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FILED

MAR 28 2013

Department of Insurance
State of Idaho

Attorneys for Department of Insurance

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE
OF THE STATE OF IDAHO**

In the Matter of:

IDAHO LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION

Registration No. 2688

Docket No. 18-2862-13

**ORDER ADOPTING REPORT
OF EXAMINATION AS OF
DECEMBER 31, 2011**

The State of Idaho, Department of Insurance (Department), having conducted an examination of the affairs, transactions, accounts, records, and assets of the Idaho Life and Health Insurance Guaranty Association (Association), pursuant to Idaho Code §§ 41-4315, 41-4306(2), and 41-219(1) and -(5), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Examination of the Idaho Life and Health Insurance Guaranty Association as of December 31, 2011 (Report), as filed.

FINDINGS OF FACT

1. The Association is a nonprofit legal entity created pursuant to the Idaho Life and Health Insurance Guaranty Association Act set forth in chapter 43, title 41, Idaho Code, for the purposes, and with the powers and duties, provided therein.

2. The Department completed an examination of the Association pursuant to Idaho Code §§ 41-4315 and 41-219(1), on or about January 7, 2013. The Department's findings are set forth in the Report.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on January 14, 2013, and a copy of such verified Report was transmitted to the Association on the same date. A copy of the verified Report is attached hereto as Exhibit "A."

4. On or about January 17, 2013, the Department received a Waiver signed by Candie Kinch, Executive Director of the Association. By execution of such Waiver, a copy of which is attached hereto as Exhibit "B," the Association consented to the immediate entry of a final order by the Director of the Department (Director) adopting the Report without any modifications; waived its right to make a written submission or rebuttal to the Report; and waived its right to request a hearing and to seek reconsideration or appeal from the Director's final order.

5. No written submissions or rebuttals with respect to any matters contained in the Report were received by the Department from the Association.

CONCLUSIONS OF LAW

6. Idaho Code § 41-227(5)(a) provides that "[w]ithin thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the director shall fully

consider and review the report, together with any written submissions or rebuttals and relevant portions of the examiner's work papers" and shall enter an order adopting the report of examination as filed or with modifications or corrections.

7. Having fully considered the Report, the Director concludes that the Association was operating in accordance with the requirements of chapter 43, title 41, Idaho Code, during the period under examination, from January 1, 2007 through December 31, 2011.

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Examination of the Idaho Life and Health Insurance Guaranty Association as of December 31, 2011, is hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a).

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted Report is a public record and shall be exempt from the exemptions from disclosure provided in chapter 3, title 9, Idaho Code.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(6)(a), that, within thirty (30) days of the issuance of the adopted Report, the Association shall file with the Department's Deputy Chief Examiner affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report and related orders.

IT IS SO ORDERED.

DATED this 28TH day of March, 2013.

STATE OF IDAHO
DEPARTMENT OF INSURANCE



WILLIAM W. DEAL
Director

CERTIFICATE OF SERVICE


I HEREBY CERTIFY that, on this 28th day of March, 2013, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2011 to be served upon the following by the designated means:

Idaho Life and Health Insurance Guaranty Association
Attn: Candie Kinch, Executive Director
3355 N. Five Mile Road #210
Boise, ID 83713
ckinch@idlifega.org

- first class mail
- certified mail
- hand delivery
- email

Georgia Siehl, CPA, CFE
Bureau Chief / Chief Examiner
Idaho Department of Insurance
700 W. State Street, 3rd Floor
Boise, ID 83720-0043
georgia.siehl@doi.idaho.gov

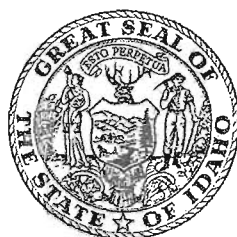
- first class mail
- certified mail
- hand delivery
- email



Teresa Jones
Assistant to the Director

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of the

IDAHO LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION

as of

December 31, 2011

EXHIBIT

A

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State of Idaho

DEPARTMENT OF INSURANCE

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WILLIAM W. DEAL
Director

Boise, Idaho
January 14, 2013

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

Dear Sir:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2011, of the financial condition and corporate affairs of:

Idaho Life and Health Insurance Guaranty Association
3355 N. Five Mile Road, #210
Boise, Idaho 83713

hereinafter referred to as the "Association". The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 2007, through December 31, 2011, and included such prior transactions and any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The examination was conducted in accordance with Sections 41-219(1) and 41-4315, Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, the NAIC *Market Regulation Handbook*, and the NAIC *Accounting Practices and Procedures Manual*. Verification and valuation of assets, liabilities, and the net assets, and an analysis and review of such other accounts and records as appropriate to the examination were also performed.

