



***2021
Annual
Report***

*This annual report provides financial information and a summary report of the activities of the Texas Life & Health Insurance Guaranty Association for fiscal year 2021.
The information is general in nature and is not legal advice.*

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REPORT FROM THE CHAIR

On behalf of the Texas Life and Health Insurance Guaranty Association ("TLHIGA"), I am pleased to submit the 2021 Annual Report. This is the 29th annual report since the Texas Legislature separated and privatized the TLHIGA's operations from within the Texas Department of Insurance in 1992.

The TLHIGA was not activated to provide protection for the policyholders of any new member companies during 2021. There are ongoing statutory protections being provided to policyholders for seven member companies that were ordered liquidated in prior years. As of year-end 2021, the TLHIGA estimated aggregate future costs of approximately \$4.01 million to provide protection to Texas policyholders from these insolvencies.

Robin Vincent resigned from the Board of Directors when her term expired on September 30, 2021, after five and a half years of service. At year-end, this public member director position and a small member company director position remained vacant.

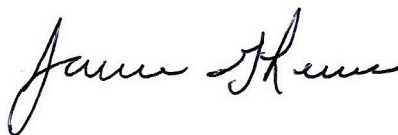
A \$1 million Class A assessment was authorized and called during 2021. There was no Class B assessment authorized during 2021.

Other significant activities during 2021 included the conversion to a full cloud environment, relocation of the physical offices, an extensive review of corporate governance practices, and the successful conclusion to a litigation case that has spanned 12 years.

The TLHIGA continued its high level of participation in the National Organization of Life and Health Insurance Guaranty Associations ("NOLHGA"). The TLHIGA 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 TLHIGA's statutory protection to Texas policyholders.

The TLHIGA 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 TLHIGA uses all the tools at its disposal to protect Texas policyholders in the event of the insolvency and liquidation of a member company.

Respectfully,



James G. Lewis, Chair of the Board of Directors

DESCRIPTION OF THE TLHIGA AND ITS BOARD OF DIRECTORS

The Texas Life and Health Insurance Guaranty Association ("TLHIGA") 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 TLHIGA 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 TLHIGA 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 TLHIGA 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 TLHIGA may recover a portion of its costs to protect the policyholders as the assets of the insolvent company or HMO are liquidated. If further funds are needed, the TLHIGA's Board of Directors determines the amount and levies an assessment, or bill, to the other member companies.

Membership with the TLHIGA

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 TLHIGA.

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 other four excluded entities.

Supervision of the TLHIGA

The TLHIGA'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 TLHIGA are its Plan of Operation, Bylaws, and Chapter 463 of the Texas Insurance Code.

The nine members of the TLHIGA's Board of Directors are appointed by the Texas Commissioner of Insurance. Five directors must be officers or employees of member 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 TLHIGA activities. Each director must file a personal financial statement annually with the Texas Ethics Commission on a prescribed form. Board Counsel, General Counsel, and the Executive Director of the TLHIGA are compensated for their services.

BOARD OF DIRECTORS

as of December 31, 2021

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, 2027

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

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, 2027

Small Member Company Vacancy

Public Member 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, 2021

Executive Committee

James G. Lewis, Chair
James M. Harrison
James E. Huckaby
Dean Frigo

Audit Committee

Dean Frigo, Chair
James G. Lewis
Pati McCandless

Assessment/Investment Committee

James M. Harrison, Chair
Dean Frigo
Ted Kennedy

Personnel Committee

James E. Huckaby, Acting Chair
David Sommer
Vacancy

Corporate Governance Committee

Ted Kennedy, Chair
James E. Huckaby
Pati McCandless
James M. Harrison

CORPORATE GOVERNANCE

The TLHIGA'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 TLHIGA'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
- ◇ Charters 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 2021 included:

- ◇ Semi-annual review and updates to the Business Continuity Plan,
- ◇ Review of the 2020 Annual Report,
- ◇ Adoption of the 2021 Audit Plan,
- ◇ Annual review of commercial insurance coverages,
- ◇ Annual review and update of the critical functions report,
- ◇ Annual Board of Directors self-evaluation,
- ◇ Annual review of the charters for all standing committees,
- ◇ Review of draft IRS Form 990 for 2020,
- ◇ Personal Financial Statement filings by all directors 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 TLHIGA's operations. During its October 20th meeting, the Board of Directors appointed an ad hoc Corporate Governance Committee to review specific practices mentioned in the letter and review the TLHIGA's corporate governance policies and practices for possible enhancement.

The Corporate Governance Committee met in December 2020 and March 2021 to consider the issues raised by the TDI's General Counsel and other possible enhancements to the TLHIGA's corporate governance policies and procedures. In April 2021, the Board of Directors adopted the following revisions to the TLHIGA's corporate governance practices based on recommendations from the Corporate Governance Committee:

- ◇ Updating new director orientation materials to include detailed descriptions of the fiduciary duties of directors,
- ◇ Updating the orientation materials to include the roles and contact information for Board Counsel and General Counsel,
- ◇ Updating the orientation materials to include information on the TDI and TLHIGA roles for troubled companies, the TLHIGA's activation point, and the limited involvement of the TDI in overseeing TLHIGA operations,
- ◇ The "live" orientations conducted with new directors should include Board Counsel and General Counsel presenting the new fiduciary duties descriptions, their roles and contact materials,
- ◇ A summary of the new orientation materials should be provided as an annual refresher to all directors,
- ◇ A portal should be developed for the Board of Directors to access all orientation materials, other corporate governance policies and documents, and specific reports and materials for meetings, and
- ◇ The Board of Directors should formalize its annual evaluation process for Board Counsel and General Counsel.

OVERVIEW OF OPERATIONS

GENERAL

The TLHIGA was not activated to provide its statutory protection of policyholders for any new member companies in 2021 but conducted substantial work on operations and ongoing member company insolvencies that began in prior years.

During 2021, the TLHIGA completed several significant operational changes:

- Moving its information technology infrastructure to a full cloud environment,
- Closing an offsite storage facility that had been used for several decades, and
- Relocation of its Austin, Texas offices to realize an estimated \$1.3 million of savings.

The TLHIGA continues to monitor troubled companies subject to rehabilitation proceedings to be prepared should liquidation become necessary. The Board of Directors prefers to transfer insurance policies protected by the TLHIGA to a solvent carrier through an assumption reinsurance transaction. This has been the most frequently used method for the TLHIGA 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 TLHIGA continue the administration of the covered policies, such as companies with various health insurance lines of business, including long-term care insurance. This ongoing administration of covered policies may be performed through a third-party administrator or in house by the TLHIGA.

We believe the TLHIGA is in sound fiscal condition and has in place the appropriate policies and procedures to fulfill its statutory obligations to policyholders and member companies in a cost-efficient manner

NOLHGA ACTIVITIES



National Organization of Life & Health
Insurance Guaranty Associations

The TLHIGA 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.

TLHIGA representatives serve on, or chair, a num-

ber 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, Security Advisory Committee, Legal Committee, and several special issues committees.

