Government of the District of Columbia
Department of Insurance, Securities and Banking

Stephen C. Taylor
Commissioner

BEFORE THE INSURANCE COMMISSIONER OF THE DISTRICT OF COLUMBIA

Re: Report on Examination – **District of Columbia Life and Health Insurance Guaranty Association** as of September 30, 2017

ORDER

An Examination of the **District of Columbia Life and Health Insurance Guaranty Association** (the "Association") as of September 30, 2017, has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 19th day of September 2018, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Association shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

Stephen C. Taylor
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

REPORT ON EXAMINATION

DISTRICT OF COLUMBIA LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

AS OF

SEPTEMBER 30, 2017

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Washington, D.C.
August 14, 2018

The Honorable Stephen C. Taylor
Commissioner of Insurance
Department of Insurance, Securities and Banking
Government of the District of Columbia
1050 First Street, NE, Suite 801
Washington, DC 20002

Dear Commissioner Taylor:

In accordance with Section 31-5412 of the District of Columbia Official Code, we have examined the financial condition and affairs of

DISTRICT OF COLUMBIA LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

hereinafter referred to as the Association, has been completed. The Association's principle place of business is located at 1200 G Street, N.W., Suite 800, Washington, DC 20005, and the following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Association was last examined as of December 31, 2009 by examiners of the District of Columbia Department of Insurance, Securities and Banking (the "Department"). The Current examination was a full-scope financial condition examination of the Association, covering the period from January 1, 2010 to September 30, 2017, including any material transactions and/or events noted occurring subsequent to the examination date.

The examination was conducted in accordance with standards and procedures established by the National Association and Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination policies and standards of the Department, and with the laws of the District of Columbia. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of an entity by obtaining information about the entity, including corporate governance, identifying and assessing inherent risks within the entity, and evaluating system controls and procedure used to mitigate those risks.

The Association maintains its records and prepares its financial statements on the modified-cash basis of accounting. Accounts and activities of the Association were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with a modified-cash basis of accounting. The examination does not attest to the fair presentation of the financial

statements included herein. If, in the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the financial statements.

This examination report includes significant findings of facts, as mentioned in Section 31-1404 of the District of Columbia Official Code, and general information about the Association, its financial condition, and the compliance by the Association and its member companies to statute and to the Association's Plan of Operation ("the Plan"). There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included in the examination report but may be separately communicated to the Association and/or other regulators.

The Association is audited annually by Johnson and Lambert LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Association's financial statements for the fiscal years ended September 30, 2010 through 2017, in conformity with the modified-cash basis of accounting but emphasized that the modified-cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Review and use of the certified public accountants' workpapers were made to the extent deemed appropriate and effective.

SUMMARY OF SIGNIFICANT FINDINGS

Effective March 1, 2017, Penn Treaty Network America Insurance Company ("Penn Treaty") and its wholly owned subsidiary, American Network Insurance Company ("ANIC") (collectively, the "Companies") were placed in liquidation by order of the Commonwealth Court of Pennsylvania. The Companies wrote long-term care insurance in all 50 states and the District of Columbia to more than 126,000 policyholders. Accordingly, all affected guaranty associations became obligated on that date to provide policyholder benefits, subject to guaranty association coverage limits and the terms and conditions of coverage. Based on information provided by the Companies at the time of rehabilitation, there were 56 policies in the District of Columbia. The Association billed an assessment in March 2017 in the amount of $1,399,000 to fund obligations for the liquidations of these Companies. The Association's Board opted to participate with other state guaranty associations in the formation of a protected cell association captive insurance company, LTC Reinsurance PCC ("LTC Re"), licensed under the laws of the District of Columbia to handle the above Companies' liquidation efforts for their residents. The Association participated in the reinsurance and administration service agreement and opted to fund 90% of the March 1, 2017 actuarial estimated liability of the Association's obligations related to the Companies. The Association also signed a one year note for each company totaling $151,903 for the balance of funds owed with equal annual installment amounts (principal and interest) due March 1, 2018. See page 15 "Subsequent Events" section for further developments.

