TLHIGA | Texas Life & Health Insurance Guaranty Association

2022 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 2022. 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 2022 Annual Report. This is the 30th 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 activated to provide protection for the policyholders of two member companies during 2022. Both of these companies were domiciled in other states. There are ongoing statutory protections being provided to policyholders for nine additional member companies that were ordered liquidated in prior years. As of year-end 2022, the TLHIGA estimates remaining, aggregate future costs of approximately $6.07 million to provide protection to Texas policyholders from these insolvencies.

The Board of Directors continued to meet quarterly, and board committees met as needed throughout the year. Mark Williams of National Farm Life Insurance Company was appointed to the Board as a small company representative on April 20, 2022. At year-end, a public member Board position remained vacant.

Other significant activities during 2022 include the redesign of the TLHIGA's website and the creation of a secure web portal to enhance distribution of materials to the Board of Directors.

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 to actively protect Texas policyholders. We continue to meet the challenges of any economic, governmental, or legislative changes or issues that may arise, and 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 for its administration expenses and the benefits it pays to, or on behalf of, policyholders. The TLHIGA may recover a portion of these 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 HMOs 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.

Mark Williams of National Farm Life Insurance Company was appointed to the Board of Directors as a small company representative on April 20, 2022. At year-end, a public member director position remained vacant.

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, 2022

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
Retired School District Executive Director
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

Mark Williams
COO, Treasurer, Sr. VP of Investments and Chief Compliance Officer
National Farm Life Insurance Company
Fort Worth, Texas. Director since 2022
Current term expires September 30, 2025

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, 2022

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
James G. Lewis

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
- Critical Functions Report
- Policy and Procedures Manual
- Privacy Policy
- Texas Open Meetings and Open Records Acts

Specific corporate governance activities conducted during 2022 included:

- Annual review of fiduciary duties for directors,
- Adopted revisions to the Board of Directors Corporate Governance Guidelines,
- Updates to the Business Continuity Plan,
- Reviewed and approved the 2021 Annual Report,
- Reviewed and adopted 2021 financial audit,
- Adoption of the 2022 Audit Plan,
- Annual review of commercial insurance coverages,
- Annual review and update of the Critical Functions Report,
- Annual Board of Directors self-evaluation,
- Implemented a formal evaluation process for Board Counsel and General Counsel,
- Annual review of the charters for all standing committees,
- Reviewed draft IRS Form 990 for 2021,
- Personal Financial Statement filings by all directors with the Texas Ethics Commission,
- Monitoring annual conflict of interest/business ethics questionnaire responses and antitrust certifications, and
- Posting of all corporate governance documentation to a new Board of Directors online portal.

OVERVIEW OF OPERATIONS

GENERAL

The TLHIGA was activated to provide its statutory protection of policyholders for two member companies in 2022. It also conducted substantial work on operations and ongoing member company insolvencies that began in prior years.

During 2022, the TLHIGA completed the following operational changes:

• Redesign of the website and

• Creation of a secure, online portal for the Board of Directors to access confidential and corporate governance materials.

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

nolhga 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.

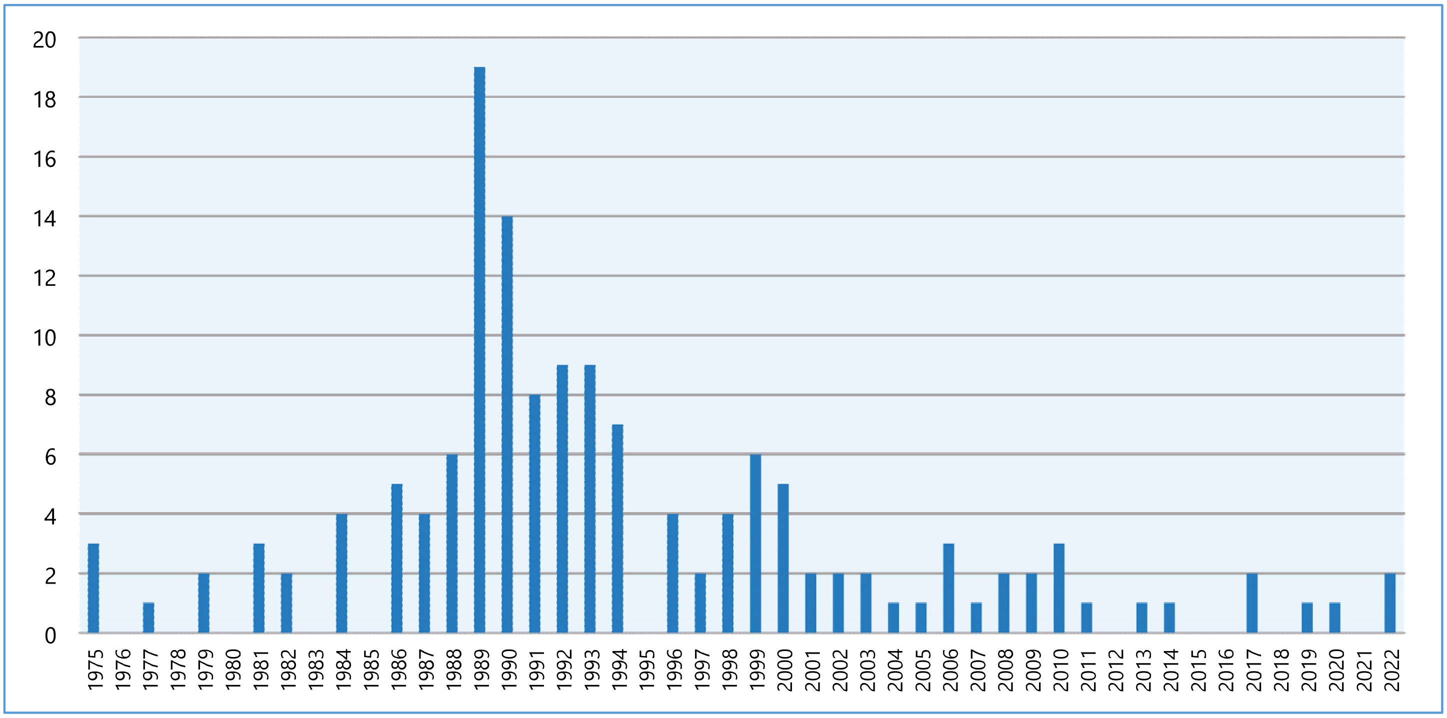
TLHIGA representatives serve on, or chair, a number of insolvency task forces and other NOLHGA committees working to coordinate and improve the effectiveness and efficiency of the life and health insurance guaranty association system. This service includes NOLHGA's Communications Committee, Security 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 2022, there were 19 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 two new insolvencies and three receiverships were closed in 2022. There remain 18 open receivership estates, 13 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 108 direct claims, totaling approximately $184,661 during 2022. These claims were from eight different insolvent companies. Claims from five 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.

