Texas Life & Health
Insurance Guaranty Association

2020 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 2020. 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 2020 Annual Report. This is the 28th 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 the policyholders of one new insolvent, Texas-domiciled member insurance company during 2020. The Association's costs to fulfill its statutory obligations to the policyholders of this insolvent member insurance company are estimated to be in the range of $1-$1.2 million. There are also ongoing statutory protections being provided to policyholders for an additional six member insurance companies that were ordered liquidated in prior years. As of year-end 2020, the Association estimated aggregate future costs of approximately $4.08 million to provide protection to Texas policyholders from these seven active insolvencies.

Wendy Karsten was appointed to the Board of Directors on April 6, 2020, by the Texas Commissioner of Insurance, Kent Sullivan. Director Karsten resigned from the Board on September 17, 2020, after leaving her position with her company. This director position for a small member insurance company representative remained vacant at year-end.

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 operating 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. A $2.3 million Class A assessment was authorized and called during 2020. There was no Class B assessment authorized during 2020.

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, including the remote working requirements in response to the 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 or Health Maintenance Organization (HMO) 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 or HMO 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 or HMO 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 companies.

Membership with the Association

An insurance company or HMO 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 and health maintenance organizations licensed in Texas to write the types of life, accident and health, HMO, or annuity business protected by the Association.

A 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.

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 primary 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, 2020

James G. Lewis, Chair
President & CEO
Central Security Life Insurance Company
Dallas, 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

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

Small Member Company Vacancy

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, 2020

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

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 governance documents include:

◊ 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

Regular, recurring corporate governance activities conducted during 2020 included:

◊ Semi-annual review and updates to the Business Continuity Plan,

◊ Review of the 2019 Annual Report,

◊ Adoption of the 2020 Audit Plan,

◊ Annual review of commercial insurance coverages,

◊ Annual review of the report on processes and procedures for critical functions,

◊ Annual Board of Directors self-evaluation,

◊ Annual review of the charters for all standing committees,

◊ Review of draft IRS Form 990 for 2019,

◊ Personal Financial Statement filings with the Texas Ethics Commission, and

◊ Monitoring annual conflict of interest/business ethics questionnaires and antitrust certifications.

On October 2, 2020, the General Counsel of the Texas Department of Insurance sent a letter to each director stressing the importance of implementing best governance practices in the Association's operations. During its October 20th meeting, the Board of Directors appointed an ad hoc Corporate Governance Committee to review the practices mentioned in the letter and review the Association's corporate governance policies and practices for possible enhancement. The Committee's work will continue into 2021.

OVERVIEW OF OPERATIONS

GENERAL

The Association was activated to provide its statutory protection of policyholders for one member insurer in 2020, and substantial work was carried out on ongoing insolvencies that began in prior years.

The Association continues to monitor troubled companies 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. This ongoing administration of covered policies may be performed through a third-party administrator or in house by the Association.

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.

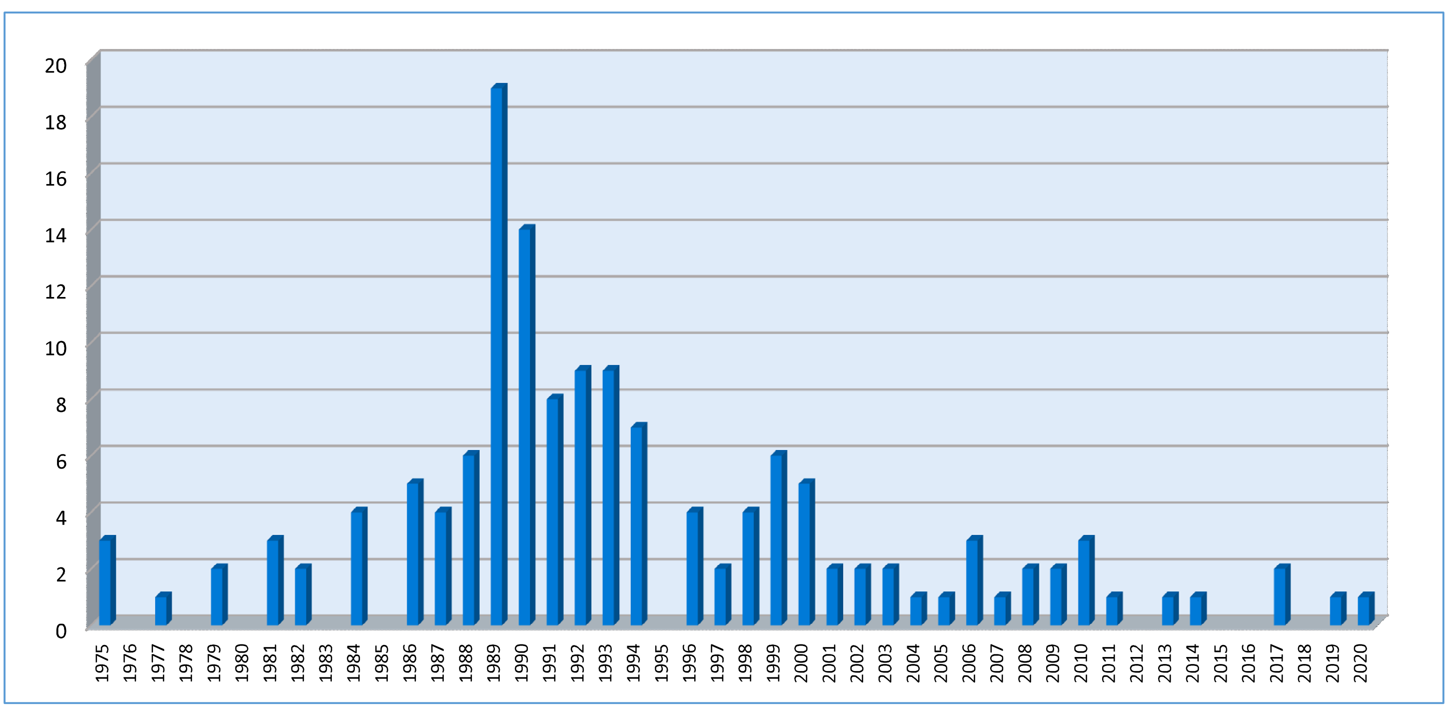
Being a member of NOLHGA is another tool the Association uses to better protect the Texas residents who hold life, health, and annuity policies.