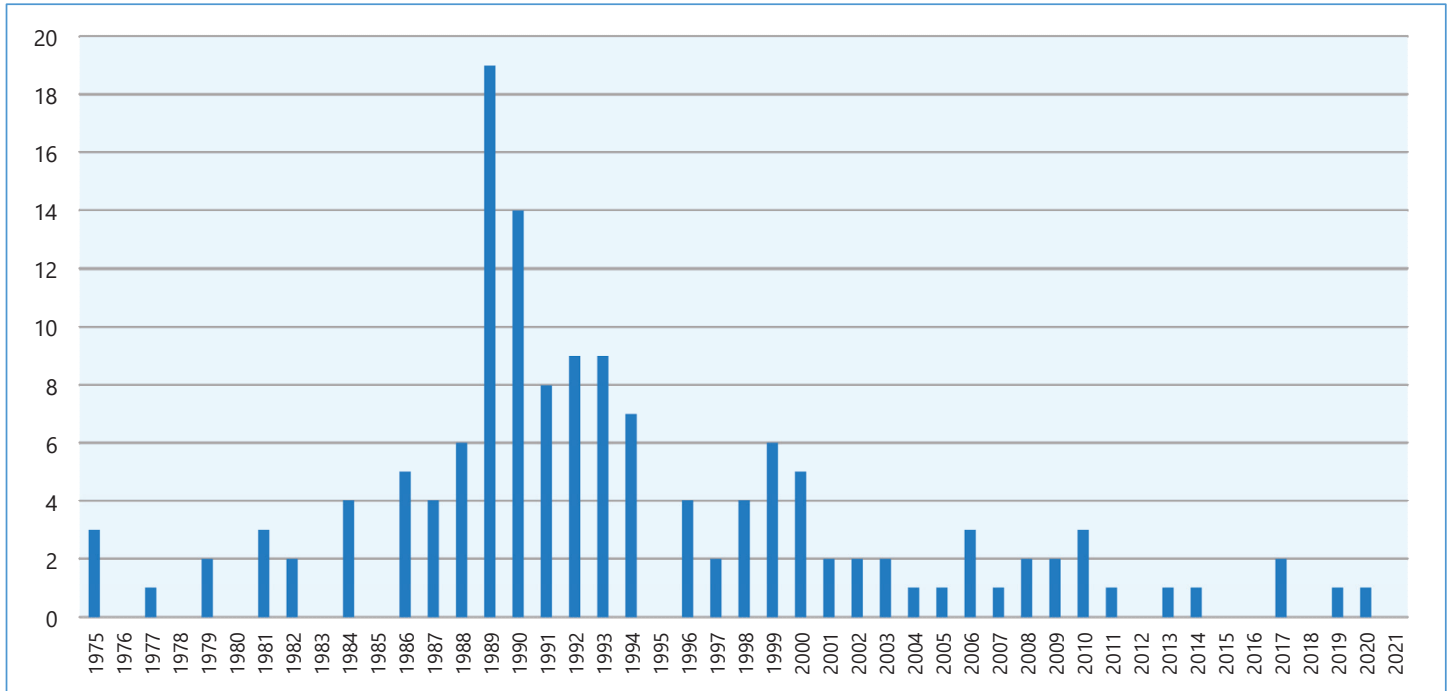
Being a member of NOLHGA is another tool the TLHIGA uses to better protect the Texas residents who hold life, health, and annuity policies with insolvent member companies.

ACTIVE RECEIVERSHIPS

At the beginning of 2021, there were 20 active receiverships of foreign and domestic member insurance companies that had also been designated as “impaired insurers” by the Texas Commissioner of Insurance. There were no new insolvencies and

one receivership was closed in 2021. There remain 19 open receivership estates, 14 of which are foreign-domiciled member companies and 5 of which are Texas domestics.

NEW ACTIVATIONS BY YEAR



POLICY BENEFIT PAYMENTS

Summary of Policy Benefit Payments

The TLHIGA 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 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 TLHIGA funded 162 direct claims, totaling approximately \$277,561 during 2021. These claims were from five different insolvent companies. Claims from two were processed and paid by third-party administrators under service agreements with funding from the TLHIGA, and three were administered directly by the TLHIGA staff.

The charts on the next page reflect the number of direct claims payments for each of the last five years and the division of the TLHIGA’s funding between direct claims payments and assumption reinsurance transactions.

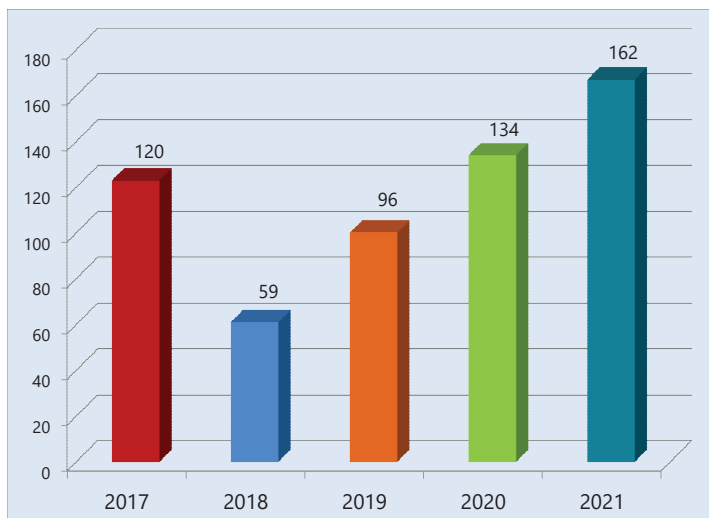
Reinsurance Agreements

The TLHIGA is a party to both assumption and co-insurance reinsurance transactions.

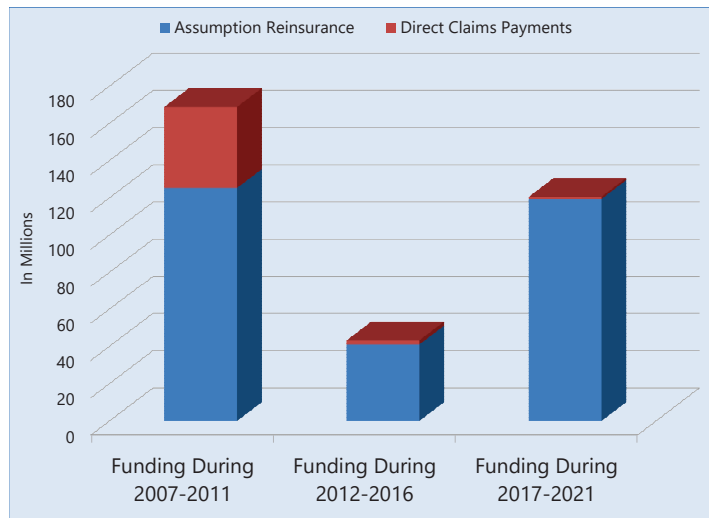
During 2021, the TLHIGA paid \$57,326 under an ongoing, multi-year assumption reinsurance agreement that transferred the covered insurance policy obligations of Executive Life Insurance Company to another company.

The TLHIGA entered into 100% coinsurance reinsurance agreements for its covered policy obligations in the Penn Treaty Network American and American Network Insurance Companies insolvencies with a captive insurance company in 2017. During 2021, the captive paid benefits to the Texas resident policyholders of these two insolvent companies totaling \$10,751,778.

NUMBER OF DIRECT CLAIMS PAYMENTS 2017-2021



DIRECT CLAIMS AND ASSUMPTION REINSURANCE PAYMENTS



REMAINING POLICY BENEFIT OBLIGATIONS

The TLHIGA 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 2021, the TLHIGA estimates its aggregate future policy benefit obligations to be approximately \$4.01 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 company insolvencies.

SUMMARY OF RECOVERIES

The TLHIGA, along with the other affected guaranty associations, is a creditor in the receivership estate of an insolvent member 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 classes 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 TLHIGA'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 TLHIGA has continued to file updated proofs of claim with receiverships. As of year-end 2021, the TLHIGA had filed outstanding claims totaling approximately \$573 million with receivership estates that remain open as active court proceedings. It is not possible to project what amount of recoveries the TLHIGA 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 TLHIGA during 2021 totaled approximately \$29,504,455.

