an external network penetration and social media testing that was performed by a consulting firm,
- developing and adopting a Security Event Response Plan,
- monitoring conflict of interest/business ethics questionnaires and antitrust certifications, and
- developing an extensive report to document the processes and procedures of the Association's critical functions.

OVERVIEW OF OPERATIONS

GENERAL

The Association was activated to provide its statutory protection of policyholders for one member insurer in 2019. One insolvency was closed in 2019, and substantial work was carried out on ongoing insolvencies that began in prior years.

The Association continues to monitor troubled companies in order to be prepared should liquidation become necessary. The Board of Directors prefers to transfer insurance policies protected by the Association to a solvent carrier through an assumption reinsurance transaction. This has been the most frequently used method for the Association to fulfill its statutory obligation to continue the coverage under the life insurance policies and annuity contracts. Only in cases where no company is willing to assume the policies or the transfer funding cost associated with such an assumption transaction would be dramatically more expensive does the Association continue the administration of the covered policies.

We believe the Association is in sound fiscal condition and has in place the appropriate policies and procedures to meet the needs of its policyholders, members, and Texas taxpayers in a cost-efficient manner.

NOLHGA ACTIVITIES

nolhga National Organization of Life & Health Insurance Guaranty Associations

The Association is a member of the National Organization of Life and Health Insurance Guaranty Associations ("NOLHGA"), a voluntary association consisting of the life and health insurance guaranty associations in all 50 states and the District of Columbia.

NOLHGA facilitates insolvency task forces and special issues committees to properly support its member associations in resolving multi-state insolvencies and addressing issues affecting the entire guaranty association system.

Association representatives serve on a number of insolvency task forces and other NOLHGA committees working to coordinate and improve the effectiveness and efficiency of the life and health insurance guaranty association system. This service includes NOLHGA's Communications Committee, Education Committee, Security Advisory Committee, Legal Committee, and several special issues committees.

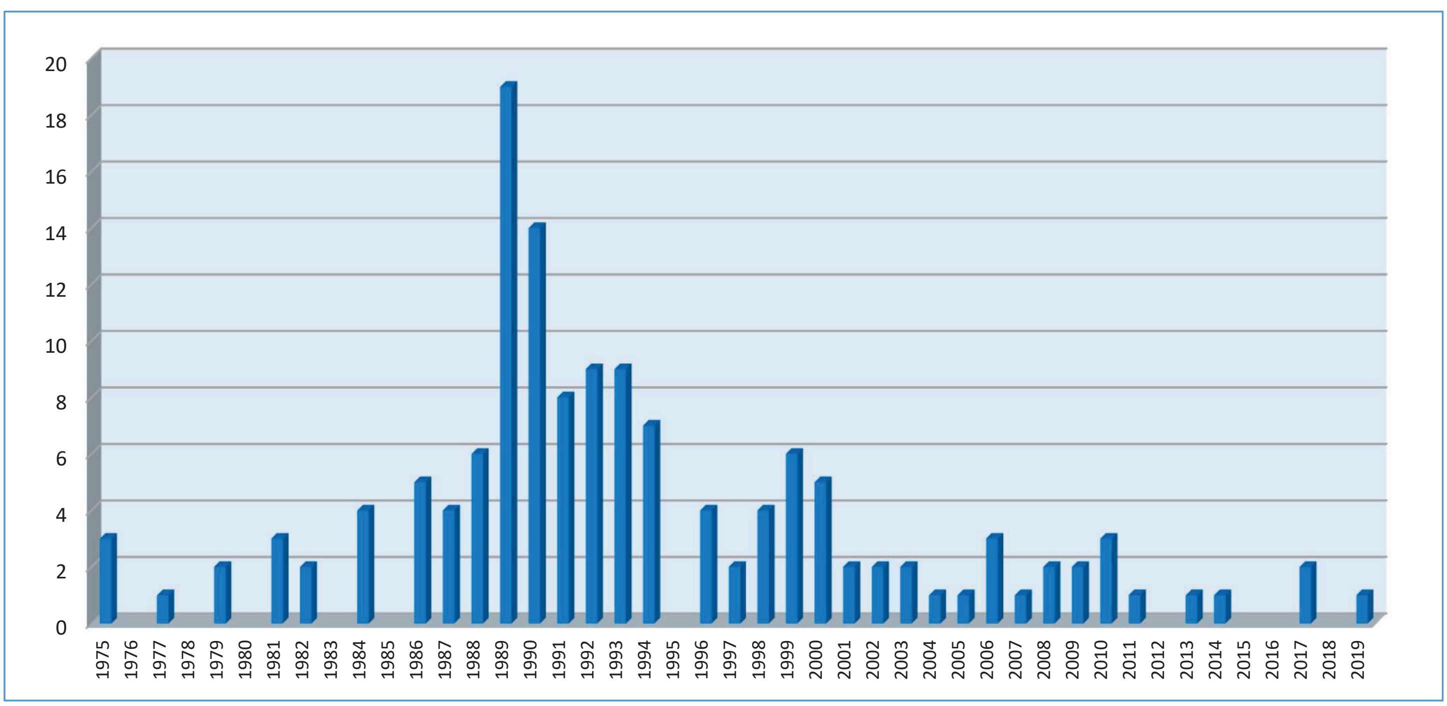
Being a member of NOLHGA is another tool the Association uses to better protect the residents of Texas who hold life, health, and annuity policies.

ACTIVE RECEIVERSHIPS

At the beginning of 2019, there were 22 active receiverships of foreign and domestic member insurance companies that had also been designated as “impaired insurers” by the Texas Commissioner of Insurance. One member insurance company was found to be insolvent and ordered liquidated by a court and/or an impairment order issued by the Texas Commissioner of Insurance in 2019.

One member insurance company receivership was closed during 2019, leaving the Association activated for 22 open receivership estates, 18 of which are foreign-domiciled member insurers and 4 of which are Texas domestics.

NEW ACTIVATIONS BY YEAR SINCE ASSOCIATION FORMATION



POLICY BENEFIT PAYMENTS

Summary of Policy Benefit Payments

The Association met its statutory obligations to continue coverage and pay the policy benefit claims for Texas resident policyholders, either by:

1. Directly paying claims as they became due or

2. Funding the transfer of the policies to a solvent member insurance company through a coinsurance or an assumption reinsurance agreement. Some of these assumption reinsurance agreements were part of continuing court-approved, multi-year plans.

Direct Claims Payments

The Association funded 96 direct claims, totaling approximately $219,951 during 2019. These claims, from three different insolvent companies, were processed and paid by third-party administrators under service agreements with funding from the Association.

The charts below reflect the number of direct claims payments for each of the last five years and the division of the Association's funding between direct claims payments and assumption reinsurance transactions.

Reinsurance Agreements

The Association is a party to both assumption and coinsurance reinsurance transactions.

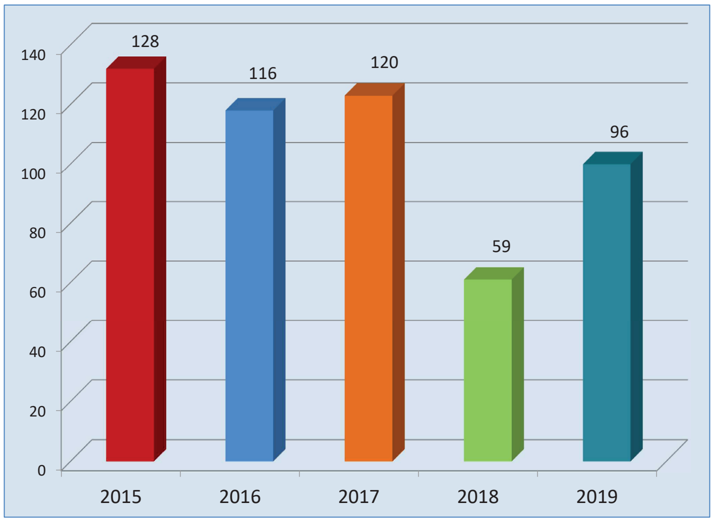
During 2019, the Association's net payments under reinsurance agreements, to transfer the covered insurance policy obligations of insolvent member insurers to active insurance companies, totaled approximately $161,934.

The 2019 reinsurance activity is summarized in the table below:

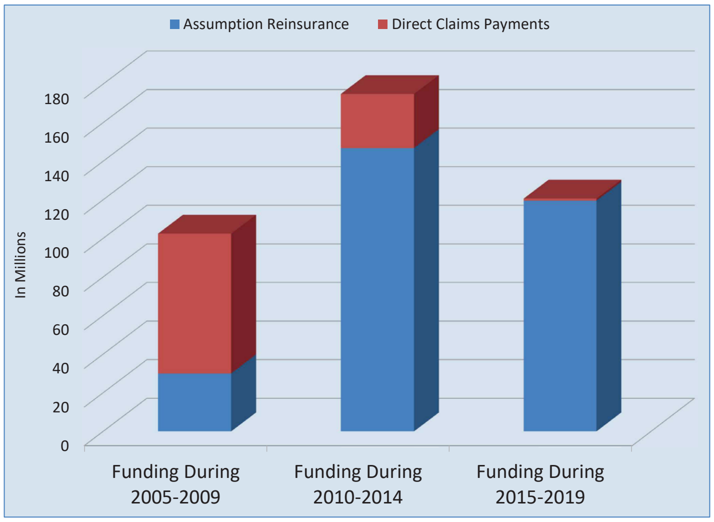
INSOLVENT MEMBER INSURANCE COMPANY	2019 FUNDING
Executive Life Insurance Company [1]	$ 92,182
Lincoln Memorial/Memorial Service Life Insurance Companies [2]	$ 70,000
	$ 162,182

[1] Continuing multi-year plan
[2] True-up of assumption in a prior year

NUMBER OF DIRECT CLAIMS PAYMENTS 2015-2019



DIRECT CLAIMS AND ASSUMPTION REINSURANCE PAYMENTS



REMAINING POLICY BENEFIT OBLIGATIONS

The Association projects its future insurance policy obligations for existing insolvencies based on claims experience, actuarial estimates of runoff policy liabilities, scheduled payments under court-approved multi-year plans, and negotiated reinsurance transfer costs. These estimates are updated monthly based on the best information available and are subject to change.

As of year-end 2019, the Association estimates its aggregate future policy benefit obligations to be approximately $3.55 million. This level is again substantially lower than in prior years because of (1) the payments to fully resolve all policy obligations in several insolvencies and (2) a reduction in the number of member insurance company insolvencies.

SUMMARY OF RECOVERIES

The Association, along with the other affected guaranty associations, is a creditor in the receivership estate of an insolvent member insurance company. Generally, the guaranty associations represent the largest creditor class in any insurance company insolvency. In most states' receivership statutes, the administrative expenses of a receiver and the guaranty associations are in the highest priority creditor class and receive the first distributions as assets are liquidated. The guaranty associations' claims for the benefits paid to policyholders or payments to transfer covered policies under a reinsurance agreement, along with policyholders' claims for benefits in excess of the guaranty associations' statutory coverage limits, are usually the next creditor class and ahead of the other classes, such as federal or local governments, unsecured creditors, agents, bond or note holders, and shareholders.

The amount of the Association's claims filed with receivership estates is reflected in its financial statements as a receivable. The amount of any anticipated recovery is contingent on the efficient operations of the receiver to maximize the value realized as assets are liquidated and the value of claims of creditors in the same class. The estimated amount that may be received is reduced by an allowance for collectability.