ACTIVE RECEIVERSHIPS

At the beginning of 2020, 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 2020.

Three receiverships were closed during 2020, leaving the Association activated for 20 open receivership estates, 15 of which are foreign-domiciled member insurers and 5 of which are Texas domestics.

NEW ACTIVATIONS BY YEAR



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 134 direct claims, totaling approximately $205,781 during 2020. These claims were from five different insolvent companies. Claims from three were processed and paid by third-party administrators under service agreements with funding from the Association, and two were administered directly by the Association staff.

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.

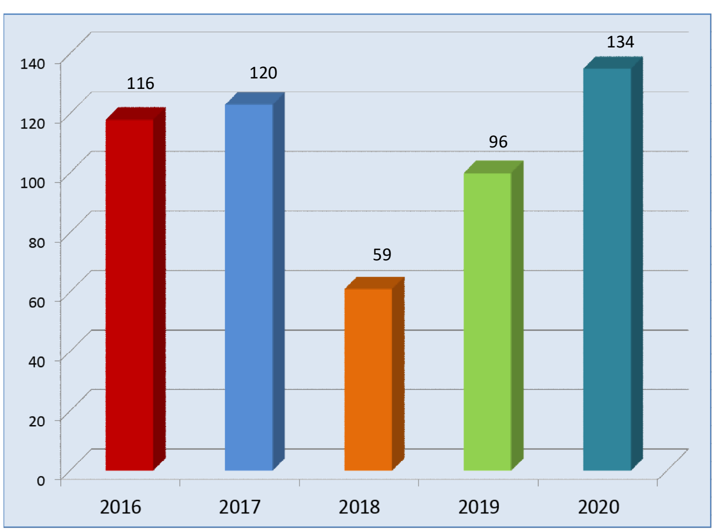
During 2020, the Association's net payments under reinsurance agreements, to transfer the covered insurance policy obligations of insolvent member insurers to active insurance companies, totaled approximately $51,778.

The 2020 reinsurance activity is summarized in the table below:

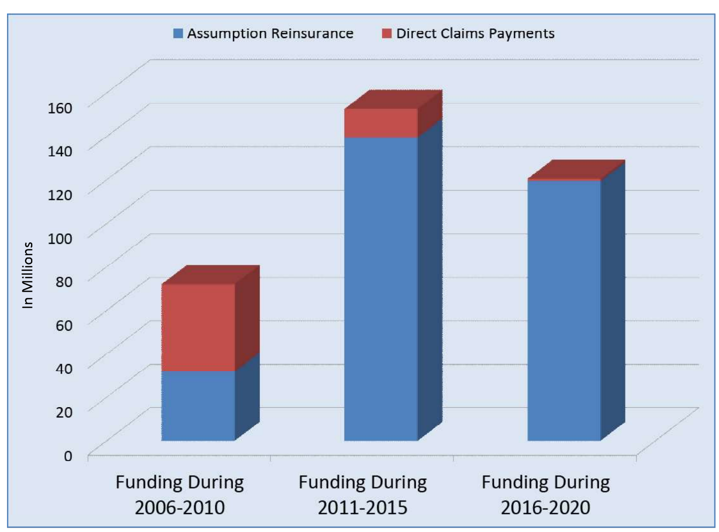
INSOLVENT MEMBER INSURANCE COMPANY	2020 FUNDING
Executive Life Insurance Company [1]	$ 51,778

[1] Continuing multi-year plan

NUMBER OF DIRECT CLAIMS PAYMENTS 2016-2020



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 2020, the Association estimates its aggregate future policy benefit obligations to be approximately $4.08 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.

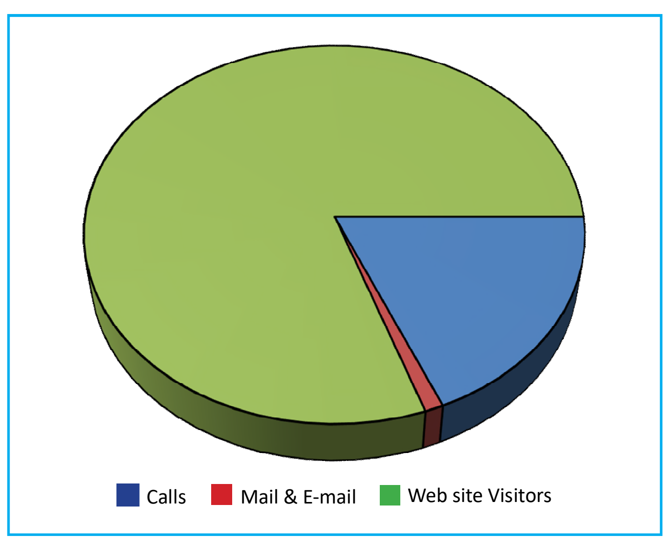
The Association has continued to file updated proofs of claim with receiverships. As of year-end 2020, the Association had filed outstanding claims totaling approximately $601 million with receivership estates that remain open as active court proceedings. It is not possible to project what amount of 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 2020 totaled approximately $292,130.