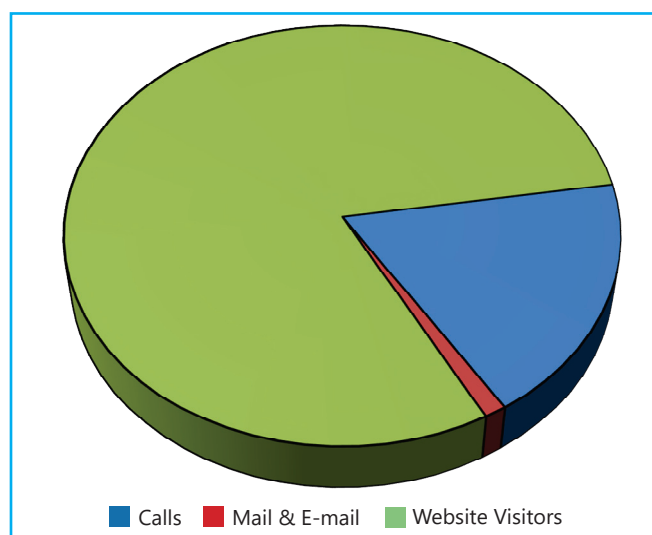


CONSUMER SERVICES

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

During 2021, the TLHIGA received a total of 2,607 phone calls through its direct or toll-free phone numbers, logged 11,387 visitors to its website, and fielded 169 e-mail and mail requests for information.

2021 CONSUMER SERVICES



ACTIVITIES ON INSOLVENCIES

During 2021, the TLHIGA 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 runoff being administered in-house.

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.

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 Liquidation Date).

The Penn Treaty and ANIC coverage obligations for Texas resident policyholders, for which the TLHIGA became statutorily obligated to protect, were calculated through an actuarial model to be approximately \$202.03 million on an aggregate basis. The present value of these coverage obli-

gations, discounted at a 4.25% interest rate as of March 1, 2017, totaled approximately \$137 million. The TLHIGA 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 TLHIGA 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 TLHIGA 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 TLHIGA has no amounts currently owing to LTC Re.

During 2021, the TLHIGA 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 TLHIGA'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 premium rate increases. The TLHIGA's exposure for additional funding, if any, may not be known for several decades.

The TLHIGA'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 on the completion of the conversion of the policies to a new administration platform on April 1, 2021 and the implementation of a wellness pilot program.

Benefit payments from March 1, 2017 through December 31, 2021, under the policies protected by the TLHIGA and paid with the funds provided by the TLHIGA to LTC Re, totaled \$63,036,414. An additional \$6,489,189 of cash buyout payments have been made as part of the options under the rate increase implemented after the approval in 2018. The total paid by LTC Re to Texas resident policyholders since the Liquidation began is \$69,525,603. There remain 2,166 Texas policies in force with 323 open/pending claims as of December 31, 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 TLHIGA staff began administering the 2,399 active life insurance policies

in house. The face amounts of the active policies as of the date of the liquidation order totaled \$2,625,643 and had reserve values of \$902,109. After distributions from the Calanthe receivership and premium collections, the TLHIGA's projected cost for this insolvency ranges from \$600,000 to \$1.1 million.

As of year-end 2021, the TLHIGA had paid cash surrenders and death benefits totaling \$94,711 while 2,159 policies remain in force. The TLHIGA will continue to administer the policies while paying death claims or cash surrender requests as they become due.

ADDITIONAL INSOLVENCY ACTIVITY

The TLHIGA continues to provide coverage of policy benefits for the following five 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, and
- Universal Life Insurance Company.

In 2021, the TLHIGA paid a total of \$280,231 in life and health benefits and assumption expenses for these insolvencies.

LITIGATION

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

During 2021, no new lawsuits were brought against the TLHIGA by any person covered by the TLHIGA, and no adverse judgments were entered against the TLHIGA. Other claims litigation involving the TLHIGA is either dormant or not being prosecuted by the plaintiffs.

The litigation involving the Lincoln Memorial Life Insurance family of companies continued in 2021. The litigation began in 2009 when the TLHIGA, 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.

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 in August 2021 the 8th Circuit affirmed the trial court ruling in all respects. The parties then settled remaining issues relating to post-judgment interest and attorneys' fees for the appeal, and the litigation was concluded. The TLHIGA received its \$29,075,289 share of the final settlement on September 28, 2021.

Claims Litigation

The TLHIGA continues to be involved as a defendant in two claims-related lawsuits as of December 31, 2021. Both of these lawsuits are inactive.



ASSESSMENTS AND REFUNDS

Assessments

The TLHGIA is authorized to assess its member 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 member company. Since it was created in 1973, the TLHGIA's Class A assessments total approximately \$10.74 million. In 2021, the TLHGIA's Board of Directors authorized and called a \$1,000,000 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 TLHGIA's operating expenses. Due to inability of the TLHGIA to fund its operating expenses through conventional methods, the TLHGIA's Board of Directors has implemented a strategy to authorize and call regular, annual Class A assessments. This was done to provide the member companies and HMOs with some regularity and certainty in planning for Class A assessments.

Class B assessments may be authorized and called to obtain the funds needed to fulfill the TLHGIA's statutory administrative expenses and obligations for insurance policies for a specific insolvent member 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 2021.

Member companies and HMOs may protest assessments levied by the TLHGIA in accordance

with the TLHGIA's governing statute.

The total Class B assessments since the formation of the TLHGIA 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

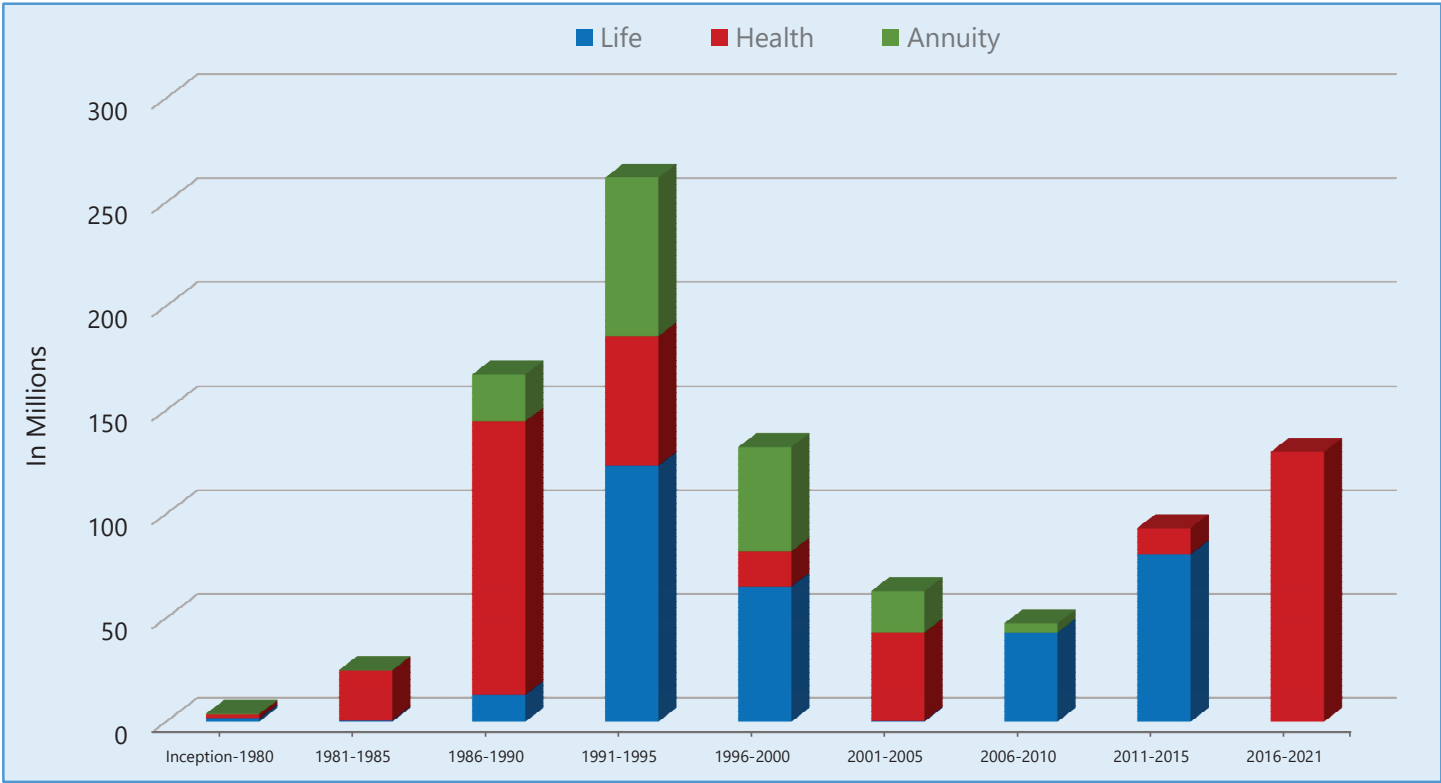
On occasion, the total funds received from premium collections, distributions from receivership estates, investment earnings, recoveries from other third-party sources, and Class B assessments exceed the TLHGIA's total expenses related to a specific insolvency. These excess funds result from timing in 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 TLHGIA's Board of Directors to retain a reasonable amount of these excess accumulated funds for future expenses or to refund, if practical.

