

FILED
MAY 22 2020
Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of:

IDAHO LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION

Registration No. 2688

Docket No. 18-3793-20

**ORDER ADOPTING REPORT
OF EXAMINATION AS OF
DECEMBER 31, 2018**

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, 2018 (“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 May 8, 2020. 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 May 8, 2020, 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 May 18, 2020, 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) 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, rejecting the report and reopening the examination, or calling for an investigatory hearing.

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.

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, 2018, 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 not be subject to the exemptions from disclosure provided in chapter 1, title 74, 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 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 and EFFECTIVE this 21 day of May, 2020.

STATE OF IDAHO
DEPARTMENT OF INSURANCE


DEAN L. CAMERON
Director

NOTIFICATION OF RIGHTS

This Order constitutes a final order of the Director. Any party may file a motion for reconsideration of this final order within fourteen (14) days of the service date of this order. The Director will dispose of the petition for reconsideration within twenty-one (21) days of its receipt, or the petition will be considered denied by operation of law. *See*, Idaho Code § 67-5246(4).

Pursuant to Idaho Code §§ 67-5270 and 67-5272, any party aggrieved by this final order may appeal it by filing a petition for judicial review in the district court of the county in which: (1) the hearing was held; or (2) the final agency action was taken; or (3) the aggrieved party resides or operates its principal place of business in Idaho; or (4) the real property or personal property that was the subject of the agency decision is located. An appeal must be filed within twenty-eight (28) days of: (a) the service date of this final order; or (b) an order denying a petition for reconsideration; or (c) the failure within twenty-one (21) days to grant or deny a petition for reconsideration, whichever is later. *See*, Idaho Code § 67-5273. The filing of a petition for judicial review does not itself stay the effectiveness or enforcement of the order under appeal.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 22nd day of May, 2020, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2018 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

Nathan Faragher
Chief Examiner, Company Activities Bureau Chief
Idaho Department of Insurance
700 W. State Street, 3rd Floor
P.O. Box 83720
Boise, ID 83720-0043
nathan.faragher@doi.idaho.gov

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

Edith L. Pacillo
Lead Deputy Attorney General
Idaho Department of Insurance
700 W. State Street, 3rd Floor
P.O. Box 83720
Boise, ID 83720-0043
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- ☐ first class mail
- ☐ certified mail
- ☐ hand delivery
- ☒ email



DEPARTMENT OF INSURANCE

STATE OF IDAHO



FINANCIAL AND COMPLIANCE EXAMINATION

OF

IDAHO LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION
("Association")

as of

December 31, 2018

EXHIBIT

 A

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Boise, Idaho
July 31, 2019

The Honorable Dean L. Cameron
Director of Insurance
State of Idaho
700 West State Street
P.O. Box 83720
Boise, Idaho 83720-0043

Dear Director:

Pursuant to your instructions, in compliance with Idaho Code §§ 41-219(1) and 41-4315, 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, 2018, of the financial condition and affairs of:

Idaho Life and Health Insurance Guaranty Association
6700 N. Linder Road, Suite 156
Meridian, Idaho 83646

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

SCOPE OF EXAMINATION

This examination covered the period January 1, 2012, through December 31, 2018, 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 Idaho Code §§ 41-219(1) and 41-4315, and the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook*. 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 independent Certified Public Accountant's audit report for the years under examination and 2018 workpapers in this examination.

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

Status of Prior Examination Findings

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 2007, through December 31, 2011.

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.

ASSOCIATION HISTORY

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. Title 41, Chapter 43 was subsequently repealed and replaced with the NAIC Model Life and Health Insurance Guaranty Association Law effective January 1, 2011. Idaho Code § 41-4306 continues the existence of the Association.

All persons/insurers licensed to transact the kinds of insurance covered by Idaho Code § 41-4303 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 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 Idaho Code § 41-4308(9).

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 is gathered by the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) through the effort of task forces and consultants who work with the receivers of the insolvent companies.

