



Arizona Life & Disability Insurance Guaranty Fund
Arizona Department of Insurance and Financial Institutions

DOUGLAS A. DUCEY
Governor

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EVAN G. DANIELS
Director

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

MAY 11, 2021

Pursuant to a Public Notice dated May 5, 2021, a Meeting of the Board of Directors of the Arizona Life and Disability Insurance Guaranty Fund (“ALDIGF”) was convened on May 11, 2021, at 10:04 a.m. in a virtual video conference format using Google Meet. The meeting was called to order by Tod D. Lashway, Chair of the Board, who determined that a quorum was present.

Attending the meeting via video conference were the following members of the Board of Directors:

Tod D. Lashway, CLU, ChFC, LUTCF, CLTC, RICP	Chair
Mark A. Haydukovich, ChFC, CLU, CPA, FLMI, CFA	Vice Chair
John R. Mathews, Esq., CPA	Secretary/Treasurer
Elizabeth A. (Betsy) Heisler	Director
Michael Hickey, Esq	Director
Gerrie Marks, Esq.	Director
Randi F. Reichel, Esq.	Director
Robert C. Corn, Esq.	Director
John. J. (Jay) Sheehy III	Director
Paul Matson, CFA, FCSI	Director

Also present at the meeting were:

Evan G. Daniels	Director, AZ DIFI
Lynette Evans	Assistant AZ Attorney General
Tom O'Malley	Wells Fargo Bank
Marie Souza	ALDIGF Controller
Lori D. Nestor	ALDIGF Executive Director

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

Item #1. Announcement Concerning ALDIGF's Conflict of Interest Policy and Anti-Trust Compliance.

Chairman Tod D. Lashway announced that the meeting would be conducted in accordance with the Fund's Conflict of Interest Policy and in compliance with Arizona law concerning the disclosure of conflicts of interest with regard to any matter before the Board for consideration.

Item #2. Approval of Previous Minutes.

Upon a motion made by Director Gerrie Marks, and seconded by Director Randi Reichel, the minutes of the Annual Meeting of the Board of Directors held November 18, 2020 were unanimously approved as previously circulated.

Item #3. Introduction of New Members.

ALDIGF Executive Director Lori Nestor introduced, and led the Board in welcoming, newly appointed Board Member Paul Matson.

Item #4. Financial Report.

- A. The Chair recognized Tom O'Malley of Wells Fargo Asset Management ("WFAM") who shared that WFAM, the manager of the ALDIGF portfolio, was being acquired by a partnership of two private equity firms with an expected close date of third quarter of 2021.

Hearing no questions in response, he then proceeded to report regarding the performance of the ALDIGF investment portfolio through March 31, 2021. Mr. O'Malley advised that the portfolio overall was up 5 basis points, net of fees. He reported that credit quality remains very high at AA1/AA+, but that returns continue to be compressed as a continued response to the Coronavirus pandemic. Mr. O'Malley confirmed that the market value of the portfolio was approximately \$18.5 Million as of the end of March, 2021, with a purchase yield of about 63 basis points. Effective maturity of the overall portfolio remained at just under a year (.92), with a sector profile of 40% treasury, 10% agency investments, 25% corporate exposure & 23% mortgage backed securities. Mr. O'Malley predicted that short interest rates will likely remain low for the foreseeable future as the Federal Reserve focuses on returning the U.S. to a higher level of employment. He reported that recovery from the pandemic is expected to be protracted through late 2021 or early 2022.

- B. The Chair recognized Executive Director Nestor, who discussed the financial condition of ALDIGF and presented a Balance Sheet, Profit & Loss YTD Comparison and Budget Performance statement as of April 31, 2021.

Item #5. Update concerning ALDIGF Financial Audit for Year Ended December 31, 2020.

The Chair again recognized Executive Director Nestor, who advised that CPA firm John C. Todd II, P.C. began the annual financial audit for ALDIGF on March 1, 2021, but a delay in the completion of the new, accrual-based Financial Statements for 2020 had delayed the audit's completion until at least the end of May. The Board requested that the completed audit report be distributed to the audit committee for review when received. Once the report has been accepted by the audit committee, the Board requested that an additional Board Meeting be called for the purpose of review, acceptance and approval of the accrual-based, audited financial statements.

Item #6. Executive Session for the Purpose of Receiving Information and Discussing the Financial Condition of One or More Member Insurers.