There were no significant findings noted in the Report of Examination as of December 31, 2009, and there are no significant findings of material nature related to the current examination.

HISTORY

District of Columbia Law 9-129, enacted as "Life and Health Insurance Guaranty Association Act of 1992" ("the Act") created the Association as a non-profit, unincorporated, legal entity to be known as the District of Columbia Life and Health Insurance Guaranty Association comprised of all insurers licensed to sell life and health insurance, and annuities as a condition of their authority to transact the business of insurance in the District of Columbia. The period of existence of the Association is perpetual. Subsequently, effective July 23, 2014 DC Law 20-130 (Life and Health Insurance Guaranty Association Consumer Protection Amendment Act of 2014) amended DC Law 9-129 to make certain clarifying and conforming amendments, as well as increased coverage levels for major medical, disability, long-term care, fixed annuity, and structured settlement annuity contracts, and certain retirement benefit plans established under the Internal Revenue Code, and required the Association develop policies and procedures for addressing conflict of interest, and to increase the time period in which state court proceedings against an insolvent insurer are stayed from 60 to 180 days.

The purpose of the Association is to protect policyholders, insureds, beneficiaries, annuitants, payees and assignees of life insurance policies, health insurance policies, annuity contracts, and supplemental contracts in the unlikely event that a member insurer is unable to meet its financial obligations and is found by a court of law to be insolvent. Subject to certain limitations, protection is afforded against failure in the performance of contractual obligations due to the impairment or insolvency of insurers issuing such policies or contracts.

In August 1992, after nomination of its Board of Directors (Board), the Association held an organization meeting in the District of Columbia and adopted the Plan of Operation which was submitted to, and approved by, the Department.

MANAGEMENT AND CONTROL

Annual Meeting:

In accordance with Article IV, Section 4.1 of the Association's Plan of Operation, the Annual Meeting of the Board shall be held on the last Tuesday of October of each year, unless the Board upon proper notice designates some other date or place. The minutes of the Board documented that annual meetings were held at places of mutual convenience each year throughout the examination period.

Board of Directors:

Management of the Association, according to the Plan of Operation, is vested in a board of directors (Board) consisting of not less than five (5) nor more than nine (9) member insurers elected by the members for a three-year term. Section 31-5404 of the District of Columbia Official Code requires that all member insurers are fairly represented. A majority of the board constitutes a quorum for the transaction of business. The acts of a majority of the members present at any meeting for which there is a quorum are the acts of the Board. However, an affirmative vote by a majority of the full board is required to (1) approve a contract with a

serving facility, (2) levy an assessment or provide for a refund, (3) borrow money, (4) approve reinsurance contracts, assumption agreements or guaranty plans, (5) adopt amendments to the Plan of Operation.

The Association's Plan of Operation was last amended in October 2017. The Board meets at least annually, and at September 30, 2017, was comprised of the following Member Insurers:

Ameritas Life Insurance Company/Ameritas Life Insurance Corp.
Guardian Life Insurance Company of America
CareFirst Blue Cross Blue Shield
Shenandoah Life Insurance Company
The Union Labor Life Insurance Company
USAA

As provided in the Plan of Operation, elected member insurers and their respective designated representatives with corporate titles who were serving on the Association's Board as of September 30, 2017, were as follows:

Member Insurer	Representative	Company Position
Ameritas Mutual Holding Company/Ameritas Life Insurance Corp.	Robert-John H. Sands, Esq., Chair	Senior Vice President, General Counsel & Corporate Secretary
Guardian Life Insurance Company of America	Christopher Countee, Esquire	Director, Counsel - Regulatory Control & Compliance
CareFirst Blue Cross Blue Shield	Jeanne Kennedy	Vice President Business Risk Management & Treasurer
Shenandoah Life Insurance Company	Kathleen M. Kronau	Senior Vice President, General Counsel & Secretary
The Union Labor Life Insurance Company	Richard LaRocque	Vice President, Compliance Associate General Counsel
USAA	Vicki Harris	Director of Government Relations

Officers:

By Article VI, Section 6.1 of the Association's Plan, the officers of the Association shall be a Chairman of the Board, a Vice Chairman of the Board, a Secretary/Treasurer and such other officers as the Board may deem appropriate. At the Board's Annual Meetings, the following people were elected to serve as officers of the Association in the designated capacities:

Name of Officer	Title
Robert-John H. Sands, Esq.	Chair
Christopher Countee, Esq.	Secretary
Jeanne Kennedy	Treasurer
Robert M. Willis *	Executive Director

* The Plan of Operation provides that in the absence of the Secretary/Treasurer, or in the event of such Secretary/Treasurer's incapacity or refusal to act, or at the direction of the Secretary/Treasurer, the Executive Director may perform the duties of the Secretary/Treasurer. In addition, the Secretary/Treasurer may delegate any of the duties and functions to the Executive Director subject to the supervision of the Secretary/Treasurer.

As of September 30, 2017, the Executive Director is Robert M. Willis, Esquire. Mr. Willis is an independent contractor with regards to the Association and serves in his capacity as an Executive Director subject to a three-year term service contract with the Association approved by the Board. See "Management Services Agreements" section on page 7 for further discussion.

Committees:

Article V, Section 5.16 of the Association's Plan of Operation calls for the establishment of the following committees: Executive Committee, Audit Committee, Claims Committee, Nominating Committee and any other committee deemed necessary in the management of the Association. As of September 30, 2017, the Association has the following Committees of the Board of Directors:

Executive Committee:

By Article V, Section 5.16(a) of the Association's Plan, the Executive Committee shall consist of three (3) officers of the Association and the immediate past Chairman who are also Director Representatives, which shall have and may exercise all of the authority of the Board of Directors in the management of the Association. At the Board's Annual Meeting, the Board unanimously approved the following Member Insurers to serve as member of the Executive Committee:

Member Insurer	Company Representative
Ameritas Mutual Holding Company/Ameritas Life Insurance Corp.	Robert-John H. Sands, Chair
Guardian Life Insurance Company of America	Christopher Countee, Esquire
CareFirst BlueCross BlueShield	Jeanne Kennedy

Nominating Committee:

By Article V, Section 5.16(b) of the Association's Plan, the Nominating Committee shall consist of three (3) Directors, which shall nominate Member Insurers for the office of Director and notify Member Insurers of such nominations. At the Board's Annual Meeting, the Board unanimously approved the following Member Insurers to serve as member of the Nominating Committee:

Member Insurer	Company Representative
Guardian Life Insurance Company of America	Christopher Countee, Chair
The Union Labor Life Insurance Company, Inc.	Richard LaRocque

The composition of the Nominating Committee was not in compliance with the Association's Plan of Operation, which requires three (3) Directors. For further discussion, see the "Summary of Recommendations" section of this report under the caption "Board Committees".

Audit Committee:

By Article V, Section 5.16(c) of the Association's Plan, the Audit Committee shall consist of three (3) Member Insurers, which shall see to the proper auditing of all books and records of the Association and shall report its findings to the Board. At the Board's Annual Meeting, the Board unanimously approved the following Member Insurers to serve as member of the Audit Committee:

Member Insurer	Company Representative
CareFirst BlueCross BlueShield	Jeanne Kennedy, Chair
Genworth Life & Annuity Insurance Company	Kevin G. Smith, Esquire

The composition of the Audit Committee was not in compliance with the Association's Plan of Operation, which requires three (3) Member insurers. For further discussion, see the "Summary of Recommendations" section of this report under the caption "Board Committees".

Claims Committee:

By Article V, Section 5.16(d) of the Association's Plan, the Claims Committee shall consist of two (2) or more Directors, which shall be responsible for the review, approval or disapproval of claims, the review and determination of claim denial appeals or appeal of any other action of the Association or its agents. At the Board's Annual Meeting, the Board unanimously approved the following Member Insurers to serve as member of the Claims Committee:

Member Insurer	Company Representative
The Union Labor Life Insurance Company, Inc.	Richard LaRocque, Chair
Guardian Life Insurance Company of America	Christopher Countee

Conflicts of Interest:

Directors and officer of the Association annually certify that they have received a copy of the conflict of interest policy, have read and understand the policy and agree to comply with the policy. No conflicts were disclosed by any of the directors or officers per our review of the responses to the questionnaires completed for 2017.