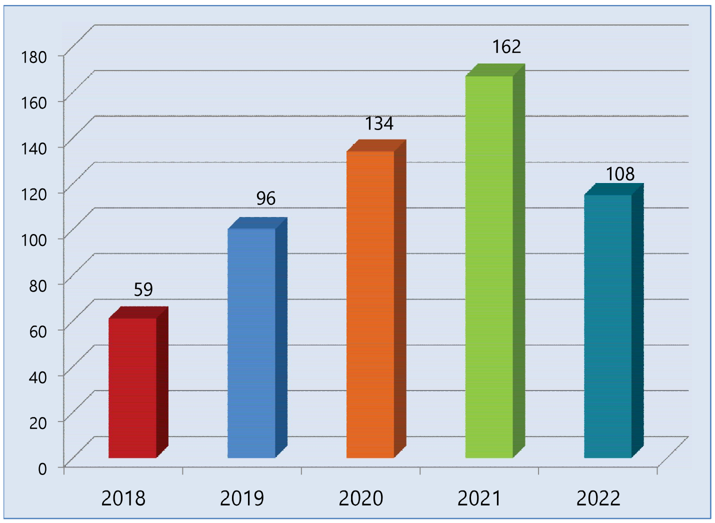
Reinsurance Agreements

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

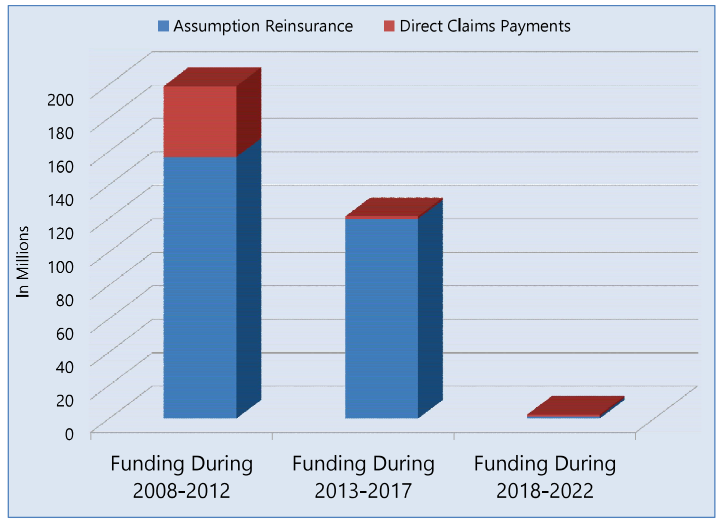
During 2022, the TLHIGA paid $56,940 under an ongoing, multi-year assumption reinsurance agreement that transferred the covered insurance policy obligations of Executive Life Insurance Company to another company.

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 2022, the captive paid benefits to the Texas resident policyholders of these two insolvent companies totaling $9,860,911 with funding provided by the TLHIGA in 2017.

NUMBER OF DIRECT CLAIMS PAYMENTS 2018-2022



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. The methodology used to produce the estimates are reviewed annually by an independent, third-party actuary. These estimates are updated monthly based on the best information available and are subject to change.

As of year-end 2022, the TLHIGA estimates its aggregate future policy benefit obligations to be approximately $6.07 million.

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.

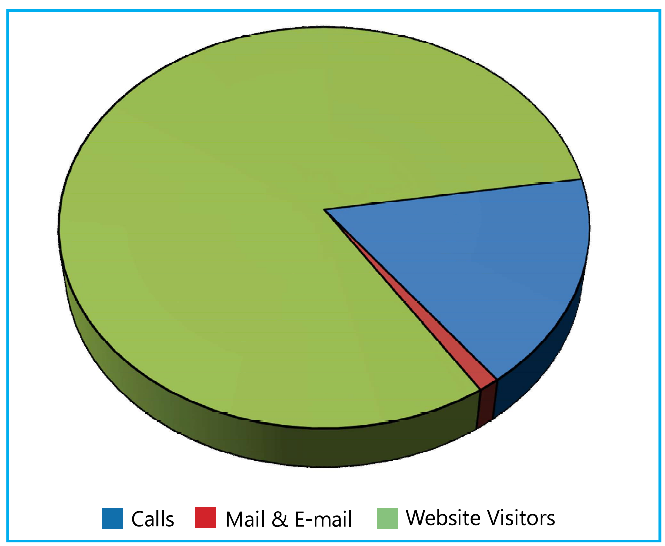
The TLHIGA has continued to file updated proofs of claim with receiverships. As of year-end 2022, the TLHIGA had filed outstanding claims totaling approximately $455 million with receivership estates that remain open as active court proceedings. It is not possible to project what amount of recoveries 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. In 2022, the TLHIGA reassessed its proofs of claims with open receiverships and reduced the amount it believes is collectible. Recoveries in the form of asset distributions from receivership estates to the TLHIGA during 2022 totaled approximately $71,791.

CONSUMER SERVICES

The TLHIGA's staff provides general coverage and operational information about the TLHIGA to Texas resident inquiries by telephone, e-mail, and mail. In 2022, the TLHIGA redesigned its website (www.txlifega.org) which provides visitors with a large amount of information, including the meeting schedules, frequently asked questions on TLHIGA coverage, the Board of Directors roster, the summary of policyholder protections policy attachment, and specific insolvency-related notices.

