

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**NORTH DAKOTA LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

FARGO, NORTH DAKOTA

**AS OF
JUNE 30, 2015**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

North Dakota Life and Health Insurance Guaranty Association

Fargo, North Dakota

as of June 30, 2015, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this 9th day of
November, 2016.





Adam Hamm
Insurance Commissioner

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Fargo, North Dakota
September 1, 2016

Honorable Adam Hamm
Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Commissioner:

Pursuant to your instructions and statutory provisions, an examination has been made of the books, records and financial condition of

North Dakota Life and Health Insurance Guaranty Association

Fargo, North Dakota

The North Dakota Life and Health Insurance Guaranty Association, hereinafter referred to as the "Association," was last examined as of June 30, 2010, by the North Dakota Insurance Department.

SCOPE OF EXAMINATION

This examination covers the period from July 1, 2010, to and including June 30, 2015, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination. This examination was conducted in accordance with N.D.C.C. § 26.1-38.1-12 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook* with due regard to the practices, procedures, regulations, and statutes of the State of North Dakota.

HISTORY

General

The Association was created on July 1, 1983, under the provisions of N.D.C.C. ch. 26.1-38.1 as a nonprofit, unincorporated legal entity. The purpose of the Association is to provide funds for the continuation of in-force contracts and payment of contractual obligations under certain life, health, and annuity insurance contracts of insolvent insurance companies. Except for entities specifically exempted by N.D.C.C. § 26.1-38.1-02(12), all insurers, including nonprofit health service corporations, licensed or holding a Certificate of Authority to transact in this state any kind of insurance for which coverage is provided under N.D.C.C. § 26.1-38.1-01, and includes any insurer whose license or Certificate of Authority in this state may have been suspended, revoked, not renewed, or voluntarily withdrawn must be and remain members of the Association as a condition

of their authority to transact insurance in the State of North Dakota. For the purpose of administration and assessment, the Association is required to maintain separate life, health, annuity, and unallocated annuity accounts.

The Association has received a determination from the Internal Revenue Service that it is exempt from federal income taxes under the provisions of the Internal Revenue Code Section 501(C)(6).

Board of Directors

The Plan of Operation specifies that the Board shall consist of five to nine member insurers who shall be selected by member insurers, subject to the approval of the Commissioner.

The Plan of Operation specifies that the annual meeting of the Board of Directors shall be held at a place designated by the Board on the third Tuesday in the month of July, immediately following the annual meeting of the member insurers, unless the Chair of the Board, upon proper notice, shall designate some other time, day, or place. At each annual meeting the Board shall elect officers; appoint committees; receive reports from the Commissioner; review the plan and submit proposed amendments, if any, to the Commissioner for approval; review each outstanding contract or agreement; review operating expenses and outstanding contractual obligations; and determine whether an assessment, or a refund of a prior assessment, is necessary for the proper administration of the Association and, if so, the amount of either.

Regular meetings, if any, shall be scheduled by the Board at its annual meeting. Notice of such meetings shall be given to the Commissioner. Special meetings may be called by the Chair and shall be called upon the request of any two Board members upon not less than two days' notice to each Board member.

The Board of Directors held an Annual Meeting, in compliance with the Plan of Operation, in each of the years covered by this statutory examination.

Directors duly elected and serving June 30, 2015, together with their addresses and business affiliations are as follows:

<u>Name</u>	<u>Term Expires</u>	<u>Business Affiliation</u>
Catherine Bresler Lake Forest, Illinois	2015	Vice President, Counsel – Government Relations Trustmark Insurance Company
David Breuer Fargo, North Dakota	2016	Senior VP of Finance & Chief Financial Officer Noridian Mutual Insurance Company
Christopher L. Chandler Denver, Colorado	2016	Vice President, Government Affairs Prudential Insurance Company of America
Joseph P. DeCresce New York, New York	2015	Second Vice President & Counsel The Guardian Life Insurance Company of America
Dan Devine Minneapolis, Minnesota	2017	Tax Director Allianz Life Insurance Company of North America
Dayna V. Kirk Portland, Oregon	2017	Assistant Vice President of Voluntary Business Development Standard Insurance Company
Merle T. Pederson Des Moines, Iowa	2016	Vice President & Counsel – Government Relations Principal Life Insurance Company

Officers

Pursuant to the Plan of Operation, the Board shall elect a Chair, Vice Chair, Secretary, and Treasurer and such other officers as it deems necessary. Each officer shall hold a term of one year or until a successor is elected.

