TLHIGA | Texas Life & Health Insurance Guaranty Association


# 2024 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 2024. The information is general in nature and is not legal advice.*

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## REPORT FROM THE CHAIR

I am pleased to submit the 2024 Annual Report for the Texas Life and Health Insurance Guaranty Association ("TLHIGA"). This is the 32nd annual report since the Texas Legislature privatized the TLHIGA's operations from within the Texas Department of Insurance.

The TLHIGA was activated to provide protection for the policyholders of two member companies during 2024. These affiliated companies were both domiciled in North Carolina. There are ongoing statutory protections being provided to policyholders for eleven additional member companies that were ordered liquidated in prior years. As of year-end 2024, the TLHIGA estimates aggregate future costs of approximately $115.3 million to provide protection to Texas policyholders of these thirteen insolvencies.

The Board of Directors continued to meet quarterly. Each board committee met twice during the year. General Counsel Jacqueline Rixen retired after thirty years of exemplary service and counsel to the TLHIGA. Dan Price of Shanley Price was engaged to serve as the TLHIGA's General Counsel.

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 E. Huckaby*

James E. Huckaby, 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 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 TLHIGA member when it is granted a certificate of authority, or license, by the Texas Department of Insurance to write the types of life, accident and health, HMO, or annuity business protected by the TLHIGA. Membership is mandatory for all insurance companies and HMOs with this license authority in Texas.

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 directed 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.

General Counsel Jacqueline Rixen retired on December 31, 2024 after providing legal counsel to the TLHIGA for thirty years. Dan Price, partner with the Shanley Price law firm, was engaged as the TLHIGA's General Counsel.

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 OF DIRECTORS

*as of December 31, 2024*

**James E. Huckaby, Chair**
Retired School District Executive Director
Mesquite, Texas. Director since 2013
Current term expires September 30, 2029

**James M. Harrison, Vice-Chair**
Counsel, Government Relations
Principal Financial Group
Des Moines, Iowa. Director since 2007
Current term expires September 30, 2027

**Ted Kennedy, Secretary**
Vice President, Co-Head State Government Affairs
American International Group, Inc.
Houston, Texas. Director since 2015
Current term expires September 30, 2029

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

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

**Pati McCandless**
Vice President, State Health Policy
Blue Cross Blue Shield of Texas
Austin, Texas. Director since 2017
Current term expires September 30, 2029

**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

**Frank L. Beaman**
CEO
Faith Community Health System
Jacksboro, Texas. Director since 2023
Current term expires September 30, 2027

***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, 2024*

***Executive Committee***

James E. Huckaby, Chair
James M. Harrison
Ted Kennedy
Dean Frigo

***Audit Committee***

Dean Frigo, Chair
Pati McCandless
Mark Williams

***Assessment/Investment Committee***

James M. Harrison, Chair
Dean Frigo
Ted Kennedy

***Personnel Committee***

David Sommer, Chair
James G. Lewis
Frank Beaman

***General Counsel Search Committee***

Ted Kennedy, Chair
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 during 2024 included:

- General Counsel conducted annual training on Board of Director fiduciary duties,
- Adopted revisions to the Board of Directors Corporate Governance Guidelines,
- Reveiwed the Business Continuity Plan,
- Reviewed the Critical Functions Report,
- Reviewed and approved the 2023 Annual Report,
- Reviewed and adopted 2023 financial audit,
- Adopted the 2024 Audit Plan,
- Reviewed draft IRS Form 990 for 2023,
- Reviewed the commercial insurance coverages,
- Revised annual Board of Directors self-evaluation processs,
- Evaluated General Counsel performance,
- Conducted annual review of the charters for all standing committees,
- Personal Financial Statements filed by all directors with the Texas Ethics Commission,
- Reviewed annual conflict of interest/business ethics questionnaire responses and antitrust certifications, and
- Maintained all corporate governance documentation on the 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 2024. It also conducted substantial work on operations and eleven other ongoing member company insolvencies that began in prior years.

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.

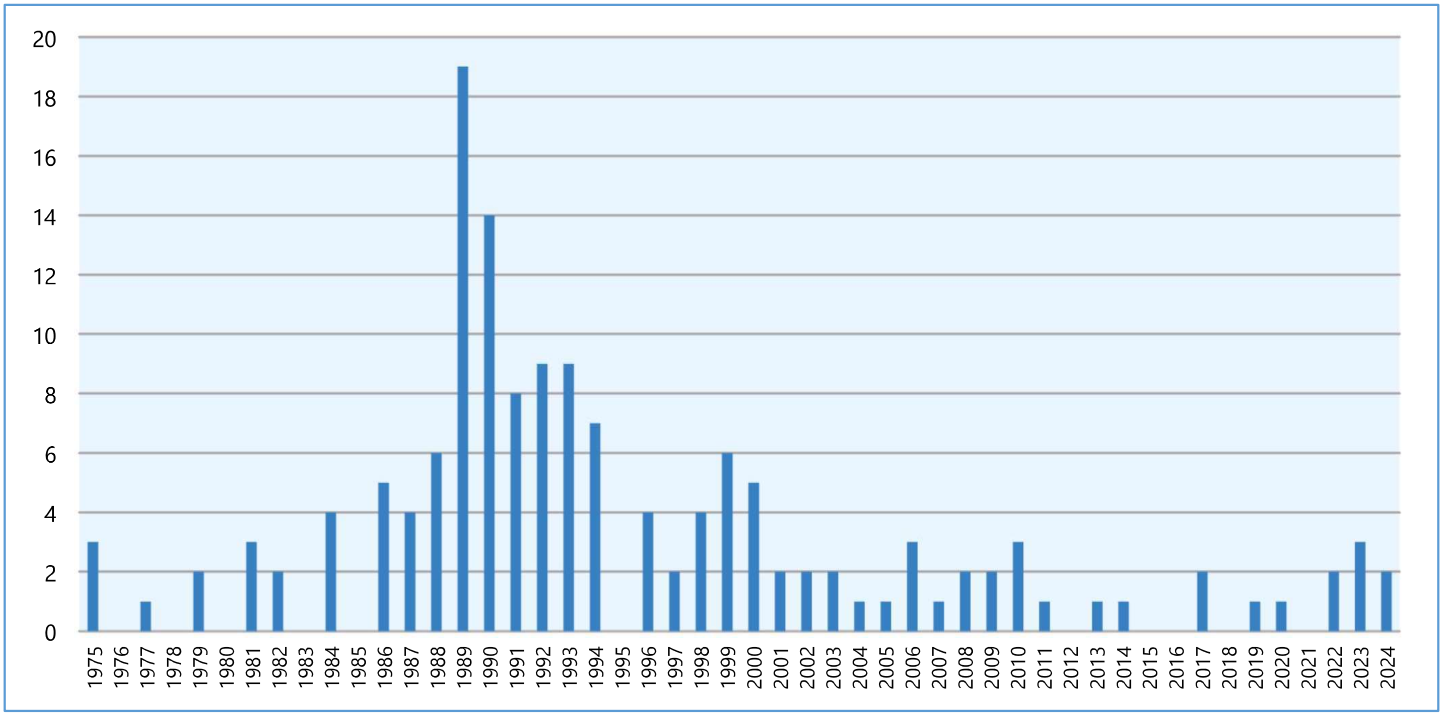
TLHIGA representatives serve on, or chair, a number of insolvency task forces and other NOLHGA committees working to coordinate and improve the effectiveness and efficiency of the life and health insurance guaranty association system. This service includes NOLHGA's Communications Committee, Coverage Claims Committee, Security Advisory Committee, Assessment Data Task Force, Members' Participation Council Executive Committee, and several special issues committees.

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

## ACTIVE RECEIVERSHIPS

At the beginning of 2024, there were 21 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 seven receiverships were closed in 2024. There remain 16 open receivership estates, 10 of which are foreign-domiciled member companies and 6 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 37,258 direct claims, totaling approximately $13,198,080 during 2024. These claims were from nine different insolvent companies. Claims from eight were processed and paid by third-party administrators under service agreements with funding from the TLHIGA, and one was administered directly by the TLHIGA staff.