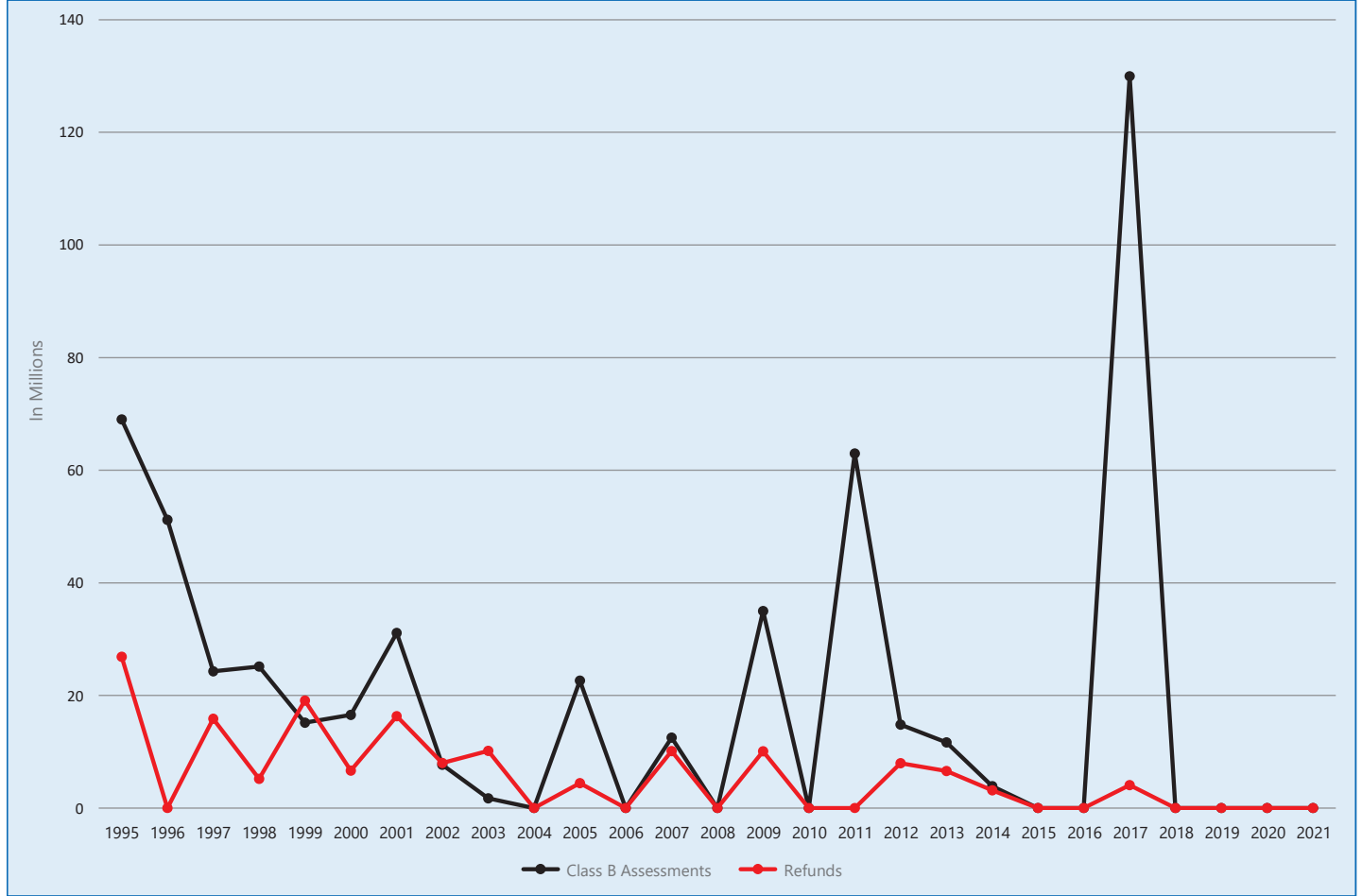
For 15 of the last 25 years beginning in 1995, the TLHGIA refunded excess funds related to specific insolvent insurers to member insurers after determining there was no reasonable expectation of additional expenses or recoveries related to those insolvent insurers. In 2021, the Board of Directors did not authorize a refund. The TLHGIA'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 TLHIGA is considered a governmental organization for accounting, financial reporting, and auditing purposes. As such, the TLHIGA is subject to the authoritative literature promulgated by the Governmental Accounting Standards Board ("GASB"). The TLHIGA, as a financial-reporting entity, is considered a primary government entity as defined in GASB Statement No. 14, as amended, and is reported as a special-purpose government engaged in business-type activities. The significant accounting policies followed by the TLHIGA in preparing its financial statements conform to generally accepted accounting principles applicable to government units and accepted in the United States of America.

The TLHIGA does not have any component units and is not a component unit of any other entity.

The TLHIGA is reported as a related entity by the Texas Department of Insurance ("TDI") in accordance with GASB Statement No. 14.

The TLHIGA'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 TLHIGA's audited financial statements as of and for the year ended December 31, 2021, including a Management Discussion and Analysis, the auditor's report, and financial statements with footnote disclosures, are shown herein on pages 16 through 47.

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Texas Life and Health Guaranty Association (Association), which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Life and Health Guaranty Association as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Texas Life and Health Guaranty Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a

material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Report from the Chair, Board of Directors information, and information on the entity's operations and financial reporting but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Texas
April 19, 2022

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2021 and 2020

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 "TLHIGA") as of and for the years ended December 31, 2021 and 2020 and should be read in conjunction with the basic financial statements. The discussion is based on the TLHIGA's financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America.

FINANCIAL HIGHLIGHTS

- Insurance contractual obligations decreased by \$71,493 or 1.75% from \$4.08 million in 2020 to \$4.01 million in 2021 compared to an increase of \$527,162 or 14.84% from \$3.55 million in 2019 to \$4.08 million in 2020.
- The TLHIGA authorized and called a \$1,000,000 Class A assessment in 2021. In 2020, a \$2,300,000 Class A assessment was authorized and called and there was no assessment in 2019. Unbilled assessments increased by \$130,422 to \$2,208,948 in 2021. In 2020, unbilled assessments increased by \$1,400,817 from \$677,709 in 2019 to \$2,078,526 and increased by \$359,452 from \$318,257 in 2018 to \$677,709 in 2019.
- Distributions received from receivership estates were \$29.5 million in 2021 compared to \$292,130 in 2020. Distributions in 2019 were \$423,633. The TLHIGA received a \$29.1 million litigation distribution from one receivership estate in 2021.
- The TLHIGA's net position increased by \$21.98 million or 56.37% in 2021 to \$60.97 million largely due to the litigation recovery received in 2021. 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.
- In 2021, the TLHIGA's cash position increased \$490,022 or 12.52% to \$4.40 million largely due to the maturity of U.S. Treasuries. The TLHIGA'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 TLHIGA'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 TLHIGA 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.

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The TLHIGA's entire governing body (Board of Directors) is appointed by the Commissioner of Insurance for the State of Texas. Therefore, the TLHIGA exhibits one of the characteristics and is considered to be a governmental organization.