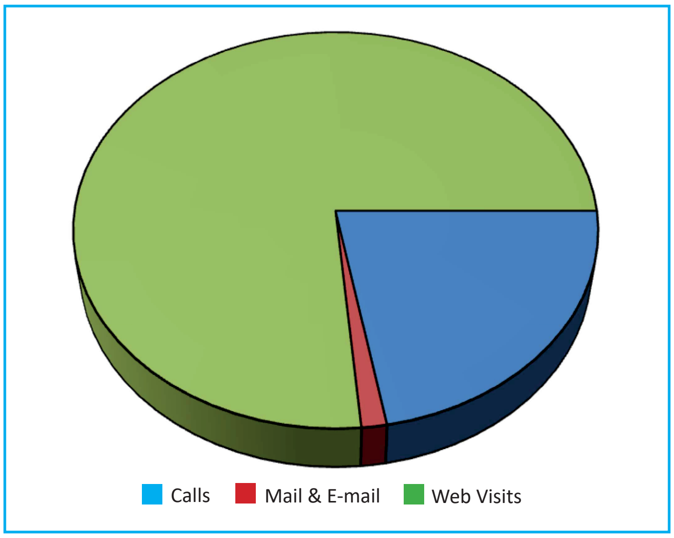
The Association has continued to file updated proofs of claim with receiverships. As of year-end 2019, the Association had filed outstanding claims totaling approximately $601 million with receivership estates that remain open as active court proceedings. It is not possible to project what amount of recoveries the Association may realize on these claims without final financial information from these estates, including the adjusted amount of assets liquidated and the creditor claims by class. Recoveries in the form of asset distributions from receivership estates to the Association during 2019 totaled approximately $423,633.

CONSUMER SERVICES

The Association's staff provides general coverage and operational information by telephone, e-mail, and mail in response to requests from Texas residents. Also, the Association's website (www.txlifega.org) provides visitors with a large amount of information, including the meetings schedules, frequently asked questions on Association coverage, the Board of Directors roster, the policyholder protection policy attachment, and specific insolvency related notices.

During 2019, the Association received a total of 2,637 phone calls through its direct or toll-free phone numbers, logged 9,099 visitors to its website, and fielded 170 e-mail and mail requests for information.

2019 CONSUMER SERVICES



ACTIVITIES ON INSOLVENCIES

During 2019, the Association provided ongoing coverage and/or paid policy benefits on six insolvencies. The following four insolvencies are specifically mentioned because of their financial impact and complexity.

PENN TREATY AND AMERICAN NETWORK INSURANCE COMPANIES

Penn Treaty Network America Insurance Company ("Penn Treaty") and American Network Insurance Company ("ANIC"), its insurance company subsidiary, are Pennsylvania domestic life insurance companies that wrote long-term care ("LTC") insurance beginning in 1972. In 2002, Penn Treaty's adjusted capital and surplus were below the Regulatory Action Level, requiring it to file a Corrective Action Plan with the Pennsylvania Insurance Department. Penn Treaty and ANIC suspended underwriting activities, reviewed and adjusted underwriting and claims protocols, increased reserves, sought and obtained additional reinsurance, commenced efforts to raise capital, adopted the Corrective Action Plan, and then resumed writing new business.

Penn Treaty and ANIC were placed in rehabilitation on January 6, 2009. After evaluating several rehabilitation alternatives, the Pennsylvania Commissioner filed petitions for liquidation on October 2, 2009 with the Commonwealth Court of Pennsylvania. Penn Treaty's statutory capital and surplus was reported to be negative by more than $1.3 billion as of June 30, 2009, and ANIC's statutory capital and surplus was negative by more than $45 million.

After a hearing on the liquidation petitions that spanned more than a year, on May 3, 2012, the Court issued an order denying the liquidation petitions and ordering the rehabilitator to file a plan of rehabilitation that addressed and eliminated the inadequate and discriminatory premium rates for the policies issued prior to 2002. For the following four years, various rehabilitation plans were developed through meetings with representatives of various interested parties, including the shareholders, agents, guaranty associations, and a small number of large health insurance companies. Ultimately, the rehabilitation petitions were converted to liquidation petitions in July 2016. Liquidation orders against Penn Treaty and ANIC were entered by the Court on March 1, 2017.

The Penn Treaty and ANIC coverage obligations for Texas resident policyholders, for which the Association became statutorily obligated to protect, were calculated through an actuarial model to be approximately $202.03 million on an aggregate basis. After discounting at a 4.25% interest rate as of March 1, 2017 (the Liquidation Date), the present value of these coverage obligations totaled approximately $137 million. The Association and 43 other guaranty associations participated in the formation of LTC Reinsurance PCC ("LTC Re"), a captive insurance company, and then 100% coinsured their obligations to LTC Re. The coinsurance agreements with LTC Re required payments from each of the ceding guaranty associations equal to 90% of the discounted liability through a 20% cash payment within 90 days after the Liquidation Date, and the remaining 70% through promissory notes with up to five equal annual installments plus interest at 4.25%. In May 2017, the Association made the 20% cash payments for both companies totaling $27,402,654 and executed two promissory notes with LTC Re with face amounts totaling $95,909,289.

The Commonwealth Court of Pennsylvania approved the use of a portion of the Penn Treaty and ANIC estate assets to continue funding the guaranty associations' ongoing claims obligations and administration expenses as early access distributions to the guaranty associations. This relieved LTC Re of monthly funding obligations under the Interim Services Agreement with the Receiver for a period of time. LTC Re notified the Association that these early access payments would reduce the principal and interest obligations under the notes the Association issued to LTC Re. The Association paid off both promissory notes with LTC Re on December 15, 2017 with payments totaling approximately $89,646,994. The note payoff amounts reflected the deduction of approximately $9,353,174 of early access funding credits as of the December 15, 2017 payoff date. There was no penalty for the prepayment of the notes in full. The Association has no amounts currently owing to LTC Re.

During 2019, the Association continued to monitor the administration of its Penn Treaty and ANIC obligations to determine whether any additional funding will be required for the 10% of the discounted obligations amount that was not required in the initial funding to LTC Re or whether additional funding is otherwise required under the coinsurance agreements. The need for additional funding will be impacted by the actual experience of the block of business when compared to the assumptions in the actuarial model, the Association's share of the investment returns realized by LTC Re, the ultimate allocation and distribution of Penn Treaty and ANIC assets, and the financial impact of any premium rate increases. The Association's exposure for additional funding, if any, may not be known for several decades.

Benefit payments from July 1, 2017 through December 31, 2019 under the policies protected by the Association and paid with the funds provided by the Association to LTC Re, totaled $39,761,171.

The Association's premium rate increase request that was approved by the Texas Department of Insurance for the 2,193 Penn Treaty and ANIC policies issued in Texas was implemented on the affected policies' renewal dates through September of 2019.

The Association's Executive Director serves on a number of committees and working groups that conduct ongoing oversight of policy and claims administration for Penn Treaty and ANIC. This involved participation in a group negotiating an administration services agreement with a third-party administrator selected through a competitive bidding process. The agreement was finalized and became effective on October 1, 2019. It is anticipated that the full conversion to the new administration system will be completed by April 1, 2021.

MEMORIAL SERVICE AND LINCOLN MEMORIAL LIFE INSURANCE COMPANIES

Memorial Service Life Insurance Company ("Memorial Service") was a stipulated premium insurance company authorized to transact business only in Texas. Lincoln Memorial Life Insurance Company ("Lincoln Memorial") was an affiliated insurance company domiciled in Texas with licenses to conduct insurance business in 44 states.

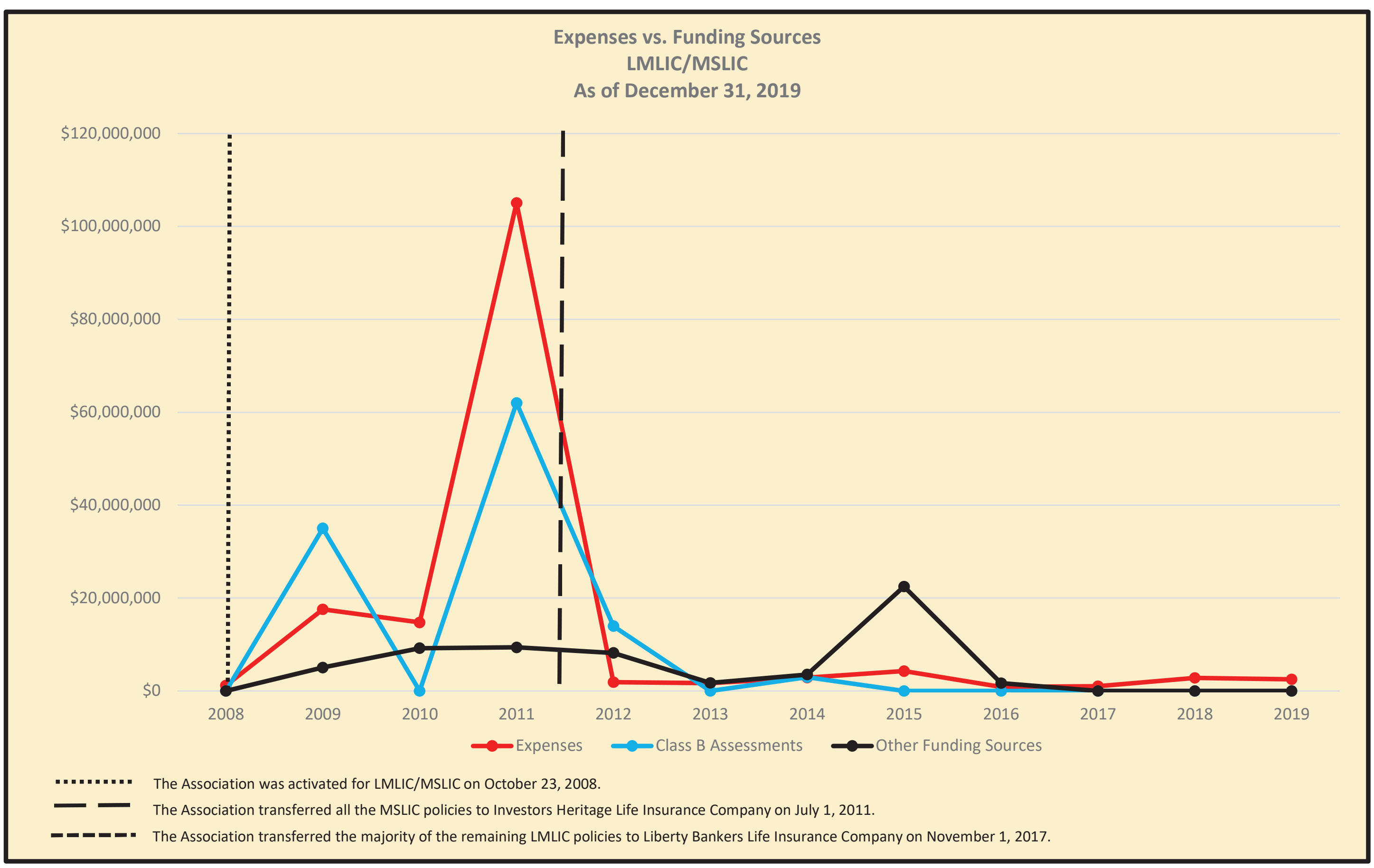
The business of both Memorial Service and Lincoln Memorial focused primarily on the sale of small face-amount life policies used to fund prepaid funeral benefits contracts. The prepaid funeral benefits contracts were marketed by an affiliated non-insurance entity, National Prearranged Services, Inc. ("NPS").

