



**MINUTES OF THE MEETING AND EXECUTIVE SESSION  
 OF THE  
 BOARD OF DIRECTORS  
 OF THE  
 ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND**

MONDAY, APRIL 8, 2024

Pursuant to a Public Notice dated March 27, 2024, the Meeting of the Board of Directors of the Arizona Life and Disability Insurance Guaranty Fund (“ALDIGF”) was convened on April 8, 2024, at 10:12 a.m. in a hybrid virtual and live conference format using Google Meet. Germaine L. Marks, Esq., Chair of the Board, determined that a quorum was present and called the meeting to order.

Present at the meeting were the following members of the Board of Directors:

Germaine L. Marks, Esq. ....	Chair
Mark A. Haydukovich, ChFC, CLU, CPA, FLMI, CFA ..	Vice Chair
Elizabeth “Betsy” A. Heisler .....	Secretary/Treasurer
Robert C. Corn .....	Director
Shelby Cuevas .....	Director
Michael Hickey .....	Director
Tod D. Lashway, CLU, ChFC, LUTCF .....	Director
John R. Mathews, Esq., CPA .....	Director
Paul Matson, CFA, FCSI .....	Director
Randi F. Reichel, Esq. ....	Director

Also present at the meeting were:

Barbara D. Richardson .....	Cabinet Executive Officer Arizona Department of Insurance and Financial Institutions (DIFI)
Liane Kido .....	DIFI Deputy Receiver
Lynette Evans .....	Assistant Arizona Attorney General
Zach Howard .....	Assistant Arizona Attorney General
Erik Persson .....	Senior Client Advisor, Insurance Solutions, Allspring Global Investments
Dean Meddaugh .....	Senior Portfolio Manager, Global

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Jeff Weaver .....	Liquidity Solutions, Allspring Global Investments Senior Portfolio Manager, Global Liquidity Solutions, Allspring Global Investments
Michael Makuta .....	Senior Portfolio Manager, Global Liquidity Solutions, Allspring Global Investments
Lori D. Nestor .....	ALDIGF Executive Director
Maria Souza .....	ALDIGF Controller
Sharyn Kerr .....	ALDIGF Administrative Support Specialist

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The following matters were discussed, considered and decided at the meeting:

**1. ANNOUNCEMENT CONCERNING ALDIGF’S ANTI-TRUST POLICY AND CONFLICT OF INTEREST COMPLIANCE**

The Chair announced that the meeting would be conducted in accordance with the Fund’s Anti-Trust Policy and in compliance with Arizona law concerning the disclosure of conflicts of interest with regard to any matter before the Board for consideration.

**2. APPROVAL OF PREVIOUS MINUTES**

Upon a motion made by Director Robert Corn and seconded by Director Paul Matson, the minutes of the meetings of the Board of Directors held November 14, 2023 and February 16, 2024 were unanimously approved as previously circulated.

**3. FINANCIAL REPORTS AND ANY RELATED ACTION**

**a. Report of investment activity of ALDIGF through February 29, 2024.**

The Chair recognized Mr. Erik Persson, Senior Client Advisor, Insurance Solutions, Allspring Global Investments, for a report regarding the performance of the ALDIGF investment portfolios through February 29, 2024. Mr. Persson began by introducing his colleagues to the Board: Mr. Jeff Weaver, Mr. Dean Meddaugh and Mr. Michael Makuta. Mr. Persson explained that Mr. Meddaugh and Mr. Weaver had become ALDIGF’s new primary portfolio managers, then recognized Mr. Weaver for an overview of the markets and the portfolio.

Mr. Weaver began by providing an overview of the “Big Six Summary” attributes of the economy, noting strong 4<sup>th</sup> quarter growth of 3.4% which was much higher than expected at the

beginning of last year. He indicated, however, that growth was expected to trend lower by the end of 2024. Employment remained strong with more new jobs than expected being reported and a drop in unemployment. Regarding inflation, Mr. Weaver indicated that the Fed was steadfast in achieving their 2% goal but was doing so slowly. It was expected that the Fed would start cutting rates this year. On the international scene, the U.S. was strong when compared globally and other global, central banks were in a position to begin cutting rates as well.

A review of yield range by asset class indicated that front-end rates were attractive, as they were at or over 5 percent as of February 29, 2024 with increases since the end of March that were driven by the expectation of future rate cuts and a still-strong labor market. In light of the expectation that the Fed would start cutting rates, the portfolio team was positioning portfolios to get longer in duration while keeping liquidity needs first. The team was therefore exercising caution while selecting higher quality paper with attractive yields.