There was some reliance on the 2011 independent Certified Public Accountant's audit report and workpapers in this examination.

A letter of representation attesting to the Association's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 2002 through December 31, 2006.

A review was made to ascertain what action was taken by the Association with regard to comments and recommendations made by the Department in the prior examination report. Unless otherwise mentioned in the *Comments and Recommendations* section of this report, the prior report exceptions were adequately addressed by the Association.

HISTORY AND DESCRIPTION

General

The Association was created as a non-profit, unincorporated legal entity by the legislative enactment of the Idaho Life and Health Insurance Guaranty Association Act of 1977. During the examination period, Title 41, Chapter 43 was repealed and replaced effective January 1, 2011 with the NAIC Model Life and Health Insurance Guaranty Association law. Section 41-4306, Idaho Code, continues the existence of the Association.

All persons/insurers licensed to transact the kinds of insurance covered by Section 41-4303, Idaho Code, shall be members of the Association. Each insurer automatically becomes a member of the Association effective on the date of its admission to do business in Idaho by the Idaho Department of Insurance. Title 41, Chapter 43 currently provides that all member insurers shall be and remain members of the Association as a condition of their authority to transact insurance in the State of Idaho.

The Association of member insurers will pay benefits and continue coverages arising from the impairment or insolvency of the member insurers that issued the policies or contracts as provided for and limited by Title 41, Chapter 43. Pursuant to Section 41-4309, Idaho Code, member insurers of the Association are subject to assessments to provide funds necessary to carry out the powers and duties of the Association.

The Association may render assistance and advice to the Director of the Idaho Department of Insurance, concerning rehabilitation, payment of claims, continuance of coverage or the performance of other contractual obligations of impaired or insolvent insurers pursuant to Section 41-4308(9), Idaho Code.

The process of handling insolvencies and all of the duties related thereto is usually initiated by the Association after receiving a notice of impairment/insolvency of a member insured, either from the Idaho Department of Insurance or another domiciliary state.

As most insolvencies affect policyholders in multiple states, information regarding those insolvencies are gathered by the National Organization of Life and Health Guaranty Associations (NOLHGA) through the effort of task forces and consultants who work with the receivers of the insolvent companies. NOLHGA is an organization that was formed by the state associations to serve as a centralized base of operation. NOLHGA's main function is to gather and disseminate information through its Membership Participation Council to those state guaranty associations which are affected by the insolvencies.

The Association has been included in the State of Idaho comprehensive annual financial reports as a discretely presented component unit. During the examination period, the State of Idaho, Office of the State Controller performed an analysis of the Association in accordance with Governmental Accounting Standards Board Statement No. 14. Based on this analysis, the Office of the State Controller and the Legislative Services Office auditor have agreed to not include the Association in the State of Idaho comprehensive annual financial reports. This change was communicated to the Association in a letter from the State Controller dated June 5, 2008.

The Association submitted an "Application for Recognition of Exemption" to the Internal Revenue Service to request federal tax exemption under Section 501(c)(6) of the Internal Revenue Code. In a letter to the Association dated May 19, 2009, the IRS determined that the Association was exempt from federal income taxes effective July 1, 1977. The Association began filling Internal Revenue Service Form 990 returns in 2009.

MANAGEMENT AND CONTROL

The Association operates in accordance with its Plan of Operation as stipulated by Section 41-4310, Idaho Code. The Plan of Operation for guaranty associations is in lieu of corporate Bylaws.

The Board of Directors serves as a governing body and exercises all authority provided for by the State of Idaho statutes in the conduct of the business and affairs of the Association.