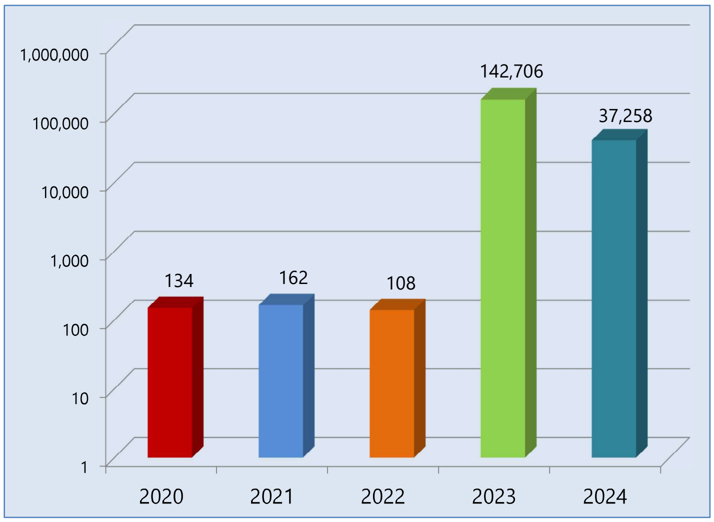
The charts on the next page reflect the number of direct claims payments for each of the last five years and the division of the TLHIGA's funding between direct claims payments and assumption reinsurance transactions.

*Reinsurance Agreements*

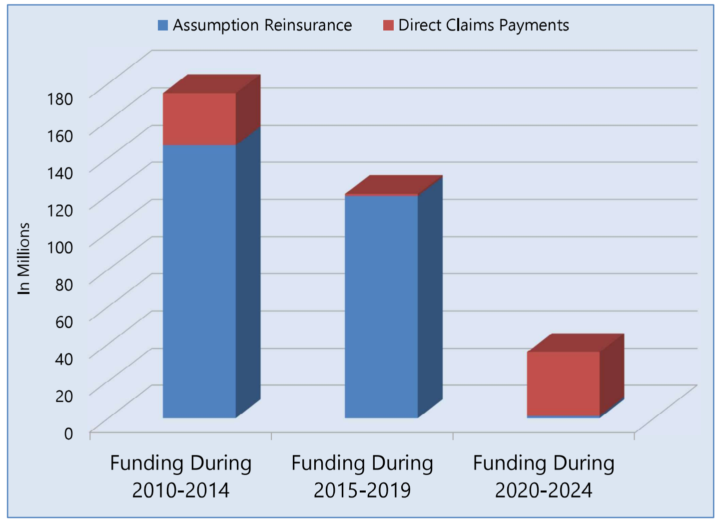
The TLHIGA is a party to both assumption and coinsurance reinsurance transactions. During 2024, the TLHIGA paid $7,260 under an ongoing, multi-year assumption reinsurance agreement that transferred the covered insurance policy obligations of Executive Life Insurance Company to another company and $1,034,454 for the assumption that transferred 987 North Carolina Mutual covered policies to a solvent insurer.

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 2024, the captive paid benefits to the Texas resident policyholders of these two insolvent companies totaling $10,391,771 with the funding provided by the TLHIGA in 2017.

**NUMBER OF DIRECT CLAIMS PAYMENTS 2020-2024**




**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 2024, the TLHIGA estimates its aggregate future policy benefit obligations to be approximately $115.3 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.

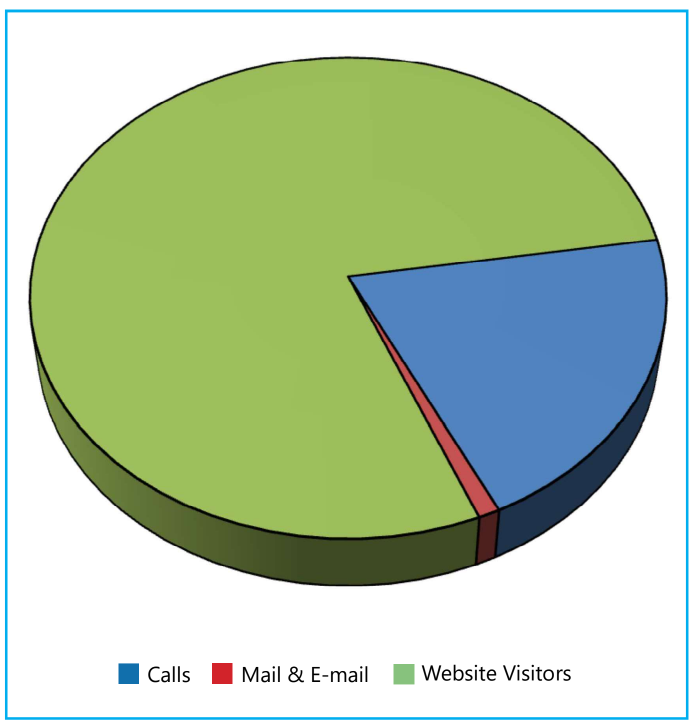
The TLHIGA has continued to file updated proofs of claim with receiverships. As of year-end 2024, the TLHIGA had filed outstanding claims totaling approximately $476 million with receivership estates that remain open as active court proceedings. It is not possible to project what amount of recoveries the TLHIGA may realize on these claims without final financial information from these estates, including the adjusted amount of assets liquidated and the creditor claims by class. Recoveries in the form of asset distributions from receivership estates to the TLHIGA during 2024 totaled approximately $1,185,387.

## 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. The TLHIGA's website (www.txlifega.org) provides visitors with a large amount of information, including the meeting schedules, frequently asked questions on TLHIGA coverage, the Board of Directors roster, the summary of policyholder protections policy attachment, and specific insolvency-related notices.

During 2024, the TLHIGA received a total of 2,532 phone calls through its direct or toll-free phone numbers, logged 9,826 visitors to its website, and fielded 127 e-mail and mail requests for information.

**2024 CONSUMER SERVICES**



# ACTIVITIES ON INSOLVENCIES

During 2024, the TLHIGA provided ongoing coverage and/or paid policy benefits for thirteen insolvencies. The following six insolvencies are specifically mentioned because they represent two member companies the TLHIGA was activated for in 2024 and four with significant activities during 2024.

## BRIGHT HEALTHCARE INSURANCE COMPANY OF TEXAS

Bright Healthcare Insurance Company of Texas ("BHICOT") was a Texas domiciled insurance company licensed only in Texas. BHICOT consented to being placed into liquidation, and a liquidation order was entered against it, on November 29, 2023.

BHICOT was owned by Bright Health Management, Inc. ("Bright Health Mgmt"), which is owned by Bright Health Group, Inc. ("BHP Holding"). There are twelve other affiliated insurance companies that are continuing in operation. All thirteen insurance entities were managed and controlled by Bright Health Mgmt in Minneapolis, MN. BHICOT is a virtual company with all operations being performed by Bright Health Mgmt.

The vast majority of BHICOT's policies were written on the health insurance exchange and were terminated on December 31, 2022, almost eleven months prior to the entry of the liquidation order. The TLHIGA became responsible for conducting the runoff administration to evaluate the remaining claims and appeals on these terminated policies for possible coverage.

Administration of BHICOT's business was provided by Evolent Health, ("Evolent") a third-party administrator, that also administers the business for five of the affiliated companies under a contract with Bright Health Mgmt. The TLHIGA entered into a service agreement with Evolent to administer the runoff of the TLHIGA's obligations for the remaining claims and appeals. This arrangement required the TLHIGA to enter into agreements with other vendors that provide claims pricing and electronic data interchange services.

The TLHIGA initiated its processing and funding of covered insurance policy obligations under the service agreement with Evolent. The TLHIGA addressed 11,207 claims and paid benefits totaling $4,528,785 through this process. The TLHIGA also researched, evaluated, and resolved over 1,600 claims appeals and disputes submitted by insureds and providers.  As of year-end 2024, the TLHIGA staff was working to resolve one claims related litigation case that had been filed prior to entry of the liquidation order, a settlement of multiple disputed claims appeals with one provider, and random inquiries from insureds.

The TLHIGA has requested a $8,659,686 early access distribution from the Special Deputy Receiver of the BHICOT receivership estate. Requests for future early access distributions will be considered as additional obligations are paid. It is anticipated that BHICOT receivership distributions will be sufficient to meet the TLHIGA's obligations related to BHICOT without the need for a Class B assessment.

## SOUTHLAND NATIONAL INSURANCE CORPORATION

Southland National Insurance Corporation ("SNIC") was a North Carolina domiciled insurance company that sold pre-need funeral policies. SNIC was part of a group of insurance companies owned by GBIG Holdings LLC (GBIG Holdings), which in turn is part of a larger group of companies known as Global Growth (f/k/a Eli Global). The Superior Court of Wake County, North Carolina, placed SNIC under an order of rehabilitation on June 27, 2019. SNIC was then placed into liquidation on May 2, 2023.