During 2022, the TLHIGA received a total of 2,232 phone calls through its direct or toll-free phone numbers, logged 10,652 visitors to its website, and fielded 154 e-mail and mail requests for information.

2022 CONSUMER SERVICES



ACTIVITIES ON INSOLVENCIES

During 2022, the TLHIGA provided ongoing coverage and/or paid policy benefits for nine insolvencies. The following three insolvencies are specifically mentioned because they represent two member companies the TLHIGA was activated for in 2022 and one that is a complex insolvency with significant financial impact.

NORTH CAROLINA MUTUAL LIFE INSURANCE COMPANY

North Carolina Mutual Life Insurance Company (NCM) was a North Carolina domiciled insurance company that was originally placed into rehabilitation on December 3, 2018. After the rehabilitation efforts were unsuccessful, an order of liquidation with a finding of insolvency was entered against NCM with an effective date of October 31, 2022. This action formally activated twenty-five guaranty associations, including the TLHIGA, to provide protection for 240,597 policies, primarily life insurance. There were 1,190 policies active on the liquidation date that were owned by Texas residents and being protected by the TLHIGA.

The guaranty associations contracted with the NCM Liquidator to use the NCM legacy system and resources to perform the run-off administration of the policies and claims. Benefits will be paid by the guaranty associations as they come due. The TLHIGA's estimated covered policy benefits are approximately $2.4 million.

TIME INSURANCE COMPANY

Time Insurance Company (Time) was a Wisconsin domiciled insurance company that was originally placed into rehabilitation on July 29, 2020. At that time, the company had over 165,000 policies on its books, including health (88,521), LTC (25,020), life (50,665), annuity (819), and disability (101). The vast majority of the policies were reinsured on a 100% coinsurance basis with six different accredited reinsurers. Less than 100 policies were not reinsured under the coinsurance agreements.

Pursuant to the court approved Rehabilitation Plan, the Rehabilitator was able to transfer all the reinsured business through a series of assumption reinsurance transactions negotiated with the reinsurers. The last of the assumption reinsurance transactions went into effect on July 1, 2022.

An order of liquidation with a finding of insolvency was entered against Time with an effective date of September 1, 2022. This action formally activated the eighteen guaranty associations affected by this insolvency, including the TLHIGA, to provide protection for seventy-six policies that were not reinsured. There were four policies active on the liquidation date that were owned by Texas residents and being protected by the TLHIGA.

The guaranty associations developed and offered cash buyouts to the remaining policyholders. As of year-end 2022, there were only two Texas policyholders still in force. The TLHIGA continues to work on cash buyouts with these policyholders. The TLHIGA's estimated remaining obligations for these policies are less than $5,000.

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 obligations, 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 2022, 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 serving as the primary contact with the third-party administrator for all administration matters.

Benefit payments from March 1, 2017 through December 31, 2022, under the policies protected by the TLHIGA and paid with the funds provided by the TLHIGA to LTC Re, totaled $72,897,325. 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. These two types of benefits bring the total paid by LTC Re to Texas resident policyholders since the Liquidation began to $79,386,514. There remain 1,959 Texas policies in force with 272 open/pending claims as of December 31, 2022.

ADDITIONAL INSOLVENCY ACTIVITY

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

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

In 2022, the TLHIGA paid a total of $226,553 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 2022, 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 concluded in 2021 and there was no further activity in the litigation in 2022.

Claims Litigation

The TLHIGA continues to be involved as a defendant in two claims-related lawsuits as of December 31, 2022. 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 TLHIGA's Class A assessments total approximately $10.74 million. In 2022, the TLHIGA's Board of Directors did not authorize a Class A assessment. Investment earnings, allocation of expenses attributable to receivership estates, receivership estate recoveries, and retention of certain amounts from closed receivership estates have been sufficient to eliminate the need for Class A assessments. The TLHIGA's Board of Directors has implemented a strategy to use recoveries, in excess of the amounts obtained to pay the expenses and obligations of certain receivership estates, to fund ongoing administrative and general expenses as needed.

Class B assessments may be authorized and called to obtain the funds needed to fulfill the TLHIGA'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 2022.