Meetings of the Board are held on an annual basis. The annual meeting is held at locations determined by the Board on the second Thursday of July unless the Chairman, upon prior notice, designates another date or place. Special meetings are called as necessary under certain conditions, as specified in the Plan of Operation.

Management and administrative functions of the Association are performed by the Executive Director. The Executive Director was an employee of the Association up to October 1, 2010. At that time, the Executive Director became an independent contractor and began providing management and administrative services through an agreement with the Association. The agreement is discussed in more detail under the sub-caption, *Contracts and Agreements*.

Directors

The Association’s Plan of Operation provides for a Board of Directors consisting of not less than five and not more than nine member insurers in compliance with Section 41-4307, Idaho Code. A majority of the Directors must be Idaho domestic member insurers. Directors are elected to serve a term of three years that are staggered so that the terms will not expire in the same year. Each Director shall serve until its successor is duly elected and qualified to serve on the Board.

The following members were duly elected as Directors of the Association as of December 31, 2011:

<u>Company Name</u>	<u>Company Representative</u>	<u>Term Expires</u>
Bankers Fidelity Life Insurance Company	Eugene Choate	2014
Blue Cross of Idaho Health Service, Inc.	Steve Tobiason	2015
Farm Bureau Mutual Insurance Company of Idaho	Richard Peterson	2014
Farmers New World Life Insurance Company	Paul Jackson	2013
Metropolitan Life Insurance Company	Timothy J. Ring	2013
Regence BlueShield of Idaho, Inc.	Shad Priest	2015
United Heritage Life Insurance Company	Deborah Sloan	2015

Officers

The Board of Directors shall elect from its members, a Chairman, Vice Chairman, Secretary/Treasurer, and such other officers deemed necessary. Each officer shall serve a term of one year or until a successor is elected. The officers also serve as members of the Executive Committee.

The following persons were serving as officers of the Association at December 31, 2011:

Deborah Sloan	Chairman
Richard Petersen	Vice Chairman
Steve Tobiason	Secretary/Treasurer

Committees

The Plan of Operation provides for a Nominating Committee, an Investment Committee and an Audit Committee that are appointed by the Chairman of the Board. The Nominating Committee shall select nominees to succeed Directors whose terms expire at the Annual Meeting of the Members (insurers). The Investment Committee shall adopt an investment policy for the Association's cash not immediately needed to meet its obligations and adopt procedures to ensure compliance with the investment policy. The Audit Committee shall engage a certified public account to review or audit the financial affairs of the Association. Such accountant shall report his or her findings to the Audit Committee, who shall in turn report on the findings to the Board of Directors. The Chairman also appoints members of the Board to a Legislative Committee.

The following individuals were serving on the various committees as of December 31, 2011:

Nominating Committee

Deborah Sloan, Chairman
Richard Petersen
Eugene Choate

Investment Committee

Timothy J. Ring, Chairman
Eugene Choate
Deborah Sloan

Audit Committee

Richard Petersen, Chairman
Paul Jackson
Shad Priest
Steve Tobiason

Legislative Committee

Steve Tobiason, Chairman
Paul Jackson
Richard Petersen

Subsequent to the examination period, Shad Priest was named Chairman of the Audit Committee to replace Richard Petersen. Mr. Priest was also named to the Legislative Committee in 2012.

Conflict of Interest

The Association established a procedure for certification of confidentiality and non-disclosure for the Board of Directors. The certification states that all information received in the meetings or correspondence of the Association would be maintained in confidence and not be disclosed, or discussed, or used for any purpose other than legitimate business purposes of the Association. The revised procedure adopted by the Association in 2008 provides that the Confidentiality/Non-Disclosure Certification is effective with the date of the representative's appointment as a Director and remains in effect until the later of (1) two years after the end of the Company's term on the Board of Directors or, (2) in the case of an impairment or insolvency, the date on which the records have been made public pursuant to Section 41-4314(2), Idaho Code.

The Board members annually confirm their ongoing compliance with the terms of the Association's Confidentiality/Non-Disclosure Certification. The confirmation is documented in the Association's meeting minutes.