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 2020, the Association received a total of 3,078 phone calls through its direct or toll-free phone numbers, logged 13,347 visitors to its website, and fielded 183 e-mail and mail requests for information.

2020 CONSUMER SERVICES



ACTIVITIES ON INSOLVENCIES

During 2020, the Association provided ongoing coverage and/or paid policy benefits for seven insolvencies. The following two insolvencies are specifically mentioned because they represent a complex insolvency with significant financial impact and a new insolvency.

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 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 2020, 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 March 1, 2017 through December 31, 2020, under the policies protected by the Association and paid with the funds provided by the Association to LTC Re, totaled $52,284,136.

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 work included interactions with the new third-party administrator throughout 2020 on the conversion of the policies to a new administration platform. The conversion is scheduled to be completed on April 1, 2021.

CALANTHE MUTUAL LIFE INSURANCE COMPANY

Calanthe Mutual Life Insurance Company (Calanthe) was previously a fraternal insurance company until its conversion to a mutual life insurance company was approved by a Travis County court on April 6, 2020. Commissioner Sullivan approved the Application for Conversion and assigned the charter from an insolvent mutual life insurance company on August 25, 2020, thus creating Calanthe.

The Special Deputy Receiver (SDR), that had been overseeing the rehabilitation of the fraternal insurance company since May 31, 2018, filed the application for liquidation on September 14, 2020. The Travis County court entered the liquidation order on October 9, 2020.

On October 12, 2020, the Association staff began administering the 2,399 active life insurance policies in-house. Notices regarding the liquidation of Calanthe, details regarding the Association, and contact information for questions regarding the ongoing administration of policies and claims were mailed to the 981 policyholders with valid mailing addresses in Calanthe's records. There were 265 premium-paying policies among these with addresses. The remaining policies are either fully paid up, reduced paid up, or extended term. The Association will continue to administer the policies and pay death claims or cash surrender requests as they occur. The face amounts of the active policies total $2,625,643 and have reserve values of $902,109. After distributions from the Calanthe receivership and premium collections, the Association's projected cost for this insolvency could range from $600,000 to $1.1 million.

ADDITIONAL INSOLVENCY ACTIVITY

The Association continues to provide coverage of policy benefits for the following six other insolvencies (listed alphabetically) through ongoing administration of active policies or funding obligations under multi-year workout plans:

- Executive Life Insurance Company,
- Lincoln Memorial Life Insurance Company,
- National States Insurance Company,
- Northwestern National Insurance Company,
- Statesman National Life Insurance Company, and
- Universal Life Insurance Company.

In 2020, the Association paid a total of $175,358 in life and health benefits 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 2020, 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 litigation involving the Lincoln Memorial Life Insurance family of companies continued in 2020 with the completion of various post-trial motions and briefing for the appeal to the 8th Circuit Court of Appeals. Oral argument on the appeal was January 12, 2021, and no ruling has been issued yet. The judgment on appeal is $99,497,290 for damages and $7,144,501 for attorneys' fees and costs.

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 and concluded in 2019; PNC Bank again appealed the judgment.

Claims Litigation

The Association continues to be involved as a defendant in two claims-related lawsuits as of December 31, 2020. Both of these lawsuits are inactive.

ASSESSMENTS AND REFUNDS

Assessments

The Association is authorized to assess its member insurance companies and HMOs 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 $9.74 million. In 2020, the Association's Board of Directors authorized and called a $2,300,000 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 rate environment and small recoveries from estates have not been sufficient to cover the Association's operating expenses. Due to inability of the Association to fund its operating expenses through conventional methods, the Association's Board of Directors has implemented a strategy to authorize and call regular, annual Class A assessments. This was done to provide the member insurance companies and HMOs with some regularity and certainty in planning for Class A assessments. 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 2020.

Member companies and HMOs 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 at the top of the next page reflects the amounts assessed by account since inception, in five-year groupings.