Memorial Service and Lincoln Memorial were placed under an order of liquidation on September 22, 2008. The Association participated in the court-approved Liquidation Plan that had been developed between the Texas Department of Insurance, the Special Deputy Receiver ("SDR"), and the guaranty associations affected by the insolvency of these two companies. Under the Liquidation Plan, the guaranty associations provide coverage for the risk that was originally transferred under the whole life insurance policy—that is, payment of a lump-sum death benefit to fund the funeral services and merchandise for the insured. The Liquidation Plan operates as a "runoff." The SDR serves as the third-party administrator for the guaranty associations. Death claims are processed as incurred. Valid claims are paid subject to the Liquidation Plan and only after an assignment and release have been signed and delivered to the SDR.

In 2011, the Association transferred 52,553 Memorial Service life insurance policies to Investors Heritage Life Insurance Company ("IHLIC") through an assumption reinsurance agreement funded by a $94,151,700 payment to IHLIC. The Association has conducted additional true-up transactions with IHLIC to resolve data correction adjustments to reserve calculations used in the closing and to fund claims for policies transferred that were later discovered to involve a death prior to the closing date.

In 2017, the Association participated in an assumption reinsurance agreement with Liberty Bankers Life Insurance Company ("Liberty") that was developed through a NOLHGA task force. The Association funded $1,019,600 to transfer the majority of its remaining Lincoln Memorial life insurance policies to Liberty. The Association retained approximately 127 policies that required additional data research and adjustment. The Association continued to pay benefits under these policies as deaths occur while the research was being conducted. Most of the remaining policies were transferred to Liberty in the first half of 2019.

The Association has provided protection for 65,369 Memorial Service and Lincoln Memorial policies owned by Texas residents through $37,608,830 of direct death benefit payments and $95,166,922 of funding to transfer policies to other insurance companies under assumption reinsurance agreements through year-end 2019. There are 49 remaining policies with face amounts totaling $68,821 for which the Association will provide benefits as they become due.



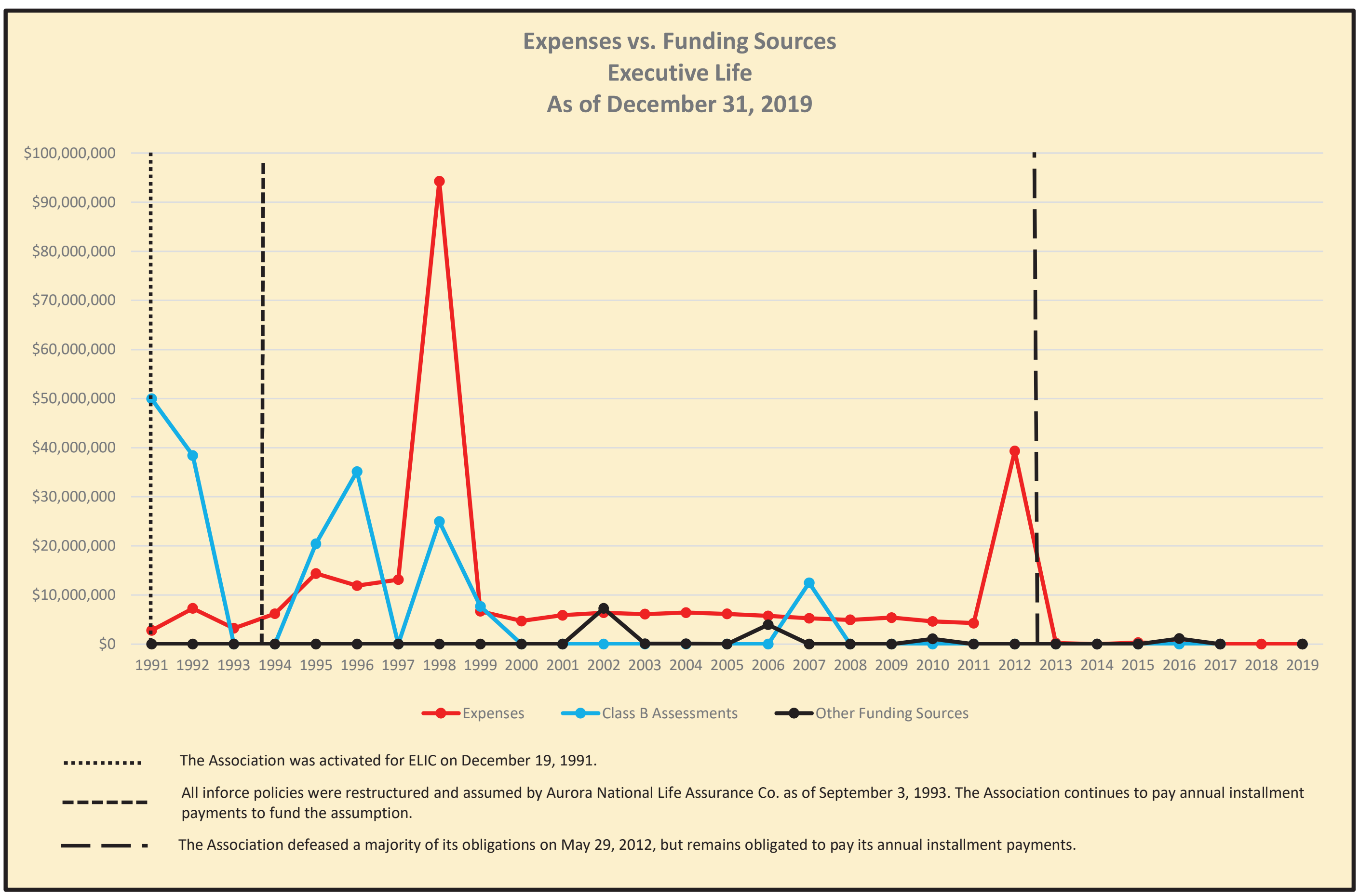
EXECUTIVE LIFE INSURANCE COMPANY

Executive Life Insurance Company ("ELIC") was a member insurance company domiciled in California 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 because of 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 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. Since 1992, the Association has continued to fund its annual installment payment obligations to Aurora. The Association's Board of Directors elected to make the May 2012 defeasance payment of $39,231,008 to eliminate $73,758,402 of estimated remaining aggregate installment payment obligations.

The portion of the annual installment obligations under Articles 22 and 23 of the Enhancement Agreement were not included in the defeasance amount. The Association paid a $92,182 installment to Aurora in April 2019. The estimated remaining installment obligations to Aurora total $528,062.

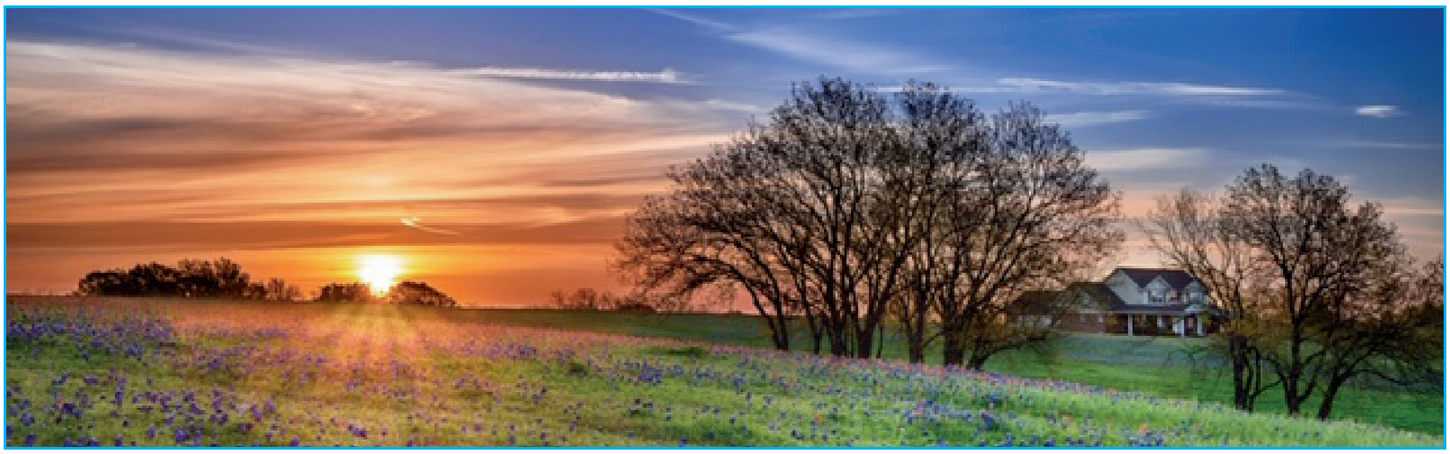
The Association has made $263,043,459 of payments to Aurora through direct payments of the installments and the defeasance amount. In addition, the Association's share of distributions from the Executive Life Insurance Company trusts and the receivership estate totaling approximately $31,232,433 were paid to Aurora through the installment mechanism as credits to also discharge the Association's installment payment obligations. As of year-end 2019, the total paid to Aurora by the Association through both the direct payments and crediting of distributions have totaled approximately $294,275,892. ELIC is the most expensive insolvency in the history of the Association.



NORTHWESTERN NATIONAL INSURANCE COMPANY

Northwestern National Insurance Company (NNIC) was a property and casualty insurance company that wrote non-cancellable comprehensive health insurance in the 1960s and 1970s. In 1975, the company ceased writing new A&H business, and in 1986, NNIC was placed into a run-off mode by an agreement between management and the Wisconsin Office of the Commissioner of Insurance (OCI).

After years of rehabilitation efforts by the OCI, on May 2, 2019, NNIC was placed into liquidation by a Wisconsin court. As of the liquidation date, there were approximately 103 accident and health policies spread over 18 states. There were only two Texas resident policyholders still active on the liquidation date. The Association has continued these two policies and paid $30,396 of benefits as of the end of 2019.



ADDITIONAL INSOLVENCY ACTIVITY

The Association continues to provide coverage of policy benefits for two other insolvencies, National States Insurance Company and Universal Life Insurance Company.

In 2019, the Association paid a total of $161,597 in life and health claims for these insolvencies.

LITIGATION

It remains the belief of the Association's Board of Directors that litigation is a remedy of last resort. Since 1992, the Association has either settled claims or litigation on terms favorable to the Association or prevailed in the courts in all cases.

During 2019, no new lawsuits were brought against the Association by any person covered by the Association, and no adverse judgments were entered against the Association. Other claims litigation involving the Association is either dormant or not being prosecuted by the plaintiffs. The last protest of the October 2017 Class B assessment was withdrawn after a settlement was reached.

The litigation involving the Lincoln Memorial Life Insurance family of companies continued in 2019 with the conclusion of a trial to the court for breach of trust against the lone remaining defendant, PNC bank, successor to Allegiant bank, a former trustee. In July 2019, the court rendered judgment for the plaintiffs in the amount of $102,135,293: $72,287,615 for losses,

$14,847,678 for prejudgment interest, and $15,000,000 for punitive damages. The court amended the judgment in late 2019 to correct an arithmetic error in the prejudgment interest award and to change the time frame for calculating it. The amended award for prejudgment interest is $12,209,675 and the total amended judgment is $99,497,290. PNC appealed both orders and has filed its opening brief with the 8th Circuit. At the end of 2019, motions were pending with the trial court on plaintiffs' request for attorneys' fees and costs, and the plaintiffs' opening brief is due in the spring of 2020. No date for oral argument was yet scheduled.

The Lincoln Memorial litigation began in 2009 when the Association along with six other guaranty associations, the National Organization of Life and Health Insurance Guaranty Associations representing the other affected guaranty associations, the Special Deputy Receiver of Lincoln Memorial Life Insurance Company, Memorial Service Life Insurance Company and National Prearranged Services, Inc., as plaintiffs, filed suit to recover assets in connection with the insolvency of Lincoln Memorial Life Insurance Company, Memorial Service Life Insurance Company, and National Prearranged Services, Inc. Although most defendants settled before trial, the plaintiffs prevailed in a jury trial in 2015, and the only remaining defendant, PNC Bank, appealed the final judgment of almost $390 million to the 8th Circuit Court of Appeals. The plaintiffs cross-appealed and oral arguments were held in September 2016. In August 2017 the 8th Circuit issued its opinion holding that the case should have been tried as a breach of trust case to the court rather than a tort case to the jury, reversing the damage award and remanding the case to the district court for further proceedings. The second trial began in November 2018.