Mr. Weaver then recognized Mr. Meddaugh who provided an Executive Summary reiterating that treasury yields had moved significantly higher which brought the futures market in line with their projections. He went on to state that the Allspring team believed the next big move in the Treasury market was most likely to be a bull steepening, meaning front-end yields declining by more than long-end yields. The strategy for the portfolio would be to be in a position to take advantage of that. Mr. Meddaugh also provided a portfolio performance review which indicated that the portfolio had outperformed benchmarks across all time periods. He reviewed Portfolio positioning and indicated that the portfolio was short at an effective duration of .47 years compared to the benchmark of .72 years. He indicated that position to be, in part, by design to accommodate the hiking of rates by the Fed in 2023 and to meet liquidity needs. However, once beyond the liquidity needs of the portfolio, the strategy would be to extend the duration of the portfolio closer to the benchmark or beyond. Average credit rating of the portfolio was AA (very high quality) as compared to the benchmark rating of AA+.

No questions or discussions followed.

**b. Review of the financial condition of ALDIGF through February 29, 2024.**

The Chair recognized Executive Director Nestor who stated that financial reports were distributed to the Board prior to the meeting. She began by referencing the Profit and Loss report and pointing out that investment income was up. Ms. Nestor also pointed out that claims payments in February included \$5,688,000 in claim funding for Penn Treaty and ANIC, which was actually less than the \$6.2 million estimate previously received. No receivership

distributions had yet been received, but she stated that it was early in the year and all other financials were trending in line. Ms. Nestor then reviewed the Schedule of Cash Balances by Fund which provided a snapshot of Fund cash balances as of February 29, 2024 as follows:

Life Account .....	\$3,231,727.20
Disability Account .....	\$9,172,983.63
Annuity Account .....	\$11,557,455.22
Administrative Account .....	\$2,699,403.45

**c. Update concerning the financial audit of ALDIGF for the year ended December 31, 2023.**

Ms. Nestor informed the Board that the annual audit of the Arizona Guaranty Funds was underway and wasn't yet complete, but initial reports indicated there were no findings. Her goal was to provide an audit report and a brief annual report to the Board by May 1. Director John Mathews indicated that the original intent was to provide those reports at the May meeting of the Board, however, due to the meeting being rescheduled for April the reports were not yet complete.

**4. EXECUTIVE SESSION TO RECEIVE INFORMATION ABOUT THE FINANCIAL CONDITION OF ONE OR MORE MEMBER INSURERS.**

The Chair recognized Executive Director Nestor who indicated that no members were considered to be of sufficient concern to report to the Board. It was determined that it was not necessary to move into Executive Session.

**5. REPORT CONCERNING THE DETECTION AND PREVENTION OF INSOLVENCIES**

The Chair again recognized Executive Director Nestor who stated that no one from the DIFI Financial Affairs Division (FAD) was able to attend the meeting, however, division staff asked Ms. Nestor to inform the Board that they continue to remain current in their detection and prevention efforts by utilizing updates and rollouts to the NAIC tools that they use to detect and prevent insolvencies.

**6. APPOINTMENT OF STANDING COMMITTEES**

The Chair began by reviewing committee members and inviting the Board members to state if they would like to change from a committee they were currently serving on. She then introduced the current standing officers as follows and opened the floor for discussion.

Currently serving on committees were the following:

- a. Executive Committee:
  - Chair Marks
  - Vice Chair Haydukovich
  - Secretary/Treasurer Heisler
  - Director Corn
- b. Audit Committee:
  - Director Mathews
  - Secretary/Treasurer Heisler
  - Chair Marks
- c. Investment Committee:
  - Director Corn
  - Director Hickey
  - Director Reichel

By vote of approval of the ALDIGF Plan of Operation, a new Nominating Committee was formed upon which new Board member Director Cuevas would serve. Chair Marks stated that two more members were needed for the Nominating Committee and entertained volunteers to serve: Directors Matson and Lashway volunteered to serve.

## 7. REPORT OF EXECUTIVE DIRECTOR

The Chair recognized Executive Director Nestor, who reported on the following matters:

- a. **Report regarding the status of claims, liabilities and other matters with regard to the following companies for which ALDIGF has been activated:**
  - i. Executive Life Insurance Company (ELIC)
  - ii. Executive Life Insurance Company of New York (ELNY)
  - iii. Life and Health Insurance Company of America (LHICA)
  - iv. Lincoln Memorial Life Insurance Company
  - v. National States Insurance Company
  - vi. Penn Treaty/ANIC
  - vii. North Carolina Mutual Insurance Company
  - viii. Southland National Insurance Company

Executive Director Nestor advised that the biggest part of the reported claim activity resulted from the claim funding for Penn Treaty and ANIC that she previously mentioned. There were also long term care claims paid as a result of the insolvency of Senior American Insurance Company, and life insurance claims paid that were presented by the newer Southland National Insurance Company insolvency. Ms. Nestor indicated that when Southland National became insolvent in April 2023, the original estimated exposure for ALDIGF was approximately \$5 million. However, claims had been presented at a manageable rate for the Fund's current surplus and only approximately \$200,000 in claims had been paid since insolvency. She indicated that she would not recommend an assessment for Southland National if that trend continued.