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 filing Internal Revenue Service Form 990 returns in 2009.

MANAGEMENT AND CONTROL

The Association operates in accordance with its Plan of Operation as stipulated by Idaho Code § 41-4310. 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 through an administrative service agreement with the Executive Director, Candie Kinch, as principal of Pine Tree Administrators, LLC.

Directors

The Association's Plan of Operation provides for the Board of Directors consisting of not less than five and not more than nine member insurers in compliance with Idaho Code § 41-4307. 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 all 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 serving as Directors of the Association as of December 31, 2018:

Steve Tobiason	Blue Cross of Idaho Health Services, Inc.
Thomas Lyons	Farm Bureau Mutual Insurance Company of Idaho
Kim Decker	Farmers New World Life Insurance Company
Alison Kelly	Metropolitan Life Insurance Company
Michael Bula	Northwestern Mutual Life Insurance Company
Shad Priest	Regence BlueShield of Idaho, Inc.
Deborah Sloan	United Heritage Life Insurance Company

The following are the Association's Committee membership as of December 31, 2018:

Investment:

Kim Decker, Chairman
Deborah Sloan
Michael Bula

Audit:

Steve Tobiason, Chairman
Deborah Sloan

Nominating:

Deborah Sloan, Chairman
Alison Kelly

Legislative:

Steve Tobiason, Chairman
Thomas Lyons

Penn Treaty Escalated Claims:

Michael Bula
Steve Tobiason
Thomas Lyons

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 as of December 31, 2018:

Deborah Sloan	Chairman
Steve Tobiason	Vice Chairman
Kim Decker	Secretary/Treasurer

FIDELITY BONDS AND OTHER INSURANCE

The Association maintained a Fidelity Bond/Employee Crime Policy. The policy includes a rider that covers independent contractors, which includes the Executive Director. The Association also maintained a directors and officers liability insurance policy. Pine Tree Administrators, LLC, has cyber liability insurance that covers the Association's data.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Association no longer has employees and therefore has no pension expense charged to operations for the year ended December 31, 2018.

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 Idaho Code § 41-4303, the Association is obligated to cover contractual obligations of insolvent member insurers not to exceed \$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 cover up to \$500,000 of policy benefit payments for major medical policies. Medicare Parts C and D plans are excluded from coverage under the Act.

Operations of the Association are conducted from its official address in Meridian, 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 independent audit reports are shown in the following schedule:

Year	Assets	Net Assets	Liabilities	Excess (Deficiency) of Revenue Over Expenses
2012	\$ 8,893,464.00	\$ 8,624,192.00	\$ 269,272.00	\$ (327,665.00)
2013	5,834,640.00	5,825,497.00	9,143.00	(2,798,695.00)
2014	5,893,470.00	5,886,113.00	7,357.00	60,616.00
2015	5,847,189.00	5,838,570.00	8,619.00	(47,543.00)
2016*	5,789,618.00	5,777,728.00	11,890.00	(132,893.00)
2017	9,409,709.00	9,407,555.00	2,154.00	3,629,827.00
2018	8,461,562.00	8,453,435.00	8,127.00	743,805.00

*Amounts changed after original audit report by a \$99,372 increase in bond values after a change in accounting method.

ACCOUNTS AND RECORDS

The accounting records are maintained on a modified cash basis of accounting. The records were maintained on a cash basis throughout the year and adjusted to the modified cash basis of accounting at year end.

The Association is required to submit an annual financial report to the Idaho Department of Insurance pursuant to Idaho Code § 41-4315 and Article 9.D of the Plan of Operation. In this regard, the annual independent audits of the Association for the years 2012 through 2018 were performed by Strohm Ballweg, LLP, of Madison, Wisconsin. The financial statements in the reports were prepared on a modified cash basis of accounting. The examination placed reliance on the 2018 audit workpapers where appropriate.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Statement of Assets and Liabilities as of December 31, 2018