ACCOUNTS AND RECORDS

The Association maintains its records and prepares its financial statements on the modified cash basis of accounting, a method adopted by most guaranty associations. The Association reported no liabilities in accordance with the modified accounting cash basis of accounting. Assessments and other revenue are recognized when received rather than earned and disbursements are recognized when paid rather than when the obligation is incurred.

We reviewed the minutes of the meetings of the Board of Directors for the period under examination. Based on our review, it appeared that the minutes documented the Association's significant transactions and events, and that the Directors approved those transactions and events.

The Association's general accounting records consisted of an automated general ledger maintained by an independent service company under a Management Services Agreement discussed below under "Management Service Agreements". Our review of the Association's accounts and records did not disclose any significant deficiencies in these records.

MANAGEMENT SERVICES AGREEMENTS

Independent Contractor: On April 1, 2006, the Association entered into a service agreement with an Independent Contractor, Robert M. Willis, Esquire (the Executive Director), to manage and supervise the affairs of the Association. The Executive Director performs all services as delegated by the Association's Directors. Services that are performed include: maintain office, handle communications, record keeping, filing, storage, assessments of the member companies, administration of claims, communication with National Organization of Life and Health Insurance Guaranty Associations (NOLHGA), attend NOLHGA Members' Participation Council and task force meetings, monitor insolvencies of the member companies, communicate with the Board, and maintain the needed systems and employees to handle all affairs of the Association as an independent contractor.

Under the agreement reviewed by the examination effective January 1, 2017, the independent contractor's fee consisted of an annual fee plus an annual increase of 3.5% effective each January 1 during the term of the agreement.

Administrative Services Agreement: On January 1, 1999, the Association entered into a service agreement with APM Management Services, Inc. ("APM"), an organization incorporated in the Commonwealth of Virginia. The agreement requires APM to provide certain administrative support services, including accounting and assessment services to the Association. The fees for services provided under the agreement are based on hourly rates and time spent by APM professional staff and are subject to an annual review with increases or decreases subject to mutual assent by the Association and APM.

Third Party Administrator: The Association is party to Third Party Administrator Agreements signed by NOLHGA with various claims administrators who collect premiums of life, health and annuity contracts for liquidations assigned to the Association.

The Association itself has no employees. Personnel servicing the Association are provided by the Executive Director and APM.

FIDELITY BOND AND OTHER INSURANCE

At September 30, 2017, neither the Association nor its service providers maintained fidelity bonds or other insurance policies that cover the Association as an additional insured. For further discussion, see the "Summary of Recommendations" section of this report under the caption "Insurance Coverage".

TERRITORY AND PLAN OF OPERATION

The Association's members include insurers licensed in the District of Columbia to write life and health insurance, and annuity contracts as provided in Chapter 54, Title 31, Section 5401 of the DC Official Code. The Association has the responsibility to pay and discharge covered claims of member insurers as of the date a court of competent jurisdiction declared such insurer insolvent. Covered claims primarily include the policy obligations of insolvent insurers arising from life, health, and annuity contracts coverage (exclusive of those lines not included per Section 31-5401(8).

The Association is obligated to the extent of covered claims, but not exceeding $300,000 in life insurance death benefits, including not more than $100,000 in net cash surrender and net cash withdrawal values for life insurance; $500,000 for health insurance benefits that constitutes basic hospital, medical and surgical insurance or major medical insurance, $100,000 for coverage not defined as disability insurance, basic hospital, medical and surgical insurance, major medical insurance or long-term care insurance, including any net cash surrender and net cash withdrawal values, and $300,000 for accident and sickness insurance that constitutes disability insurance or long-term care insurance; $300,000 in the present value of annuity benefits, including any net cash surrender and net cash withdrawal values. However, the Association shall not be liable to expend more than $300,000, in the aggregate, with respect to any one individual, except for benefits for basic hospital, medical and surgical insurance, and major medical insurance in which case the aggregate liability of the Association shall not exceed $500,000 with respect to any one individual. Additionally, the Association is not obligated to cover more than $5,000,000 for multiple non-group policies of life insurance with one owner regardless of the number of policies owned.