**b. Report regarding claims appeals, if any.**

Executive Director Nestor stated there were no new claims appeals.

**c. Discussion and possible action concerning ratification of the Executive Director's decision to pay the National Organization of Life and Health Insurance Guaranty Association (NOLHGA) 2024 annual dues of \$76,534 and NOLHGA assessments for the third quarter of 2023 in the amount of \$44,167.**

Chair Marks entertained a motion to ratify the payment of the NOLHGA annual dues and third quarter 2023 assessments. Director Randi Reichel made the motion that was seconded by Director Lashway, and the motion carried.

**d. Review, discussion and possible action regarding amendment to Item 3.D of the ALDIGF Plan of Operation.**

Chair Marks reported that the Board had approved some changes to the ALDIGF Plan of Operation ("Plan") at its February 16, 2024 special meeting. However, the Arizona Attorney General's Office had subsequently identified another issue therein. She explained regarding definition of a quorum and that it wasn't just a majority of a quorum present required for certain actions but that a majority of the whole Board if a quorum wasn't present for determining actions such as levying assessments, borrowing money including inter-account borrowing, or adopting amendments to the Plan. The change adopted in February was done to align with the APCIGF Plan of Operation with the change resulting that any majority of the quorum present will suffice for approving of any action necessary by the Board.

Chair Marks recognized Assistant Attorney General Lynette Evans who referenced an opinion given in 1984 by the Attorney General which stated that in the absence of a statutory provision to

the contrary, a majority of a quorum is empowered to act. She said that opinion was the basis for the recommended change to the Plan. The Chair spoke in support of the change and indicated that the ALDIGF Board wants to be consistent with the APCIGF Board to the extent possible. Director Mathews made a motion to accept the change to the Plan as recommended by the Assistant Attorney General. The motion was seconded by Director Matson and was carried.

e. **ALDIGF response to the decision of North Carolina Appeals Court regarding Colorado Bankers Life Insurance Company and Bankers Life Insurance Company.**

The Chair reported that the North Carolina Court of Appeals had rejected the most recent appeal filed by the shareholder in the insolvency action regarding Colorado Bankers Life Insurance Company (CBLIC) and Bankers Life Insurance Company (BLIC). As a result, she indicated a greater likelihood that ALDIGF would be triggered for such insolvencies. If the Appeals Court ruling was to be the final order, she advised that the trigger date for guaranty associations would be June 30, 2024. However, she believed the shareholder had until April 9, 2024 to appeal to the North Carolina Supreme Court. If they do so as expected, the Chair indicated that the trigger date would be postponed. Should the shareholder further appeal to the U.S. Supreme Court, an even greater delay could occur.

Executive Director Nestor then stated that she believed the Board needed to consider and make some decisions regarding the Board's response to CBLIC and BLIC. However, it was agreed that some of those matters would need to be discussed in an executive session.

The first item for Board consideration regarded the determination of an insolvency date for use in any assessments that the Board may call for CBLIC and BLIC. Options for an insolvency date included the date that the North Carolina court initially found the entities to be insolvent, and the actual effective date of the insolvency order. Executive Director Nestor explained that the initial finding of insolvency occurred in 2022. Under Arizona statute, the apportionment of any assessment is determined using the average amount of premium written by member companies in the three years prior to the date of insolvency. Using the effective date of the insolvency order would enable the Fund to use the most current premium data for that basis, which was more relevant and favorable to using older premium data that may involve companies that had merged or were no longer in business.

Ms. Nestor recommended that the Board use the date that the liquidation order becomes effective for purposes of assessment, which was consistent with standard practice, and the Chair agreed with the recommendation. Executive Director Nestor advised that other guaranty funds appear to

agree with that approach. Director Lashway then made a motion that ALDIGF use the effective date of the liquidation order for the purposes of calculating an assessment. The motion was seconded by Vice Chair Haydukovich and carried.