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

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

Refunds

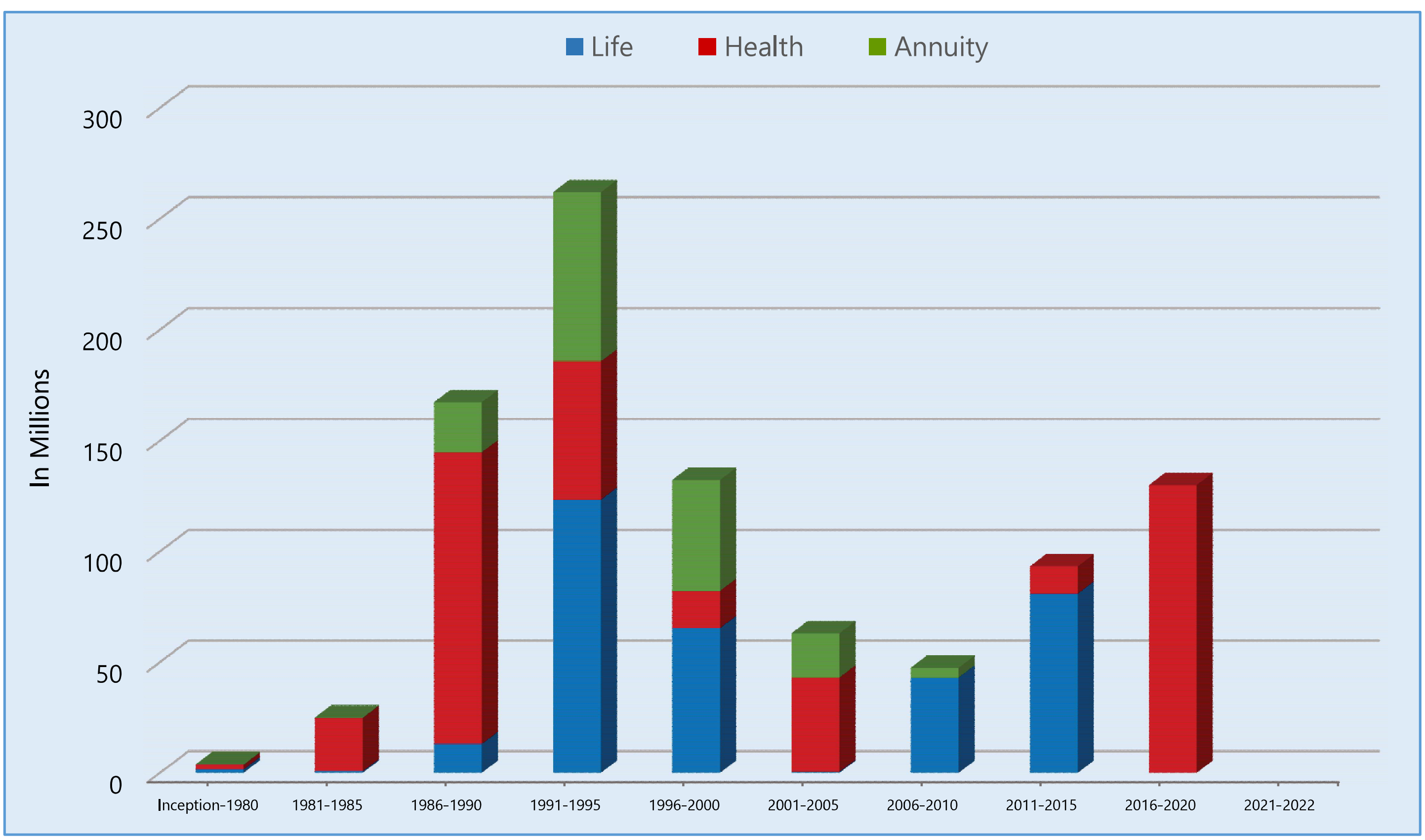
On occasion, the total funds received from premium collections, distributions from receivership estates, investment earnings, recoveries from other third-party sources, and Class B assessments exceed the TLHIGA's total expenses related to a specific insolvency. These excess funds result from timing in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

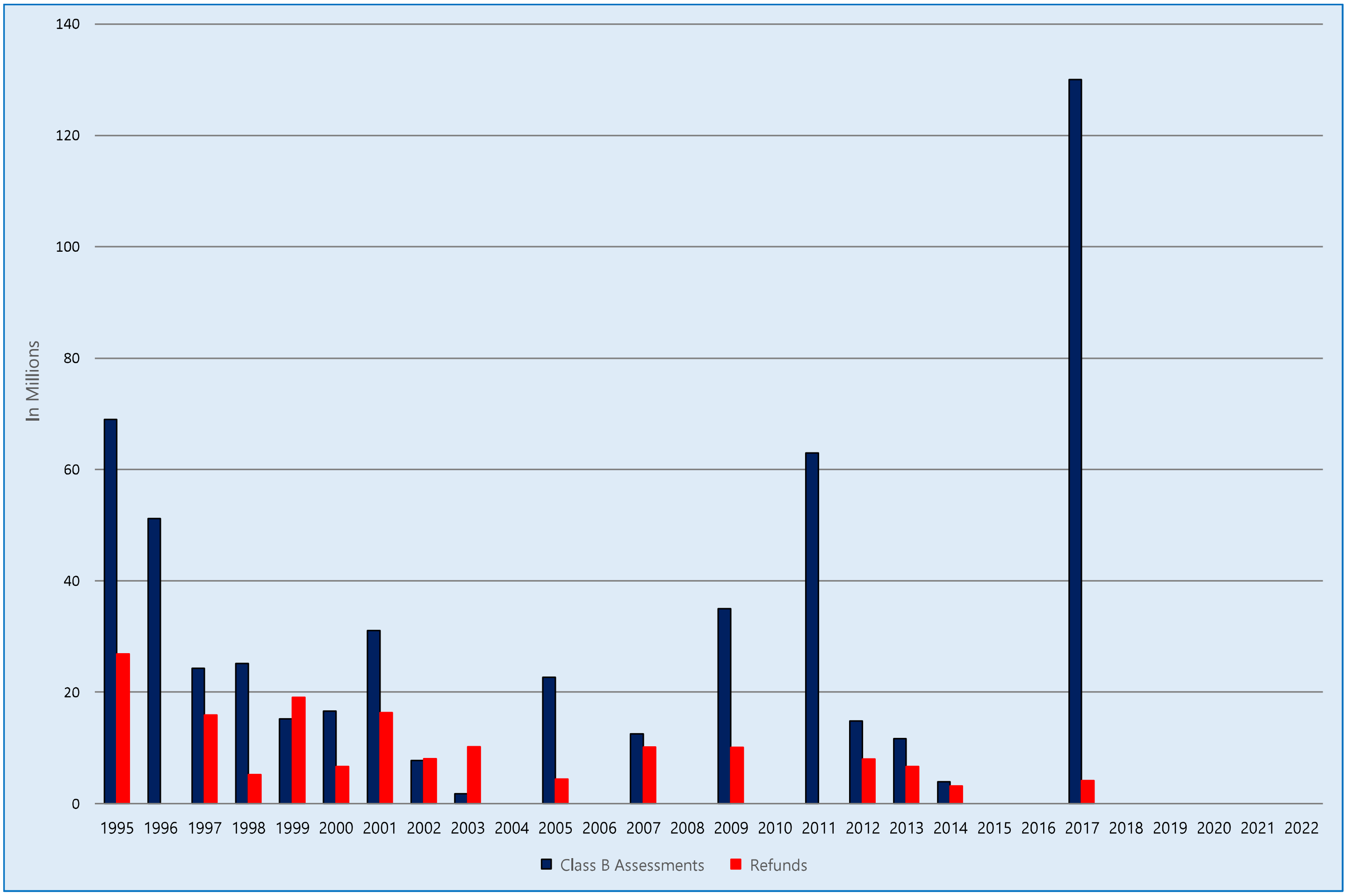
For 15 of the last 27 years beginning in 1995, the TLHIGA refunded excess funds related to specific insolvent insurers to member insurers or the Commissioner of the Texas Department of Insurance after determining there was no reasonable expectation of additional expenses or recoveries related to those insolvent insurers. In 2022, the Board of Directors did not authorize a refund. The TLHIGA's refunds since its inception have totaled approximately $154.7 million.