Claims Litigation

The Association continues to be involved as a defendant in two claims related lawsuits as of December 31, 2019. Both of these lawsuits are inactive.

ASSESSMENTS AND REFUNDS

Assessments

The Association is authorized to assess its member insurance companies for the purpose of providing the funds necessary to meet its obligations. The governing statute provides for two classes of assessments, Class A and Class B.

Class A assessments may be authorized and called to pay administrative and general expenses not related to a particular insolvent insurance company. Since it was created in 1973, the Association's Class A assessments total approximately $7.44 million. In 2019, the Association's Board of Directors did not authorize a Class A assessment. Investment earnings, allocation of expenses attributable to receivership estates, and retention of certain amounts from closed receivership estates have been sufficient to eliminate the need for Class A assessments until recently. The low-interest environment and small recoveries from estates have not been sufficient to cover the Association's operating expenses. The last Class A assessment was levied in 2016.

Class B assessments may be authorized and called to obtain the funds needed to fulfill the Association's statutory administrative expenses and obligations for insurance policies for a specific insolvent insurance company. The Assessment/Investment Committee of the Board of Directors meets periodically to review the financial position and projected cash flow for each insolvent company to determine whether a Class B assessment will be recommended to be authorized and called. The Board of Directors did not authorize a Class B assessment in 2019.

Member companies may protest assessments levied by the Association in accordance with the Association's governing statute.

The total Class B assessments since the formation of the Association is approximately $924.3 million. The chart below reflects the amounts assessed by account since inception, in five-year groupings.

Refunds

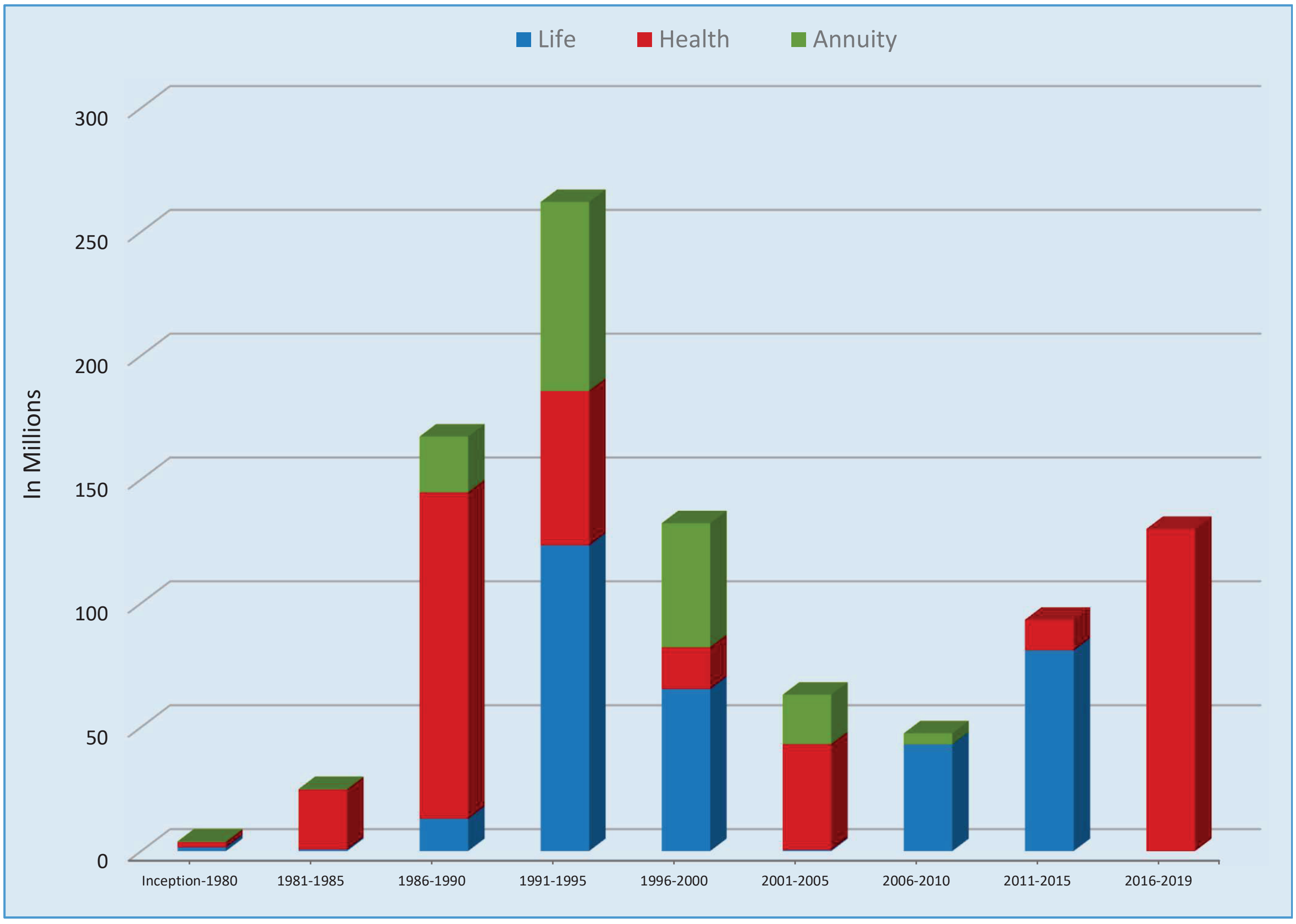
On occasion, the total funds received from premium collections, distributions from receivership estates, investment earnings, recoveries from other third-party sources and Class B assessments exceed the Association's total expenses related to a specific insolvency. These excess funds result from timing in the cash flow of the expenses and recoveries. In the normal course of an insolvency, Class B assessments are levied early in the insolvency process to provide the funding for the payment of insurance contractual obligations and related administrative costs. Estate distributions and recoveries from third parties often are received much later near the closing of the insolvent company's receivership.

Texas law authorizes the Association's Board of Directors to retain a reasonable amount of these excess accumulated funds for future expenses or to refund, if practical. The refunds to member insurers are made by credit against assessments called by the Association.

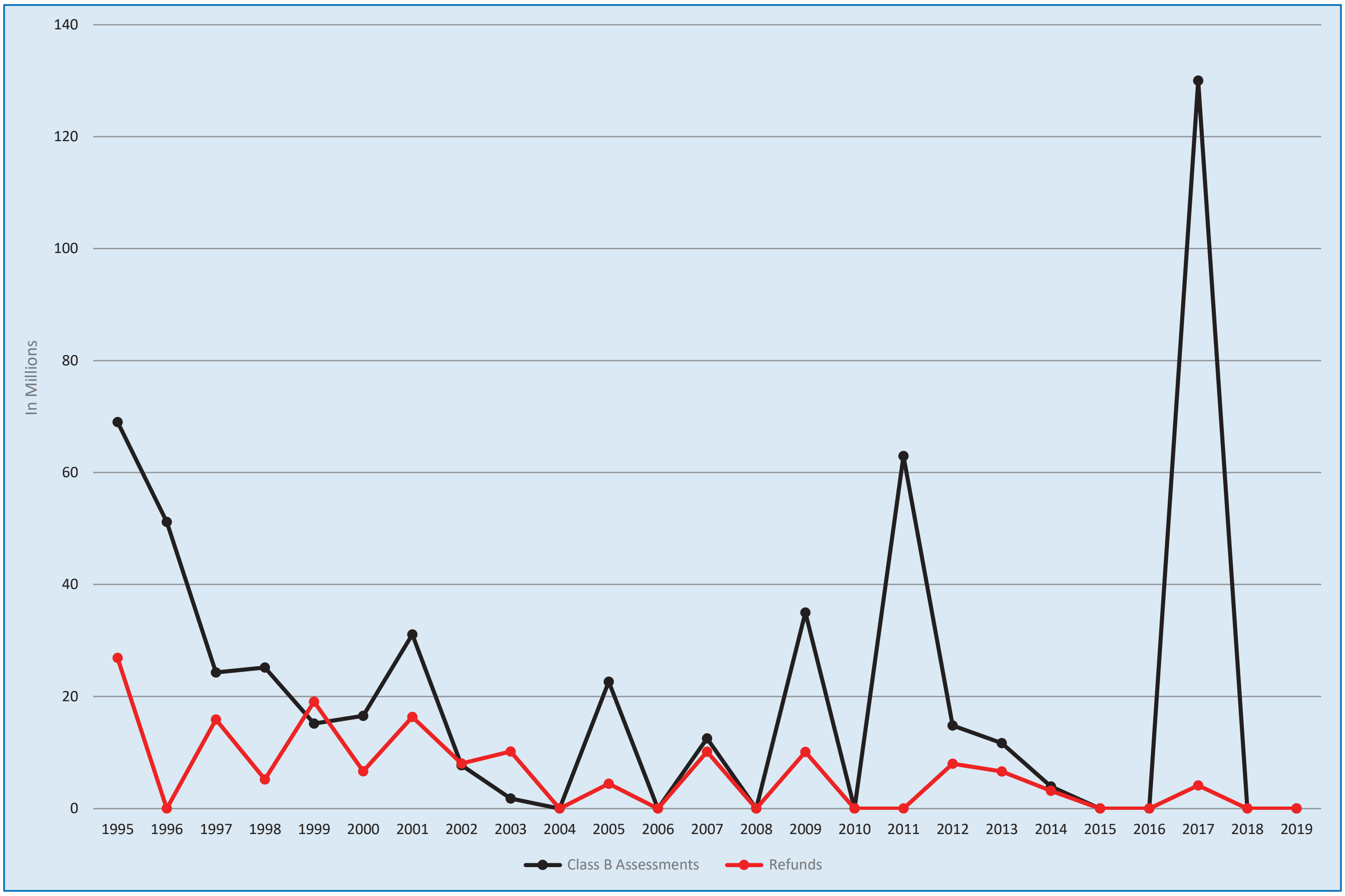
For 15 of the last 23 years beginning in 1995, the Association refunded excess funds related to specific insolvent insurers to member insurers after determining there was no reasonable expectation of additional expenses or recoveries related to those insolvent insurers. In 2019, the Board of Directors did not authorize a credit refund. The Association's refunds since its inception have totaled approximately $154.7 million.

The two charts that follow reflect the Class B assessments and refunds.

CLASS B ASSESSMENTS



CLASS B ASSESSMENTS AND REFUNDS



FINANCIAL REPORTING AND AUDIT

The Association is considered a governmental organization for accounting, financial reporting, and auditing purposes. As such, the Association is subject to the authoritative literature promulgated by the Governmental Accounting Standards Board ("GASB"). The Association, as a financial-reporting entity, is considered a primary government entity as defined in GASB Statement 14, as amended, and is reported as a special-purpose government engaged in business-type activities. The significant accounting policies followed by the Association in preparing its financial statements conform to generally accepted accounting principles applicable to government units and accepted in the United States of America.

The Association does not have any component units and is not a component unit of any other entity. The Association is reported as a related entity by the Texas Department of Insurance ("TDI") in accordance with GASB Statement No. 14.

The Association's financial records and operations are audited annually. Interim financial reports and transactions are reviewed extensively during the course of the year by the Board of Directors and committees of the Board. The Association's audited financial statements as of and for the year ended December 31, 2019, including a Management Discussion and Analysis, the auditor's report, and financial statements with footnote disclosures, are shown herein on pages 18 through 42.