The entry of the liquidation order formally activated eighteen guaranty associations, including the TLHIGA, to provide protection for 72,096 policies, primarily life insurance. There were 3,270 policies active on the liquidation date that were owned by Texas residents and being protected by the TLHIGA.

The guaranty associations contracted with Southland Benefit Services and Universal Fidelity Life Insurance Company for continuing administrative services for two separate blocks of SNIC's insurance policies. Benefits are paid by the guaranty associations as they come due. The TLHIGA funded policy benefits totaling approximately $405,710 in 2023 and $870,596 in 2024.

On October 1, 2024, the TLHIGA and the other guaranty associations providing protection for the SNIC policy obligations distributed a Request for Proposals for Assumption Reinsurance for the remaining covered life insurance policy obligations. At the time of the RFP distribution, there were 65,988 active life insurance policies with reserves totaling $119.9 million. Of these policies, 3,034 with reserves of $10.7 million are protected by the TLHIGA. Proposals are due in early January 2025. If a valid proposal is submitted and accepted, it is anticipated that an assumption reinsurance agreement to transfer all of the covered life insurance policy obligations to an active insurance company could close in the third quarter of 2025.

## BANKERS LIFE AND COLORADO BANKERS LIFE INSURANCE COMPANIES

Bankers Life Insurance Company ("BLIC") and Colorado Bankers Life Insurance Company ("CBLIC") were North Carolina domiciled insurance companies that were part of a group of insurance companies owned by GBIG Holdings LLC (GBIG Holdings), which in turn is part of a larger group of companies known as Global Growth (f/k/a Eli Global). The insurance obligations of BLIC and CBLIC were primarily annuities with some life and health insurance.

BLIC and CBLIC had been placed in rehabilitation on June 27, 2019.

On November 1, 2022, the Rehabilitator filed a petition in the Receivership Court seeking to place BLIC and CBLIC into liquidation. The court responded by scheduling a hearing on the petition on November 21, 2022. During the hearing, the court denied GBIG Holdings, as stockholder, had standing but allowed the company to participate in the hearing for the purpose of presenting opposing arguments. The court also denied GBIG Holdings' request for discovery and request for continuance and indicated that the court would grant the Rehabilitator's petition and issue a liquidation order for BLIC and CBLIC.

On December 30, 2022, the Receivership Court issued an Order granting the petition for liquidation of BLIC and CBLIC. Per the terms of the Order, the Order would become effective the first month-end occurring on or after ninety (90) days after the favorable conclusion of all appeals. On January 27, 2023, GBIG Holdings filed a Notice of Appeal of the Order of Liquidation with the North Carolina Court of Appeals. GBIG Holdings later filed a motion to withdraw its Petition for Discretionary Review of the Liquidation Order, and on August 23, 2024, the Court of Appeals granted GBIG's motion. As a result, the Liquidation Order became effective on November 30, 2024. Guaranty associations are now providing coverage.

At the time of the rehabilitation, the North Carolina court entered a moratorium prohibiting withdrawals, loans, and surrenders, subject to hardship provisions. In September 2020, the court modified the moratorium to allow a partial withdrawal program that allowed annuity contract owners to withdraw 10% of the account value up to a maximum of $15,000 per contract owner. In addition, under the court order, annuity owners with a current account value of less than $1,000 would receive the account value unless the contract owner opted out and elected to retain their annuity. The program was communicated to policyholders in late 2020 and concluded on April 30, 2021. Approximately 43,000 policyholders submitted requests totaling approximately $46.5 million.

In August 2023, the Receiver, with court approval, initiated a 25% partial withdrawal program for BLIC and CBLIC annuity owners. The program was mandatory, with the exception of a small group of policyholders who had non-waivable surrender charges. The receiver completed the withdrawal program in November 2024.

In 2024, the NOLHGA task force on behalf of the guaranty associations affected by the BLIC/CBLIC liquidations entered into a Service Agreement with the third-party administrator, Actuarial Management Resources ("AMR"). Effective November 30, 2024, AMR began servicing BLIC's and CBLIC's policy obligations covered by the guaranty associations.

The TLHIGA Executive Director serves on an administration subgroup of the NOLHGA task force that worked with AMR in 2024 to establish the processes for handling cash surrenders, 1035 exchanges, and the benefit payments for the other covered insurance policies. Certain benefit payments will be distributed in weekly batches for guaranty association review, approval, and funding. Other benefit payments, such as interest only payments, will be distributed in monthly batches. NOLHGA escrow accounts were established for BLIC and CBLIC for the guaranty associations to deposit funds in advance of the distribution of claims batches. As batches are approved by guaranty associations, bulk transfers are made from NOLHGA to AMR to fund the total benefits of batches. This process simplifies and expedites the funding and benefit distribution process. The funds in the escrow accounts accrue interest which is allocated periodically among the guaranty associations based on each guaranty association's share of the amounts in the accounts. In December 2024, the TLHIGA deposited $30 million into the escrow accounts. Additional deposits will be made as the benefits are paid. It is estimated the benefit payments the TLHIGA will fund will be approximately $98 million.

CBLIC also has a block of approximately 74,415 life insurance policies with reserves totaling $129.6 million. There are 2,841 Texas policies in this block with reserves of $5.2 million that are protected by the TLHIGA. On October 1, 2024, the TLHIGA and the other guaranty associations providing protection for the CBLIC policy obligations distributed a Request for Proposals for Assumption Reinsurance for the remaining covered life insurance policy obligations. Proposals are due in early January 2025. If a valid proposal is submitted and accepted, it is anticipated that an assumption reinsurance agreement to transfer all of the covered life insurance policy obligations to an active insurance company could close in the third quarter of 2025.

## FRIDAY HEALTH INSURANCE COMPANY, INC.

Friday Health Insurance Company, Inc. ("FHIC") was a Texas domiciled insurance company licensed only in Texas. FHIC consented to being placed into liquidation, and a liquidation order was entered against it, on March 23, 2023.

FHIC was owned by Friday Health Plans Management Services Company, Inc. ("FHP Mgmt"), which is owned by Friday Health Plans, Inc. ("FHP Holding"). All of the insurance affiliates in other states are now in liquidation: three HMOs owned by FHP Mgmt domiciled in Georgia, North Carolina, and Oklahoma and an insurance company domiciled in Nevada. An additional HMO domiciled in Colorado, owned by FHP Holding, is also in liquidation. All six of the insurance entities were managed and controlled by FHP Mgmt in Alamosa, Colorado.

FHIC was removed from the exchange and all exchange policies were terminated on or before December 31, 2022. Eight small employer group policies continued into 2023. Termination notices had been sent to these groups prior to the entry of the liquidation order with the last group terminating on June 30, 2023.

The TLHIGA entered into an Administrative Services Agreement with FHP Mgmt on May 16, 2023 to provide ongoing policy and claims administration. These activities continued until July 6, 2023 when FHP Mgmt terminated all its employees and ceased operations. This ended TLHIGA's Administrative Services Agreement with FHP Mgmt.

The TLHIGA and the receivers in the five other states continued the administration agreement with UST Global, Inc. ("UST"), a third-party administrator that was the vendor providing the administration platform to FHP Mgmt. UST hired most of the former FHP Mgmt employees who were involved in administering the business to provide the ongoing services. This administration arrangement required the receivers and the TLHIGA to contract directly with numerous vendors for certain services that FHP Mgmt had in place to administer the business, including equipment, facilities, cloud storage, telephone system, internet service providers, basic resources, and vendor services. The costs for these UST and vendor services are allocated among the five receiverships and the TLHIGA.

As of year-end 2024, the TLHIGA had processed 167,193 claims with benefit payments totaling approximately $27.2 million, with $7.3 million of that amount being paid in 2024. It is projected the remaining claims and appeals to be processed could result in another $3-5 million of benefit payments.

The TLHIGA has requested a second early access distribution from the Special Deputy Receiver of the FHIC receivership estate of $21,456,812. An initial early access distribution of $25 million was received in December 2023. It is anticipated that FHIC receivership distributions will be sufficient to meet the TLHIGA's obligations related to FHIC without the need for a Class B assessment.

## 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 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%. The TLHIGA funded $126,402,822 to LTC RE, including $9,353,174 of early access distributions from the receivership estates. The TLHIGA has no amounts currently owed to LTC Re.

Oversight of policy and claims administration activity continued in 2024. Davies Life & Health ("Davies") is the third-party administrator that administers Penn Treaty and ANIC policies covered by the 45 guaranty associations that are members of LTC Re and two guaranty associations that access Davies' administration services through NOLHGA. Throughout 2024, the Policy and Claims Administration ("PACA") Working Group, chaired by the TLHIGA Executive Director, and the Coordination and Strategy ("C&S") Committee, on which the TLHIGA Executive Director serves, oversaw policy and claims administration activities.