During the current examination period, the Board of Directors adopted the Conflict of Interest and Business Ethics Policy on August 19, 2011. Under this policy, Annual Certifications are completed by the representatives of the member insurers who comprise the Board of Directors, the Association's Executive Director, and its legal counsel. By signing the Certifications, the signors attest and certify that he or she has complied with the disclosure requirements set forth in the Policy and that no known potential or actual conflicts are disclosed. The completed Certifications are reviewed by the Executive Director. The corporate minutes documented the discussion of the Conflict of Interest policy and the receipt of the completed Certifications.

Contracts and Agreements

The following significant contracts were in-force at December 31, 2011:

Policy and Claim Administration Agreement

The Association entered into an agreement effective December 1, 2002 with the Oregon Life and Health Insurance Guaranty Association. Under this agreement, the Association provided policy administration and claim services arising from insolvent member insurer, Amalgamated Labor Life Insurance Company. Policy administration included premium billing, collection, and lapse notices, while claims were processed according to this agreement, the underlying insurance contracts, and Oregon's association law. The Association was paid \$60 for each in-force policy per year for services provided.

The agreement may be terminated with sixty days written notice by either party. Unless otherwise terminated, the agreement will expire after all policy and claims administration is completed and all terms therein are satisfied. The agreement was signed by the Association on October 23, 2002.

The Board of Directors approved the agreement in an action taken without a meeting on October 17, 2002.

Investment Advisory Agreement

The Association executed an investment advisory agreement with D. B. Fitzpatrick & Co., Inc. (DBF) on May 7, 2004. Under the agreement, DBF acted in the Association's stead in the sale, transfer, assignment or purchase of investment assets entrusted to DBF and provided investment and reinvestment advice. The investments must be consistent with the Association's investment objectives.

The agreement may be terminated at will upon written notice by either party to the other. The termination is effective upon receipt of said written notice.

The Association paid a fee of 0.25 percent per annum of the portfolio's market value at the end of the preceding quarter to DBF. Additional charges such as brokerage, taxes, or other expenses were not included in the quarterly fee.

At their meeting on July 17, 2004, the Board of Directors confirmed the action of the Investment Committee in retaining DBF as investment advisor.

Administrative Services Agreement

An administrative services agreement was executed on September 8, 2004 with Disability Insurance Specialists, LLC (DIS) for DIS to provide administrative services in support of individual disability policies originally underwritten by Legion Insurance Company. The agreement was effective August 1, 2003 and will remain in-force five years and annually thereafter until terminated. At the end of five years, the agreement may be terminated by written notice to either party by at least 180 days in advance. The agreement may also be terminated due to dissolution or insolvency of DIS in the first five years of the agreement.

Under the agreement, DIS billed and collected premiums and adjudicated and paid claims. DIS was paid \$1.875 per policy per month, plus 2 percent of premiums collected. For claims services, DIS will be paid \$500 per claim reported, plus 5 percent of claim payments. In addition, DIS will be reimbursed for reasonable fees and costs.

Agreement for Administrative Services

As previously reported, management and administrative functions are provided to the Association by the Executive Director, as Principal, for Pine Tree Administrators, LLC. The agreement for administrative services was effective October 1, 2010 through September 30, 2011. The agreement renewed for the period of October 1, 2011 through September 30, 2012. Administration fees paid under the agreement were \$28,275 in 2010 and \$114,030 in 2011. The fee for the 2012 contract term was set at \$116,820. The agreement shall continue in full force and effect for consecutive one year terms unless terminated by either party in accordance with the contract.

Policy administration and claim administration services are also provided under this agreement for Idaho Teachers Mutual Insurance Company; Amalgamated Labor Life Insurance Company; and Life and Health Insurance Company of America.

On September 26, 2011, the Board of Directors approved a motion indicating support of the concept of combining the administration of the Association with the Oregon Life and Health Insurance Guaranty Association. Both Associations would have common management through similar administrative service agreements with Pine Tree Administrators, LLC. The Board's Executive Committee approved the administrative services agreement to effectuate the combined administration.

In this connection, the agreement for administrative services was subsequently amended and restated following Pine Tree's engagement with the Oregon Life and Health Insurance Guaranty Association. The amended and restated agreement is effective January 1, 2012 through December 31, 2012 for fees totaling \$87,720.