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Texas Life and Health Insurance Guaranty Association
Austin, Texas

We have audited the accompanying financial statements of the Texas Life and Health Insurance Guaranty Association (Association), which comprise the statements of net position as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

A member of Nexia International

Board of Directors
Texas Life and Health Insurance Guaranty Association

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Life and Health Insurance Guaranty Association as of December 31, 2019 and 2018, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21-27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

San Antonio, Texas
April 21, 2020

TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2019 and 2018

The Management's Discussion and Analysis is a narrative overview and analysis of the financial activities of the Texas Life and Health Insurance Guaranty Association (the "Association") as of and for the years ended December 31, 2019 and 2018 and should be read in conjunction with the basic financial statements. The discussion is based on the Association's financial statements which are prepared in accordance with accounting principles generally accepted in the United States of America.

FINANCIAL HIGHLIGHTS

- Insurance contractual obligations decreased by $95,464 or 2.62% from $3.65 million in 2018 to $3.55 million in 2019 compared to a decrease of $212,704 or 5.51% from $3.86 million in 2017 million to $3.65 million in 2018.
- There were no assessments in 2019 or 2018. In 2019, unbilled assessments increased by $359,452 from $318,257 in 2018 to $677,709. Unbilled assessments decreased by $69,052 from $387,309 in 2017 to $318,257 in 2018.
- Distributions received from receivership estates were $423,633 in 2019 compared to $1.71 million in 2018. Distributions in 2017 were $9.36 million.
- The total net position decreased by $1.30 million or 3.47% to $36.25 million in 2019 from $37.56 million in 2018, primarily due to the relatively small recoveries of $423,633 and the national task force expenses of $1.77 million. In 2018, the total net position decreased by $4.19 million or 10.05% to $37.56 million from $41.75 million in 2017, primarily due to the relatively small recoveries of $1.71 million and the national task force expenses of $4.40 million.
- The Association's cash position decreased $143,517 or 1.06% to $13.38 million in 2019 from $13.52 million in 2018 as a result of daily operations. In 2018, the Association's cash position increased $10.77 million or 391.49% to $13.52 million from $2.75 million in 2017, primarily as a result of the Association reserving cash for a potential expense.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Association is considered a governmental organization for accounting, financial reporting, and auditing purposes pursuant to definitions in Governmental Accounting Standards Board statements. Organizations other than public corporations and bodies corporate and politic are classified as governmental organizations if they have one or more of the following characteristics:

- Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments;
- The potential for unilateral dissolution by a government with the net assets reverting to the government; or
- The power to enact and enforce a tax levy.
- The Association's entire governing body (Board of Directors) is appointed by the Commissioner of Insurance for the State of Texas. Therefore, the Association exhibits one of the characteristics and is considered to be a governmental organization
- Statement of Net Position: This statement includes all the Association's assets and liabilities. The difference between the Association's assets and liabilities is its net position. The net position is presented in two components; net investment in capital assets and unrestricted. The Association does not have any net position that qualifies as restricted.
- Statement of Revenues, Expenses and Changes in Net Position: This statement measures the results of the Association's operations and reports all of the Association's revenues and expenses.
- Statement of Cash Flows: This statement supplements the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position by providing relevant information about cash receipts and payments of the Association.

- Notes to the Financial Statements: The notes are an integral part of the basic financial statements and present information essential for the fair presentation of the financial statements that is not displayed on the face of the financial statements.

FINANCIAL ANALYSIS OF THE ASSOCIATION

Table 1
Net Position
(In thousands of dollars)

	2019		2018		2017	
	Amount	Percent	Amount	Percent	Amount	Percent
Current assets	$ 44,345	98.3%	$ 47,077	99.3%	$ 50,049	99.2%
Noncurrent assets	744	1.7%	328	0.7%	425	0.8%
Total assets	45,089	100.0%	47,405	100.0%	50,474	100.0%
Current liabilities	5,483	62.1%	6,409	65.1%	5,087	58.3%
Noncurrent liabilities	3,352	37.9%	3,440	34.9%	3,637	41.7%
Total liabilities	8,835	100.0%	9,849	100.0%	8,724	100.0%
Net position						
Unrestricted	36,232	99.9%	37,547	100.0%	41,712	99.9%
Invested in capital assets	22	0.1%	9	0.0%	38	0.1%
Total net position	$ 36,254	100.0%	$ 37,556	100.0%	$ 41,750	100.0%
Unrestricted						
Association operations	$ (1,412)		$ (1,326)		$ 1,019	
Insolvent estates	37,644		38,873		40,693	
	$ 36,232		$ 37,547		$ 41,712	

Current assets: Cash and cash equivalents which include cash on deposit, money market funds, and United States Treasury Bills with original maturities of three months or less at the time of acquisition, make up 30%, 29% and 5% of the current assets of the Association in 2019, 2018 and 2017, respectively.

Investments, which include United States Treasury securities with original maturities of greater than three months, at year end were 69.54%, 70.97%, and 70.46% of current assets in 2019, 2018, and 2017, respectively.

Proofs of claim are filed by the Association against individual receivership estates to recover claims expenses, claims handling expenses and administrative expenses incurred by the Association as well as unpaid assessments from the estate. These proofs of claim may be amended, and updates are filed periodically as additional costs are incurred and paid by the Association. The proofs of claim are recorded as receivables, net of allowances which serve to estimate the ultimate collectability of the claim from the receivership estate. Proofs of claim, net of collectability allowances, were $0, $0 and $867,826 at year end 2019, 2018 and 2017, respectively.

Noncurrent assets: The Association has statutory authority to assess its member insurers as necessary to provide funds to meet contractual obligations related to each insolvent company for which the Association has been activated. Unbilled assessments are recorded in the financial statements for each individual insolvent company in an amount sufficient to eliminate any deficit (negative) net position that may arise with the recognition of all assets and liabilities pertaining to the insolvent insurer. Unbilled assessments at year end 2019, 2018 and 2017 were $677,709, $318,257 and $387,309, respectively.

The Association owns various investments as part of its deferred compensation plan that totaled $43,566, $0 and $0 at year end 2019, 2018 and 2017, respectively.

Capital assets consisting of furniture, computer systems and equipment reported net of accumulated depreciation make up the remaining balance of noncurrent assets.

Liabilities: 40.4%, 37.03% and 44.2% of the total obligations for the years ending December 31, 2019, 2018 and 2017, respectively, are the estimated contractual obligations for all impaired or court ordered insolvent companies for which the Association was activated. The obligation amounts reflect the estimated amount of future cash payments and are adjusted periodically to reflect more accurate and current projections of cost for existing and new insolvencies. Obligations are included in the liabilities as current and noncurrent. At December 31, 2019, 2018 and 2017 financial statements insurance contractual obligations were recorded as follows:

Table 2
Insurance Contractual Obligations

	2019	2018	2017
Current insurance contractual obligations	$ 243,818	$ 206,962	$ 223,524
Noncurrent insurance contractual obligations	3,308,071	3,440,391	3,636,533
Total contractual obligations	$ 3,551,889	$ 3,647,353	$ 3,860,057

The decrease in obligations in both 2019 and 2018 was mostly a result of the payment of policy claims. The decrease in obligations in 2017 was primarily due to the transfer of obligations for the Lincoln Memorial Life Insurance Company policies under an assumption reinsurance agreement.

The Association carries a liability for its deferred compensation plan that was $43,566, $0 and $0 at year end 2019, 2018 and 2017, respectively.

The Association has historically credit refunded excess insolvency-specific funds to member insurers. On occasions where the credit refund exceeds the amount of the assessment levied against a member insurer, the remaining credit due to a member insurer is reflected in the financial statements as a liability ("Assessment Credit Balance"). This excess is either held by the Association to offset future assessments or is refunded to member insurers and/or the Texas Commissioner of Insurance pursuant to law. As of December 31, 2019, 2018 and 2017, the remaining credit balances were $4.46 million.

The balance of current liabilities consists of accounts payable and accrued expenses incurred in the normal course of operations. Accrued expenses decreased 55.4% in 2019, largely due to the payment of a single expense arising from the Association's participation in the National Organization of Life and Health Guaranty Associations.

Net position: The net position of the Association is separated into two categories: Net Investment in Capital Assets and Unrestricted, as detailed in Note 10 to the Financial Statements. Excess insolvent company specific net assets may be refunded to member insurers or a reasonable amount may be retained to provide funds for the continuing expenses of the Association.

TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2019 and 2018

Table 3
Results of Operations – Change in Net Position

	2019	2018	2017
Revenues:			
Billed assessments	$ -	$ -	$ 130,000,008
Change in unbilled Assessments	359,452	(69,052)	(1,033,453)
Estate recoveries	423,633	1,707,735	9,359,808
Change in proofs of claim, net of allowance	-	-	867,826
Premiums	54,029	57,707	72,120
Total operating revenues	837,114	1,696,390	139,266,309
Expenses			
Change in insurance contractual obligations	(95,464)	(212,704)	7,444,970
Cost of claims obligations	391,065	1,078,421	118,467,659
Refund of prior year assessments	-	-	4,015,789
National task forces	1,771,675	4,397,962	693,756
Administration costs	1,469,642	1,492,162	1,404,867
Total operating expenses	3,536,918	6,755,841	132,027,041
Operating (loss) income	(2,699,804)	(5,059,451)	7,239,268
Net nonoperating revenues	1,397,521	865,495	54,796
Change in net position	(1,302,283)	(4,193,956)	7,294,064
Net position, beginning of year	37,555,855	41,749,811	34,455,747
Net position, end of year	$ 36,253,572	$ 37,555,855	$ 41,749,811
% change in net position from prior year	(3.47%)	(10.05%)	21.17%

In 2019, the net position decreased by $1,302,283 or 3.47%. Change in net position was affected by the net results in administration operations, $384,561 and estate operations, $1.69 million as shown in Table 4. Most of the change in net position is a result of the receipt of $423,633 in estate distributions, $1.40 million in non-operating revenues, $1.47 million in administration expense and the national task force expenses of $1.77 million. In 2018, the net position decreased by $4,193,956 or 10.05%. Change in net position was affected by the net results in administration operation, ($1.87 million) and estate operations, ($2.33 million) also shown in Table 4. Most of the change in net assets is a result of the receipt of $1.71 million in estate distributions and the national task force expenses of $4.40 million.