In 2024, a realignment in the oversight of Davies was proposed, approved, and implemented. Effective January 1, 2025, the PACA Working Group and the C&S Committee will be dissolved and the TPA Oversight Committee ("TOC") will take their place. TOC is expected to take other steps to streamline the oversight of policy and claims administration activities. The TLHIGA Executive Director has been asked to serve on TOC.

Two ancillary programs related to the policy and claims administration continued during 2024. The wellness program that originally began in 2021 as a two-year pilot program to a cohort of policyholders was discontinued at year-end 2024. The electronic visit verification ("EVV") program for home healthcare claims that was launched in 2023 continued and was expanded in 2024. The EVV program is administered by Davies and an outside vendor, AssuriCare. The EVV program is designed to help identify fraud/waste/abuse, promote efficiencies in the claims submission process, and improve the policyholder experience for claims involving home health care services provided by private and family caregivers. Guaranty association and LTC Re representatives are working closely with AssuriCare and Davies to monitor the EVV program and to review fraud/waste/abuse red flags identified.

A third ancillary administration program was approved during 2024. PACA and the C&S Committee worked with Davies on the implementation of machine learning and virtual worker programs designed to create efficiencies in claims processing and identify fraud/waste/abuse. The programs will be launched in 2025.

Benefit payments from March 1, 2017, through December 31, 2024, under the policies protected by the TLHIGA and paid with the funds provided by the TLHIGA to LTC Re, totaled $92,801,895. 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 $99,291,084. Premiums totaling $34,936,684 have been collected for the Texas policies protected by the TLHIGA. There remain 1,598 Texas policies in force with 258 open/pending claims as of December 31, 2024.

The Penn Treaty and ANIC receivership estates in Pennsylvania were closed in 2024. The TLHIGA received an additional distribution from the receivership estates of $1,005,980.

The TLHIGA continues to monitor the ongoing runoff 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.

## ADDITIONAL INSOLVENCY ACTIVITY

The TLHIGA continues to provide coverage of policy benefits for the following eight 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,
- Golden State Mutual Life Insurance Comopany
- Lincoln Memorial Life Insurance Company,
- National States Insurance Company,
- North Carolina Mutual Life Insurance Company,
- Time Insurance Company, and
- Universal Life Insurance Company.

In 2024, the TLHIGA paid a total of $1,274,783 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 2024, no new lawsuits were brought against the TLHIGA by any person covered by the TLHIGA, and no adverse judgments were entered against the TLHIGA.

*Claims Litigation*

The TLHIGA is investigating one claims related lawsuit that had been filed against Bright Healthcare Insurance Company of Texas ("BHICOT") prior to the entry of the liquidation order against BHICOT. If the investigation reveals benefits are due under the BHICOT policy, the TLHIGA will work to resolve the dispute and have the litigation dismissed.

The TLHIGA continues to be involved as a defendant in two claims-related lawsuits which are dormant or not being prosecuted by the plaintiffs. As of December 31, 2024, 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 2023, 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 administrative expenses and covered 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. On April 22, 2024, the Board of Directors authorized a Class B annuity assessment in the amount of $102.2 million. The Board called $98.5 million of the authorized amount on October 15, 2024. The assessment was fully collected by end of the first quarter of 2025.

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 $1.023 billion. 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.

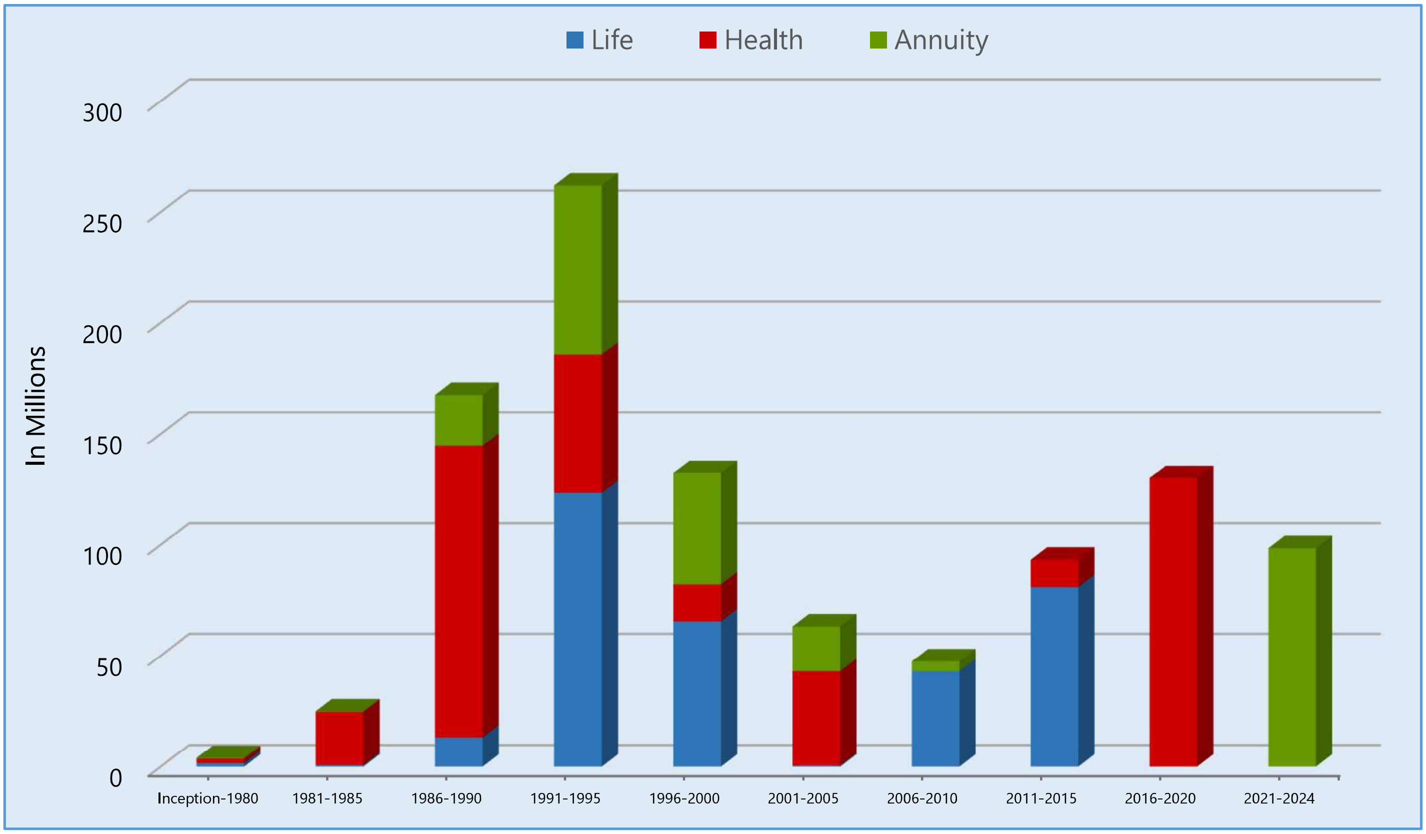
Texas law authorizes the TLHIGA's Board of Directors to retain a reasonable amount of these excess accumulated funds for future expenses or to refund, if practical. The TLHIGA's Board of Directors has adopted a refund methodology that adheres to the TLHIGA's enabling statute regarding refunds.

For 15 of the last 29 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 2024, the Board of Directors did not authorize a refund. The TLHIGA refunds since its inception have totaled approximately $154.7 million.