Early Access Agreements

The Association entered into early access agreements with the various states or liquidators of insolvent member companies. The terms of the agreements vary by insolvency, but in general,

set forth the duties and obligations of the Association and other parties with respect to the distribution of assets pursuant to a plan of disbursements or liquidation plan. The agreements may contain a provision for NOLHGA to file an omnibus proof of claim for all claims of the Association and all other life and health guaranty associations.

CORPORATE RECORDS

Plan of Operation

The Association's records indicated that the Plan of Operation was revised during the period under examination to reflect changes in the Idaho Life and Health Insurance Guaranty Association Act. The revised Plan was adopted by the Board of Directors on July 11, 2011. In a letter to the Association dated July 13, 2011, the revised Plan of Operation was formally approved by the Idaho Department of Insurance pursuant to Section 41-4310(1), Idaho Code.

Minutes of Meetings

A review of the minutes of the meetings of the member insurers, the Board of Directors, and the Association's committees for the examination period and subsequent thereto, indicated compliance with the Plan of Operation with respect to annual meeting dates, election and/or appointment of directors and officers, and the transaction of the Association's business. Specifically, the Board approved transfers to and from the various fund balances; reviewed the Plan of Operation, in-force administrative contracts, the financial results and operating expenses; and accepted the audited financial statements, among other things. This review of the minutes also indicated that a quorum was present at the annual membership meetings and at all Board of Directors' meetings.

The minutes of the Board of Directors' meeting held June 11, 2008 indicated that the Report of Examination as of December 31, 2006 was discussed. The Directors also executed affidavits certifying they had received the Association's December 31, 2006 Report of Examination and the March 26, 2008 Order Adopting the Report of Examination.

FIDELITY BOND AND OTHER INSURANCE

The Association maintained crime insurance that covered employee theft; computer fraud; computer program and electronic data restoration expense; fund transfer fraud; and claim expense. The amount of crime coverage met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook*.

The insurance company providing coverage to the Association is licensed or otherwise authorized in the state of Idaho.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Association sponsors a simplified employee pension plan that covers all employees who are at least 21 years of age, have received at least \$500 in compensation during the calendar year and have been employed during any part of three of the preceding five calendar years. Contributions to the plan are at the discretion of the Board of Directors. As the Association no longer has employees, pension expense of \$0 was charged to operations for the year ended December 31, 2011. The Association has also established a salary reduction arrangement as part of the simplified employee pension plan in which eligible employees may elect to participate. The simplified employee pension plan and salary reduction arrangement remain active in the event the Association has employees in the future.

TERRITORY AND PLAN OF OPERATION

The Idaho Life and Health Insurance Guaranty Association Act is intended to provide coverage to persons who are residents of Idaho and, in special circumstances, to nonresidents. The provisions of Title 41, Chapter 43 do not provide coverage to persons who are afforded any coverage by a guaranty association of another state.

Pursuant to Section 41-4303, Idaho Code, the Association is obligated to pay covered claims of insolvent member insurers of \$100,000 in net cash surrender values or \$300,000 of policy benefit payments for life and disability policies, or \$250,000 in present value of annuity benefits. Effective January 1, 2011, the Association is obligated to pay \$500,000 of policy benefit payments for major medical policies. The Association also provides coverage for structured settlement annuities. Medicare Parts C and D plans are excluded from coverage under the Act.

Operations of the Association are conducted from its official address in Boise, Idaho. Under the agreement for administrative services, Pine Tree Administrators, LLC provides office space to the Association.

GROWTH OF THE ASSOCIATION

The Association's growth for the years indicated, as taken from the prior examination report and its independent audit reports is shown in the following schedule:

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets</u>	<u>Excess (Deficiency) of Revenues over Expenses</u>
2006*	\$8,995,118	\$637,410	\$8,357,708	\$661,366
2007	8,738,323	345,810	8,392,513	34,805
2008	8,780,747	346,919	8,433,828	41,315
2009	8,637,934	301,309	8,336,625	(97,203)
2010	8,653,404	348,476	8,304,928	(31,697)
2011*	9,337,943	386,086	8,951,857	646,929

*As determined by Examination.