Upon a motion made by Director Marks and seconded by Director Jay Sheehy, the Board voted unanimously to move into Executive Session to receive information concerning the financial condition of certain member insurers. The Executive Session commenced at 10:22 a.m., and no members of the public were present. Executive Director Nestor reported on the status of three insurers, all of which are member insurers of ALDIGF. Upon a motion made by Director Mark Haydukovich and seconded by Director Marks, the Board voted unanimously to adjourn the Executive Session at 10:33 a.m.

Item #8G. Discussion and Action Concerning ALDIGF/DIFI Administrative and Technology Cost Allocation (taken out of Agenda order).

The Chair then recognized Department of Insurance and Financial Institutions (DIFI) Director Evan Daniels, who addressed the Board to request that ALDIGF provide funding for a portion of the DIFI Administration and Information Technology (IT) divisions. He explained that both divisions provide valuable services to ALDIGF and its staff, and that ALDIGF would need to procure such services elsewhere in the absence of such provision. A discussion ensued, and Director John Mathews moved to approve the allocation of \$20,000 annually on an ongoing basis as requested. Director Marks seconded the motion. Discussion then continued regarding the potential need for an additional amount of support for the functions in question as time progresses. Upon confirmation of a sufficient balance in the Administrative Account to accommodate budgeting for additional expense, Director Mathews then amended his motion to approve an allocation of \$40,000 annually for such services on an ongoing basis. Upon an additional second by Director Marks, the motion passed unanimously.

DIFI Director Daniels then further addressed the Board to advise that DIFI was in the process of reducing its office space by 45% in anticipation of 90% of the DIFI team becoming permanent remote office workers. He explained that sufficient space will be retained so that employees who would like to work from the office for a period of time will be able to do so, but that the change represented a large shift for DIFI and for ALDIGF.

Item #7. Report Concerning the Detection and Prevention of Insolvencies.

Executive Director Nestor indicated that there was nothing to report at this time.

Item #8. Report of the Executive Director.

A. Claims and activity regarding companies for which ALDIGF has been activated.

The Chair recognized Executive Director Nestor, who advised that a report had been created to more efficiently provide the Board with an overview of current exposure and activity regarding companies for which ALDIGF has been activated.

B. Claims Appeals.

Ms. Nestor confirmed that there were no claims appeals to report.

C. NOLHGA 2021 Dues and Assessments.

Executive Director Nestor presented National Organization of Life and Health Insurance Guaranty Association (“NOLHGA”) invoices in the amounts of \$62,883.00 for 2021 Dues, \$67,420.00 for a Q3 2020 Assessment to fund insolvency administration and MPC activity, and \$53,303.00 for a Q4 2020 Assessment to fund insolvency administration and MPC activity. Ms. Nestor asked the Board to ratify her decision to pay the expenses as presented. Upon a motion made by Director Marks and seconded by Director Michael Hickey, the Board voted unanimously to ratify the decision and payments.

D. Report Concerning the 2020 Assessment Called for the ALDIGF Disability Account.

Executive Director Nestor reported that ALDIGF had collected all but \$282 of the \$7.5 Million assessment called for the Disability Account on November 18, 2020. Ninety nine percent (99%) of member companies paid their assessment electronically, but 60% preferred ACH or wire to the E-Bill Express option offered through Wells Fargo. Ms. Nestor advised

that this preference will be considered when future assessment collection methods are determined.

E. Report Regarding the Conversion of the ALDIGF Basis of Accounting.

Ms. Nestor advised that the work to convert the ALDIGF basis of accounting to accrual and create 2020 ALDIGF Financial Statements on an accrual basis had been completed, but took longer than anticipated. She confirmed that ALDIGF staff training on the new method will be completed in the near future as well.

F. Report Concerning ALDIGF Adoption of a Permanent Virtual Office Environment.

Ms. Nestor reported that all ALDIGF employees would become permanent virtual employees as of June 11, 2021 as part of the DIFI change to a virtual office environment mentioned by Director Daniels. She advised that ALDIGF will have one hoteling station to complete check issuance and other functions, but that all efforts are being made to digitize information so that employees will be supported as virtual employees. The Chair inquired about an associated reduction in rent. Director Daniels advised that savings should be realized, but it's uncertain whether those savings will occur in FY 2022 or FY 2023.

Item #9. Additional Executive Session, if Necessary, to Confer With Counsel Concerning any Item Included in the Notice and Agenda.

The Chair determined that an additional Executive Session was not necessary.

Item #10. Call to the Public.

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

There being no further business to come before the Board, without objection the meeting was adjourned at 11:05 a.m.

Dated this 12th day of May, 2021.

Respectfully submitted,

Secretary

Approved:

Chair of the Board