Officers elected at the July 22, 2014, annual meeting of the Board of Directors and serving at June 30, 2015, were as follows:

<u>Name</u>	<u>Title</u>
Christopher Chandler	Chair
Dayna V. Kirk	Vice Chair
David Breuer	Secretary and Treasurer

Executive Committee

The Plan of Operation provides that the Board of Directors may appoint from among its members an Executive Committee of three members, one of whom shall be Chair of the Board. The Board of Directors reserves to itself the sole power to determine assessments. Subject to the foregoing limitations, the Executive Committee shall possess and exercise all other powers of the Board of

Directors during intervals between meetings. Members of the Executive Committee as of June 30, 2015, were as follows:

Christopher L. Chandler
Dayna V. Kirk
David Breuer

Corporate Records

Plan of Operation

On December 14, 2011, the following revisions to the Plan of Operation resulting from Senate Bill No. 2111 became law:

- Establish procedures whereby a director may be removed for cause.
- Establish a policy and procedures for addressing conflicts of interest.

The Plan of Operation was amended to be in compliance with these new requirements.

Although not specifically required by statute, the Association has not yet formally adopted a privacy, security, business continuity, or a record retention policy that is considered best industry practice.

Board of Directors and Committee Minutes

The Board of Directors meeting minutes for the period under examination were reviewed. The minutes indicate that meetings are well attended and held in accordance with the Plan of Operation. The deliberations of the Board were adequately documented.

ASSESSMENTS

N.D.C.C. § 26.1-38.1-06 provides that for the purpose of providing funds necessary to carry out the powers and duties of the Association, the Board of Directors shall assess the member insurers, separately for each account, at such time and for such amounts as the Board finds necessary. Assessments are due within 30 days and accrue interest at 18 percent per annum on and after the due date.

Class A assessments are made for the purpose of meeting administrative, legal costs, and other general expenses. Class A assessments must be made whether or not it is impairment or insolvency related and must be authorized and called on a non-pro rata basis. Non-pro rata Class A assessments are assessed on a per capita basis and must be approved by the Board of Directors.

Class B assessments are made to the extent necessary to carry out the powers and duties of the Association with regard to an impaired or insolvent insurer. Class B assessments are allocated among the member insurers based upon premiums paid on business issued in North Dakota by each assessed member insurer. Class B assessments against member insurers must be in the proportion that the premiums received on business in this state by each assessed member insurer

on policies or contracts covered by each account for the three most recent calendar years for which information is available preceding the year in which the insurer became impaired or insolvent bears to such premiums received on business in this state for such calendar years by all assessed member insurers. The total of all assessments upon a member insurer in any one year may not exceed two percent of such insurer's average premiums received in this state during the three years preceding the year in which the insurer became insolvent or impaired.

The Plan of Operation permits the Board to abate or defer an assessment if, in its opinion, payment of the assessment would endanger the ability of the member insurer to fulfill its contractual obligation, or the insurer has been placed under an Order of Rehabilitation or an Order of Liquidation. At June 30, 2015, three companies had approved assessment deferrals: Monarch Life Insurance Company for \$6,296, American Network Insurance Company for \$300, and Penn Treaty Network American Insurance Company for \$300; each adding \$300 from the 2013 Class A assessment.

ESTATE DISTRIBUTIONS

The Association has a priority claim over general creditors of an insolvent insurer. The amount of the priority claims is equal to the claims paid by the Association pursuant to the Act. Distributions and refunds received from liquidators aggregated \$1,059,612.88 during the period under review.

BENEFITS

The benefits for which the Association may become liable may in no event exceed the lesser of:

- The contractual obligations for which the insurer is liable or would have been liable if it were not an impaired or insolvent insurer.
- With respect to one life regardless of the number of policies or contracts:
 1. \$300,000 of life insurance death benefits, but not more than \$100,000 in net cash surrender and net cash withdrawal values of life insurance;
 2. \$500,000 of basic hospital, medical and surgical, or major medical insurance;
 3. \$300,000 of disability or long-term care insurance; or
 4. \$250,000 of the present value of annuity benefits, government retirement benefit plans established under Section 401(k), 403(b), or 457 of the Internal Revenue Code that are covered by an unallocated annuity contract, and structured settlement annuity plans.