INSURANCE PRODUCTS AND RELATED PRACTICES

A limited scope Market Conduct Examination was conducted in conjunction with the examination of the administrative affairs, books, records, and financial condition of the Association.

Policy Forms and Underwriting

The Association provides policy administration and claim administration services for certain impaired and/or insolvent member insurers. During the current examination period, it was necessary for the Association to increase insurance premiums to meet rising claim costs for one such member insurer. The rate filings were submitted to and were marked file certified by the Idaho Department of Insurance.

Subsequent to the examination date, the Board of Directors adopted NOLHGA's coverage and calculation of coverage guidelines for variable/separate accounts products. It was deemed these products are consistent with the Idaho Life and Health Insurance Guaranty Association Act.

Treatment of Policyholders

Claims

A random sample of claims paid during 2010 and 2011 was reviewed during the course of this examination. The review indicated that the sampled claims were settled properly and that payments were made in a timely manner in compliance with Section 41-5602(3), Idaho Code.

Complaints

The Association maintained a register of complaint records. The format of the register was in compliance with Section 41-1330, Idaho Code. During the examination period, there were no complaints filed with the Association.

Suspected Fraudulent Claims

The Association properly filed a suspected fraudulent claim with the Idaho Department of Insurance in compliance with Section 41-290, Idaho Code.

Advertising and Sales Material

The Association prepares a "Summary of Coverages" brochure that is disseminated to member insurers. Otherwise, the Association does not advertise. Information about the Association is available to the general public on its website at www.idlifega.org.

ACCOUNTS AND RECORDS

General Accounting:

The Association utilized Quickbooks Pro 2012, commercially available accounting software, to generate accounting and financial information. The member database system was purchased from a professional developer and modified for Idaho's specific requirements. The Association has one personal computer running Windows 7.

The accounting records were maintained on a cash basis throughout the year and adjusted to the accrual basis of accounting at year end. Therefore, the Association's financial statements were prepared under generally accepted accounting principals.

The Association adopted Statement of Financial Accounting Standard (SFAS) No. 130, *Reporting Comprehensive Income* in 2005. The statement establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. SFAS No. 130 requires all items that are required to be recognized under accounting standards as components of comprehensive income are to be disclosed in the financial statements. Comprehensive income is the total of net income and other comprehensive income which, for the Association, is comprised of unrealized gains and losses on assets available for sale.

Independent Accountants

The Association is required to submit an annual financial report to the Idaho Department of Insurance pursuant to Section 41-4315, Idaho Code and Article 9.D of the Plan of Operations. In this regard, the annual independent audits of the Association for the years 2007 through 2011 were performed by Richter, Stuart, and Todeschi, P.A., Certified Public Accountants, Boise, Idaho. The financial statements in each report were prepared on the basis of generally accepted accounting principles. There was some reliance on the 2011 audit report and workpapers in this examination of the Association.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Statement of Financial Position as of December 31, 2011

Statement of Activities and Changes in Net Assets for the Years Ended December 31, 2007 through 2011

Statement of Financial Position

As of December 31, 2011

ASSETS, LIABILITIES, AND NET ASSETS

	<u>Per</u> <u>Association</u>	<u>Examination</u> <u>Adjustments</u>	<u>Per</u> <u>Examination</u>
<u>Assets</u>			
Cash and money market	\$ 669,716	\$ 0	\$ 669,716
Investments	8,632,593	0	8,632,593
Interest receivable	31,169	0	31,169
Other assets	2,043	0	2,043
Furniture and equipment, net of accumulated depreciation	2,422		2,422
Total	<u>\$ 9,337,943</u>	<u>\$ 0</u>	<u>\$ 9,337,943</u>
<u>Liabilities</u>			
Accounts payable	\$ 3,577	\$ 0	\$ 3,577
Claims payable	17,300	0	17,300
Projected assumption reinsurance liability (Note 1)	364,484	0	364,484
Unearned premiums	725	0	725
Total	<u>\$ 386,086</u>	<u>\$ 0</u>	<u>\$ 386,086</u>
<u>Net Assets (Note 2)</u>			
Administrative Account (Note 2)	\$ 401,522	\$ 0	\$ 401,522
Composite Account (Note 2)	3,210,166	0	3,210,166
American Chambers Life	(173,432)	0	(173,432)
Executive Life Insurance Company	5,879,343	0	5,879,343
Idaho Teachers Mutual Insurance Company	6,157	0	6,157
Legion Insurance Company	73,357	0	73,357
Life and Health Insurance Company of America	(1,353)	0	(1,353)
London Pacific Life & Annuity	(206,236)	0	(206,236)
National States Insurance Company	(141,433)	0	(141,433)
Universe Life Insurance Company	78,113	0	78,113
Wasatch Crest Mutual Insurance	(96,122)	0	(96,122)
Other Insolvencies, net	(187,863)		(187,863)
Unrealized gain on investments	109,638	0	109,638
Total	<u>\$ 8,951,857</u>	<u>\$ 0</u>	<u>\$ 8,951,857</u>
Total Liabilities and Net Assets	<u>\$ 9,337,943</u>	<u>\$ 0</u>	<u>\$ 9,337,943</u>