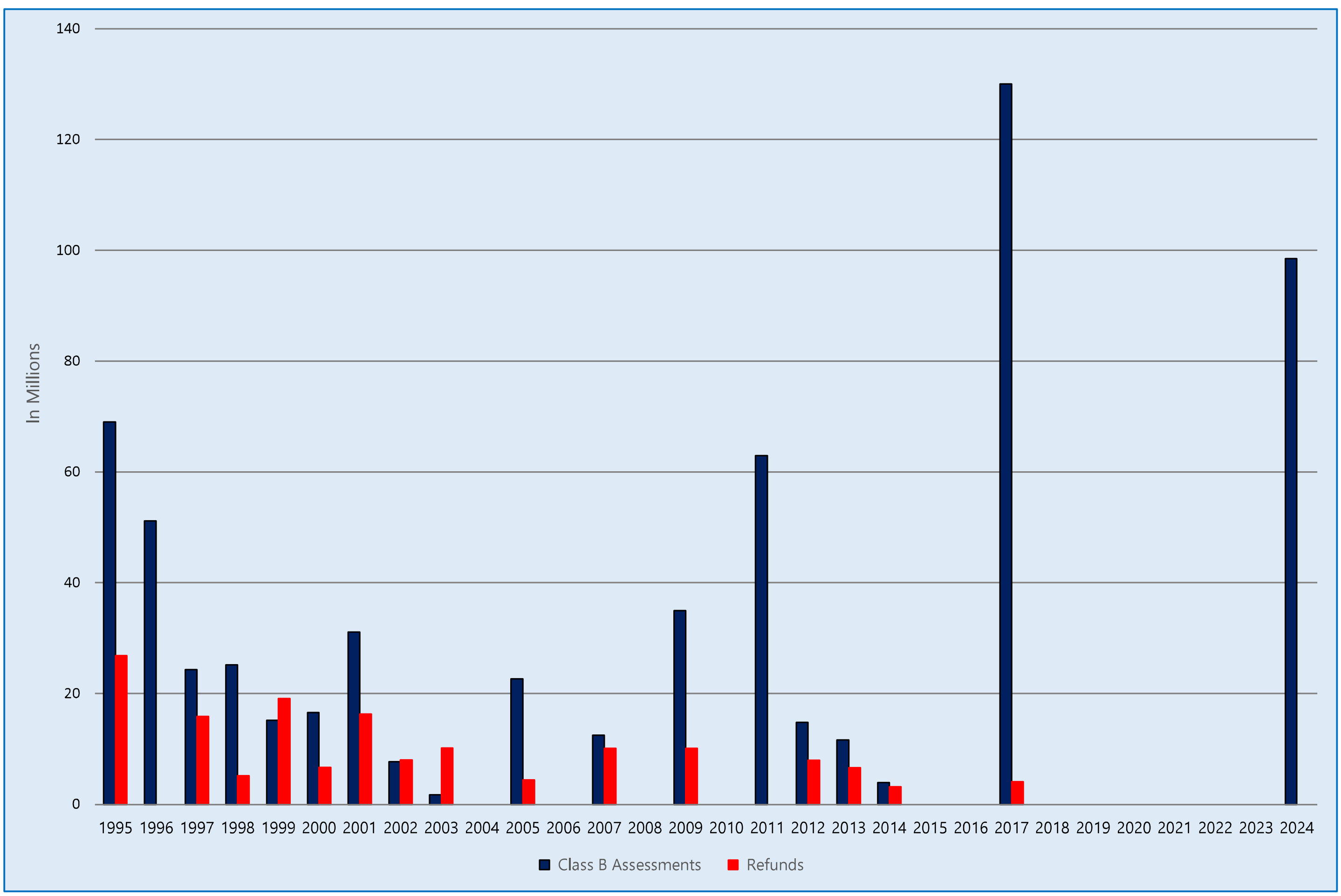
The chart on the next page reflects the Class B assessments and refunds.

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, 2024, including a Management Discussion and Analysis, the auditor's report, and financial statements with footnote disclosures, are shown herein on pages 19 through 50.

# 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, 2024 and 2023, 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 financial position of the Texas Life and Health Insurance Guaranty Association as of December 31, 2024 and 2023, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

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

### *Responsibilities of Management for the Financial Statements*

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

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

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 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 audits 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.

Board of Directors
Texas Life and Health Insurance Guaranty Association

***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 the 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 does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits 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 22, 2025

**TEXAS LIFE AND HEALTH**
**INSURANCE GUARANTY ASSOCIATION**
Management's Discussion and Analysis (Unaudited)
For the Years Ended December 31, 2024 and 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, 2024 and 2023 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 $82.65 million or 253.12% from $32.65 million to $115.30 million in 2024. Obligations also increased $26.58 million or 438.02% from $6.07 million to $32.65 million in 2023. Obligations increased $2.06 million or 51.43% from $4.01 million to $6.07 million in 2022. The TLHIGA was activated for two new insolvencies in 2024 and three new insolvencies in 2023 which resulted in the substantial increase in obligations.
- The TLHIGA authorized and called a $98.5 million Class B annuity assessment for two new insolvencies in 2024. The TLHIGA did not authorize an assessment in 2023 or 2022. Unbilled assessments increased by $20.42 million in 2024 to $44.67 million. In 2023, unbilled assessments increased by $19.11 million to $24.25 million in 2023 and increased $2.85 million to $5.06 million in 2022.
- Distributions received from receivership estates were $1.19 million in 2024, $34.42 million in 2023, and $71.8 thousand in 2022.
- The TLHIGA's net position increased in 2024 by $11.44 million or 18.59% from $61.56 million to $73.00 million in 2024, primarily from the Class B assessment that was levied. In 2023, the net position increased by $2.78 million or 4.73% from $58.76 million to 61.56 million, largely due to the receivership estate distributions. In 2022, the net position decreased by $2.19 million or 3.60% in 2022 to $58.76 million.
- In 2024, the TLHIGA's cash position increased by $69.46 million or 199.64% from $34.79 million to $104.25 million due to the collection of the Class B assessment. In 2023, the increase was $32.78 million or 1625.60% to $34.79 million due to the TLHIGA's need for cash to fund the claims of one of the new insolvencies. In 2022, the cash position decreased by $2.39 million or 54.22% to $2.02 million due chiefly to normal operations.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments.
- The potential for unilateral dissolution by a government with the net assets reverting to the government; or
- The power to enact and enforce a tax levy.

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, 2024 and 2023

## FINANCIAL ANALYSIS OF THE TLHIGA

**Table 1**
**Net Position**
*(In thousands of dollars)*

| | 2024 | | 2023 | | 2022 | |
|---|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| Current assets | $ 148,184 | 76.4% | $ 74,869 | 74.6% | $ 64,179 | 91.0% |
| Noncurrent assets | 45,832 | 23.6% | 25,483 | 25.4% | 6,371 | 9.0% |
| Total assets | 194,016 | 100.0% | 100,352 | 100.0% | 70,550 | 100.0% |
| Current liabilities | 116,961 | 96.6% | 25,454 | 65.6% | 5,036 | 42.8% |
| Noncurrent liabilities | 4,057 | 3.4% | 13,341 | 34.4% | 6,739 | 57.2% |
| Total liabilities | 121,018 | 100.0% | 38,796 | 100.0% | 11,775 | 100.0% |
| Net position | | | | | | |
| Unrestricted | 73,075 | 100.0% | 61,605 | 100.0% | 58,791 | 100.0% |
| Net investment in capital assets | (77) | 0.0% | (49) | 0.0% | (16) | 0.0% |
| Total net position | $ 72,998 | 100.0% | $ 61,556 | 100.0% | $ 58,775 | 100.0% |
| Unrestricted | | | | | | |
| TLHIGA operations | $ 1,307 | | $ (512) | | $ 1,042 | |
| Insolvent estates | 71,768 | | 62,117 | | 57,749 | |
| | $ 73,075 | | $ 61,605 | | $ 58,791 | |

*Current assets:* Cash and cash equivalents which include cash on deposit, money market funds, an escrow account, and United States Treasury Bills with original maturities of three months or less at the time of acquisition, make up 70%, 47%, and 3% of the current assets of the TLHIGA in 2024, 2023, and 2022, respectively.

Investments, which include United States Treasury securities with original maturities of greater than three months, at year end were 24%, 53%, and 96% of current assets in 2024, 2023, and 2022, respectively.

Proofs of claim are filed by the TLHIGA against active 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, $455,707, and $0 at year end 2024, 2023, and 2022 respectively.

*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 2024, 2023, and 2022 were $44,670,583, $24,251,449, and $5,061,308, respectively.

The TLHIGA owns various investments as part of its deferred compensation plan that totaled $203,954, $153,078, and $110,802 at year end 2024, 2023, and 2022, respectively.

The TLHIGA capitalizes certain leases. Capital assets consisting of immaterial capital leases, furniture, computer systems and equipment reported net of accumulated depreciation make up the remaining balance of noncurrent assets.