Typically, when a life and health insurance company becomes insolvent, the control of its assets transfer to the state insurance liquidator in its domiciliary state. The liquidator uses assets of the insolvent insurance company to settle the outstanding liabilities of the company. To the extent that assets, including advances from liquidators, are insufficient to discharge the Association's obligations, the Association assesses its member insurers when determined necessary by the Board. Conversely, to the extent the Association's assets exceed the ultimate cost of claim obligation for insolvent insurers, the excess fund balance, if any, will be refunded or applied to reduce future assessments by the Association in the appropriate category.

The Association raises money through assessments and recoveries to the extent needed to fulfill its obligations. It operates on a post-insolvency basis. For purposes of administration and assessment, the Association is required to maintain two separate accounts: a life insurance and annuity account, and a health insurance account. Claims and expenses paid are to be allocated among the two accounts separately. Assessments are to be made for each account against

members in amounts necessary to pay obligations. Chapter 54, Title 31, Section 5406(e)(1) of the DC Official Code provides for two (2) classes of assessments:

1. Class A assessments for administrative and legal costs, and other general expenses not necessarily related to a particular impaired or insolvent insurer.
2. Class B assessments for impaired or insolvent insurers.

The amount of Class A assessment is determined by the board and may be on a pro rata or non-pro rata basis. If pro rata, the board may provide that such assessment shall be credited against future Class B assessments. Class B assessments are shared by member companies in the proportion to average premiums written in the District of Columbia for each line of business (life, annuity, and health) for the past three (3) years prior to the year of liquidation.

The total of all assessments upon a member insurer for the life and annuity account and for each subaccount thereunder shall not, in any one (1) calendar year, exceed 2%; and for the health account shall not, in any one (1) calendar year exceed 2% of that member insurer's average premiums received in the District of Columbia on the polices and contracts covered by the account during the three (3) calendar years preceding the year in which the insurer became an impaired or insolvent insurer. A member insurer may offset against its premium taxes an assessment to the extent of 10% of the amount of the assessment for each of the 10 calendar years following the year in which the assessment was paid.

The Association is a member of NOLHGA, which is a voluntary association made up of the life and health insurance guaranty associations of all 50 states and the District of Columbia. NOLHGA provides information on pending insolvencies and claims administration and through its affiliation with NOLHGA, the Association participates in a number of service agreements and reinsurance transactions involving impaired or insolvent companies.

As of September 30, 2017, the Association continues to satisfy its statutory obligations to policy or contract-holders for 30 insolvent insurers both active and inactive. For the year ended September 30, 2017, the Association paid out approximately $1,384,000 in direct benefits, primarily for long-term care benefits related to the Penn Treaty and ANIC insolvencies. During the same period, the Association collected a Class A (administrative) assessment in the amount of $400,500, and Class B assessments for Penn Treaty and ANIC, $1,256,500 and $142,500, respectively.

REINSURANCE

Traditional reinsurance, entered into by member insurers prior to their insolvencies, is administered by the liquidator of the insolvent member insurer and is therefore excluded from the Association's financial statements. Reinsurance recoveries made by the liquidator may be advanced to the Association subject to the priority needs of the estate in liquidation. Ancillary liquidations may also have a demand on assets recoverable, including reinsurance recoverables and special and statutory deposits. Under DC Official Code Section 31-5405, upon a liquidation or rehabilitation order, the Association may elect to succeed to the insolvent member insurer's

reinsurance contract for which the Association has underlying obligations. To do so, the Association must pay all the unpaid premiums due under the reinsurance contract due before and after the liquidation or rehabilitation order.