The TLHIGA presents the following financial statements:

- Statement of Net Position: This statement includes all the TLHIGA's assets and liabilities. The difference between the TLHIGA's assets and liabilities is its net position. The net position is presented in two components: net investment in capital assets and unrestricted. The TLHIGA 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 TLHIGA's operations and reports all the TLHIGA'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 TLHIGA.
- 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.

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INSURANCE GUARANTY ASSOCIATION**
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2021 and 2020

FINANCIAL ANALYSIS OF THE TLHIGA

Table 1
Net Position
(In thousands of dollars)

	2021		2020		2019	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Current assets	\$ 67,118	94.9%	\$ 45,497	95.4%	\$ 44,345	98.3%
Noncurrent assets	3,630	5.1%	2,176	4.6%	744	1.7%
Total assets	<u>70,748</u>	<u>100.0%</u>	<u>47,673</u>	<u>100.0%</u>	<u>45,089</u>	<u>100.0%</u>
Current liabilities	4,789	49.0%	4,871	56.1%	5,483	62.1%
Noncurrent liabilities	4,991	51.0%	3,814	43.9%	3,352	37.9%
Total liabilities	<u>9,780</u>	<u>100.0%</u>	<u>8,685</u>	<u>100.0%</u>	<u>8,835</u>	<u>100.0%</u>
Net position						
Unrestricted	60,955	99.9%	38,965	99.9%	36,232	99.9%
Invested in capital assets	13	0.1%	23	0.1%	22	0.1%
Total net position	<u>\$ 60,968</u>	<u>100.0%</u>	<u>\$ 38,988</u>	<u>100.0%</u>	<u>\$ 36,254</u>	<u>100.0%</u>
Unrestricted						
TLHIGA operations	\$ 216		\$ 517		\$ (1,412)	
Insolvent estates	60,752		38,448		37,644	
	<u>\$ 60,968</u>		<u>\$ 38,965</u>		<u>\$ 36,232</u>	

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 7%, 9% and 30% of the current assets of the TLHIGA in 2021, 2020 and 2019, respectively.

Investments, which include United States Treasury securities with original maturities of greater than three months, at year end were 93%, 91%, and 70% of current assets in 2021, 2020, and 2019, respectively.

Proofs of claim are filed by the TLHIGA against individual receivership estates to recover claims expenses, claims handling expenses and administrative expenses incurred by the TLHIGA 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 TLHIGA. 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 2021, 2020 and 2019.

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Noncurrent assets: The TLHIGA has statutory authority to assess its member companies as necessary to provide funds to meet contractual obligations related to each insolvent company for which the TLHIGA 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 company. Unbilled assessments at year end 2021, 2020 and 2019 were \$2,208,948, \$2,078,526 and \$677,709, respectively.

The TLHIGA owns various investments as part of its deferred compensation plan that totaled \$109,435, \$73,922, and \$43,566 at year end 2021, 2020 and 2019, respectively.

In 2021, the TLHIGA adopted GASB 87 which, in part, capitalizes certain leases. Capital assets consisting of capital leases, furniture, computer systems and equipment reported net of accumulated depreciation make up the remaining balance of noncurrent assets.

Liabilities: 41%, 47% and 40% of the total obligations for the years ending December 31, 2021, 2020 and 2019, respectively, are the estimated contractual obligations for all impaired or court ordered insolvent companies for which the TLHIGA 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, 2021, 2020 and 2019 financial statements insurance contractual obligations were recorded as follows:

**Table 2
Insurance Contractual Obligations**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current insurance contractual obligations	\$ 341,655	\$ 338,505	\$ 243,818
Noncurrent insurance contractual obligations	3,665,903	3,740,546	3,308,071
Total contractual obligations	<u>\$ 4,007,588</u>	<u>\$ 4,079,051</u>	<u>\$ 3,551,889</u>

The decrease in 2021 is largely due to the ongoing payment of policy claims. The increase in obligations in 2020 is primarily the result of the TLHIGA becoming activated for a newly liquidated insolvent company and assuming the policy obligations.

The TLHIGA carries a liability for its deferred compensation plan that was \$109,436, \$73,922, and \$43,566 at year end 2021, 2020 and 2019, respectively.

The TLHIGA has historically credit refunded excess insolvency-specific funds to member companies. On occasions where the credit refund exceeds the amount of the assessment levied against a member company, the remaining credit due to a member company is reflected in the financial statements as a liability ("Assessment Credit Balance"). This excess is either held by the TLHIGA to offset future

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For the Years Ended December 31, 2021 and 2020

assessments or is refunded to member companies and/or the Texas Commissioner of Insurance pursuant to law. As of December 31, 2021, 2020 and 2019, the remaining credit balances were \$3.96 million, \$4.08 million, and \$4.46 million, respectively.

The TLHIGA carries a liability for its leases that meet the reporting requirements of GASB 87. The liability is separated into a short-term liability of \$83,645 and a long-term liability of \$1,215,216 at year end 2021. The liability is amortized over the life of the lease. There were no lease liabilities in 2020 or 2019 as the GASB standard for leases was not adopted until 2021 and no restatement was required.

The balance of current liabilities consists of accounts payable and accrued expenses incurred in the normal course of operations. Accrued expenses decreased 7% in 2021, 43% in 2020 and 55% in 2019, largely due to the payment of expenses arising from the TLHIGA's participation in the National Organization of Life and Health Guaranty Associations.

Net position: The net position of the TLHIGA 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 companies or a reasonable amount may be retained to provide funds for the continuing expenses of the TLHIGA.

**TEXAS LIFE AND HEALTH
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Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2021 and 2020

**Table 3
Results of Operations – Change in Net Position**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>Revenues:</u>			
Billed assessments	\$ 987,587	\$ 2,290,160	\$ -
Change in unbilled assessments	130,422	1,400,817	359,452
Estate recoveries	29,504,456	292,130	423,633
Change in proofs of claim, net of allowance	-	-	-
Premiums	64,875	77,328	54,029
Total operating revenues	<u>30,687,340</u>	<u>4,060,435</u>	<u>837,114</u>
<u>Expenses</u>			
Change in insurance contractual obligations	(71,493)	527,162	(95,464)
Cost of claims obligations	339,934	264,025	391,065
Refund of prior year assessments	-	-	-
National task forces	568,406	398,724	1,771,675
Administrative costs	1,299,995	1,435,288	1,469,642
Total operating expenses	<u>2,136,842</u>	<u>2,625,199</u>	<u>3,536,918</u>
Operating income (loss)	28,550,498	1,435,236	(2,699,804)
Net nonoperating revenues (expenses)	<u>(6,570,965)</u>	<u>1,299,532</u>	<u>1,397,521</u>
Change in net position	21,979,533	2,734,768	(1,302,283)
Net position, beginning of year	38,988,340	36,253,572	37,555,855
Net position, end of year	<u>\$ 60,967,873</u>	<u>\$ 38,988,340</u>	<u>\$ 36,253,572</u>
% change in net position from prior year	56.37%	7.54%	(3.47%)

The net position increased by \$21,979,533 in 2021 largely due to the receipt of a litigation recovery from one receivership estate and a settlement payment during the year. In 2020, the net position increased by

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Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2021 and 2020

\$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%. The 2021 change in net position was affected by the net results in administration operations, (\$1.10 million) and estate operations, \$23.08 million as shown in Table 4. Most of the change in net position is a result of the receipt of \$29.50 million in estate distributions.

The amount by which the net assets of individual estates exceed the amount necessary to carry out the obligations of the TLHIGA, including assets accruing from net realized gains and income from investments, may, by an equitable method, be refunded to member companies. The TLHIGA's Board of Directors did not authorize a refund in 2021, 2020 or 2019.