*Liabilities:* 95%, 84%, and 52% of the total obligations for the years ending December 31, 2024, 2023, and 2022, 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, 2024, 2023, and 2022 the insurance contractual obligations were as follows:

**Table 2**
**Insurance Contractual Obligations**

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| Current insurance contractual obligations | $ 112,382,045 | $ 20,497,226 | $ 567,311 |
| Noncurrent insurance contractual obligations | 2,916,934 | 12,153,982 | 5,501,460 |
| Total contractual obligations | $ 115,298,979 | $ 32,651,208 | $ 6,068,771 |

The increase in obligations in 2024 were primarily due to the TLHIGA's activation for two large annuity insolvencies. In 2023, the TLHIGA was activated for three new insolvencies which account for the substantial increase in obligations for that year. In 2022, the TLHIGA was activated for two new insolvencies that account for the increase in obligations that year.

The TLHIGA carries a liability for its deferred compensation plan that was $203,954, $153,078, and $110,802, at year end 2024, 2023, and 2022, respectively.

The TLHIGA has historically credit refunded excess insolvency-specific funds to member companies that are not due to the Texas Commissioner of Insurance by statute. 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 statute. As of December 31, 2024, 2023, and 2022, the remaining credit balances were $3.95 million, $3.95 million, and $3.96 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 component of $97,718 and a long-term component of $936,482 at year end 2024. In 2023, those amounts were $92,854 and $1,034,200, respectively. The short-term liability was $88,162 and the long-term liability was $1,127,054 at year end 2022. The liability is amortized over the life of the lease.

The balance of current liabilities consists of accounts payable and accrued expenses incurred in the normal course of operations. Accrued expenses increased decreased by 49% in 2024, increased by 114% in 2023, and increased by 4% in 2022. The decrease in 2024 was mostly due to the resolution of prior year accruals of health claims from one of the 2023 new insolvencies. The remaining 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**

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| **Revenues:** | | | |
| Billed assessments | $ 98,499,932 | $ - | $ - |
| Change in unbilled assessments | 20,419,134 | 19,190,141 | 2,852,360 |
| Estate recoveries | 1,185,387 | 34,420,510 | 71,791 |
| Premiums | 198,575 | 258,630 | 62,667 |
| Total operating revenues | 120,303,028 | 53,869,281 | 2,986,818 |
| **Expenses** | | | |
| Change in insurance contractual obligations | 82,647,771 | 26,582,437 | 2,061,213 |
| Cost of claims obligations | 14,239,794 | 20,533,673 | 241,601 |
| Refund of prior year assessments | - | - | 505,523 |
| National task forces | 583,937 | 585,194 | 499,022 |
| Administrative costs | 14,483,650 | 6,147,556 | 1,319,553 |
| Total operating expenses | 111,955,152 | 53,848,860 | 4,626,912 |
| Operating income (loss) | 8,347,876 | 20,421 | (1,640,094) |
| Net nonoperating revenues (expenses) | 3,093,966 | 2,760,083 | (552,450) |
| Change in net position | 11,441,842 | 2,780,504 | (2,192,544) |
| Net position, beginning of year | 61,555,833 | 58,775,329 | 60,967,873 |
| Net position, end of year | $ 72,997,645 | $ 61,555,833 | $ 58,775,329 |
| % change in net position from prior year | 18.59% | 4.73% | 3.60% |

Net position increased by $11,441,842 in 2024, primarily due to the Class B assessment levied by the TLHIGA and the reduction in contractual obligations. In 2023, the net position increased by $2,780,504 largely due to the recoveries from insolvent estates offset by the claims and administrative expenses of the new insolvencies. 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. The 2024 change in net position was affected by the net results in administration operations, $1.82 million and estate operations, $9.62 million as shown in Table 4.

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 2024, 2023, or 2022.

**Table 4**
**2024 Change in Net Position by Estates and Administration**

| | Estates | Administration | Total |
|---|---|---|---|
| Revenues: | | | |
| Billed assessments | $ 98,499,932 | - | $ 98,499,932 |
| Estate recoveries | 1,185,387 | - | 1,185,387 |
| Premiums | 198,575 | - | 198,575 |
| Change in unbilled assessments | 20,419,134 | - | 20,419,134 |
| Total revenues | 120,303,028 | - | 120,303,028 |
| Expenses: | | | |
| Administration | 14,011,979 | 1,055,608 | 15,067,587 |
| Claims cost | 14,239,794 | - | 14,239,794 |
| Change in insurance contractual obligations | 82,647,771 | - | 82,647,771 |
| Total expenses | 110,899,544 | 1,055,608 | 111,955,152 |
| Operating income (loss) | 9,403,484 | (1,055,608) | 8,347,876 |
| Interest income (net of interest expense) | 451,284 | 1,559,451 | 2,010,735 |
| Unrealized gain (loss) on investments | (234,159) | 1,317,390 | 1,083,231 |
| Increase (decrease) in net position | $ 9,620,609 | 1,821,233 | $ 11,441,842 |

**Table 4 (continued)**
**2023 Change in Net Position by Estates and Administration**

| | Estates | Administration | Total |
|---|---|---|---|
| Revenues: | | | |
| Billed assessments | $ - | - | $ - |
| Estate recoveries | 34,420,510 | - | 34,420,510 |
| Premiums | 258,630 | - | 258,630 |
| Change in unbilled assessments | 19,190,141 | - | 19,190,141 |
| Total revenues | 53,869,281 | - | 53,869,281 |
| Expenses: | | | |
| Administration | 5,594,469 | 1,138,281 | 6,732,750 |
| Claims cost | 20,533,673 | - | 20,533,673 |
| Change in insurance contractual obligations | 26,582,437 | - | 26,582,437 |
| Total expenses | 52,710,579 | 1,138,281 | 53,848,860 |
| Operating income (loss) | 1,158,702 | (1,138,281) | 20,421 |
| Interest income (net of interest expense) | 775,251 | 500,674 | 1,275,925 |
| Unrealized gain (loss) on investments | 1,395,128 | 89,030 | 1,484,158 |
| Increase (decrease) in net position | $ 3,329,081 | (548,577) | $ 2,780,504 |

## CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

The TLHIGA is not aware of any other facts, decisions or conditions that would have a material impact on the accompanying financial statements through April 22, 2025, the date the financial statements were available for issuance.

## 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, 2024 and 2023

| | | 2024 | 2023 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ | 74,249,747 | 34,791,591 |
| Escrow | | 30,000,000 | - |
| Investments | | 35,754,618 | 39,374,724 |
| Receivables: | | | |
| Billed assessments, net of allowance of $0 at December 31, 2024 and 2023 | | 7,939,580 | 4,745 |
| Other receivables | | 21,209 | 21,127 |
| Accrued interest | | 203,897 | 206,977 |
| Proofs of claim, net of allowance of $773,872,200 and $745,694,538 at December 31, 2024 and 2023 | | - | 455,707 |
| Pre-paid expenses | | 14,695 | 14,140 |
| Total current assets | | 148,183,746 | 74,869,011 |
| Noncurrent assets: | | | |
| Unbilled assessments | | 44,670,583 | 24,251,449 |
| Investments in deferred compensation plans | | 203,954 | 153,078 |
| Capital assets | | | |
| Furniture & equipment | | 415,357 | 415,357 |
| Right-of-use lease assets | | 1,331,009 | 1,331,009 |
| Accumulated depreciation and amortization | | (789,060) | (668,050) |
| Total noncurrent assets | | 45,831,843 | 25,482,843 |
| Total assets | $ | 194,015,589 | 100,351,854 |
| **Liabilities and Net Position** | | | |
| Current liabilities: | | | |
| Accounts payable | $ | 5,200 | 4,264 |
| Accrued expenses | | 466,303 | 909,159 |
| Compensated Absences | | 58,020 | - |
| Assessment credit balance | | 3,951,258 | 3,951,258 |
| Lease liabilities, current portion | | 97,718 | 92,854 |
| Insurance contractual obligations, current portion | | 112,382,045 | 20,497,226 |
| Total current liabilities | | 116,960,544 | 25,454,761 |
| Noncurrent liabilities: | | | |
| Deferred compensation plan liabilities | | 203,954 | 153,078 |
| Lease liabilities, less current portion | | 936,482 | 1,034,200 |
| Insurance contractual obligations, less current portion | | 2,916,934 | 12,153,982 |
| Total liabilities | | 121,017,914 | 38,796,021 |
| Net position: | | | |
| Unrestricted | | 73,074,569 | 61,604,571 |
| Net investment in capital assets | | (76,894) | (48,738) |
| Total net position | | 72,997,675 | 61,555,833 |
| Total liabilities and net position | $ | 194,015,589 | 100,351,854 |