INVOLVMENT WITH INSOLVENT INSURERS

Since its inception, the Association has been responsible for the payment of benefits to the District of Columbia policy holders and contract holders of the following insolvent member insurance companies:

Name of Company	Year Activated	State Domiciled
Fidelity Bankers Life Insurance Co.	1992	Virginia
Mutual Benefit Life Insurance Co.	1993	New Jersey
American Integrity Insurance Co.	1993	Pennsylvania
Monarch Life Insurance Co., in Rehabilitation	1994	Massachusetts
Consumer United Insurance Co.	1994	Delaware
Kentucky Central Life Insurance Co.	1994	Kentucky
Summit National Life Insurance Co.	1994	Pennsylvania
United Republic Life Insurance Co.	1994	Utah
National Heritage Life Insurance Co.	1995	Delaware
Supreme Life Insurance Company of America	1995	Illinois
Confederation Life Insurance Co.	1996	Michigan
National American Life Insurance Company of Pennsylvania	1996	Pennsylvania
First National Life Insurance Co.	1997	Alabama
American Life Assurance Corp.	1997	Alabama
Centennial Life Insurance Co.	1998	Kansas
First National Life Insurance Company of America	1999	Mississippi
International Financial Services Life Insurance Co.	1999	Missouri
Statesman National Life Insurance Co.	1999	Texas
National Affiliated Investors Life Insurance Co.	2000	Louisiana
Reliance Insurance Co.	2001	Pennsylvania
Legion Insurance Co.	2003	Pennsylvania
Villanova Insurance Co.	2003	Pennsylvania
Life & Health Insurance Company of America	2004	Pennsylvania
London Pacific Life & Annuity Co.	2004	North Carolina
Lincoln Memorial Life Insurance Co.	2008	Texas
Universal Life Insurance Co.	2010	Alabama
Golden State Mutual Life Insurance Co.	2011	California
Standard Life Insurance Company of Indiana	2012	Indiana
American Medical & Life Insurance Co.	2016	New York
Penn Treaty Network America Insurance Co.	2017	Pennsylvania
American Network Insurance Co.	2017	Pennsylvania

The Association monitors other member insurance companies presently in conservation and rehabilitation where the Association may, at some time in the future, incur liability for benefits payments to the District of Columbia policyholders and contract holders.

Assessment and Refund to Members

Section 31-5406 of DC Official Code specifies that the Association shall assess insurers the amounts necessary to pay its obligations and the expenses of handling covered claims and to pay other permissible expenses. By Section 31-5406(f)(1) of that statue, the Association Board may at the end of any calendar year order that the amount by which the Association's assets exceed liabilities to be returned to the insurers in proportion to their respective contribution as assessment refunds. For the years under examination, the aggregate amounts of assessments and refunds authorized by the Board were the following:

Year	Class A Assessments	Class B Assessments	Refunds	Total Assessments
2017	$ 400,500	$ 1,399,000	$ -0-	$ 1,799,500
2016	$ -0-	$ -0-	$ -0-	$ -0-
2015	$ 391,500	$ -0-	$ -0-	$ 391,500
2014	$ -0-	$ -0-	$ -0-	$ -0-
2013	$ 404,000	$ -0-	$ -0-	$ 404,000
2012	$ 413,000	$ -0-	$ -0-	$ 413,000
2011	$ -0-	$ -0-	$ -0-	$ -0-
2010	$ 401,000	$ -0-	$ -0-	$ 401,000

FINANCIAL STATEMENTS

The following financial statements, based on the financial statements prepared by management of the Association, on a modified cash basis, present the financial condition of the Association for the period ending September 30, 2017. Financial statements are the responsibility of the Association's management. The accompanying "Comments on Financial Statement Items" are an integral part of these financial statements.

STATEMENT OF ASSETS AND FUND BALANCE

Assets	
Cash and cash equivalents	$ 461,925
Total Assets	$ 461,925
Fund Balance[1]	
General and Administrative	$ 291,040
Life	30,958
Health	(10,798)
Annuity	150,725
Net Assets	$ 461,925

[1] The fund balance reflects the unrestricted net assets (deficits) of insolvencies and impairments by product type. The deficit in the health account is primarily due to expenses incurred and paid by the Association for certain insolvencies of which the amount was deemed too low to bill a class B assessment at the time, but it is anticipated at some future date the Board will approve a class B assessment to recover the expenses.