The chart on the next page reflects 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, 2022, including a Management Discussion and Analysis, the auditor's report, and financial statements with footnote disclosures, are shown herein on pages 15 through 46.

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Texas Life and Health Insurance Guaranty Association, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Texas Life and Health Insurance Guaranty Association's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Texas Life and Health Insurance Guaranty Association, as of December 31, 2022 and 2021, and the respective changes in financial position, and 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the Texas Life and Health Insurance Guaranty Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 Texas Life and Health Insurance Guaranty Association's ability to continue as a going concern for 12 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 Texas Life and Health Insurance Guaranty 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 Texas Life and Health Insurance Guaranty 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 GAAS, 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 opinion 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, 2023

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, 2022 and 2021 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 increased by $2.06 million or 51.43% from $4.01 million to $6.07 million in 2022. Obligations decreased by $71,493 or 1.75% from $4.08 million in 2020 to $4.01 million in 2021. The TLHIGA was activated for two new insolvencies in 2022.
- The TLHIGA did not authorize an assessment in 2022 but did authorize and call a $1,000,000 Class A assessment in 2021. In 2020, a $2,300,000 Class A assessment was authorized and called. Unbilled assessments increased by $2,852,360 to $5,061,308 in 2022 and increased $130,422 to $2,208,948 in 2021. In 2020, unbilled assessments increased by $1,400,817 to $2,078,526.
- Distributions received from receivership estates were $71,791 in 2022 compared to $29.5 million in 2021 and $292,130 in 2020.
- The TLHIGA's net position decreased by $2.19 million or 3.60% in 2022 to $58.76 million. In 2021 the net position of the TLHIGA increased by $21.98 million or 56.37% 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.
- The TLHIGA's cash position decreased by $2.39 million or 54.22% to $2.02 million in 2022 due chiefly to normal operations. 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.

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.

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.

TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2022 and 2021

FINANCIAL ANALYSIS OF THE TLHIGA

Table 1
Net Position
(In thousands of dollars)

	2022		2021		2020	
	Amount	Percent	Amount	Percent	Amount	Percent
Current assets	$ 64,179	91.0%	$ 67,118	94.9%	$ 45,497	95.4%
Noncurrent assets	6,371	9.0%	3,630	5.1%	2,176	4.6%
Total assets	70,550	100.0%	70,748	100.0%	47,673	100.0%
Current liabilities	5,036	42.8%	4,789	49.0%	4,871	56.1%
Noncurrent liabilities	6,739	57.2%	4,991	51.0%	3,814	43.9%
Total liabilities	11,775	100.0%	9,780	100.0%	8,685	100.0%
Net position						
Unrestricted	58,791	100.0%	60,955	99.9%	38,965	99.9%
Invested in capital assets	(16)	0.0%	13	0.1%	23	0.1%
Total net position	$ 58,775	100.0%	$ 60,968	100.0%	$ 38,988	100.0%
Unrestricted						
TLHIGA operations	$ 1,042		$ 216		$ 517	
Insolvent estates	57,749		60,752		38,448	
	$ 58,791		$ 60,968		$ 38,965	

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 3%, 7%, and 9% of the current assets of the TLHIGA in 2022, 2021, and 2020, respectively.

Investments, which include United States Treasury securities with original maturities of greater than three months, at year end were 96%, 93%, and 91% of current assets in 2022, 2021, and 2020, 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 2022, 2021, and 2020.

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 2022, 2021, and 2020 were $5,061,308, $2,208,948, and $2,078,526, respectively.

The TLHIGA owns various investments as part of its deferred compensation plan that totaled $110,802, $109,435, and $73,922 at year end 2022, 2021, and 2020, 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: 52%, 41%, and 47% of the total obligations for the years ending December 31, 2022, 2021, and 2020, 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, 2022, 2021, and 2020 insurance contractual obligations were recorded as follows:

Table 2
Insurance Contractual Obligations

	2022	2021	2020
Current insurance contractual obligations	$ 567,311	$ 341,655	$ 338,505
Noncurrent insurance contractual obligations	5,501,460	3,665,903	3,740,546
Total contractual obligations	$ 6,068,771	$ 4,007,588	$ 4,079,051

In 2022, the TLHIGA was activated for two new insolvencies that account for the increase in obligations that year. 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 $110,802, $109,436, and $73,922, at year end 2022, 2021, and 2020, 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 assessments or is refunded to member companies and/or the Texas Commissioner of Insurance pursuant to law. As of December 31, 2022, 2021, and 2020, the remaining credit balances were $3.96 million, $3.96 million, and $4.08 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 $88,162 and a long-term liability of $1,127,054 at year end 2022. At year end 2021, the short-term liability was $83,645 and the long-term liability was $1,215,216. The liability is amortized over the life of the lease. There were no lease liabilities in 2020 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 increased 4% in 2022, decreased 7% in 2021, and decreased 43% in 2020. These changes are the result of the TLHIGA's normal operations.

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 or a reasonable amount may be retained to provide funds for the continuing expenses of the TLHIGA.