Table 4

2021 Change in Net Position by Estates and Administration

	<u>Estates</u>	<u>Administration</u>	<u>Total</u>
Revenues:			
Billed assessments	\$ 987,587	-	\$ 987,587
Estate recoveries	29,504,456	-	29,504,455
Premiums	64,875	-	64,875
Change in unbilled assessments	130,422	-	130,422
Total revenues	<u>30,687,340</u>	<u>-</u>	<u>30,687,340</u>
Expenses:			
Administration	840,286	1,028,115	1,868,401
Claims cost	339,934	-	339,934
Change in insurance contractual obligations	(71,493)	-	(71,493)
Total expenses	<u>1,108,727</u>	<u>1,028,115</u>	<u>2,136,842</u>
Operating income (loss)	29,578,613	(1,028,115)	28,550,498
Interest income (net of interest expense)	511,071	204,373	715,444
Unrealized/realized (loss) on investments	(716,153)	(274,646)	(990,799)
Settlements	<u>(6,295,610)</u>	<u>-</u>	<u>(6,295,610)</u>
Increase (decrease) in net position	\$ 23,077,921	(1,098,388)	\$ 21,979,533

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2021 and 2020

Table 4 (continued)

2020 Change in Net Position by Estates and Administration

	<u>Estates</u>	<u>Administration</u>	<u>Total</u>
Revenues:			
Estate recoveries	\$ 2,290,160	-	\$ 2,290,160
Premiums	292,130	-	292,130
Change in unbilled assessments	77,328	-	77,328
Total revenues	<u>1,400,817</u>	<u>-</u>	<u>1,400,817</u>
	4,060,435	-	4,060,435
Expenses:			
Administration	975,923	858,089	1,834,012
Claims cost	264,025	-	264,025
Change in insurance contractual obligations	527,162	-	527,162
Total expenses	<u>1,767,110</u>	<u>858,089</u>	<u>2,625,199</u>
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	<u>497,535</u>	<u>55,834</u>	<u>553,369</u>
Increase (decrease) in net position	\$ 3,273,598	(538,830)	\$ 2,734,768

CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

COVID-19 (Coronavirus) Pandemic - 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 TLHIGA closed its physical offices on March 13, 2020. TLHIGA 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 management determines it is safe to return.

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2021 and 2020

CONTACTING THE TLHIGA'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the TLHIGA's finances. If you have questions about this report or need additional financial information, please contact the TLHIGA's Executive Director at 1717 West 6th Street, Suite 230, Austin, Texas 78703 or call (512) 476-5101.

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Statements of Net Position
December 31, 2021 and 2020

Assets	2021	2020
Current assets:		
Cash and cash equivalents	\$ 4,403,847	3,913,825
Investments	62,412,816	41,395,847
Receivables:		
Billed assessments, net of allowance of \$1,384,170 and \$1,384,170 at December 31, 2021 and 2020	74,659	74,473
Other receivables	21,986	12,183
Accrued interest	190,526	101,029
Proofs of claim, net of allowance of \$573,421,929 and \$601,712,876 at December 31, 2021 and 2020	-	-
Pre-paid rent	13,622	-
Total current assets	<u>67,117,456</u>	<u>45,497,357</u>
Noncurrent assets:		
Unbilled assessments	2,208,948	2,078,526
Investments in deferred compensation plans	109,435	73,922
Capital assets		
Furniture & equipment	400,517	365,081
Right-of-use lease assets	1,331,009	-
Accumulated depreciation	<u>(419,480)</u>	<u>(341,469)</u>
Total noncurrent assets	<u>3,630,429</u>	<u>2,176,060</u>
Total assets	<u>\$ 70,747,885</u>	<u>47,673,417</u>

Liabilities and Net Position

Current liabilities:		
Accounts payable	\$ 306	10,215
Accrued expenses	408,634	439,221
Assessment credit balance	3,955,218	4,082,668
Lease liabilities-short term	83,645	-
Insurance contractual obligations, current portion	341,655	338,505
Total current liabilities	<u>4,789,458</u>	<u>4,870,609</u>
Noncurrent liabilities:		
Deferred compensation plan liabilities	109,435	73,922
Lease liabilities-long term	1,215,216	-
Insurance contractual obligations, less current portion	3,665,903	3,740,546
Total liabilities	<u>9,780,012</u>	<u>8,685,077</u>
Net position:		
Unrestricted	60,954,688	38,964,728
Net investment in capital assets	13,185	23,612
Total net position	<u>60,967,873</u>	<u>38,988,340</u>
Total liabilities and net position	<u>\$ 70,747,885</u>	<u>47,673,417</u>

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, 2021 and 2020

	2021	2020
Operating revenues:		
Membership assessments:		
Billed assessments	\$ 987,587	2,290,160
Change in unbilled assessments	130,422	1,400,817
Net membership assessments	1,118,009	3,690,977
Estate recoveries	29,504,456	292,130
Premiums	64,875	77,328
Total operating revenues	30,687,340	4,060,435
Operating expenses:		
Net claims	277,561	205,781
Change in insurance contractual obligations	(71,493)	527,162
Reinsurance agreements	57,326	51,778
Third-party administrators	5,047	6,466
National task forces	568,406	398,724
Total claims	836,847	1,189,911
Administrative costs:		
Legal and professional	166,099	188,625
Salaries and benefit costs	592,791	656,498
Building and equipment lease costs	144,091	293,280
Depreciation	78,012	9,337
National organization dues and meetings	90,427	96,539
Other	228,575	191,009
Total administrative costs	1,299,995	1,435,288
Total operating expenses	2,136,842	2,625,199
Operating income	28,550,498	1,435,236
Nonoperating revenues:		
Interest income (net of interest expense)	715,444	746,163
Unrealized gain (loss) on investments	(990,799)	553,369
Settlements	(6,295,610)	
Net nonoperating revenues	(6,570,965)	1,299,532
Change in net position	21,979,533	2,734,768
Net position, beginning of year	38,988,340	36,253,572
Net position, end of year	\$ 60,967,873	38,988,340

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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Receipts from assessments	\$ 862,914	1,909,642
Receipts from estate recoveries	29,504,455	292,130
Receipts from premiums	64,875	77,328
Payments for reinsurance agreements	(57,326)	(51,778)
Payments for direct claims	(277,561)	(229,056)
Payments to suppliers for goods and services	(1,329,877)	(1,460,381)
Payments for settlements	(6,295,610)	-
Payments to employees	(562,840)	(678,947)
Net cash used in operating activities	<u>21,909,030</u>	<u>(141,062)</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(35,436)	(11,043)
Net cash used in capital and related financing activities	<u>(35,436)</u>	<u>(11,043)</u>
Cash flows from investing activities:		
Purchase of U.S. Treasuries	(36,502,768)	(21,006,035)
Maturity of U.S. Treasuries	14,495,000	11,000,000
Receipt of interest on investments	624,196	695,047
Net cash provided by investing activities	<u>(21,383,572)</u>	<u>(9,310,988)</u>
Net decrease in cash and cash equivalents	490,022	(9,463,093)
Cash and cash equivalents, beginning of year	3,913,825	13,376,918
Cash and cash equivalents, end of year	<u>\$ 4,403,847</u>	<u>3,913,825</u>
Reconciliation of operating income (loss) to net cash (used in) provided by operating activities:		
Operating income	\$ 28,550,498	1,435,236
Adjustment to reconcile operating income (loss) to net cash (used in) provided by operating activities:		
Depreciation expense	79,763	9,337
Unbilled assessments	(130,422)	(1,400,817)
Settlements	(6,295,610)	-
Effect of changes in operating assets and liabilities:		
Billed assessments receivable, net of allowance	(186)	(4,559)
Other receivables	(9,803)	-
Pre-paid rent	(13,622)	-
Lease asset	(1,331,009)	-
Accounts payable	(9,910)	3,282
Accrued expenses	(30,587)	(334,746)
Assessment credit balance	(127,450)	(375,957)
Lease liabilities	1,298,861	-
Insurance contractual obligations	(71,493)	527,162
Net cash provided by (used) in operating activities	<u>\$ 21,909,030</u>	<u>(141,062)</u>

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

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements
December 31, 2021 and 2020

1. Nature of Operations and Reporting Entity

The Texas Life and Health Insurance Guaranty Association ("TLHIGA") 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 TLHIGA 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. The TLHIGA's operations were privatized by the Texas Legislature in 1992.