The following is a schedule of benefits and expenses paid by insolvency during the period under examination:

Insolvency	2011	2012	2013	2014	2015	Total
American Chambers	\$ 2	\$ 1,857	\$ 3	\$ 31		\$ 1,893
American Integrity	54	181				235
Executive Life / KCL	100	50	39	27		216
Executive Life	143,700	136,267	1,317,622	4,027	\$ 2,455	1,604,071
Legion Insurance		10			11	21
Life & Health Insurance Company of America	72,923	58,830	38,339	71,509	138,906	380,507
Lincoln Memorial	270	388	3,378	344	780	5,160
London Pacific	22	6	12	10	1	51
Medical Savings	191	47	231	100	129	698
Midwest International	26,448	3,789	54,002	3,286	3,276	90,801
National Heritage	4	23	3	14	4	48
National States	9,261	11,171	7,787	2,773	3,583	34,575
Penn Treaty		2,314	1,989	4,277	19,667	28,247
Standard Life		123	576	15	53	767
Universe Life	5	7		22	1	35
Other Companies	7,246	1,570	681	700	729	10,926
Total	\$260,226	\$216,633	\$1,424,662	\$87,135	\$169,595	\$2,158,251

Refunds

The Plan of Operation provides that the Board of Directors may refund by payment or credit against Class B assessments to member insurers, in proportion to the contribution of each insurer to that account, the amount by which the assets of the account exceed the amount the Board finds is necessary to fund obligations of the Association for that account. No refunds were made during the examination period.

Estimated Future Cost of Insolvencies

As of June 30, 2015, the Association estimates that the cost of future benefits for reported insolvencies will be approximately \$2,318,443 for future payments to fund the Penn Treaty Network America rehabilitation or insolvency. Total estimated future payments for contractual obligations due to impairments or insolvencies is \$3,200,000.

ADMINISTRATION AND CONSULTANTS

The Association contracts with an Executive Director and an Accountant who perform various administrative functions for the Association.

With each insolvency, NOLHGA evaluates, negotiates and selects third-party administrators and consultants where necessary and each participating guaranty association either opts in or selects its own consultant. The Association is currently using all NOLHGA selected consultants and administrators for insolvencies.

ACCOUNTS AND RECORDS

The Association maintains its records on the cash basis. Under the cash basis of accounting, income is recognized when received and expenses are recognized when paid.

The records of the Association consist of a cash receipts journal, a cash disbursements journal, check register, corporate records, and subsidiary records necessary for the preparation of statistical data.

The Plan of Operation permits the Board to create a composite account to deposit excess funds raised by Class B assessments for any one impaired or insolvent insurer. No distinction among the life, health, and annuity accounts and subaccounts need be maintained. As of June 30, 2015, the balance in the composite account was \$79,766.

In order to avoid disproportionate clerical expenses, the Plan of Operation permits the Board to authorize the transfer of funds between accounts and cases as it deems necessary to assure the fair, reasonable, and equitable operation and administration of the Association. No noted transactions were entered into by the Entity during the year for which there is a lack of authoritative guidance or consensus by the Board of Directors.

The Association allocates Class B and Class A expenses to the various accounts and sub-accounts using various expense categories, e.g., claims, administration, legal, and general. In fiscal year ending June 30, 2015, the Association allocated approximately 36.4 percent of its expenses to the administrative account and the remainder to individual insolvency accounts. The Association currently allocates all investment income to the administrative account.

The Association does not adhere to the guidance of NOLHGA's Accounting Guidelines Manual in terms of allocating the investment income based on the average of the beginning and ending net asset balance for each estate for the period over which the income was earned. Alternatively, the Association has adopted a policy of allocating all investment income into an account used for the sole purpose of covering administrative expenses. However, a one-time transfer of investment income was made in 2011 from the Administration account back to individual insolvency accounts totaling \$477,453.

FINANCIAL STATEMENTS

The financial statements section includes the following:

- Statement of Assets, Liabilities and Net Assets and Statement of Activities and Changes in Net Assets - Current Year, By Account
- Statement of Activities and Changes in Net Assets - Current Year, By Account and Insolvency

North Dakota Life and Health Insurance Guaranty Association
Statement of Assets, Liabilities and Net Assets
June 30, 2015

	Life	Allocated Annuity	Unallocated Annuity	Health	Other Companies	Company Total	Admin Account	Grand Total
Assets:								
Cash and Cash Equivalents	\$1,577,617	\$437,642	\$4,492	\$657,360	\$207,034	\$2,884,145	\$76,537	\$2,960,682
Total Assets	\$1,577,617	\$437,642	\$4,492	\$657,360	\$207,034	\$2,884,145	\$76,537	\$2,960,682
Liabilities and Net Assets:								
Net Assets	\$1,577,617	\$437,642	\$4,492	\$657,360	\$207,034	\$2,884,145	\$76,537	\$2,960,682
Total Liabilities and Net Assets	\$1,577,617	\$437,642	\$4,492	\$657,360	\$207,034	\$2,884,145	\$76,537	\$2,960,682