Table 3
Results of Operations – Change in Net Position

	2022	2021	2020
Revenues:			
Billed assessments	$ -	$ 987,587	$ 2,290,160
Change in unbilled assessments	2,852,360	130,422	1,400,817
Estate recoveries	71,791	29,504,456	292,130
Premiums	62,667	64,875	77,328
Total operating revenues	2,986,818	30,687,340	4,060,435
Expenses			
Change in insurance contractual obligations	2,061,213	(71,493)	527,162
Cost of claims obligations	241,601	339,934	264,025
Refund of prior year assessments	505,523	-	-
National task forces	499,022	568,406	398,724
Administrative costs	1, 315,307	1,299,995	1,435,288
Total operating expenses	4,626,912	2,136,842	2,625,199
Operating income (loss)	(1,640,094)	28,550,498	1,435,236
Net nonoperating revenues (expenses)	(552,450)	(6,570,965)	1,299,532
Change in net position	(2,192,544)	21,979,533	2,734,768
Net position, beginning of year	60,967,873	38,988,340	36,253,572
Net position, end of year	$ 58,775,329	$ 60,967,873	$ 38,988,340
% change in net position from prior year	3.60%	56.37%	7.54%

The net position decreased by $2,192,544 in 2022 chiefly due to no assessment was collected and the TLHIGA's normal operations were paid from existing assets. In 2021, the net position increased by $21,979,533 largely due to the receipt of a litigation recovery related to one receivership estate and a settlement payment during the year. In 2020, the net position increased by $2,734,768. This change is primarily due to the collection of the Class A assessment of $2.3 million. The 2022 change in net position was affected by the net results in administration operations, ($1.45 million) and estate operations, ($738 thousand) as shown in Table 4. The 2022 change in net position was largely due to the TLHIGA's normal operations.

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 be refunded in accordance with the TLHIGA's governing statute. The TLHIGA's Board of Directors did not authorize a refund in 2022, 2021, or 2020.

Table 4
2022 Change in Net Position by Estates and Administration

	Estates	Administration	Total
Revenues:			
Billed assessments	$ -	-	$ -
Estate recoveries	71,791	-	71,791
Premiums	62,667	-	62,667
Change in unbilled assessments	2,852,360	-	2,852,360
Total revenues	2,986,818	-	2,986,818
Expenses:			
Administration	1,238,580	1,085,518	2,324,098
Claims cost	241,601	-	241,601
Change in insurance contractual obligations	2,061,213	-	2,061,213
Total expenses	3,541,394	1,085,518	4,626,912
Operating loss	(554,576)	(1,085,518)	(1,640,094)
Interest income (net of interest expense)	830,969	167,199	998,168
Unrealized/realized (loss) on investments	(1,014,164)	(536,454)	(1,550,618)
Decrease in net position	$ (737,771)	(1,454,773)	$ (2,192,544)

TEXAS LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2022 and 2021

Table 4 (continued)
2021 Change in Net Position by Estates and Administration

	Estates	Administration	Total
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	30,687,340	-	30,687,340
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	1,108,727	1,028,115	2,136,842
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	(6,295,610)	-	(6,295,610)
Increase (decrease) in net position	$ 23,077,921	(1,098,388)	$ 21,979,533

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 have negatively impacted the financial markets in the U.S. and around the globe. The TLHIGA closed its physical offices on March 13, 2020 and all activities were conducted remotely. In 2022, the TLHIGA moved to a hybrid work model to mitigate the impact of the COVID pandemic on the TLHIGA office and staff. Committee and certain meetings are still conducted virtually, where Board of Directors meetings are held in-person. The hybrid work model does not appear to have a negative impact on the TLHIGA's obligations.

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, 2022 and 2021

		2022	2021
Assets			
Current assets:			
Cash and cash equivalents	$	2,016,200	4,403,847
Investments		61,766,324	62,412,816
Receivables:			
Billed assessments, net of allowance of $1,384,170		74,659	74,659
Other receivables		21,081	21,986
Accrued interest		287,631	190,526
Proofs of claim, net of allowance of $752,671,850 and $751,707,255 at December 31, 2022 and 2021		-	-
Pre-paid rent		13,878	13,622
Total current assets		64,179,773	67,117,456
Noncurrent assets:			
Unbilled assessments		5,061,308	2,208,948
Investments in deferred compensation plans		110,802	109,435
Capital assets			
Furniture & equipment		411,277	400,517
Right-of-use lease assets		1,331,009	1,331,009
Accumulated depreciation		(543,357)	(419,480)
Total noncurrent assets		6,371,039	3,630,429
Total assets	$	70,550,812	70,747,885
Liabilities and Net Position			
Current liabilities:			
Accounts payable	$	32	306
Accrued expenses		425,444	408,634
Assessment credit balance		3,955,218	3,955,218
Lease liabilities-short term		88,162	83,645
Insurance contractual obligations, current portion		567,311	341,655
Total current liabilities		5,036,167	4,789,458
Noncurrent liabilities:			
Deferred compensation plan liabilities		110,802	109,435
Lease liabilities-long term		1,127,054	1,215,216
Insurance contractual obligations, less current portion		5,501,460	3,665,903
Total liabilities		11,775,483	9,780,012
Net position:			
Unrestricted		58,791,615	60,954,688
Net investment in capital assets		(16,286)	13,185
Total net position		58,775,329	60,967,873
Total liabilities and net position	$	70,550,812	70,747,885

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, 2022 and 2021

		2022	2021
Operating revenues:			
Membership assessments:			
Billed assessments	$	-	987,587
Change in unbilled assessments		2,852,360	130,422
Net membership assessments		2,852,360	1,118,009
Estate recoveries		71,791	29,504,456
Premiums		62,667	64,875
Total operating revenues		2,986,818	30,687,340
Operating expenses:			
Net claims		184,661	277,561
Change in insurance contractual obligations		2,061,213	(71,493)
Refund of Prior Year's Assessment		505,523	-
Reinsurance agreements		56,940	57,326
Third-party administrators		4,246	5,047
National task forces		499,022	568,406
Total claims		3,311,605	836,847
Administrative costs:			
Legal and professional		155,165	166,099
Salaries and benefit costs		595,876	592,791
Building and equipment lease costs		72,062	144,091
Depreciation		123,876	78,012
National organization dues and meetings		94,560	90,427
Other		273,768	228,575
Total administrative costs		1,315,307	1,299,995
Total operating expenses		4,626,912	2,136,842
Operating income		(1,640,094)	28,550,498
Nonoperating revenues:			
Interest income (net of interest expense)		998,168	715,444
Unrealized gain (loss) on investments		(1,550,618)	(990,799)
Settlements		-	(6,295,610)
Net nonoperating revenues		(552,450)	(6,570,965)
Change in net position		(2,192,544)	21,979,533
Net position, beginning of year		60,967,873	38,988,340
Net position, end of year	$	58,775,329	60,967,873