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN NET ASSETS

Receipts:		
Assessments from member insurers	$	1,799,360
Refunds from insolvencies		-0-
Interest and other Income		795
Total Receipts	$	1,800,155
Disbursements:		
Cash Disbursements including reinsurance payments	$	1,384,000
Insolvency Expenses		7,395
General and administrative expenses		279,284
Total Disbursements	$	1,670,579
Change in Net Assets:	$	129,576

Statement of Changes in Account Balance

	Administrative	Life	Health	Annuity	Total
Net Assets, September 30, 2010	$ 526,453	$ (7,154)	$ (13,678)	$ (7,135)	$ 498,486
Excess (deficiency) of receipts over disbursements – 2011	(245,476)	(1,809)	(563)	(15,613)	(232,235)
Net Assets, September 30, 2011	$ 280,977	$ (8,963)	$ (14,241)	$ 8,478	$ 266,251
Excess (deficiency) of receipts over disbursements – 2012	163,420	(1,006)	(1,009)	(326)	161,079
Net Assets, September 30, 2012	$ 444,397	$ (9,969)	$ (15,250)	$ 8,152	$ 427,330
Excess (deficiency) of receipts over disbursements – 2013	124,269	78	(408)	8,369	132308
Net Assets, September 30, 2013	$ 568,666	$ (9,891)	$ (15,658)	$ 16,521	$ 559,638
Excess (deficiency) of receipts over disbursements – 2014	(262,015)	2,123	(2,146)	(121)	(262,159)
Net Assets, September 30, 2014	$ 306,651	$ (7,768)	$ (17,804)	$ 16,400	$ 297,479
Excess (deficiency) of receipts over disbursements – 2015	125,299	38,952	(2,096)	134,563	296,718
Net Assets, September 30, 2015	$ 431,950	$ 31,184	$ (19,900)	$ 150,963	$ 594,197
Excess (deficiency) of receipts over disbursements – 2016	(263,021)	(50)	1,448	(225)	(261,848)
Net Assets, September 30, 2016	$ 168,929	$ 31,134	$ (18,452)	$ 150,738	$ 332,349
Excess (deficiency) of receipts over disbursements – 2017	122,111	(176)	7,654	(13)	129,576
Net Assets, September 30, 2017	$ 291,040	$ 30,958	$ (10,798)	$ 150,725	$ 461,925

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There have been no changes made to the financial statements as a result of the examination

COMMENTS ON FINANCIAL STATEMENT ITEMS

The Association's business model is non-complex with cash coming in from member companies (and recoveries from insolvent companies) and cash going out for the payment of claims. The financial statements mainly focus on the Association's cash balance and whether or not the Association has sufficient cash/liquid assets to pay claims to claimants and policyholders in the event of insolvencies of member insurers. The ability to pay claims is the most important concern of the Association's operation. For this reason, the Association determined that a modified cash basis of accounting is most conducive to the entity's operations. The basis of presentation differs from the accounting principles generally accepted in the United States ("GAAP") in that certain revenues are recognized when received rather than earned and certain expenses are recognized when paid rather than when the obligation is incurred. Specifically, the variances from GAAP include omission of assessments receivable, accounts payable and accrued expenses. The Association is exempt from income taxes levied by the District under the Act and is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code.

As a result of the examination, no adverse findings affecting the financial statements, or material changes to the financial statements were identified.

SUBSEQUENT EVENTS

The Association's member companies Aetna, Cigna, United Health Group, and on behalf of their affiliates (the "Insurers") protested the 2017 Penn Treaty and ANIC Class B assessments. The protest was based on the Insurer's allegation that (i) the Association's assessment is too high because the Association failed to apply interest rate limitations under DC Code Section 31-5402(b)(2)(C) (the "Moody's Adjustment") to benefit increase riders under certain long-term care policies covered by the Association, and (ii) the Association allocated an incorrect share of the total assessment to the Insurers. Subsequently, as a result of information provided by the Association and NOLHGA, the Insurers, pursuant to letters dated July 2018 reached an agreement with the Association and withdrew their protests related to the accuracy of the Assessment allocation and applicability of the Moody's adjustment.