The amount by which the net assets of individual estates exceed the amount necessary to carry out the obligations of the Association, including assets accruing from net realized gains and income from investments, may, by an equitable method, be refunded to member insurers. The Association's Board of Directors did not authorize a refund in 2019 or 2018, but did authorize a $4.1 million refund in 2017

TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2019 and 2018

Table 4

2019 Change in Net Position by Estates and Administration

		Estates	Administration		Total
Revenues:					
Estate Recoveries	$	423,633	-	$	423,633
Premiums		54,029	-		54,029
Change in unbilled assessments		359,452	-		359,452
Total revenues		837,114	-		837,114
Expenses:					
Administration		2,993,050	248,266		3,250,497
Claims cost		391,066	-		381,885
Change in insurance contractual obligation		(95,464)	-		(95,464)
Total expenses		3,288,652	248,266		3,536,918
Operating loss		(2,451,538)	(248,266)		(2,699,804)
Interest income (net of interest expense)		349,320	430,007		779,327
Unrealized/realized gain (loss) on investments		415,374	202,820		618,194
Increase (Decrease) in net position	$	(1,686,844)	384,561	$	(1,302,283)

2018 Change in Net Position by Estates and Administration

		Estates	Administration		Total
Revenues:					
Estate Recoveries	$	1,707,735	-	$	1,707,735
Premiums		57,707	-		57,707
Change in unbilled assessments		(69,052)	-		(69,052)
Total revenues		1,696,390	-		1,696,390
Expenses:					
Administration		3,341,545	2,548,579		5,890,124
Claims cost		1,078,421	-		1,078,421
Change in insurance contractual obligation		(212,704)	-		(212,704)
Total expenses		4,207,262	2,548,579		6,755,841
Operating loss		(2,510,872)	(2,548,579)		(5,059,451)
Interest income (net of interest expense)		368,572	574,208		942,780
Unrealized/realized gain (loss) on investments		(183,391)	106,106		(77,285)
Increase (Decrease) in net position	$	(2,325,691)	(1,868,265)	$	(4,193,956)

CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

The future Penn Treaty Network America Insurance Company ("Penn Treaty") and American Network Insurance Company ("American Network") insurance policy obligations to Texas resident policyholders for which the Association became statutorily obligated to protect were calculated through an actuarial model to be approximately $202.03 million on an aggregate basis. After discounting at a 4.25% interest rate as of March 1, 2017 (the Liquidation Date), the present value of these coverage obligations totaled approximately a $137.01 million. The Association, and forty-three other guaranty associations, participated in the formation of LTC Reinsurance PCC ("LTC Re"), a captive insurance company, and then 100% coinsured their obligations to LTC Re. The coinsurance agreements with LTC Re required payments from each of the ceding guaranty associations equal to 90% of the discounted liability through a combination of a cash payment and a promissory note with up to five equal annual installments plus interest at 4.25%. In May 2017, the Association made the 20% cash payments for both companies totaling $27,402,654 and executed two promissory notes with LTC Re with face amounts totaling $95,909,289.

The Commonwealth Court of Pennsylvania approved an early access distribution of a portion of the Penn Treaty and American Network estate assets. This distribution was used to fund the ongoing claims obligations and administration expenses. This relieved LTC Re of monthly funding obligations under the Interim Services Agreement with the Receiver for a period of time. LTC Re notified the Association that the early access distribution reduced the principal and interest obligations under the notes the Association executed with LTC Re. The Association paid off both promissory notes with LTC Re on December 15, 2017 with payments totaling approximately $89,646,994. The note payoff amounts reflected the deduction of approximately $9,353,174 of early access funding credits as of the December 15, 2017 pay-off date. There was no penalty for the prepayment of the notes in full. With the payoff of the notes, the Association has no amounts currently owing to LTC Re. The remaining early access distributions were credited to the Association's notional account used by LTC Re to track the necessity for additional Association funds.

The Association will continue to monitor the multiple decade runoff administration of its Penn Treaty and American Network obligations, through the notional account reporting each April, to determine whether any additional funding will be required for the 10% of the discounted obligations amount that was not required in the initial funding to LTC Re or whether additional funding is otherwise required under the coinsurance agreements. The need for additional funding will be impacted by the actual experience of the block of business when compared to the assumptions in the actuarial model, the Association's share of the investment returns realized by LTC Re, the ultimate allocation and distribution of Penn Treaty and American Network assets, and the financial impact of the ongoing implementation of the premium rate increase that was approved by the Texas Commissioner of Insurance on July 2, 2018. The Association's exposure for additional funding, if any, may not be known for several decades.

The Association along with six other guaranty associations, the National Organization of Life and Health Insurance Guaranty Associations representing the other affected guaranty associations, the Special Deputy Receiver of Lincoln Memorial Life Insurance Company, Memorial Service Life Insurance Company and National Prearranged Services, Inc., as plaintiffs, filed a civil suit in 2009 to recover assets in connection with the insolvency of Lincoln Memorial Life Insurance Company, Memorial Service Life Insurance Company and National Prearranged Services, Inc. Although most defendants settled before trial, the plaintiffs prevailed in a jury trial in 2015, and the defendant PNC Bank appealed the final judgment of almost $390 million to the 8th Circuit Court of Appeals. The plaintiffs cross-appealed and oral arguments were held in September 2016.

On August 17, 2017, the 8th Circuit issued its opinion holding that the case should have been tried as a breach of trust case to the court rather than a tort case to the jury, reversing the damage award, and remanding the case to the district court for further proceedings. The second trial began on November 28, 2018 and the last day of evidence was January 11, 2019. In July 2019, the court rendered judgment for the plaintiffs in the amount of $102,135,293: $72,287,615 for losses, $14,847,678 for prejudgment interest, and $15,000,000 for punitive damages. The court amended the judgment in late 2019 to correct an arithmetic error in the prejudgment interest award, and to change the time frame for which it was awarded. The amended award for prejudgment interest is $12,209,675 and the total amended judgment is $99,497,290. PNC appealed both orders and has filed its opening brief with the 8th Circuit. The plaintiffs' opening brief is due in March 2020. The court entered a separate order on attorneys' fees and costs on February 21, 2020 and awarded the plaintiffs $7,005,337 in attorneys' fees and $139,164 in costs. PNC has appealed this order as well. Both appeals are pending in the 8th Circuit Court of Appeals and they may be consolidated for all or some purposes. Oral argument is not yet scheduled.

A liquidator or special deputy receiver for the estate of an insolvent insurer may, as assets become available, make disbursements out of marshaled assets to a guaranty association(s) having claims against the estate of the insolvent insurer prior to a distribution to other creditors or the closing of the estate. The liquidator or special deputy receiver prior to such disbursement shall also secure from each guaranty association entitled to disbursements an agreement to return to the liquidator upon request and with court approval such assets, together with income on assets previously disbursed as may be required. As of December 31, 2018, the Association has received approximately $211.7 million, since its inception, that remain subject to such agreements.

In early 2020, the World Health Organization declared the COVID–19 (Coronavirus) outbreak to be a pandemic. The U.S. Government's response to the pandemic included significant limitations on many aspects of Americans' daily lives, including personal mobility and closures of many public and private facilities. These limitations have caused significant disruption to workflow for U.S. companies and also has negatively impacted the financial markets in the U.S. and around the globe. The Association has not made any adjustments to these financial statements as a result of the uncertainty surrounding this pandemic.

The Association, by its nature, is subject to various ongoing claims by insurance companies, policyholders, receiverships and creditors of the receiverships. Some of these claims are in the form of litigation against the Association. It is the opinion of management that any losses which may be sustained would not be material to the Association and, in all foreseeable instances, the Association would have the statutory authority to assess member insurance companies for any losses sustained.

CONTACTING THE ASSOCIATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Association's finances. If you have questions about this report or need additional financial information, please contact the Association's Executive Director at 515 Congress Ave., Suite 1875, Austin, Texas 78701 or call (512) 476-5101.

TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION
Statements of Net Position
December 31, 2019 and 2018

		2019	2018
Assets			
Current assets:			
Cash and cash equivalents	$	13,376,918	13,520,435
Investments		30,836,443	33,408,806
Receivables:			
Billed assessments, net of allowance of $1,384,170 and $1,384,170 at December 31, 2019 and 2018		69,914	69,914
Other receivables		12,183	12,390
Accrued interest		49,913	65,902
Proofs of claim, net of allowance of $600,665,976 and $597,714,515 at December 31, 2019 and 2018		-	-
Total current assets		44,345,371	47,077,447
Noncurrent assets:			
Unbilled assessments		677,709	318,257
Investments in deferred compensation plans		43,566	-
Capital assets, net		21,906	9,370
Total noncurrent assets		743,181	327,627
Total assets	$	45,088,552	47,405,074
Liabilities and Net Position			
Current liabilities:			
Accounts payable	$	6,933	9,460
Accrued expenses		773,967	1,733,529
Assessment credit balance		4,458,625	4,458,877
Insurance contractual obligations, current portion		243,818	206,962
Total current liabilities		5,483,343	6,408,828
Noncurrent liabilities:			
Deferred compensation plan liabilities		43,566	-
Insurance contractual obligations, less current portion		3,308,071	3,440,391
Total liabilities		8,834,980	9,849,219
Net position:			
Unrestricted		36,231,666	37,546,485
Net investment in capital assets		21,906	9,370
Total net position		36,253,572	37,555,855
Total liabilities and net position	$	45,088,552	47,405,074

The accompanying notes are an integral part of these financial statements.

TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2019 and 2018

		2019	2018
Operating revenues:			
Membership assessments:			
Billed assessments	$	-	-
Change in unbilled assessments		359,452	(69,052)
Net membership assessments		359,452	(69,052)
Estate recoveries		423,633	1,707,735
Premiums		54,029	57,707
Total operating revenues		837,114	1,696,390
Operating expenses:			
Net Claims		219,952	108,943
Change in insurance contractual obligations		(95,464)	(212,704)
Reinsurance agreements		161,934	960,242
Third-party administrators		9,179	9,236
National task force		1,771,675	4,397,962
Total claims		2,067,276	5,263,679
Administrative costs:			
Legal and professional		182,951	252,309
Salaries and benefit costs		651,235	605,815
Building and equipment lease costs		283,411	279,757
Depreciation		6,141	28,307
National organization dues and meetings		111,610	101,526
Other		234,294	224,448
Total administrative costs		1,469,642	1,492,162
Total operating expenses		3,536,918	6,755,841
Operating loss		(2,699,804)	(5,059,451)
Nonoperating revenues:			
Interest income (net of interest expense)		779,327	942,780
Unrealized gain / (loss) investments		618,194	(77,285)
Net nonoperating revenues		1,397,521	865,495
Change in net position		(1,302,283)	(4,193,956)
Net position, beginning of year		37,555,855	41,749,811
Net position, end of year	$	36,253,572	37,555,855

The accompanying notes are an integral part of these financial statements.

TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION
Statements of Cash Flow
For the Years Ended December 31, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Receipts from assessments	$	-	10,966,504
Receipts from estate recoveries		423,633	1,707,735
Receipts from premiums		54,029	57,707
Payments for reinsurance agreements		(161,934)	(92,416)
Payments for direct claims		(182,536)	(108,943)
Payments to suppliers for goods and services		(3,600,707)	(3,926,853)
Payments to employees		(642,946)	(606,390)
Net cash (used in) provided by operating activities		(4,110,461)	7,997,344
Cash flows from capital and related financing activities:			
Purchase of capital assets		(18,677)	-
Net cash used in capital and related financing activities		(18,677)	-
Cash flows from investing activities:			
Purchase of US Treasuries		(5,178,443)	(6,223,884)
Receipt of US Treasuries		8,369,000	8,000,000
Receipt of interest on investments		795,064	996,074
Net cash provided by investing activities		3,985,621	2,772,190
Net increase (decrease) in cash and cash equivalents		(143,517)	10,769,534
Cash and cash equivalents, beginning of year		13,520,435	2,750,901
Cash and cash equivalents, end of year	$	13,376,918	13,520,435
Reconciliation of operating loss to net cash (used in) provided by operating activities:			
Operating loss	$	(2,699,804)	(5,059,451)
Adjustment to reconcile operating loss to net cash (used in) provided by operating activities:			
Depreciation expense		6,141	28,307
Unbilled assessments		(359,452)	69,052
Effect of changes in operating assets and liabilities:			
Billed assessments receivable, net of allowance		-	10,966,504
Other receivables		207	(181)
Proofs of claim, net of allowance		-	867,826
Accounts payable		(2,527)	3,433
Accrued expenses		(959,562)	1,334,557
Assessment credit balance		-	-
Insurance contractual obligations		(95,464)	(212,704)
Net cash (used in) provided by operating activities	$	(4,110,461)	7,997,344

The accompanying notes are an integral part of these financial statements.