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, 2022 and 2021

		2022	2021
Cash flows from operating activities:			
Receipts from assessments	$	-	862,914
Receipts from estate recoveries		71,791	29,504,455
Receipts from premiums		62,781	64,875
Payments for reinsurance agreements		(56,940)	(57,326)
Payments for direct claims		(187,567)	(277,561)
Payments to suppliers for goods and services		(1,173,596)	(1,329,877)
Payments for settlements		-	(6,295,610)
Payments to employees		(584,955)	(562,840)
Assessment refund payments		(505,339)	-
Net cash used in operating activities		(2,373,825)	21,909,030
Cash flows from capital and related financing activities:			
Purchase of capital assets		(10,760)	(35,436)
Net cash used in capital and related financing activities		(10,760)	(35,436)
Cash flows from investing activities:			
Purchase of U.S. Treasuries		(36,079,125)	(36,502,768)
Maturity of U.S. Treasuries		35,175,000	14,495,000
Receipt of interest on investments		930,511	654,782
Payment of interest on investments		(29,448)	(30,586)
Net cash provided by investing activities		(3,062)	(21,383,572)
Net (decrease) increase in cash and cash equivalents		(2,387,647)	490,022
Cash and cash equivalents, beginning of year		4,403,847	3,913,825
Cash and cash equivalents, end of year	$	2,016,200	4,403,847
Reconciliation of operating income (loss) to net cash (used in) provided by operating activities:			
Operating income	$	(1,640,094)	28,550,498
Adjustment to reconcile operating income (loss) to net cash (used in) provided by operating activities:			
Depreciation expense		123,876	79,763
Unbilled assessments		(2,852,360)	(130,422)
Settlements		-	(6,295,610)
Effect of changes in operating assets and liabilities:			
Billed assessments receivable, net of allowance		-	(186)
Other receivables		905	(9,803)
Pre-paid rent		(256)	(13,622)
Lease asset		-	(1,331,009)
Accounts payable		(274)	(9,910)
Accrued expenses		16,810	(30,587)
Assessment credit balance		-	(127,450)
Lease liabilities		(83,645)	1,298,861
Insurance contractual obligations		2,061,213	(71,493)
Net cash provided by (used) in operating activities	$	(2,373,825)	21,909,030

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

1. Nature of Operations and Reporting Entity

The Texas Life and Health Insurance Guaranty Association ("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 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.

(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) Allowances for Uncollectible Assessments

An allowance for an assessment may be established if it is determined by the TLHIGA that the assessment is not collectible due to a variety of reasons, including but not limited to, the member company has withdrawn from Texas, ceased business operations, been declared insolvent or provided other evidence that the assessment is not due. Since 2005, it has not been necessary to establish any allowances for assessment collectability.

(h) Assessment Deferrals and Reallocation

The TLHIGA's enabling statute grants the Board of Directors the authority to wholly or partially defer an assessment of a member company if the TLHIGA believes the payment of the assessment would endanger the ability of the member company to fulfill its obligations. The deferral may be assessed against the other member companies.

In 1996 the TLHIGA deferred approximately $6.3 million in assessments for certain member companies whose 1996 Class B assessment exceeded 1% of those companies' 1994 premiums. The deferred assessments were reallocated to those member companies that had excess capacity. A portion of the 1996 deferral by member companies has been collected from available capacity and credit refunds in 1997 through 2007 and credited to those member companies that paid a portion of the reallocated deferral in 1996. The deferral balances receivable and reallocation balances payable has been offset against Assessment Receivables.

(i) 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.

(j) 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.

(k) 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.

(l) 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, 2022, or 2021.

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, 2022, or 2021.

(m) 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, or a reasonable amount may be retained to provide funds for the continuing expenses of the TLHIGA.

- 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, 2022, and 2021 are as follows:

		Fair Value	
		2022	**2021**
Cash and cash equivalents			
Cash on deposit	$	121,918	227,734
Money market mutual funds		1,894,282	4,176,113
Total cash and cash equivalents	$	2,016,200	4,403,847

Investments

Investments in Deferred Compensation Plans	$	110,802	109,435
Bonds – U.S. Treasury Debt		61,766,324	62,412,816
Total Investments	$	61,877,126	62,522,251

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, 2022 and 2021, respectively, was $121,918 and $227,734. 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, 2022, and 2021 were $1,894,282 and $4,176,113, 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. At December 31, 2022, the TLHIGA had invested $62,956,442 in U.S. Treasury debt, with a maturity value of $62,465,000 and market value of $61,766,324. 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. The TLHIGA, upon the direction of its Board of Directors, adopted a laddered maturity schedule with all its investments. Each quarter, approximately $2,000,000 of U.S. Treasuries will mature to either fund the 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, 2022, the TLHIGA had the following U.S. Treasury maturity schedule:

Maturity		**Fair value**
2023	$	46,012,234
2024		9,932,144
2025		5,821,946
Total	$	61,766,324

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, 2022, and 2021:

- U.S. Treasury securities of $61.77 million and $62.41 million, respectively, are valued using quoted market prices (Level 1 inputs)
- Investments in deferred compensation plans of $110.80 thousand and $109.44 thousand, respectively, are valued at quoted market prices (Level 1 inputs)

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

		As of December 31, 2022			
		Total	**Level 1**	**Level 2**	**Level 3**
Assets:					
Investments:					
U.S. Treasury Securities	$	61,766,324	61,766,324	-	-
Investments in Deferred Comp Plans:					
Small Cap Mutual Funds	$	36,284	36,284	-	-
Large Cap Mutual Funds		60,950	60,950	-	-
Bond Mutual Funds		13,568	13,568	-	-
Total Investments in Deferred Comp Plans		110,802	110,802	-	-
Total Assets at Fair Value	$	61,877,126	61,877,126	-	-

		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	-	-

5. Membership Assessments

The TLHIGA is authorized by the Texas Insurance Code, Annotated, Chapter 463.151 to assess member companies 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 company in a calendar year may not exceed two percent of the member company's average annual premiums for the preceding three years.