Statement of Activities and Changes in Net Assets
For the Years Ended December 31, 2007 through 2011

	2011	Per Association and Examination			2007
		2010	2009	2008	
<u>Revenues:</u>					
Member company assessments (Note 3)	\$ 629,828	\$ 0	\$ 0	\$ 0	\$ 0
Premiums earned	380,290	22,589	27,526	38,055	39,195
Interest income	209,674	297,123	330,605	408,158	403,966
Estate recoveries	265,107	400,331	3,853	113,153	57,462
Realized gain on investments	72,427	0	0	0	0
Unrealized gain (loss) on investments	(35,242)	(36,387)	125,362	43,644	109,521
Other	0	587	420	620	400
Total revenue	<u>\$1,522,084</u>	<u>\$ 684,243</u>	<u>\$ 487,766</u>	<u>\$ 603,630</u>	<u>\$ 610,544</u>
<u>Expenses:</u>					
Assessment refunds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Policyholder benefit claims	239,682	173,356	46,628	16,174	41,467
Assumption reinsurance payments (Note 1)	337,316	280,750	287,856	318,864	324,952
Payroll and related benefits	0	77,351	100,282	95,067	89,488
Rent	0	7,974	10,632	10,536	10,481
Administrative expenses	62,980	28,496	32,635	27,057	20,203
NQLHGA assessments	63,054	53,822	59,835	42,232	57,437
Administration fee	114,030	28,275	0	0	0
Professional fees	57,759	65,776	47,034	52,385	31,711
Depreciation	334	140	67	0	0
Total expenses	<u>\$ 875,155</u>	<u>\$ 715,940</u>	<u>\$ 584,969</u>	<u>\$ 562,315</u>	<u>\$ 575,739</u>
Change in net assets (Note 2)	\$ 646,929	\$ (31,697)	\$ (97,203)	\$ 41,315	\$ 34,805
Net Assets, beginning of year	<u>8,304,928</u>	<u>8,336,625</u>	<u>8,433,828</u>	<u>8,392,513</u>	<u>8,357,708</u>
Net Assets, end of year	<u>\$8,951,857</u>	<u>\$8,304,928</u>	<u>\$8,336,625</u>	<u>\$8,433,828</u>	<u>\$8,392,513</u>

NOTES TO THE FINANCIAL STATEMENTS

Note (1) Projected assumption reinsurance liability \$364,484

The above liability represented the annual payment due to Aurora National Life Assurance Company, the successor for Executive Life Insurance Company of New York. The liability of \$266,224 was based on the prior year's experience. Management's best estimate of the future unrecorded reinsurance liability at this time is \$2,536,090 for Executive Life. The remaining balance of \$98,260 was the true-up liability for the National States Insurance Company life block of business sold effective October 1, 2011. The final accounting was performed and the liability was settled in May 2012.

The liabilities are actuarially determined by NOLHGA and represent the amount necessary to give 100 percent contractual coverage, up to the amount specified by law, under covered insurance policies held by Executive Life and National States Insurance Company.