Refunds

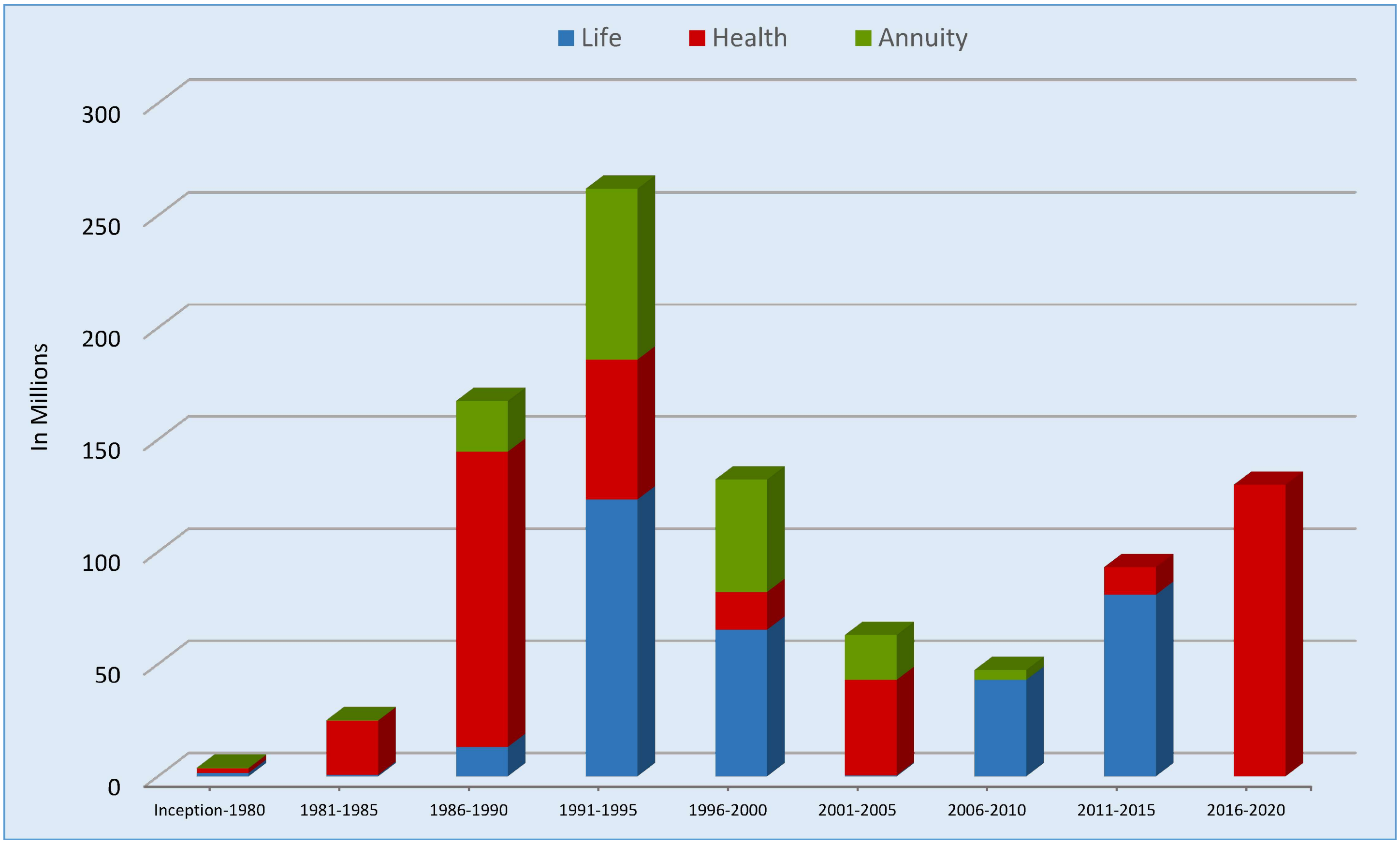
On occasion, the total funds received from premium collections, distributions from receivership estates, investment earnings, recoveries from other third-party sources, and Class B assessments exceed the Association's total expenses related to a specific insolvency. These excess funds result from timing 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 and HMOs are made by credit against assessments called by the Association.

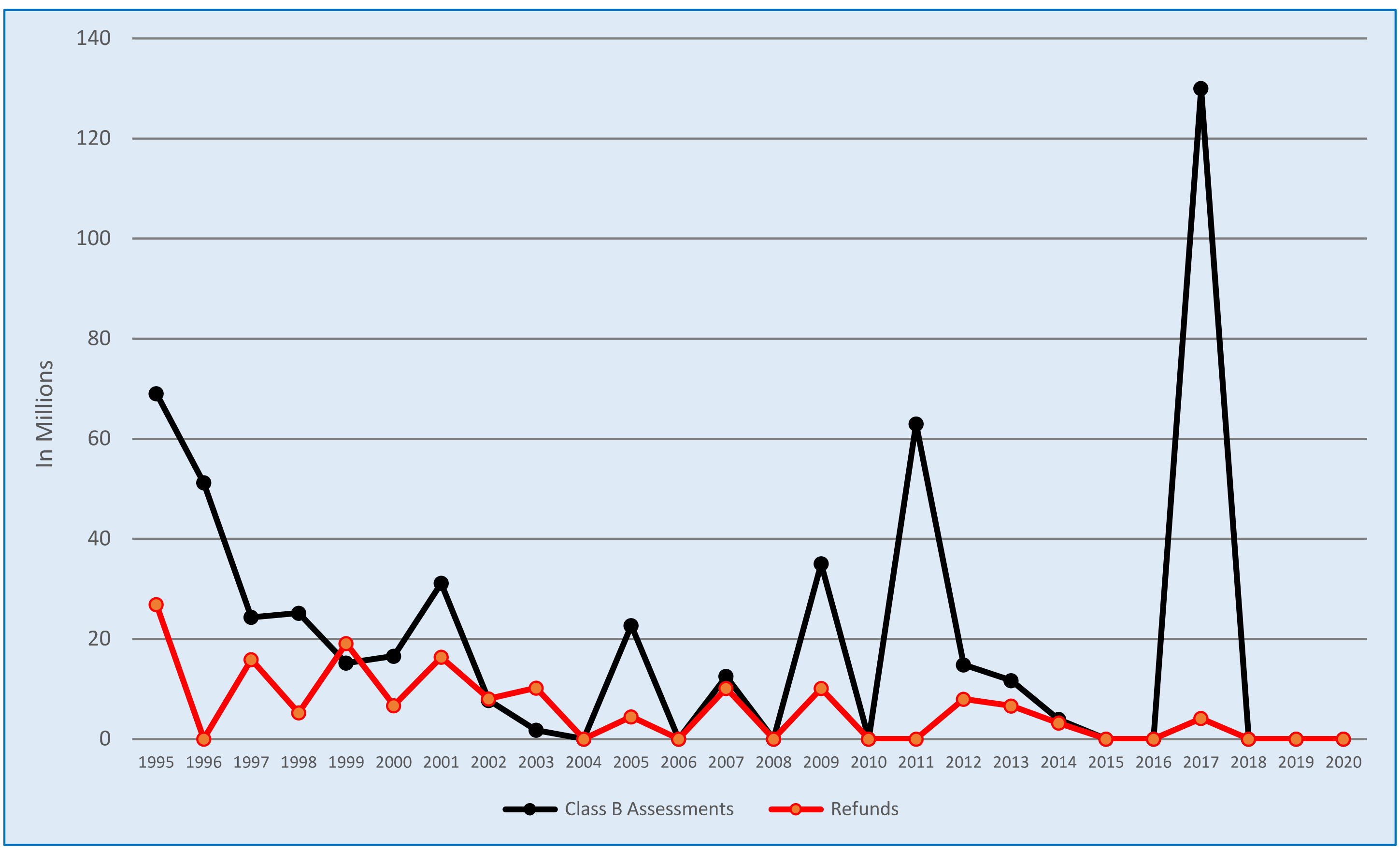
For 15 of the last 25 years beginning in 1995, the Association refunded excess funds related to specific insolvent insurers to member insurers after determining there was no reasonable expectation of additional expenses or recoveries related to those insolvent insurers. In 2020, the Board of Directors did not authorize a credit refund. The Association's refunds since its inception have totaled approximately $154.7 million.