The Board of Directors did not authorize or call a Class A assessment in 2022. In 2021, the Board of Directors authorized and called a Class A assessment in the amount of $1,000,000 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 2021 Class A assessment collected was $874,832.

The Board of Directors did not authorize or call a Class B assessment in 2022 or 2021.

The TLHIGA may refund assets, the amount by which accumulated assets exceed the amount necessary to meet its obligations with regard to a particular insolvent member company, in accordance with its governing statute. The Board of Directors did not authorize such a refund in 2022 or 2021.

Billed assessments receivable as of December 31, 2022, and 2021 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, 2022, and December 31, 2021.

Unbilled assessments receivable of $5,061,308 and $2,208,948 at December 31, 2022 and 2021, 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, 2022 and 2021, proofs of claim receivable on open estates (before an allowance) were $752,671,850 and $751,707,255, 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, 2022, and 2021 were $752,671,850 and $751,707,255, respectively.

7. Capital Assets

Capital asset activity for the years ended December 31, 2022, and 2021 was as follows:

	Beginning of Year	Additions	Retirements	End of Year
2022:				
Capital assets, being depreciated or amortized:				
Furniture, computer systems and equipment	$400,517	10,760	-	$411,277
Right-of-use lease	1,331,009	-	-	1,331,009
Less: accumulated depreciation				
Furniture, computer systems and equipment	$352,313	14,773	-	$367,086
Right-of-use lease	67,167	109,104	-	176,271
	$1,312,046	113,117	-	$1,198,129

	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
	$23,612	1,288,434	-	$1,312,046

Depreciation expense for 2022 and 2021 was $123,877 and $78,012, 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, 2022 and 2021, the following transactions occurred, which are not reflected in the financial statements since they are eliminated at the Association level

	Beginning of Year	Additions	Repayments	End of Year
2022:				
Interaccount loans	$ 389,819	1,662,957	(1,550,407)	$ 502,369
Interaccount borrowings	$ (389,819)	(1,662,957)	1,550,407	$ (502,369)
2021:				
Interaccount loans	$ 563,106	73,185	(246,472)	$ 389,819
Interaccount borrowings	$ (563,106)	(73,185)	246,472	$ (389,819)

Internal interest of $12,055 and $2,910 was charged on these loans for the years ended December 31, 2022 and 2021, 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, 2022, and 2021, activity in the insurance contractual obligations was as follows:

	Beginning of Year	Net Change	End of Year	Current Portion
Year ended December 31, 2022	$4,007,558	2,061,213	$6,068,771	$567,311
Year ended December 31, 2021	$4,079,051	(71,493)	$4,007,558	$341,655

Six open estates comprise 92.79% of the insurance contractual obligations at December 31, 2022. The TLHIGA was activated for two new insolvencies in 2022, one of which has a minimal impact on the obligations. Five open estates comprised approximately 88.80% of the insurance contractual obligations at December 31, 2021. The obligations of the new insolvency, North Carolina Mutual, are based on the reserves of the TLHIGA's policies. 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.

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, 2022, and 2021, the net position reflected in the financial statements of the TLHIGA consisted of the following:

		2021		2020
Unrestricted net position:				
Insolvent estate assets allocated to pay the ongoing claims and expenses of specific insolvencies	$	57,748,719	$	60,752,177
TLHIGA operational assets		1,042,896		202,511
		58,791,615		60,954,688
Net investment in capital assets		(16,286)		13,185
Total net position	$	58,775,329	$	60,967,873

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 2022:

2022	**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)	(109,104)	-	(176,271)
Total accumulated amortization	(67,167)	(109,104)	-	(176,271)
Total, net of accumulated amortization	$1,263,842	($109,104)	-	$1,154,738

The following table shows the lease asset for 2021:

2021	**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**
01/01/2023 - 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 – 12/31/2027	108,000	12,628	120,628
01/01/2028 - 12/31/2032	641,002	33,648	674,650
01/01/2033 - 12/31/2037	84,718	345	85,064
Total	$1,215,215	113,498	$1,328,713

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.

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 2022 by the TLHIGA totaled $31,548. Contributions to the Plan for 2021 by the TLHIGA totaled $30,057.

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 $20,500 in 2022 and $19,500 in 2021 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 $110,802 and $109,435 for the years ending 2022 and 2021 along with the corresponding liability of the same amount.

13. Settlements

There were no settlements in 2022. 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 2022. No conflicts were identified in 2021.

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 2022 or 2021.

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 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.

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, 2022, the TLHIGA has received approximately $107.3 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.

17. Subsequent Events

In 2021, the Pennsylvania Commonwealth Court denied the Penn Treaty and American Network Liquidator's request to allocate estate assets to pay policyholder benefits that exceed the various state guaranty associations coverage limits. The Commonwealth Court's denial was appealed to the Supreme Court of Pennsylvania. On October 19, 2022, the Supreme Court of Pennsylvania issued a decision affirming the lower court's ruling and stating that payments to policyholder in excess of guaranty association limits are not permissible according to Pennsylvania law. The approximately $178 million of estate assets held back to pay these policyholder benefits will be allocated and distributed to the guaranty associations. The TLHIGA estimated share of these funds is approximately $7.4 million. The Liquidator has filed an application with the Commonwealth Court requesting the authority to make the distribution during the first quarter of 2023. The distribution would then follow in the second quarter of 2023.

The TLHIGA is not aware of any other subsequent events that would have a material impact on the accompanying financial statements through April 18, 2023, the date the financial statements were available for issuance.

TLHIGA

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