Membership in the TLHIGA 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 TLHIGA based on estimates of amounts necessary to provide funds to carry out the purposes of the Act. Any amount in excess of the amounts necessary to carry out the statutory obligations and continuing expenses of the TLHIGA 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 TLHIGA.

Pursuant to the Act, the TLHIGA 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 TLHIGA 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 TLHIGA is considered financially accountable under GASB Statement No. 14, as amended.

The TLHIGA is reported as a special-purpose government entity engaged in business-type activities. The significant accounting policies followed by the TLHIGA in preparing these financial statements conforms to generally accepted accounting principles applicable to government units. The TLHIGA 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 TLHIGA's principal ongoing operations, as described

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements

December 31, 2021 and 2020

(Continued)

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 TLHIGA 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 TLHIGA 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 TLHIGA 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 TLHIGA shall meet the following objectives: (1) maximum safety of funds invested and preservation of principal, (2) maintain sufficient liquidity to meet the TLHIGA's anticipated cash flow needs, and (3) achieve the highest possible yield. Funds of the TLHIGA 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 IntraFi Network Deposits 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 TLHIGA'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.

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements

December 31, 2021 and 2020

(Continued)

(e) Fair Value Measurement and Application

The TLHIGA follows 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 TLHIGA 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. In 2021, the TLHIGA adopted GASB 87, *Leases*. Under this standard, the TLHIGA treats all leases that meet the criteria of GASB 87, including materiality, as lease liabilities and a right-to-use lease capital asset is established. The amortization of the asset is included in the accumulated depreciation of all capital assets. The impact of adopting GASB 87 is reflected in Note 11 of the financial statements.

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements
December 31, 2021 and 2020
(Continued)

(h) Premium Revenue

Premiums received from a policyholder for coverage periods after an order of liquidation is entered, belong to the TLHIGA. Premium revenue is recognized as the premiums are received by the TLHIGA, 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) until then. The TLHIGA did not have any items that qualified for reporting in this category as of December 31, 2021, or 2020.

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 TLHIGA did not have any items that were required to be reported in this category as of December 31, 2021, or 2020.

(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 liabilities.
- 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 TLHIGA not restricted for any project or other purpose. The net position reflected in the financial statements of the TLHIGA are deemed to be unrestricted. Any estate-specific net position may be refunded to member companies or a reasonable amount may be retained to provide funds for the continuing expenses of the TLHIGA.

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements

December 31, 2021 and 2020

(Continued)

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

3. Deposits and Investments

The TLHIGA's deposits and investments as of December 31, 2021, and 2020 are as follows:

		Fair Value	
		2021	2020
<i>Cash and cash equivalents</i>			
Cash on deposit	\$	227,734	250,000
Money market mutual funds		4,176,113	3,663,825
Total cash and cash equivalents	\$	<u>4,403,847</u>	<u>3,913,825</u>
<i>Investments</i>			
Investments in Deferred Compensation Plans	\$	109,435	73,922
Bonds – U.S. Treasury Debt		62,412,816	41,395,847
Total Investments	\$	<u>62,522,251</u>	<u>41,469,769</u>

Custodial Risk. Cash and cash equivalents consist of bank demand deposits and money market investment accounts. The TLHIGA's amount of bank demand deposits accounts at December 31, 2021 and 2020, respectively, was \$227,734 and \$250,000. The TLHIGA manages its cash and cash equivalent balances to not exceed the \$250,000 FDIC protection.

Credit Risk. Money market investments at December 31, 2021, and 2020 were \$4,176,113 and \$3,663,825, 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 TLHIGA has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Interest rate risk. The TLHIGA invested \$62,489,695 in U.S. Treasury debt, with a maturity value of \$61,625,000. These securities had a market value of \$62,412,816 as of December 31, 2021. At December 31, 2020, the TLHIGA had invested \$40,515,417 in U.S. Treasury debt, with a maturity value of \$40,300,000 and market value of \$41,395,847. The TLHIGA, upon the direction of its Board of Directors, adopted a

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements
December 31, 2021 and 2020
(Continued)

laddered maturity schedule with all its investments. Each quarter, approximately \$2,000,000 of U.S. Treasuries will mature to either fund the TLHIGA's obligations or be reinvested. Due to this schedule, the TLHIGA purchased some longer-term interest paying U.S. Treasuries rather than solely zero-coupon U.S. Treasury-bills. The TLHIGA recognizes the accrued interest on this debt as an asset. As special needs arise, the Board may instruct the TLHIGA to deviate from the standard maturity schedule.

Investment in deferred compensation plans. The TLHIGA 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, 2021, the TLHIGA had the following U.S. Treasury maturity schedule:

Maturity	Fair value
2022	\$ 39,835,656
2023	11,996,594
2024	10,580,566
Total	\$ 62,412,816

4. Investments and Fair Value Measurements

The estimated fair values of the TLHIGA'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 TLHIGA has the following recurring fair value measurements as of December 31, 2021, and 2020:

- U.S. Treasury securities of \$62.41 million and \$41.40 million, respectively, are valued using quoted market prices (Level 1 inputs)
- Investments in deferred compensation plans of \$109.44 thousand and \$73.92 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:

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements
December 31, 2021 and 2020
(Continued)

As of December 31, 2021

		Total	Level 1	Level 2	Level 3
Assets:					
Investments:					
U.S. Treasury Securities	\$	62,412,816	62,412,816	-	-
Investments in Deferred Comp Plans:					
Small Cap Mutual Funds	\$	38,593	38,593	-	-
Large Cap Mutual Funds		58,353	58,353	-	-
Bond Mutual Funds		12,489	12,489	-	-
Total Investments in Deferred Comp Plans		109,435	109,435	-	-
Total Assets at Fair Value	\$	62,522,251	62,522,251	-	-

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	\$	27,984	27,984	-	-
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	-	-

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements
December 31, 2021 and 2020
(Continued)

5. Membership Assessments

The TLHIGA 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 TLHIGA. 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 member companies.

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

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 member company necessitating the assessment was designated as impaired or insolvent to (2) the total premiums received on that same line of business by all member companies 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.

The Board of Directors authorized and called a Class A assessment in the amount of \$1,000,000 in 2021 to fund the TLHIGA's operating expenses. After adjustments for member companies that were under the mailing threshold and excluded premium reviewed and authorized by the Board of Directors, the actual 2020 Class A assessment collected was \$874,832. There was no Class B assessment authorized or called in 2021.

There was a Class A assessment, in the amount of \$2,300,000, authorized and called in 2020 to fund the TLHIGA's operating expenses. After adjustments for member companies that were under the mailing threshold and 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.

The TLHIGA may refund to member companies, in proportion to the contribution of each member company, the amount by which accumulated assets exceed the amount necessary to meet its obligations with regard to a particular insolvent member company. The Board of Directors did not authorize a credit refund in 2021 or 2020.

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements

December 31, 2021 and 2020

(Continued)

Billed assessments receivable as of December 31, 2021, and 2020 was \$1,458,829 and \$1,458,643, respectively. These unpaid assessments were levied in years 1991 through 2021. An allowance for uncollectible billed assessments has been recorded for \$1,384,170 as of both December 31, 2021, and December 31, 2020.

Unbilled assessments receivable of \$2,208,948 and \$2,078,526 at December 31, 2021 and 2020, respectively, represent the statutory ability of the TLHIGA to assess member companies as required to meet its statutory obligations. This amount may be assessed in future periods as necessary to fund liabilities for insolvent member companies.