The two charts on the next page 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, 2020, including a Management Discussion and Analysis, the auditor's report, and financial statements with footnote disclosures, are shown herein on pages 16 through 40.

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

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CliftonLarsonAllen LLP
CLAconnect.com

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), as of December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

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.

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, 2020 and 2019, and the changes in its 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 19-25 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

CliftonLarsonAllen LLP

Austin, Texas
April 20, 2021

TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2020 and 2019

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, 2020 and 2019 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 increased by $527,162 or 14.84% from $3.55 million in 2019 to $4.08 million in 2020 compared to a decrease of $95,464 or 2.62% from $3.65 million in 2018 to $3.55 million in 2019.
- The Association authorized and called a $2,300,000 Class A assessment in 2020. There were no assessments in 2019 or 2018. In 2020, unbilled assessments increased by $1,400,817 from $677,709 in 2019 to $2,078,526. Unbilled assessments increased by $359,452 from $318,257 in 2018 to $677,709 in 2019.
- Distributions received from receivership estates were $292,130 in 2020 compared to $423,633 in 2019. Distributions in 2018 were $1.71 million.
- The total net position increased by $2.73 million or 7.54% to $38.99 million in 2020 from $36.25 million in 2019, primarily because of the Class A assessment collected in 2020. In 2019, the total net position decreased by $1.30 million or 3.47% to $36.25 million 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.
- The Association's cash position decreased $9.46 million or 70.74% to $3.91 million in 2020 from $13.38 million in 2019 due to the purchase of U.S. Treasuries. In 2019, the Association's cash position decreased $143,517 or 1.06% to $13.38 million from $13.52 million in 2018 because of daily operations.

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.

The Association presents the following financial statements:

- 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 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)

	2020		2019		2018	
	Amount	Percent	Amount	Percent	Amount	Percent
Current assets	$ 45,497	95.4%	$ 44,345	98.3%	$ 47,077	99.3%
Noncurrent assets	2,176	4.6%	744	1.7%	328	0.7%
Total assets	47,673	100.0%	45,089	100.0%	47,405	100.0%
Current liabilities	4,871	56.1%	5,483	62.1%	6,409	65.1%
Noncurrent liabilities	3,814	43.9%	3,352	37.9%	3,440	34.9%
Total liabilities	8,685	100.0%	8,835	100.0%	9,849	100.0%
Net position						
Unrestricted	38,965	99.9%	36,232	99.9%	37,547	100.0%
Invested in capital assets	23	0.1%	22	0.1%	9	0.0%
Total net position	$ 38,988	100.0%	$ 36,254	100.0%	$ 37,556	100.0%
Unrestricted						
Association operations	$ 517		$ (1,412)		$ (1,326)	
Insolvent estates	38,448		37,644		38,873	
	$ 38,965		$ 36,232		$ 37,547	

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 9%, 30% and 29% of the current assets of the Association in 2020, 2019 and 2018, respectively.

Investments, which include United States Treasury securities with original maturities of greater than three months, at year end were 91%, 70%, and 71% of current assets in 2020, 2019, and 2018, 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 at year end 2020, 2019 and 2018.

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 2020, 2019 and 2018 were $2,078,526, $677,709 and $318,257, respectively.

The Association owns various investments as part of its deferred compensation plan that totaled $73,922, $43,566, and $0 at year end 2020, 2019 and 2018, respectively.

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

Liabilities: 47%, 40% and 37% of the total obligations for the years ending December 31, 2020, 2019 and 2018, 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, 2020, 2019 and 2018 financial statements insurance contractual obligations were recorded as follows:

Table 2
Insurance Contractual Obligations

	2020	2019	2018
Current insurance contractual obligations	$ 338,505	$ 243,818	$ 206,962
Noncurrent insurance contractual obligations	3,740,546	3,308,071	3,440,391
Total contractual obligations	$ 4,079,051	$ 3,551,889	$ 3,647,353

The increase in obligations in 2020 is primarily the result of the Association becoming activated for a newly liquidated insolvent company and assuming the policy obligations. The decrease in obligations in 2019 was mostly a result of the payment of policy claims.