Subsequent to the examination date, the Board of Directors gave approval for the Association to defease its Executive Life Insurance Company obligations to Aurora National Life Assurance Company in 2013, the next available defeasance date; unless matters arise before then that would make defeasance unadvisable at that time.

The Association has not assessed or accrued for all potential reinsurance or claim liabilities for certain insolvent insurers. The total liability relating to these insolvencies is not yet determined. Potential liabilities for other insolvent insurers are not currently determinable. Assessments for the liabilities will be made in future periods as amounts become due, if necessary.

Note (2) Net Assets \$8,951,857

The Association utilizes fund accounting to record the results of its financial activities and to account for its net assets. Separate funds are maintained in the *Administrative Account* for the Association's administrative activities and for each insolvent member insurance company. A separate fund identified as *Other Companies* consists of several insolvent member companies with insignificant balances.

Effective October 31, 2006, the Association's Board of Directors approved the establishment of the *Composite Account*. The Composite Account Guidelines were adopted by the Board of Directors on June 11, 2008. The purpose of this account is to hold excess funds resulting from insolvency activities for use in other or future insolvencies, thus reducing the number and cost of assessments and allowing for funds to be available immediately for payment of claims and assumption reinsurance expenses. Funds in the Composite Account were segregated by line of business in accordance with Section 41-4306(1)(a), (b), and (c), Idaho Code. Funds can only be used to offset insolvency expenses in like lines of business. All transfers into and out of the *Composite Account* during the examination period were approved by the Board of Directors.

Note (3) Member company assessments

\$629,828

In 2011, the Board of Directors authorized and called for Class A and Class B assessments of the Association's member insurers. The purpose of the Class A assessment was to meet administrative and other expenses of the Association. The Class B assessment related to the insolvencies of Benicorp Insurance Company, Imerica Life & Health Insurance Company, Life and Health Insurance Company of America, Medical Savings Insurance Company, Reliance Insurance Company, States General Insurance Company, and Wasatch Crest Mutual Insurance Company. A review of the Class A and Class B assessments indicated compliance with Section 41-4309, Idaho Code.

SUBSEQUENT EVENTS

During the examination period, the Association drafted proposed legislation to amend the premium tax offset provisions of Sections 41-4313(1) and 41-3616(1), Idaho Code. The Association's legislation will be submitted to the Idaho Legislature during the 2013 session.

SUMMARY, COMMENTS AND RECOMMENDATIONS

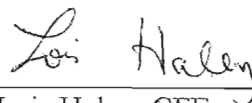
Summary

The results of this examination disclosed that as of December 31, 2011, the Association had assets of \$9,337,943, liabilities of \$386,086, and net assets of \$8,951,857.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Association's Executive Director in conducting the examination.

Respectfully submitted,



Lois Haley, CFE
Senior Insurance Examiner
State of Idaho
Department of Insurance

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

Lois Haley, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of the Idaho Life and Health Insurance Guaranty Association for the period from January 1, 2007 through December 31, 2011, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.

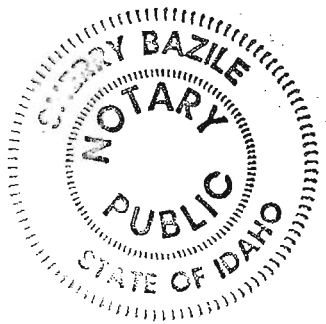
Lois Haley

Lois Haley, CFE
Examiner-in-Charge
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 14 day of JAN, 2013 at Boise, Idaho

Sherry Bazile
Notary Public

My commission Expires: 1-18-2019



WAIVER

In the matter of the Report of Examination as of December 31, 2011, of the:

Idaho Life and Health Insurance Guaranty Association

3355 N. Five Mile Road, #210

Boise, Idaho 83713

By executing this Waiver, the Association hereby acknowledges receipt of the above-described examination report, verified as of the 14th day of January 2013, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

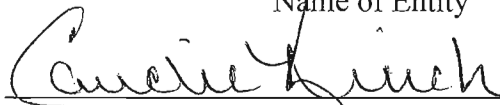
By executing this Waiver, the Association also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 15th day of January, 20 13

Idaho Life and Health Insurance Guaranty Association

Name of Entity



Signature

Executive Director

Title

EXHIBIT

B