**f. Possible ALDIGF assessment needs for 2024**

The Chair began by reminding the Board that there was over \$11 million in available funds in the ALDIGF annuity account and asking Executive Director Nestor for an update regarding Arizona's estimated exposure relative to the insolvency of CBLIC and BLIC, though she noted it was still subject to change. Ms. Nestor reported that the most recent calculations, taking into consideration the completion of the distribution of 25% of the annuity accounts by the rehabilitator, indicated that ALDIGF's annuity exposure was approximately \$25 million for the two companies. She went on to explain that ALDIGF's exposure for life insurance policies was estimated at about \$22,335,000, but noted that the current reserves for those life insurance policies was indicated to be \$1,066,000 with a cash value of \$601,000. Ms. Nestor confirmed that there was \$11.5 million in surplus in the ALDIGF annuity account.

The Chair then recommended using roughly half of the balance in the annuity account and basing any necessary assessments for CBLIC and BLIC on the estimated remaining exposure to the account. Secretary/Treasurer Heisler inquired whether there were best practices for maintaining account balances when there are no active insolvencies, and wondered whether the Board should use more than half the current balance accordingly. Director Lashway replied that, although the only refunds the Board had conducted during his tenure were from the annuity account, attempts are generally made to forecast what may be forthcoming to avoid refunding the money then having to reassess. He indicated that the ALDIGF Board had always taken a conservative approach when doing so. The Chair inquired of Executive Director Nestor what her thoughts on the subject were, and Ms. Nestor stated that she recommended using \$6.5 million of the surplus if activated for CBLIC and BLIC. She reminded the Board that ALDIGF has the capability of making inter-account loans in emergencies, and although not preferred, any surplus could also be used for that purpose if needed.

Chair Marks then inquired as to the current state of the Fund's life account with regards to doing an assessment. Ms. Nestor replied the life account had a balance of \$3.2 million that was fully encumbered by the estimated exposure of \$5 million presented by the Southland National insolvency. As a result, she indicated that the entire \$22,335,000 exposure was outstanding, however, it was unclear whether the Board needed to assess for all of that amount at one time. She explained that life insurance policies come in over time and current reserves were only at



\$1,066,000. She suggested that the Board might authorize an assessment for the full exposure and call it in increments, which would be favorable for the member companies and also for the premium base in Arizona.

Director Lashway stated the issue under consideration was actually authorizing versus calling assessments for CBLIC and BLIC, as it was currently unknown how things would progress if and when the Fund WAs ultimately triggered. The Chair agreed that the goal for the current meeting was to authorize the assessment for the full amounts so the Board would be in position to call the assessment when necessary. She confirmed that the Board could then call any amount up to the amount authorized in the manner most appropriate. No other questions or discussion followed.

Director Mathews moved to authorize an assessment of \$18.5 million for the annuity account which would not be called unless and until the resolution of appeals in CBLIC and BLIC. The motion was seconded by Director Lashway and carried.

Vice Chair Haydukovich then moved to authorize an assessment in the amount of \$22,335,000 for the life account, predicated upon a resolution of the appeals in CBLIC and BLIC. The motion was seconded by Director Mathews and carried.

## **8. EXECUTIVE SESSION TO CONFER WITH LEGAL COUNSEL**

As it was previously indicated that an Executive Session would be necessary to further discuss Item 7.e., the Chair then entertained a motion to move into Executive Session. A motion was made by Director Lashway, seconded by Director Cuevas and carried. Members of the public, including the Allspring attendees, were excused from the meeting. The Board then entered into Executive Session at 10:59 a.m. A motion was later made by Director Cuevas, seconded by Director Lashway, and the Chair moved out of Executive Session at 11:23 a.m.

The Chair then suggested two motions relative to the issues discussed in Executive Session, the first being that the Fund would adopt the position of the NOHLGA Coverage Claims Committee and, consistent with advice from the Arizona Attorney General, treat joint deferred annuitants as two separate annuitants and not one life for purposes of the limits of Fund coverage and subject to \$250,000 per life. That motion was made by Director Corn, seconded by Director Mathews and carried. The Chair suggested a second motion that the Fund would consider revocable trusts with an individual as a beneficiary as an allocated annuity for coverage within the limits of the Fund, subject to the review of those trusts. The motion was made by Director Cuevas, seconded by Director Lashway and carried.

## **9. ANNOUNCEMENT OF THE DATE, TIME AND PLACE OF FUTURE MEETINGS**

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The next meeting of the Board of Directors was scheduled as the Annual Meeting to be held on **Tuesday, November, 6 2024** at 10:00 a.m.

**10. CALL TO THE PUBLIC**

The Chair made a call to the Public to which there was no response.

There being no further business to come before the Board, without objection the meeting was adjourned at 11:26 a.m.

Dated this 8<sup>th</sup> day of April, 2024 and respectfully submitted,

**APPROVED:**

GERMAINE L. MARKS, ESQ.

ELIZABETH "BETSY" A. HEISLER

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CHAIR OF THE BOARD

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SECRETARY/TREASURER