The Association carries a liability for its deferred compensation plan that was $73,922, $43,566, and $0 at year end 2020, 2019 and 2018, 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, 2020, 2019 and 2018, the remaining credit balances were $4.08 million, $4.46 million, and $4.46 million, respectively.

The balance of current liabilities consists of accounts payable and accrued expenses incurred in the normal course of operations. Accrued expenses decreased 43% in 2020 and 55% 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, 2020 and 2019

Table 3
Results of Operations – Change in Net Position

	2020	2019	2018
Revenues:			
Billed assessments	$ 2,290,160	$ -	$ -
Change in unbilled assessments	1,400,817	359,452	(69,052)
Estate recoveries	292,130	423,633	1,707,735
Change in proofs of claim, net of allowance	-	-	-
Premiums	77,328	54,029	57,707
Total operating revenues	4,060,435	837,114	1,696,390
Expenses			
Change in insurance contractual obligations	527,162	(95,464)	(212,704)
Cost of claims obligations	264,025	391,065	1,078,421
Refund of prior year assessments	-	-	-
National task forces	398,724	1,771,675	4,397,962
Administrative costs	1,435,288	1,469,642	1,492,162
Total operating expenses	2,625,199	3,536,918	6,755,841
Operating income (loss)	1,435,236	(2,699,804)	(5,059,451)
Net nonoperating revenues	1,299,532	1,397,521	865,495
Change in net position	2,734,768	(1,302,283)	(4,193,956)
Net position, beginning of year	36,253,572	37,555,855	41,749,811
Net position, end of year	$ 38,988,340	$ 36,253,572	$ 37,555,855
% change in net position from prior year	7.54%	(3.47%)	(10.05%)

In 2020, the net position increased by $2,734,768 or 7.54%. This change is primarily due to the collection of the Class A assessment of $2.3 million. 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.

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 2020, 2019 or 2018.

Table 4

2020 Change in Net Position by Estates and Administration

	Estates	Administration	Total
Revenues:			
Billed assessments	$ 2,290,160	-	$ 2,290,160
Estate recoveries	292,130	-	292,130
Premiums	77,328	-	77,328
Change in unbilled assessments	1,400,817	-	1,400,817
Total revenues	4,060,435	-	4,060,435
Expenses:			
Administration	975,923	858,089	1,861,012
Claims cost	264,025	-	264,025
Change in insurance contractual obligation	527,162	-	527,162
Total expenses	1,767,110	858,089	2,625,199
Operating income (loss)	2,293,325	(858,089)	1,435,236
Interest income (net of interest expense)	482,738	263,425	746,163
Unrealized/realized gain on investments	497,535	55,834	553,369
Increase (Decrease) in net position	$ 3,273,598	(538,830)	$ 2,734,768

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 on investments	415,374	202,820	618,194
(Decrease) Increase in net position	$ (1,686,844)	384,561	$ (1,302,283)

CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

Penn Treaty Network America ("Penn Treaty") and American Network ("American Network") Insurance Companies – The future insurance policy obligations of these two companies 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.

Lincoln Memorial and Memorial Service Life Insurance Companies - 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 was 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 were consolidated and are pending in the 8th Circuit Court of Appeals. Oral argument was held on January 12, 2021. No ruling has been issued.

<u>COVID-19 (Coronavirus) Pandemic</u> - 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 closed its physical offices on March 13, 2020. Association staff continue to conduct operations virtually, including holding all Board of Directors and Committee meetings by videoconference and telephonically. Staff coordinate periodic visits to the office to handle incoming/outgoing mail. The remote operation can continue indefinitely until the successful vaccination programs allow for the safe reopening of the physical offices.

<u>Recoveries Subject to Return</u> - 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, 2020, the Association has received approximately $211.9 million, since its inception, that remain subject to such agreements.

<u>Ongoing Claims</u> - 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, 2020 and 2019

		2020	2019
Assets			
Current assets:			
Cash and cash equivalents	$	3,913,825	13,376,918
Investments		41,395,847	30,836,443
Receivables:			
Billed assessments, net of allowance of $1,384,170 and $1,384,170 at December 31, 2020 and 2019		74,473	69,914
Other receivables		12,183	12,183
Accrued interest		101,029	49,913
Proofs of claim, net of allowance of $601,712,876 and $600,665,976 at December 31, 2020 and 2019		-	-
Total current assets		45,497,357	44,345,371
Noncurrent assets:			
Unbilled assessments		2,078,526	677,709
Investments in deferred compensation plans		73,922	43,566
Capital assets, net		23,612	21,906
Total noncurrent assets		2,176,060	743,181
Total assets	$	47,673,417	45,088,552
Liabilities and Net Position			
Current liabilities:			
Accounts payable	$	10,215	6,933
Accrued expenses		439,221	773,967
Assessment credit balance		4,082,668	4,458,625
Insurance contractual obligations, current portion		338,505	243,818
Total current liabilities		4,870,609	5,483,343
Noncurrent liabilities:			
Deferred compensation plan liabilities		73,922	43,566
Insurance contractual obligations, less current portion		3,740,546	3,308,071
Total liabilities		8,685,077	8,834,980
Net position:			
Unrestricted		38,964,728	36,231,666
Net investment in capital assets		23,612	21,906
Total net position		38,988,340	36,253,572
Total liabilities and net position	$	47,673,417	45,088,552