1. Nature of Operations and Reporting Entity

The Texas Life and Health Insurance Guaranty Association ("Association") was created by the Texas legislature with the adoption of the Texas Life, Accident, Health and Hospital Service Insurance Guaranty Act ("Act") in 1973. The Association's operations were privatized by the Texas Legislature in 1992. The Association was created as a not-for-profit legal entity to protect, subject to certain limitations, persons specified in the Act against failure in the performance of contractual obligations under life insurance policies, accident and health insurance policies and annuity contracts, because of the impairment or insolvency of the member insurer who issued the policies or contracts. To provide this protection, this association of insurers was created to pay benefits and to continue coverage as limited in the Act.

Membership in the Association is mandatory for any insurance company or health maintenance organization authorized in Texas to transact any kind of insurance business to which the Act applies. Membership assessments are made by the Board of Directors of the Association based on estimates of amounts necessary to provide funds to carry out the purposes of the Act with respect to impaired insurers. Any amount in excess of the amounts necessary to carry out the statutory obligations and continuing expenses of the Association may be refunded by an equitable method at the discretion of the Board of Directors or retained to provide funds for the continuing expenses of the Association.

Pursuant to the Act, the Association is governed by a nine-member Board of Directors appointed by the Texas Commissioner of Insurance. Five directors must be chosen from member companies, three from the fifty member companies having the largest total direct premium income and two from other member companies. Four of the directors must be representatives of the general public. Directors serve six-year terms and are eligible to succeed themselves in office through reappointment.

The Association is considered to be a primary government entity according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* as amended. No component units were identified for which the Association is considered financially accountable under GASB Statement No. 14, as amended.

The Association is reported as a special-purpose government entity engaged in business-type activities. The significant accounting policies followed by the Association in preparing these financial statements conforms to generally accepted accounting principles applicable to government units. The Association has adopted all applicable GASB pronouncements.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, except for premium income, which is recognized when collected because of the immaterial amount of premiums to be accrued. Consequently, revenue is recognized when earned and expenses are recognized when the obligations are incurred. Operating revenues and expenses generally result from providing services in connection with the Association's principal ongoing operations, as described in Note 1. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Assessment revenue (billed and unbilled) is recognized when insurance contractual obligations are incurred. Claim liabilities are recognized using estimates of contractual obligations for each impaired insurer at the date of impairment or issuance of an order of liquidation based on a finding of insolvency by a court of competent jurisdiction. Projected claim liabilities are reviewed and revised periodically as information related to the obligations of the individual insolvent member companies is obtained.

(b) Tax Exempt Status

The Association is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. Under Texas Insurance Code, Annotated, Chapter 463.107, the Association is also exempt from payment of all fees and taxes levied by the state of Texas, or any of its subdivisions, except taxes levied on real and personal property.

(c) Cash Equivalents

For purposes of the statements of cash flows, the Association considers all highly liquid investments with original maturities, at the time of acquisition, of three months or less to be cash equivalents.

(d) Investments

All investments of the Association shall meet the following objectives: (1) maximum safety of funds invested and preservation of principal, (2) maintain sufficient liquidity to meet the Association's anticipated cash flow needs, and (3) achieve the highest possible yield. Funds of the Association may be invested in bonds, notes or securities or other evidences of indebtedness of the United States that are supported by the full faith and credit of the United States or that are guaranteed as to principal and interest by the United States. With unanimous Board approval, funds may be invested and reinvested in the following: letters of credit of the United States; the Certificate of Deposit Account Registry Service ("CDARS") program if the full amount of each certificate of deposit is guaranteed or insured by the FDIC or its successor; obligations, including letters of credit, of agencies or instrumentalities of the United States; other obligations if the principal and interest are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States or its agencies or instrumentalities; and certificates of deposit and share certificates if each certificate is issued by a depository institution that is located in the State of Texas, is guaranteed or insured by the Federal Deposit Insurance Corporation (or its successor) or the National Credit Union Share Insurance Fund (or its successor), and is secured by the obligations permitted in the Association's investment policy. Permitted investments may be made directly or through mutual funds, so long as all assets of the mutual fund meet the requirements for a permitted investment. Purchases of investment securities are made with the intent to hold such securities to maturity. Investments are recorded at fair value and marked to market at the end of each reporting period.

(e) Fair Value Measurement and Application

The Association has adopted GASB No. 72, *Fair Value Measurement and Application*. GASB No. 72 applies to all assets and liabilities that are measured and reported on a fair value basis. It establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure about fair value measurements. GASB No. 72 enables the reader to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values and requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

The impact of adopting GASB No. 72 is reflected in Note 4 of the financial statements.

(f) Allowances for Uncollectible Proofs of Claim Receivable

Allowances for uncollectible proofs of claim are estate specific. The allowance for each estate is based on evaluations of the estate's financial statements and records, reports from the estate's receiver and information from other third parties.

Uncollected proofs of claim are closed by the Board of Directors only after an estate is closed in the domestic state and ancillary state, if applicable, and there is no reasonable expectation that any additional funds will be recovered from the estate or other third parties.

(g) Capital Assets

Capital assets are stated at cost. The Association capitalizes all assets with estimated useful lives greater than one year and an individual acquisition cost greater than $2,500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is generally five years.

(h) Premium Revenue

Premiums received from a policyholder for coverage periods after an order of receivership is entered belong to the Association. Premium revenue is recognized as the premiums are received by the Association, both for direct bill and premiums collected by third party agents.

(i) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

(j) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Association did not have any items that qualified for reporting in this category as of December 31, 2019 or 2018.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Association did not have any items that were required to be reported in this category as of December 31, 2019 or 2018.

(k) Net Position

The government-wide statements utilize a net position presentation categorized as follows:

- Net investment in capital assets — This category reflects the portion of net position that is associated with capital assets less depreciation and outstanding capital asset related debt.

- Restricted net position — Net position is reported as restricted when constraints placed on net position used are imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net position — This category reflects net position of the Association not restricted for any project or other purpose. The net position reflected in the financial statements of the Association are deemed to be unrestricted. Any estate-specific net position may be refunded to member insurers or a reasonable amount may be retained to provide funds for the continuing expenses of the Association.

  The Association only presents net investment in capital assets and unrestricted net position as there are no constraints placed on the net position of the Association, outside of that invested in capital assets, that would qualify as a restricted net position.

3. Deposits and Investments

The Association's deposits and investments as of December 31, 2019 and 2018 are as follows:

		Fair Value	
		2019	**2018**
Cash and cash equivalents			
Cash on deposit	$	227,310	165,452
Money market mutual funds		13,149,608	13,354,983
Total cash and cash equivalents	$	13,376,918	13,520,435
Investments			
Investments in Deferred Compensation Plans	$	43,566	-
Bonds – US Treasury Debt		30,836,443	33,408,806
Total Investments	$	33,880,009	33,408,806

Custodial Risk. Cash and cash equivalents consist of bank demand deposits and money market investment accounts. The Association's amount of bank demand deposits accounts at December 31, 2019 and 2018, respectively, was $227,310 and $207,075 The Association manages its cash and cash equivalent balances to not exceed the $250,000 FDIC protection.

Credit Risk. Money market investments at December 31, 2019 and 2018 were $13,149,608 and $13,354,983, respectively. These mutual fund portfolios are comprised of United States government obligations backed by the full faith and credit of the United States. These mutual fund investments are not insured by the Federal Deposit Insurance Corporation nor are they a deposit of, other obligation of, or guaranteed by a bank or other depository institution. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Interest rate risk. The Association invested $30,599,243 in US Treasury debt, with a maturity value of $30,720,000. These securities had a market value of $30,836,443 as of December 31, 2019. At December 31, 2018, the Association had invested $33,822,789 in US Treasury debt, with a maturity value of $33,839,000 and market value of $33,408,806. The Association, upon the direction of its Board of Directors, adopted a laddered maturity schedule with all its investments. Each quarter, approximately $2,000,000 of US Treasuries will mature to either fund the Association's obligations or be reinvested. Due to this schedule, the Association purchased some longer-term interest paying US Treasuries rather than solely zero-coupon US Treasury-bills. The Association recognizes the accrued interest on this debt as an asset.

Investment in deferred compensation plans. The Association maintains ownership of the invested assets of the deferred compensation plans that are carried at fair market value until the assets are distributed to the participants. See Note 12 for more information.

As of December 31, 2019, the Association had the following US Treasury maturity schedule:

Maturity		**Fair value**
2020		8,013,063
2021		8,039,766
2022	$	9,567,936
2023		5,215,678
Total	$	30,836,443

4. Investments and Fair Value Measurements

The estimated fair values of the Association's short-term financial instruments, including receivables and payables arising in the ordinary course of operations, approximate their individual carrying amounts due to the relatively short period between their origination and expected realization.

The Association has the following recurring fair value measurements as of December 31, 2019 and 2018:

- US Treasury securities of $30.84 million and $33.41 million, respectively, are valued using quoted market prices (Level 1 inputs)
- Investments in deferred compensation plans of $43.57 thousand and $0, respectively, are valued at quoted market prices (Level 1 inputs)

The tables below present the assets and liabilities measured at fair value on a recurring basis by level within the hierarchy:

		As of December 31, 2019			
		Total	**Level 1**	**Level 2**	**Level 3**
Assets:					
Investments:					
US Treasury Securities	$	30,836,443	30,836,443	-	-
Investments in Deferred Comp Plans:					
Small Cap Mutual Funds	$	14,851	14,851		
Large Cap Mutual Funds		22,540	22,540		
Bond Mutual Funds		6,175	6,175		
Total Investments in Deferred Comp Plans		43,566	43,566		
Total Assets at Fair Value	$	33,880,008	33,880,008	-	-

		As of December 31, 2018			
		Total	**Level 1**	**Level 2**	**Level 3**
Assets:					
Investments:					
US Treasury Securities	$	33,408,806	33,408,806	-	-
Total Assets at Fair Value	$	33,408,806	33,408,806		-

5. Membership Assessments

The Association is authorized by the Texas Insurance Code, Annotated, Chapter 463.151 to assess member insurers in amounts necessary to pay both administrative expenses and insurance contractual claim obligations of the Association. There are two classes of assessments: Class A, which may be levied to meet administrative general expenses not related to a specific insolvency, and Class B, which may be levied to meet the administrative expenses and insurance contractual obligations associated with specific insolvent or impaired insurers.

The amount of Class A assessments is prorated to individual member insurers, taking into consideration annual premium receipts reflected in the annual statements for the year preceding the assessment year for individual member insurers.

The line-of-business amount of a Class B assessment, life, accident and health, or annuity, is allocated to a member insurer based on the proportion of (a) its line-of-business premiums received for the three most recent calendar years for which information is available preceding the year in which the insolvent insurer necessitating the assessment was designated as impaired or insolvent to (2) the total premiums received on that same line of business by all member insurers in the same three year period.

The total of all assessments to a member insurer in a calendar year may not exceed two percent of the member insurer's average annual premiums for the preceding three years.

There were no Class A or Class B assessments authorized or called in 2019 or 2018.

The Association may refund to member insurers, in proportion to the contribution of each member insurer, the amount by which accumulated assets exceed the amount necessary to meet its obligations with regard to a particular insolvent insurance company. The Board of Directors did not authorize a credit refund in 2019 or 2018.

Billed assessments receivable as of December 31, 2019 and 2018 was $1,454,084. These unpaid assessments were levied in years 1991 through 2017. An allowance for uncollectible billed assessments has been recorded for $1,384,170 as of both December 31, 2019 and December 31, 2018.

Unbilled assessments receivable of $677,709 and $318,257 at December 31, 2019 and 2018, respectively, represent the statutory ability of the Association to assess member insurers as required to meet its statutory obligations. This amount may be assessed in future periods as necessary to fund liabilities for insolvent member insurers.