6. Proofs of Claim

The TLHIGA files proofs of claim against individual receivership estates to recover claims expenses, claims handling expenses and other administrative expenses incurred by the TLHIGA 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 TLHIGA. At December 31, 2021 and 2020, proofs of claim receivable on open estates (before an allowance) were \$573,421,929 and \$601,712,876, 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 TLHIGA in early access distributions or final distributions are often not readily determinable; therefore, recoveries due to the TLHIGA are necessarily estimates and subject to change as the estates are closed. Based on the TLHIGA's estate-specific review, the allowances for uncollectible proofs of claim as of December 31, 2021, and 2020 were \$573,421,929 and \$601,712,876, respectively.

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements

December 31, 2021 and 2020

(Continued)

7. Capital Assets

Capital asset activity for the years ended December 31, 2021, and 2020 was as follows:

	Beginning of Year	Additions	Retirements	End of Year
2021:				
Capital assets, being depreciated or amortized:				
Furniture, computer systems and equipment	\$365,081	35,436	-	\$400,517
Right-of-use lease	-	1,331,009	-	1,331,009
Less: accumulated depreciation				
Furniture, computer systems and equipment	\$341,469	10,844	-	352,313
Right-of-use lease	-	67,167	-	67,167
	<u>\$23,612</u>	<u>1,288,434</u>	<u>-</u>	<u>\$1,312,046</u>
2020:				
Capital assets, being depreciated or amortized:				
Furniture, computer systems and equipment	\$354,038	11,043	-	\$365,081
Less: accumulated depreciation				
Furniture, computer systems and equipment	332,132	9,337	-	341,469
	<u>\$21,906</u>	<u>1,706</u>	<u>-</u>	<u>\$23,612</u>

Depreciation expense for 2021 and 2020 was \$78,012 and \$9,377, respectively.

8. Interaccount Loans and Borrowings

The Board of Directors of the TLHIGA 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, 2021 and 2020, the following transactions occurred, which are not reflected in the financial statements since they are eliminated at the Association level:

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements
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(Continued)

	Beginning of Year	Additions	Repayments	End of Year
2021:				
Interaccount loans	\$ 563,106	73,185	(246,472)	\$ 389,819
Interaccount borrowings	\$ (563,106)	(73,185)	246,472	\$ (389,819)
2020:				
Interaccount loans	\$ 265,676	297,430	-	\$ 563,106
Interaccount borrowings	\$ (265,676)	(297,430)	-	\$ (563,106)

Internal interest of \$2,910 and \$11,125 was charged on these loans for the years ended December 31, 2021 and 2020, respectively. The interest expense was charged to the individual borrowing insolvencies and is netted against interest income on the TLHIGA'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 member 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, 2021, and 2020, activity in the insurance contractual obligations was as follows:

	Beginning of Year	Net Change	End of Year	Current Portion
Year ended December 31, 2021	\$4,079,051	(71,493)	\$4,007,558	\$341,655
Year ended December 31, 2020	\$3,551,889	527,162	\$4,079,051	\$338,505

Five open estates comprised approximately 88.80% and 94.97% of the insurance contractual obligations at December 31, 2021 and December 31, 2020, respectively. The obligations related to the Executive Life estate are based on the estimated amount the TLHIGA will pay for obligations to provide additional benefits under certain contracts not included in the defeasance payment the TLHIGA 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, and the TLHIGA assumed its policy obligations, in 2020.

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements
December 31, 2021 and 2020
(Continued)

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, 2021, and 2020, the net position reflected in the financial statements of the TLHIGA consisted of the following:

	<u>2021</u>	<u>2020</u>
Unrestricted net position:		
Insolvent estate assets allocated to pay the ongoing claims and expenses of specific insolvencies	\$ 60,752,177	\$ 38,448,045
TLHIGA operational assets	<u>202,511</u>	<u>516,683</u>
	60,954,688	38,964,728
Net investment in capital assets	<u>13,185</u>	<u>23,612</u>
Total net position	<u>\$ 60,967,873</u>	<u>\$ 38,988,340</u>

11. Leases

The TLHIGA adopted and follows the standards promulgated by GASB 87 in classifying and accounting for leases.

Long-Term Lease

In 2021, the TLHIGA signed an eighty-six-month, non-cancelable lease for offices with an option to extend for sixty additional months. The TLHIGA included the option period in the calculation of the lease asset and liability as it determined that it is reasonably certain that the TLHIGA will exercise that option. The TLHIGA used the internal borrowing rate, adjusted for the lease term, to calculate the lease liability. The lease does not contain any variable payments, short term lease payments, termination penalties, sublease income, or residual values not included in the measurement of the lease liability. The lease does not include any sale-leaseback transactions. The following table shows the lease asset for 2021:

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

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(Continued)

	Beginning Balance	Additions	Deductions	Ending Balance
Leased assets being amortized				
Leased – leased building	\$-	\$1,331,009	-	\$1,331,009
Total leased assets being amortized	-	1,331,009	-	1,331,009
Less: accumulated amortization				
Leased – leased building	-	(67,167)	-	(67,167)
Total accumulated amortization	-	(67,167)	-	(67,167)
Total, net of accumulated amortization	\$-	\$1,263,842	-	\$1,263,842

A maturity analysis of the lease is displayed in the following table:

	Principal	Interest	Total
01/01/2022 - 12/31/2022	\$83,645	20,413	\$104,058
01/01/2023 - 12/31/2023	88,162	19,012	107,174
01/01/2024 - 12/31/2024	92,854	17,536	110,390
01/01/2025 - 12/31/2025	97,718	15,982	113,699
01/01/2026 - 12/31/2026	102,761	14,347	117,108
01/01/2027 - 12/31/2031	608,097	43,835	651,931
01/01/2032 - 12/31/2036	225,625	2,787	228,411
Total	\$1,298,861	133,911	\$1,432,772

12. Employee Benefit Plans

The TLHIGA 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 TLHIGA 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 TLHIGA may also make additional employer matching contributions and discretionary profit-sharing contributions as determined annually.

**TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements
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(Continued)

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 2021 by the TLHIGA totaled \$30,057. Contributions to the Plan for 2020 by the TLHIGA totaled \$32,343.

In 2018, the TLHIGA 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 TLHIGA deposited \$19,500 in 2021 and \$19,500 in 2020 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 \$109,435 and \$73,922 for the years ending 2021 and 2020 along with the corresponding liability of the same amount.

13. Settlements

In 2021, the TLHIGA made a final payment of \$6,295,610 under a settlement agreement from a prior period.

14. Related Party Transactions

The TLHIGA 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 2021. No conflicts were identified in 2020.

15. Risk Management

The TLHIGA 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 2021 or 2020.

16. 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 TLHIGA became statutorily obligated to protect were calculated through an

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actuarial model to be approximately \$202.03 million on an aggregate basis. The present value of these coverage obligations, discounted at a 4.25% interest rate as of March 1, 2017 (the Liquidation Date), totaled approximately \$137.01 million. The TLHIGA, 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 TLHIGA 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 TLHIGA 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. With the payoff of the notes, the TLHIGA has no amounts currently owing to LTC Re. The remaining early access distributions were credited to the TLHIGA's notional account used by LTC Re to track the necessity for additional TLHIGA funds.

The TLHIGA 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 TLHIGA'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 TLHIGA's exposure for additional funding, if any, may not be known for several decades.

Lincoln Memorial and Memorial Service Life Insurance Companies - The TLHIGA 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

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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 in August 2021 the 8th Circuit affirmed the trial court ruling in all respects. The parties then settled remaining issues relating to post judgment interest and attorneys' fees for the appeal, and the litigation was concluded. The TLHIGA received its \$29,075,289 share of the final settlement on September 28, 2021.

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 TLHIGA has received approximately \$242.9 million, since its inception, that remain subject to such agreements.

Ongoing Claims - The TLHIGA, 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 TLHIGA. It is the opinion of management that any losses which may be sustained would not be material to the TLHIGA and, in all foreseeable instances, the TLHIGA would have the statutory authority to assess member insurance companies for any losses sustained.



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