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, 2020 and 2019

		2020	2019
Operating revenues:			
Membership assessments:			
Billed assessments	$	2,290,160	-
Change in unbilled assessments		1,400,817	359,452
Net membership assessments		3,690,977	359,452
Estate recoveries		292,130	423,633
Premiums		77,328	54,029
Total operating revenues		4,060,435	837,114
Operating expenses:			
Net claims		205,781	219,952
Change in insurance contractual obligations		527,162	(95,464)
Reinsurance agreements		51,778	161,934
Third-party administrators		6,466	9,179
National task forces		398,724	1,771,675
Total claims		1,189,911	2,067,276
Administrative costs:			
Legal and professional		188,625	182,951
Salaries and benefit costs		656,498	651,235
Building and equipment lease costs		293,280	283,411
Depreciation		9,337	6,141
National organization dues and meetings		96,539	111,610
Other		191,009	234,294
Total administrative costs		1,435,288	1,469,642
Total operating expenses		2,625,199	3,536,918
Operating income (loss)		1,435,236	(2,699,804)
Nonoperating revenues:			
Interest income (net of interest expense)		746,163	779,327
Unrealized gain on investments		553,369	618,194
Net nonoperating revenues		1,299,532	1,397,521
Change in net position		2,734,768	(1,302,283)
Net position, beginning of year		36,253,572	37,555,855
Net position, end of year	$	38,988,340	36,253,572

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, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Receipts from assessments	$	1,909,642	-
Receipts from estate recoveries		292,130	423,633
Receipts from premiums		77,328	54,029
Payments for reinsurance agreements		(51,778)	(161,934)
Payments for direct claims		(229,056)	(182,536)
Payments to suppliers for goods and services		(1,460,381)	(3,600,707)
Payments to employees		(678,947)	(642,946)
Net cash used in operating activities		(141,062)	(4,110,461)
Cash flows from capital and related financing activities:			
Purchase of capital assets		(11,043)	(18,677)
Net cash used in capital and related financing activities		(11,043)	(18,677)
Cash flows from investing activities:			
Purchase of U.S. Treasuries		(21,006,035)	(5,178,443)
Maturity of U.S. Treasuries		11,000,000	8,369,000
Receipt of interest on investments		695,047	795,064
Net cash provided by investing activities		(9,310,988)	3,985,621
Net decrease in cash and cash equivalents		(9,463,093)	(143,517)
Cash and cash equivalents, beginning of year		13,376,918	13,520,435
Cash and cash equivalents, end of year	$	3,913,825	13,376,918
Reconciliation of operating income (loss) to net cash (used in) provided by operating activities:			
Operating income (loss)	$	1,435,236	(2,699,804)
Adjustment to reconcile operating income (loss) to net cash (used in) provided by operating activities:			
Depreciation expense		9,337	6,141
Unbilled assessments		(1,400,817)	(359,452)
Effect of changes in operating assets and liabilities:			
Billed assessments receivable, net of allowance		(4,559)	-
Other receivables		-	207
Accounts payable		3,282	(2,527)
Accrued expenses		(334,746)	(959,562)
Assessment credit balance		(375,957)	-
Insurance contractual obligations		527,162	(95,464)
Net cash used in operating activities	$	(141,062)	(4,110,461)

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 ways: 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, 2020 or 2019.

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, 2020 or 2019.

(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, 2020 and 2019 are as follows:

		Fair Value	
		2020	**2019**
Cash and cash equivalents			
Cash on deposit	$	250,000	227,310
Money market mutual funds		3,663,825	13,149,608
Total cash and cash equivalents	$	3,913,825	13,376,918
Investments			
Investments in Deferred Compensation Plans	$	73,922	43,566
Bonds – U.S. Treasury Debt		41,395,847	30,836,443
Total Investments	$	41,469,769	33,880,009

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, 2020 and 2019, respectively, was $250,000 and $227,310 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, 2020 and 2019 were $3,663,825 and $13,149,608, 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 $40,515,417 in U.S. Treasury debt, with a maturity value of $40,300,000. These securities had a market value of $41,395,847 as of December 31, 2020. At December 31, 2019, the Association had invested $30,599,243 in U.S. Treasury debt, with a maturity value of $30,720,000 and market value of $30,836,443. 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 U.S. 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 U.S. Treasuries rather than solely zero-coupon U.S. 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, 2020, the Association had the following U.S. Treasury maturity schedule:

Maturity		**Fair value**
2021	$	14,589,425
2022		10,874,591
2023		12,261,087
2024		3,670,744
Total	$	41,395,847

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, 2020 and 2019:

- U.S. Treasury securities of $41.40 million and $30.84 million, respectively, are valued using quoted market prices (Level 1 inputs)
- Investments in deferred compensation plans of $73.92 thousand and $43.57 thousand, 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, 2020			
		Total	**Level 1**	**Level 2**	**Level 3**
Assets:					
Investments:					
U.S. Treasury Securities	$	41,395,847	41,395,847	-	-
Investments in Deferred Comp Plans:					
Small Cap Mutual Funds	$	27,894	27,894		
Large Cap Mutual Funds		36,283	36,283		
Bond Mutual Funds		9,745	9,745		
Total Investments in Deferred Comp Plans		73,922	73,922		
Total Assets at Fair Value	$	41,469,769	41,469,769	-	-

		As of December 31, 2019			
		Total	**Level 1**	**Level 2**	**Level 3**
Assets:					
Investments:					
U.S. 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	-	-

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 was a Class A assessment, in the amount of $2,300,000, authorized and called in 2020 to fund the Association’s operating expenses. After adjustments for member companies that were under the mailing threshold and adjustments for excluded premium reviewed and authorized by the Board of Directors, the actual 2020 Class A assessment collected was $2,290,160. There was no Class B assessment authorized or called in 2020. There were no Class A or Class B assessments authorized or called in 2019.