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, 2024 and 2023

| | | 2024 | 2023 |
|---|---|---|---|
| Operating revenues: | | | |
| Membership assessments: | | | |
| Billed assessments | | 98,499,932 | - |
| Change in unbilled assessments | | 20,419,134 | 19,190,141 |
| Net membership assessments | | 118,919,066 | 19,190,141 |
| Estate recoveries | | 1,185,387 | 34,420,510 |
| Premiums | | 198,575 | 258,630 |
| Total operating revenues | | 120,303,028 | 53,869,281 |
| Operating expenses: | | | |
| Net claims | $ | 13,198,080 | 20,490,414 |
| Change in insurance contractual obligations | | 82,647,771 | 26,582,437 |
| Refund of prior year's assessment | | - | - |
| Reinsurance agreements | | 1,041,714 | 43,259 |
| Third-party administrators | | 12,697,986 | 4,399,416 |
| National task forces | | 583,937 | 585,194 |
| Total claims | | 110,169,488 | 52,100,720 |
| Administrative costs: | | | |
| Legal and professional | | 333,508 | 404,079 |
| Salaries and benefits | | 842,778 | 708,438 |
| Building and equipment expenses | | 71,328 | 64,024 |
| Depreciation and amortization | | 121,010 | 124,693 |
| National organization dues and meetings | | 109,364 | 97,269 |
| Other | | 307,676 | 349,637 |
| Total administrative costs | | 1,785,664 | 1,748,140 |
| Total operating expenses | | 111,955,152 | 53,848,860 |
| Operating income (loss) | | 8,347,876 | 20,421 |
| Nonoperating revenues: | | | |
| Interest income (net of interest expense) | | 2,010,735 | 1,275,925 |
| Unrealized gain (loss) on investments | | 1,083,231 | 1,484,158 |
| Net nonoperating revenues | | 3,093,966 | 2,760,083 |
| Change in net position | $ | 11,441,842 | 2,780,504 |
| Net position, beginning of year | | 61,555,833 | 58,775,329 |
| Net position, end of year | | 72,997,675 | 61,555,833 |

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, 2024 and 2023

| | | 2024 | 2023 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Receipts from assessments | $ | 90,565,019 | - |
| Receipts from estate recoveries | | 1,641,094 | 33,964,803 |
| Receipts from premiums | | 198,575 | 258,630 |
| Payments for reinsurance agreements | | (1,041,714) | (43,259) |
| Payments for direct claims | | (13,196,431) | (20,490,413) |
| Payments to suppliers for goods and services | | (14,601,855) | (5,292,135) |
| Payments to employees | | (730,830) | (725,801) |
| Assessment refund payments | | - | (32,568) |
| Net cash provided by operating activities | | 62,833,858 | 7,639,257 |
| **Cash flows from capital and related financing activities:** | | | |
| Purchase of capital assets | | - | (4,080) |
| Lease payments | | (110,390) | (88,162) |
| Net cash used in capital and related financing activities | | (110,390) | (92,242) |
| **Cash flows from investing activities:** | | | |
| Purchase of U.S. Treasuries | | (105,356,663) | (58,859,305) |
| Maturity of U.S. Treasuries | | 110,060,000 | 82,807,889 |
| Receipt of interest on investments | | 2,702,084 | 1,582,027 |
| Payment of interest on investments | | (670,733) | (302,235) |
| Net cash provided by investing activities | | 6,734,688 | 25,228,376 |
| Net increase (decrease) in cash and cash equivalents | | 69,458,156 | 32,775,391 |
| Cash and cash equivalents, beginning of year | | 34,791,591 | 2,016,200 |
| Cash and cash equivalents, end of year | $ | 104,249,747 | 34,791,591 |
| **Reconciliation of operating income (loss) to net cash (used in) provided by operating activities:** | | | |
| Operating income (loss) | $ | 8,347,875 | 20,421 |
| Adjustment to reconcile operating income (loss) to net cash (used in) provided by operating activities: | | | |
| Depreciation and amortization expense | | 121,010 | 124,694 |
| Unbilled assessments | | (20,419,134) | (19,190,141) |
| Effect of changes in operating assets and liabilities: | | | |
| Billed assessments receivable, net of allowance | | (7,934,835) | 69,914 |
| Other receivables | | (81) | (46) |
| Proofs of claim, net of allowance | | 455,707 | (455,707) |
| Pre-paid rent | | (555) | (262) |
| Accounts payable | | 936 | 4,232 |
| Compensated absences | | 58,020 | - |
| Accrued expenses | | (442,856) | 483,715 |
| Insurance contractual obligations | | 82,647,771 | 26,582,437 |
| Net cash provided by (used) in operating activities | $ | 62,833,858 | 7,639,257 |

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 a member insurer's life insurance policies, accident and health insurance policies, and annuity contracts, because of the impairment or insolvency of the member insurer. 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 receivership 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 the receivership 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 receivership 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 and ordered liquidated, or provided other evidence that the assessment is not due. In 2023, the TLHIGA wrote off all outstanding assessment receivables and allowances that were established prior to 2005, as they were deemed uncollectible. Since all receivables were fully reserved, there was no impact to the financial statements.

### (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 for 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.

In 2023, the TLHIGA Board of Directors deemed the remaining deferral and allocation balances as uncollectible and authorized the TLHIGA to write off and expense the balances in the net amount of $69,914.

### (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.

### (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, 2024, or 2023.

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, 2024, or 2023.

**(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 amortization 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, 2024, and 2023 are as follows:

| | | Fair Value | |
|---|---|---|---|
| | | **2024** | **2023** |
| *Cash and cash equivalents* | | | |
| Cash on deposit | $ | 197,768 | 278,655 |
| Escrow account | | 30,000,000 | - |
| Money market mutual funds | | 74,051,979 | 34,512,936 |
| Total cash and cash equivalents | $ | 104,249,747 | 34,791,591 |
| *Investments* | | | |
| Investments in Deferred Compensation Plans | $ | 203,954 | 153,078 |
| Bonds – U.S. Treasury Debt | | 35,754,618 | 39,374,724 |
| Total Investments | $ | 35,958,572 | 39,527,802 |

*Custodial Risk.* Cash and cash equivalents consist of bank demand deposits and money market investment accounts and an escrow account for the benefit of the TLHIGA. The TLHIGA's amount of bank demand deposits accounts at December 31, 2024 and 2023, respectively, was $197,768 and $278,655. The TLHIGA makes every effort to manage its cash balances to not exceed the $250,000 FDIC protection. Periodic deviation is necessary at times due to the liquidity needs of the TLHIGA to meet its financial obligations.

*Credit Risk.* Money market investments at December 31, 2024, and 2023 were $74,051,979 and $34,512,936, respectively. The substantial increase in 2024 was due to the Class B annuity assessment that was levied and mostly collected in 2024 due to the TLHIGA's activation for two large annuity insolvencies that required liquid funds to pay claims. 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.* As of December 31, 2024, the TLHIGA invested $35,529,683 in U.S. Treasury debt that has a $35,805,000 maturity value and a $35,754,618 market value. At December 31, 2023, the TLHIGA had invested $39,915,916 in U.S. Treasury debt, with a maturity value of $39,850,000 and market value of $39,374,724. The TLHIGA, upon the direction of its Board of Directors, reviews the cash flow projections, the interest rate environment and the allowed investments, upon the maturity of an investment, to determine the best course of action with the proceeds. The TLHIGA recognizes the accrued interest on this debt as an asset.

*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 13 for more information.

As of December 31, 2024, the TLHIGA had the following U.S. Treasury maturity schedule:

| **Maturity** | **Fair value** |
|---|---|
| 2025 | $ 35,754,618 |
| Total | $ 35,754,618 |

## 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, 2024, and 2023:

- U.S. Treasury securities of $35.75 million and $39.37 million, respectively, are valued using quoted market prices (Level 1 inputs)
- Investments in deferred compensation plans of $203.95 thousand and $153.08 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, 2024** | | | |
|---|---|---|---|---|---|
| | | **Total** | **Level 1** | **Level 2** | **Level 3** |
| **Assets:** | | | | | |
| Investments: | | | | | |
| U.S. Treasury Securities | $ | 35,754,618 | 35,754,618 | - | - |
| Investments in Deferred Comp Plans: | | | | | |
| Small Cap Mutual Funds | $ | 67,522 | 67,522 | - | - |
| Large Cap Mutual Funds | | 114,894 | 114,894 | - | - |
| Bond Mutual Funds | | 21,538 | 21,538 | - | - |
| Total Investments in Deferred Comp Plans | | 203,954 | 203,954 | - | - |
| Total Assets at Fair Value | $ | 35,958,572 | 35,958,572 | - | - |

| | | As of December 31, 2023 | | | |
|---|---|---|---|---|---|
| | | **Total** | **Level 1** | **Level 2** | **Level 3** |
| **Assets:** | | | | | |
| Investments: | | | | | |
| U.S. Treasury Securities | $ | 39,374,724 | 39,374,724 | - | - |
| Investments in Deferred Comp Plans: | | | | | |
| Small Cap Mutual Funds | $ | 51,087 | 51,087 | - | - |
| Large Cap Mutual Funds | | 84,192 | 84,192 | - | - |
| Bond Mutual Funds | | 17,799 | 17,799 | - | - |
| Total Investments in Deferred Comp Plans | | 153,078 | 153,078 | - | - |
| Total Assets at Fair Value | $ | 39,527,802 | 39,527,802 | | - |

## 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 (1) 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 2024 or 2023.