Statement of Revenue and Expenses as of December 31, 2018

Statement of Assets and Liabilities
As of December 31, 2018

ASSETS

Cash and Cash Equivalents	\$ 189,121.00
Bonds	2,522,265.00
Exchange-traded funds	5,722,559.00
Interest Receivable	7,665.00
Other Assets	19,952.00
Furniture and Equipment, Net of Accumulated Depreciation of \$2,099 in 2018	-
Total Assets	<u>\$ 8,461,562.00</u>

LIABILITIES AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

Accounts Payable	\$ 6,098.00
Assumption Reinsurance Liability	2,000.00
Unearned Premiums	29.00
Total Liabilities	<u>\$ 8,127.00</u>
Fund Balances	<u>8,453,435.00</u>
Total Liabilities and Fund Balances Arising from Cash Transactions	<u>\$ 8,461,562.00</u>

Statement of Revenue and Expenses
As of December 31, 2018

REVENUE COLLECTED

Member Company Assessments	\$ 600.00
Premiums Earned	5,498.00
Interest Income	190,361.00
Estate Recoveries	28,840.00
Realized Gain (Loss) on Investments	(20,714.00)
Gain (Loss) on Exchange-traded Funds	(414,900.00)
Total Revenue Collected	<u>(210,315.00)</u>

EXPENSES PAID

Policyholder Benefit claims	457,893.00
Assumption Reinsurance Payments	2,510.00
Administrative Expenses	28,340.00
NOLHGA Assessment Fee	75,726.00
Administration Fee	95,100.00
Professional Fees	84,236.00
Total Expenses Paid	<u>743,805.00</u>
Excess (deficit) of Revenue Collected over Expenses Paid	<u><u>\$ (954,120.00)</u></u>

NOTES TO FINANCIAL STATEMENTS

Note 1 Net Assets \$ 8,453,435.00

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.

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 member assessments and allows for funds to be available immediately for payment of claims and assumption reinsurance expenses. Funds in the *Composite Account* are segregated by line of business in accordance with Idaho Code §§ 41-4306(1)(a), (b), and (c). All transfers into and out of the *Composite Account* during the examination period were approved by the Board of Directors.


SUMMARY OF RECOMMENDATIONS

This examination did not provide recommendations to the Association as a result of our review.

ACKNOWLEDGEMENT

Kelsey Barlow, CFE together with the undersigned acknowledges the assistance and cooperation of the Association's Executive Director in conducting the examination.

Respectfully submitted,


Hermoliva B. Abejar, CFE, MCM
Deputy Chief Examiner
Idaho Department of Insurance

AFFIDAVIT OF EXAMINER

State: Idaho

County: Ada

Hermoliva B. Abejar, CFE, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho at the time of examination, that she has made an examination of the affairs and financial condition of Idaho Life and Health Insurance Guaranty Association for the period January 1, 2012, through December 31, 2018, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.

Hermoliva B. Abejar

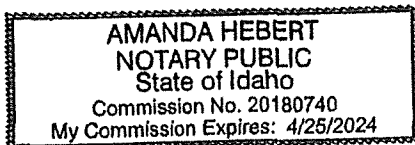
Examiner-in-Charge

On behalf of Idaho Department of Insurance

Subscribe and sworn to before me the 8 day of May, 2020, at Boise, Id
(City) (State)

[Signature]

Notary Public



My Commission Expires: 4-25-2024

BRAD LITTLE
Governor

State of Idaho
DEPARTMENT OF INSURANCE

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone 208-334-4250
Fax 208-334-4398
Website: <https://doi.idaho.gov>

DEAN L. CAMERON
Director

WAIVER

In the matter of the Report of Examination as of December 31, 2018, of the:

**Idaho Life and Health Insurance Guaranty Association
6700 N. Linder Road, Suite 156
Meridian, Idaho 83646**

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 8th day of May 2020, 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 Company 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 18 day of May, 2020

Idaho Life & Health Insurance Guaranty Association

Candice Kinch
Name (print)

Candice Kinch
Name (signature)

Executive Director
Title

EXHIBIT

B

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