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 2020 or 2019.

Billed assessments receivable as of December 31, 2020 and 2019 was $1,458,643 and $1,454,084, respectively. These unpaid assessments were levied in years 1991 through 2020. An allowance for uncollectible billed assessments has been recorded for $1,384,170 as of both December 31, 2020 and December 31, 2019.

Unbilled assessments receivable of $2,078,526 and $677,709 at December 31, 2020 and 2019, 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, 2020 and 2019, proofs of claim receivable on open estates (before an allowance) were $601,712,876 and $600,665,976, 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, 2020 and 2019 were $601,712,876 and $600,665,976, respectively.

7. Capital Assets

Capital asset activity for the years ended December 31, 2020 and 2019 was as follows:

	Beginning of Year	Additions	Retirements	End of Year
2020:				
Capital assets, being depreciated:				
Furniture, computer systems and equipment	$ 354,038	11,043	-	$ 365,081
Less: accumulated depreciation	332,132	9,337	-	341,469
	$ 21,906	1,706	-	$ 23,612
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

Depreciation expense for 2020 and 2019 was $9,337 and $6,141, 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, 2020 and 2019, 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
2020:				
Interaccount loans	$ 265,676	297,430	-	$ 563,106
Interaccount borrowings	$ (265,676)	(297,430)	-	$ (563,106)
2019:				
Interaccount loans	$ 265,676	-	-	$ 265,676
Interaccount borrowings	$ (265,676)	-	-	$ (265,676)

Internal interest of $11,125 and ($8,992) was charged on these loans for the years ended December 31, 2020 and 2019, 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, 2020, and 2019, activity in the insurance contractual obligations was as follows:

	Beginning of Year	Net Change	End of Year	Current Portion
Year ended December 31, 2020	$3,551,889	527,162	$4,079,051	$338,505
Year ended December 31, 2019	$3,647,353	(95,464)	$3,551,889	$243,818

Five open estates comprised approximately 94.97% and 91.55% of the insurance contractual obligations at December 31, 2020 and December 31, 2019, 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, Calanthe Mutual Life Insurance Company and Universal Life Insurance Company are based on actuarial reserve calculations. Calanthe Mutual Life Insurance Company was liquidated in 2020 and the Association assumed its policy obligations in 2020.

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, 2020, and 2019, the net position reflected in the financial statements of the Association consisted of the following:

	2020	2019
Unrestricted net position:		
Insolvent estate assets allocated to pay the ongoing claims and expenses of specific insolvencies	$ 38,448,045	$ 37,643,668
Association operational assets	516,683	(1,412,002)
	38,964,728	36,231,666
Net investment in capital assets	23,612	21,906
Total net position	$ 38,988,340	$ 36,253,572

11. Operating Leases

The Association leases its office facility under a non-cancelable operating lease that expires in May 2021. In 2021, the Association signed an eighty-six-month, non-cancelable lease for offices. The Association also has one noncancelable operating lease for equipment that expires during the next five years. Lease expense charged to operations for the years ended December 31, 2020 and 2019 amounted to $293,280 and $283,411, respectively.

Future annual minimum lease payments under noncancelable operating leases subsequent to December 31, 2020 are as follows:

2021	$ 205,382
2022	172,228
2023	177,070
2024	182,063
2025	187,089
2026 and after	309,582
Total	$ 1,233,414

12. Employee Benefit Plans

The Association sponsors a safe harbor defined contribution retirement plan, TLHIGA 401(k) Plan ("the Plan"), covering substantially all 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 2020 by the Association totaled $32,343. Contributions to the Plan for 2019 by the Association totaled $31,918.

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 deposited $19,500 in 2020 and $19,000 in 2019 into an investment account which will remain in effect until the assets are distributed in accordance with the 457(b) Plan. Investment decisions involving those assets are controlled by the Executive Director. The income, gains, losses and investment results of such deemed assets shall be credited to, or debited from, the accounts as of the end of each period. The cumulative amount held in the account is $73,922 and $43,566 for the years ending 2020 and 2019 along with the corresponding liability of the same amount.

13. Related Party Transactions

The Association will, from time to time, enter 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 2020. No conflicts were identified in 2019.

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 2020 or 2019.

15. Commitments and Contingencies

Penn Treaty Network America ("Penn Treaty") and American Network ("American Network") Insurance Companies – The future insurance policy obligations of these two companies 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.

Lincoln Memorial and Memorial Service Life Insurance Companies - 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 was 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 were consolidated and are pending in the 8th Circuit Court of Appeals. Oral argument was held on January 12, 2021. No ruling has been issued.

Recoveries Subject to Return - 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, 2020, the Association has received approximately $211.9 million, since its inception, that remain subject to such agreements.

Ongoing Claims - 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

The Association is not aware of any subsequent events that would have a material impact on the accompanying financial statements through April 21, 2021, the date the financial statements were available for issuance.

TLHIGA

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