The Board of Directors authorized a $102.2 million Class B assessment in April 2024 for the annuity line of business, contingent upon the finalization of the estimated obligations for the two involved insolvencies and final approval by the Board and Assessment Committee chairs. The amount called was $98.5 million of the authorized assessment. The assessment invoices were distributed to 233 member companies. The final assessment was $98,499,932 due to de minimis invoices not being distributed per TLHIGA policy. As of December 31, 2024 $7,934,835 has not been collected.

The Board of Directors did not authorize or call a Class B assessment in 2023 or 2022.

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 2023 or 2022.

Billed assessments receivable as of December 31, 2024, and 2023 was $7,939,580 and $4,745, respectively. These unpaid assessments were levied in years 1991 through 2021. An allowance for uncollectible billed assessments has been recorded for $0 as of December 31, 2024, and December 31, 2023. In 2023, the TLHIGA wrote off all outstanding assessment receivables and allowances as they were deemed uncollectible. There is one exception for a member company that has requested a deferral of its assessments due to its precarious financial condition. The Board has historically granted the deferral request. Since all receivables were fully reserved, there was no impact to the financial statements.

Unbilled assessments receivable of $44,670,583 and $24,251,449 at December 31, 2024 and 2023, 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, 2024 and 2023, proofs of claim receivable on open estates (before an allowance) were $476,232,413 and $448,054,264, 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 receivership 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, 2024, and 2023 were $773,872,200 and $745,694,538, respectively.

## 7. Capital Assets

Capital asset activity for the years ended December 31, 2024, and 2023 was as follows:

| | Beginning of Year | Additions | Retirements | End of Year |
|---|---|---|---|---|
| 2024: | | | | |
| Capital assets, being depreciated or amortized: | | | | |
| Furniture, computer systems and equipment | $415,357 | - | - | $415,357 |
| Right-of-use lease-Buildings | 1,331,009 | - | - | 1,331,009 |
| Less: accumulated depreciation & amortization | | | | |
| Furniture, computer systems and equipment | 382,670 | 11,901 | - | 394,571 |
| Right-of-use lease-Buildings | 285,380 | 109,109 | - | 394,489 |
| | $1,078,316 | 121,010 | - | $957,306 |

| | Beginning of Year | Additions | Retirements | End of Year |
|---|---|---|---|---|
| 2023: | | | | |
| Capital assets, being depreciated or amortized: | | | | |
| Furniture, computer systems and equipment | $411,277 | 4,080 | - | $415,357 |
| Right-of-use lease-Buildings | 1,331,009 | - | - | 1,331,009 |
| Less: accumulated depreciation & amortization | | | | |
| Furniture, computer systems and equipment | 367,086 | 15,584 | - | 382,670 |
| Right-of-use lease-Buildings | 176,271 | 109,109 | - | 285,380 |
| | $1,198,929 | 120,613 | - | $1,078,316 |

Depreciation expense for 2024 and 2023 was $121,010 and $124,693, 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, 2024 and 2023, 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 |
|---|---|---|---|---|
| **2024:** | | | | |
| Interaccount loans | $ 0 | 19,206,266 | 0 | $ 19,206,266 |
| Interaccount borrowings | $ 0 | (19,206,266) | 0 | $(19,206,266) |
| **2023:** | | | | |
| Interaccount loans | $ 502,369 | 22,102,879 | (22,605,248) | $ 0 |
| Interaccount borrowings | $ (502,369) | (22,102,879) | 22,605,248 | $ 0 |

Internal interest of $582,071 and $538,102 was charged on these loans for the years ended December 31, 2024 and 2023, respectively. The interest expense was charged to the individual borrowing insolvencies and is netted against interest income on the TLHIGA's financial statements.

## 9. Compensated Absences

In 2024, the TLHIGA adopted GASB 101-Compensated Absences to account for the employee's time off and/or leave benefits. The liability for compensated absences reported in the financial statements consists of leave that has not been used that is attributable to services already rendered, accumulates and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. As of December 31, 2024, the change in the compensated absences was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| December 31, 2024 | $ - | 58,020 | - | 58,020 | $11,442 |

## 10. 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, 2024, and 2023, activity in the insurance contractual obligations was as follows:

| | **Beginning of Year** | **Net Change** | **End of Year** | **Current Portion** |
|---|---|---|---|---|
| December 31, 2024 | $32,651,208 | 82,647,771 | $115,298,979 | $112,382,045 |
| December 31, 2023 | $6,068,771 | 26,582,437 | $32,651,208 | $20,497,226 |

As of December 31, 2024, five open estates make up 98.62% of the insurance contractual obligations. In 2024, the TLHIGA was activitated for two large annuity insolvencies that significantly increased the obligations for the year. In 2023, nine open estates comprise 99.79% of the insurance contractual obligations. The TLHIGA was activated for three new insolvencies in 2023, two were large health insolvencies and the third was a life company.

The obligations of the two new annuity insolvencies, Bankers Life Insurance Company and Colorado Bankers Life Insurance Company, are based on the reserves for the Texas policies calculated by an independent actuarial firm. The obligations of the two health insolvencies, Friday Health Insurance Company and Bright Health Insurance Company of Texas, are based on the known remaining health claims to be paid. The new life insolvency, Southland National Insurance Corporation, has obligations based on the reserves of the Texas policies. The obligations of North Carolina Mutual Life Insurance Company are based on the reserves of the TLHIGA's policies. The obligations related to Executive Life Insurance Company 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 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."

## 11. Net Position

As of December 31, 2024, and 2023, the net position reflected in the financial statements of the TLHIGA consisted of the following:

| | **2024** | **2023** |
|---|---|---|
| Unrestricted net position: | | |
| Insolvent estate assets allocated to pay the ongoing claims and expenses of specific insolvencies | $ 71,767,256 | $ 62,102,736 |
| TLHIGA operational assets | 1,307,313 | (498,165) |
| | 73,074,569 | 61,604,571 |
| Net investment in capital assets | (76,894) | (48,738) |
| Total net position | $ 72,997,675 | $ 61,555,833 |

## 12. 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 2024:

| 2024 | Beginning Balance | Additions | Deductions | Ending Balance |
|---|---|---|---|---|
| Lease Liability | $1,127,054 | - | 92,854 | $1,034,200 |
| Total Lease Liability | $1,127,054 | - | 92,854 | $1,034,200 |

The following table shows the lease asset for 2023:

| 2023 | Beginning Balance | Additions | Deductions | Ending Balance |
|---|---|---|---|---|
| Lease Liability | $1,215,216 | - | 88,162 | $1,127,054 |
| Total Lease Liability | $1,215,216 | - | 88,162 | $1,127,054 |

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

| | Principal | Interest | Total |
|---|---|---|---|
| 2025 | 97,718 | 15,982 | 113,699 |
| 2026 | 102,761 | 14,347 | 117,108 |
| 2027 | 108,000 | 12,628 | 120,628 |
| 2028 | 115,014 | 10,816 | 125,830 |
| 2029 | 122,310 | 8,873 | 131,183 |
| 2030-2033 | 488,397 | 14,304 | 502,702 |
| Total | $1,034,200 | 76,950 | $1,111,150 |

## 13. 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 2024 by the TLHIGA totaled $39,231. Contributions to the Plan for 2023 by the TLHIGA totaled $37,004.

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 $23,000 in 2024 and $22,500 in 2023 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 $203,954 and $153,078 for the years ending 2024 and 2024 along with the corresponding liability of the same amount.

## 14. Settlements

There were no settlements in 2024 or 2023.

## 15. 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 2024. No conflicts were identified in 2023.

## 16. 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 2024, 2023, or 2022.

## 17. 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 LTC Re 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 asset distributions, 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, 2024, the TLHIGA has received approximately $67.9 million, since its inception, that remain subject to such agreements.

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

TLHIGA

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