6. Proofs of Claim

The Association files proofs of claim against individual receivership estates to recover claims expenses, claims handling expenses and other administrative expenses incurred by the Association related to the specific insolvent company as well as unpaid assessments from the estate. These proofs of claim may be amended as updates are filed periodically and additional costs are incurred and paid by the Association. At December 31, 2019 and 2018, proofs of claim receivable on open estates (before an allowance) were $600,665,976 and $597,714,515, respectively.

An allowance related to the collectability of proofs of claim is recorded based on management's evaluation of net assets held by the receiver and other potential recoveries for each insolvent estate. The amounts to be received by the Association in early access distributions or final distributions are often not readily determinable; therefore, recoveries due to the Association are necessarily estimates and subject to change as the estates are closed. Based on the Association's estate-specific review, the allowances for uncollectible proofs of claim as of December 31, 2019 and 2018 were $600,665,976 and $597,714,515, respectively.

7. Capital Assets

Capital asset activity for the years ended December 31, 2019 and 2018 was as follows:

	Beginning of Year	Additions	Retirements	End of Year
2019:				
Capital assets, being depreciated:				
Furniture, computer systems and equipment	$ 335,361	18,677	-	$ 354,038
Less: accumulated depreciation	325,991	6,141	-	332,132
	$ 9,370	12,536	-	$ 21,906
2018:				
Capital assets, being depreciated:				
Furniture, computer systems and equipment	$ 335,361	-	-	$ 335,361
Less: accumulated depreciation	297,684	28,307	-	325,991
	$ 37,677	28,307	-	$ 9,370

Depreciation expense for 2019 and 2018 was $6,141 and $28,307, respectively.

8. Interaccount Loans and Borrowings

The Board of Directors of the Association adopted a resolution that allows for short-term loans from one insolvency to another insolvency. Interest is paid by the borrowing insolvency to the insolvency making the short-term loan at a rate which approximates the rate earned on short-term government securities. For the years ended December 31, 2019 and 2018, the following transactions occurred, which are not reflected in the financial statements since they are eliminated at the Association level:

	Beginning of Year	Additions	Repayments	End of Year
2019:				
Interaccount loans	$ 265,676	-	-	$ 265,676
Interaccount borrowings	$ (265,676)	-	-	$ (265,676)
2018:				
Interaccount loans	$ 265,676	-	-	$ 265,676
Interaccount borrowings	$ (265,676)	-	-	$ (265,676)

Internal interest of ($8,992) and $6,307 was charged on these loans for the years ended December 31, 2019 and 2018, respectively. The interest expense was charged to the individual borrowing insolvencies and is netted against interest income on the Association's financial statements.

9. Insurance Contractual Obligations

The liability for insurance contractual obligations is management's estimated amount of future cash payments for all impaired or insolvent companies. The amounts are based on estimates and the ultimate liability may vary significantly from the estimate. In addition, the liability is based on information supplied principally by third parties such as receivers, third-party administrators and insolvency task force consultants. As of December 31, 2019, and 2018, activity in the insurance contractual obligations was as follows:

	Beginning of Year	Net Change	End of Year	Current Portion
Year ended December 31, 2019	$3,647,353	(95,464)	$3,551,889	$243,818
Year ended December 31, 2018	$3,860,057	(212,704)	$3,647,353	$206,962

Four open estates comprised approximately 91.55% and 99.47% of the insurance contractual obligations at December 31, 2019 and December 31, 2018, respectively. The obligations related to the Executive Life estate are based on the estimated amount the Association will pay for obligations to provide additional benefits under certain contracts not included in the defeasance payment the Association made in May 2012. The obligations of Lincoln Memorial Life Insurance Company are based on the estimated remaining death benefits under policies owned by Texas residents. The obligations of National States Insurance Company and Universal Life Insurance Company are based on actuarial reserve calculations.

Revisions to estimates of the insurance contractual obligations are reflected in the statements of revenues, expenses and changes in net position as "changes in insurance contractual obligations."

10. Net Position

As of December 31, 2019, and 2018, the net position reflected in the financial statements of the Association consisted of the following:

	2019	2018
Unrestricted net position:		
Insolvent estate assets allocated to pay the ongoing claims and expenses of specific insolvencies	$ 37,643,668	$ 38,872,575
Association operational assets	(1,412,002)	(1,326,090)
	36,231,666	37,546,485
Net investment in capital assets	21,906	9,370
Total net position	$ 36,253,572	$ 37,555,855

11. Operating Leases

The Association leases its office facility under a non-cancelable operating lease that expires in May 2021. The Association also has two noncancelable operating leases for equipment and machinery that expire during the next three years. Lease expense charged to operations for the years ended December 31, 2019 and 2018 amounted to $283,411 and $279,757, respectively.

Future annual minimum lease payments under noncancelable operating leases for each of the next three years subsequent to December 31, 2019 are as follows:

	2020	279,267
	2021	117,458
Total		396,725

12. Employee Benefit Plans

The Association sponsors a safe harbor defined contribution retirement plan, TLHIGA 401(k) Plan ("the Plan"), covering substantially all of its employees. Employees are generally eligible to participate in the Plan after completing six months of service and attaining the age of 21. Employees may contribute to the Plan through elective deferrals of salary up to an annual maximum as set by law. Further, the Association contributes 4% of each employee's salary irrespective of the employee's participation and may make a safe harbor matching contribution equal to 50% of employee-elective deferrals of salary that do not exceed 6% of annual compensation, in order to maintain safe harbor status. The Association may also make additional employer matching contributions and discretionary profit-sharing contributions as determined annually.

Employees become fully vested in the Plan after completing five years of service. Provisions of the Plan and contribution requirements may be amended at any time by the Plan administrator.

Contributions to the Plan for 2019 by the Association totaled $31,918. Contributions to the Plan for 2018 by the Association totaled $30,493.

In 2018, the Association entered into an Executive Employment and Deferred Compensation Contract ("EEDCC") with the Executive Director, which covers nine years. The EEDCC established a 457(b)-retirement plan ("the 457(b) Plan") for the Executive Director with contributions subject to certain milestones being met. The Association contributed to the 457(b) Plan of $19,000 in 2019 and $18,500 in 2018. While investment decisions involving the assets of the 457(b) Plan are controlled by the Executive Director, the Association maintains ownership of the assets until they are distributed in accordance with the 457(b) Plan. The plan assets are presented on the Statement of Net Position as assets of the Association along with the corresponding liability.

13. Related Party Transactions

The Association will, from time to time, enter into transactions with an entity of which a director may have an interest. These transactions are conducted at arms-length, typically through brokers or agents and the affected director is recused from any decision concerning the transaction. Management reviews each transaction and has determined no conflicts were present in 2019. No conflicts were identified in 2018.

14. Risk Management

The Association carries commercial insurance as protection from exposure to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; data breaches; and natural disasters. There were no significant reductions in insurance and no insurance claims were filed during 2019, 2018 or 2017.

15. Commitments and Contingencies

The Commonwealth Court of Pennsylvania approved an early access distribution of a portion of the Penn Treaty and American Network estate assets. This distribution was used to fund the ongoing claims obligations and administration expenses. This relieved LTC Re of monthly funding obligations under the Interim Services Agreement with the Receiver for a period of time. LTC Re notified the Association that the early access distribution reduced the principal and interest obligations under the notes the Association executed with LTC Re. The Association paid off both promissory notes with LTC Re on December 15, 2017 with payments totaling approximately $89,646,994. The note payoff amounts reflected the deduction of approximately $9,353,174 of early access funding credits as of the December 15, 2017 pay-off date. There was no penalty for the prepayment of the notes in full. With the payoff of the notes, the Association has no amounts currently owing to LTC Re. The remaining early access distributions were credited to the Association's notional account used by LTC Re to track the necessity for additional Association funds.

The Association will continue to monitor the multiple decade runoff administration of its Penn Treaty and American Network obligations, through the notional account reporting each April, to determine whether any additional funding will be required for the 10% of the discounted obligations amount that was not required in the initial funding to LTC Re or whether additional funding is otherwise required under the coinsurance agreements. The need for additional funding will be impacted by the actual experience of the block of business when compared to the assumptions in the actuarial model, the Association's share of the investment returns realized by LTC Re, the ultimate allocation and distribution of Penn Treaty and American Network assets, and the financial impact of the ongoing implementation of the premium rate increase that was approved by the Texas Commissioner of Insurance on July 2, 2018. The Association's exposure for additional funding, if any, may not be known for several decades.

The Association along with six other guaranty associations, the National Organization of Life and Health Insurance Guaranty Associations representing the other affected guaranty associations, the Special Deputy Receiver of Lincoln Memorial Life Insurance Company, Memorial Service Life Insurance Company and National Prearranged Services, Inc., as plaintiffs, filed a civil suit in 2009 to recover assets in connection with the insolvency of Lincoln Memorial Life Insurance Company, Memorial Service Life Insurance Company and National Prearranged Services, Inc. Although most defendants settled before trial, the plaintiffs prevailed in a jury trial in 2015, and the defendant PNC Bank appealed the final judgment of almost $390 million to the 8th Circuit Court of Appeals. The plaintiffs cross-appealed and oral arguments were held in September 2016.

On August 17, 2017, the 8th Circuit issued its opinion holding that the case should have been tried as a breach of trust case to the court rather than a tort case to the jury, reversing the damage award, and remanding the case to the district court for further proceedings. The second trial began on November 28, 2018 and the last day of evidence was January 11, 2019. In July 2019, the court rendered judgment for the plaintiffs in the amount of $102,135,293: $72,287,615 for losses, $14,847,678 for prejudgment interest, and $15,000,000 for punitive damages. The court amended the judgment in late 2019 to correct an arithmetic error in the prejudgment interest award, and to change the time frame for which it was awarded. The amended award for prejudgment interest is $12,209,675 and the total amended judgment is $99,497,290. PNC appealed both orders and has filed its opening brief with the 8th Circuit. The plaintiffs' opening brief is due in March 2020. The court entered a separate order on attorneys' fees and costs on February 21, 2020 and awarded the plaintiffs $7,005,337 in attorneys' fees and $139,164 in costs. PNC has appealed this order as well. Both appeals are pending in the 8th Circuit Court of Appeals and they may be consolidated for all or some purposes. Oral argument is not yet scheduled.

A liquidator or special deputy receiver for the estate of an insolvent insurer may, as assets become available, make disbursements out of marshaled assets to a guaranty association(s) having claims against the estate of the insolvent insurer prior to a distribution to other creditors or the closing of the estate. The liquidator or special deputy receiver prior to such disbursement shall also secure from each guaranty association entitled to disbursements an agreement to return to the liquidator upon request and with court approval such assets, together with income on assets previously disbursed as may be required. As of December 31, 2019, the Association has received approximately $211.7 million, since its inception, that remain subject to such agreements.

The Association, by its nature, is subject to various ongoing claims by insurance companies, policyholders, receiverships and creditors of the receiverships. Some of these claims are in the form of litigation against the Association. It is the opinion of management that any losses which may be sustained would not be material to the Association and, in all foreseeable instances, the Association would have the statutory authority to assess member insurance companies for any losses sustained.

16. Subsequent Events

In early 2020, the World Health Organization declared the COVID–19 (Coronavirus) outbreak to be a pandemic. The U.S. Government's response to the pandemic included significant limitations on many aspects of Americans' daily lives, including personal mobility and closures of many public and private facilities. These limitations have caused significant disruption to workflow for U.S. companies and also has negatively impacted the financial markets in the U.S. and around the globe. The Association has not made any adjustments to these financial statements as a result of the uncertainty surrounding this pandemic.

The Association has evaluated and disclosed subsequent events through April 21, 2020, the date the financial statements were available for issuance, and is not aware of any subsequent events that would have material impact on the accompanying financial statements.

Texas Life & Health Insurance Guaranty Association

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