North Dakota Life and Health Insurance Guaranty Association
Statement of Activities and Changes in Net Assets
for the Period Ended June 30, 2015

	Annuity	Unallocated Annuity	Life	Health	Other Companies	Admin Account	Total
Revenue							
Assessments							
Premiums				\$119			\$119
Interest Income						\$40	\$40
Other/Refund/Distributions			\$1,060				\$1,060
Total Revenue			\$1,060	\$119		\$40	\$1,218
Expense							
Claims	\$4,612		\$4,366	\$127,271			\$136,248
Administration	\$6		\$623	\$309	\$2,850	\$31,745	\$35,533
Legal					\$13,822		\$13,822
General						\$19,126	\$19,126
Other/Refunds							
NOLHGA Dues/Expenses	\$181		\$277	\$11,501	\$3,777	\$45,988	\$61,724
Total Expense	\$4,799		\$5,266	\$139,081	\$20,449	\$96,859	\$266,454
Excess (Deficit)	(\$4,799)		(4,206)	(\$138,962)	(\$20,449)	(\$96,819)	(\$265,236)
Net Assets, Beginning of the Year	\$442,441	\$4,492	\$1,581,823	\$796,322	\$227,483	\$173,357	\$3,225,917
Inter-Fund Transfers							
Net Assets, End of the Year	\$437,642	\$4,492	\$1,577,617	\$ 657,360	\$207,034	\$76,537	\$2,960,681

**North Dakota Life and Health Insurance Guaranty Association
Statement of Activities and Changes in Net Assets
for the Period Ended June 30, 2015**

	LIFE							
	Centennial Life	Executive Life	Executive Life/KCL	Lincoln Memorial	Midwest International	Midwest Life	National States	Total Life
Revenue								
Assessments								
Premiums								
Interest Income								
Oth/Refund/Distributions				1,060				1,060
Total Revenue				1,060				1,060
Expense								
Claims		817					3,548	4,365
Administration		4		619				623
Legal								
General								
Exam Expense								
Other/Refunds								
NOLHGA Dues/Exp		116		161				277
Total Expense		937		780			3,548	5,265
Increase/Decrease in Net Assets		(938)		280			(3,548)	(4,206)
Net Assets Beginning of Year	17	(718,779)	2,013,175	(13,258)	303,253	3,872	(6,458)	1,581,823
Inter-Fund Transfers								
Net Assets, End of the Year	\$17	(\$719,716)	\$2,013,175	(\$12,978)	\$303,253	\$3,872	(\$10,006)	\$1,577,617

North Dakota Life and Health Insurance Guaranty Association
Statement of Activities and Changes in Net Assets
For the Period Ended June 30, 2015

	ANNUITY							UNALLOCATED ANNUITY		
	Executive Life	Executive Life / KCL	London Pacific	Midwest International	Midwest Life	National Heritage	Universe Life	Total Annuity	Executive Life	Total Unallocated
Revenue										
Assessments										
Premiums										
Interest Income										
Oth/Refund/Distribution										
Total Revenue										
Expense										
Claims	1,336			3,276				4,612		
Administration	6							6		
Legal										
General										
Other/Refunds										
NOLHGA Dues/Exp	175		1			4	1	181		
Total Expense	1,517		1	3,276		4	1	4,799		
Increase/Decrease in Net Assets	(1,517)		(1)	(3,276)		(4)	(1)	(4,799)		
Net Assets, Beginning of the Year	(1,032,227)	390,468	37,905	365,514	569,195	111,516	69	442,441	4,492	4,492
Inter-Fund Transfers										
Net Assets, End of the Year	(\$1,033,744)	\$390,468	\$37,904	\$362,238	\$569,195	\$111,512	\$68	\$437,642	\$4,492	\$4,492

North Dakota Life and Health Insurance Guaranty Association
Statement of Activities and Changes in Net Assets
for the Period Ended June 30, 2015