In March 2018, the Association received a correspondence that the Penn Treaty promissory note for $98,654 was paid up and the liability extinguished. The ANIC promissory note was given an extension due to uncertainty surrounding the planned estate asset distribution and is now due March 1, 2021. Additionally, the ANIC promissory note balance was adjusted due to impact of the District's rate increase and the balance due is now $40,508.

At the Annual Meeting of the Board of Directors held on October 31, 2017, the Board re-elected CareFirst Blue Cross Blue Shield as a Member of the Association's Board to a three-year term.

At the joint meeting of the National Association of Insurance Commissioners (NAIC) Executive (EX) Committee and Plenary in December 2017, the NAIC adopted amendments to the Life and Health Guaranty Association Model Act. According to the NAIC, the model law amendments address a number of issues, including a) issues arising out of long-term care insurance (LTCI) insolvencies by expanding the assessment base for LTCI insolvencies to include both the life and annuity account and the health account; b) more equitably allocating the assessments for LTCI insolvencies, which currently fall solely upon member guaranty association insurers that write lines–including LTCI–that are considered health insurance coverage in insolvency; and c) adding health maintenance organizations (HMOs) as members of the guaranty association to provide coverage for HMO insolvencies similar to all other health insurers. However, it should be noted that the District of Columbia has not yet adopted the NAIC model law amendments.

SUMMARY OF RECOMMENDATIONS

Insurance Coverage

Pursuant to Article XII, Section 12.1(g) of the Association's Plan of Operation, the Association is permitted to purchase and maintain insurance coverages. Additionally, the Association's contract with the independent contractor stipulates that the Contractor shall maintain reasonable commercial insurance coverage at all time.

Our examination disclosed that neither the Association nor its service contractors (the independent Contractor and APM Management Services) carry insurance policies, such as fidelity bond and professional business liability coverage whereby the Association is a named insured under such insurance policies. A fidelity bond coverage is an insurance policy that typically protects against employee dishonesty or fraudulent acts committed by an employee acting alone or in collusion with others, or other malfeasance.

It's being recommended as a good business practice that the Association's service contractors responsible for administering the Association's operations and handling the financial record production and maintenance, carry a performance (fidelity) bond coverage, comprehensive business liability coverage, as well as a data breach liability insurance coverage, all listing the Association as a named insured party.

Corporate Records

The Association's Plan of Operation's Article XI, Section 11.4 "Minutes of Board and Committees" states that "Minutes of the proceedings of each Board and Committee meeting shall

be made and retained by the Secretary of the Association. Copies of such minutes shall be provided to each Board or committee member and to the Commissioner."

Corporate meeting minutes are the official records of the Association. As a good business practice, once approved by the board, corporate minutes are typically signed by the Secretary of the board. Minutes become prima facie evidence of the matters contained in the minutes.

It is recommended that future meeting minutes of the Association's Board of Directors and its various committees, be signed by the Secretary of the Board indicating that the minutes have been approved by the Board of Directors.

Board Committees

The Association's Third Amended and Restated Plan of Operation ("the Plan") stipulates the minimum number of member insures required to make up each committees of the board. Specifically, the Plan requires three (3) member directors to serve on the member Nominating Committee and the Audit Committee of the Board.

Our examination disclosed that the number of member insurers serving on Committees of the Nominating and Audit are not in compliance with the Plan of Operations as approved by the Board and the Department. This issue was also noted in the Department's prior exam.

It is again recommended that the Association ensure that the required number of board committee members are appointed to serve on the various committees of the board of directors at all times, in accordance with its Plan of Operation.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Association's officers and contract employees during the course of the examination.

Respectfully submitted,

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District of Columbia, Department of
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