HEALTH													
	American Chambers	American Integrity	Benicorp Insurance	Centennial Life	Legion Ins Co	Life & Health Ins Co of America	Medical Savings	Midwest Life	National State	Reliance Insurance	Universe Life	Vilanova Ins	Total Health
Revenue													
Assessments													
Premiums									119				119
Interest Income													
Oth/Refund/Distributions													
Total Revenue									119				119
Expense													
Claims						127,264			7				127,271
Administration					11	169	129						309
Legal													
General													
Exam Expense													
Other/Refunds													
NOLHGA Dues/Exp						11,473			28				11,501
Total Expense					11	138,906	129		35				139,081
Increase/Decrease in Net Assets					(11)	(138,906)	(129)		84				(138,962)
Net Assets Beginning of Year	(93)	1,191,779	(746)	(229)	174	(412,517)	(1,327)	22,728	(7,952)	(1,067)	5,770	(198)	796,322
Inter-Fund Transfers													
Net Assets, End of the Year	(\$93)	\$1,191,779	(\$746)	(\$229)	\$163	(\$551,423)	(\$1,455)	\$22,728	(\$7,868)	(\$1,067)	\$5,770	(\$198)	\$657,360

North Dakota Life and Health Insurance Guaranty Association
Statement of Activities and Changes in Net Assets
for the Period Ended June 30, 2015

	OTHER COMPANIES									
	American Community Mutual	American Medical & Life	CoOpportunity Health	Executive Life of NY	Freestone Insurance	Golden State Mutual Life	Imerica Life & Health	Imperial Casualty	Lincoln General	Lumberman's Mutual Casualty
Revenue										
Assessments										
Premiums										
Interest Income										
Oth/Refund/Distrib										
Total Revenue										
Expense										
Claims										
Administration										
Legal										
General										
Exam Expense										
Other/Refunds										
NOLHGA Dues/Exp		148								
Total Expense		148	69	12	11					
Increase/Decrease in Net Assets		(148)	(69)	(12)	(11)					
Net Assets Beginning of Yr	(152)			(2,652)		(100)	(636)	(37)	(9)	(154)
Inter-Fund Transfers										
Net Assets End of Year	(\$152)	(\$148)	(\$69)	(\$2,664)	(\$11)	(\$100)	(\$636)	(\$37)	(\$9)	(\$154)

North Dakota Life and Health Insurance Guaranty Association
Statement of Activities and Changes in Net Assets
for the Period Ended June 30, 2015

	OTHER COMPANIES										
	Metro- politan Group	Monarch Life	Penn Treaty	See Change Health	Shenandoah Life	Standard Life	Universal Health Care	Universal Life	93-96 Reassmt	Class B Close-outs	Total Other Co
Revenue											
Assessments											
Premiums											
Interest Income											
Oth/Refund/Distrib											
Total Revenue											
Expense											
Claims											
Administration			2,270	326		127	25			11	2,850
Legal			13,822								13,822
General											
Exam Expense											
Other/Refunds											
NOLHGA Dues/Exp			3,574	2		53					3,777
Total Expense			19,667	328		53	127	25		11	20,449
Increase/Decrease in Net Assets			(19,667)	(328)		(53)	(127)	(25)		(11)	(20,449)
Net Assets Beginning of Yr	(18,213)	(876)	(13,932)		(114)	(11,339)		(30)	195,953	79,776	227,483
Inter-Fund Transfers											
Net Assets End of Year	(\$18,213)	(\$876)	(\$33,599)	(\$328)	(\$114)	(\$11,392)	(\$127)	(\$55)	\$195,953	\$79,766	\$207,034

COMMENTS TO THE FINANCIAL STATEMENTS

Cash and Investments

The investment policy indicates money market investments are limited to 15 percent of total investments. The majority of the Association's investments are held in the Gabelli U.S. Treasury Money Market Fund.

The policy also allows investment of 100 percent of assets in U.S. Treasury bonds and notes. As of June 30, 2015, investments consisted of the following items and amounts:

Cash/Operating Account	\$ 30,643
The Gabelli U.S. Treasury Money Market Fund	<u>2,930,038</u>
Total	<u>\$2,960,681</u>

FUND BALANCE

Members' equity at June 30, 2015, was determined by this examination to be \$2,960,681 which is the same amount reported by the Association in its financial statement as of June 30, 2015.

SUBSEQUENT EVENTS

In November 2015, the Association levied a Class A assessment of \$300 per member.

CONCLUSION

The financial condition of the North Dakota Life and Health Insurance Guaranty Association, Fargo, North Dakota, as of June 30, 2015, as determined by this examination is summarized as follows:

Total Assets	\$2,960,681
Total Fund Balance	\$2,960,681

The foregoing amounts are the same as that reported by the Association on its June 30, 2015, financial statements.

The Examiners express their appreciation for the courteous cooperation and assistance given to them by the officers and employees of the Association during the course of this examination.

Respectfully submitted,



Colton Schulz, CFE
Examiner
N.D. Insurance Department