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**Office of the Special Deputy Receiver**

To: Jennifer Hammer, Director of Insurance  
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Board of Directors  
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From: James Stephens  
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**Executive Summary**

Under Article XIII of the Illinois Insurance Code, the Illinois Director of Insurance (“Director”) serves as the statutory conservator, rehabilitator and liquidator of financially impaired and insolvent Illinois domestic insurers, of unauthorized insurers, and as ancillary receiver of certain foreign or alien insurers doing business in the state. In accordance with Section 202 of the Code, Illinois’ Office of the Special Deputy Receiver (“OSD”) assists the Director in performing her duties under Article XIII, as well as the employer for the personnel that assist the Director in these capacities.

**OSD Mission**

Achieving consumer protection through receivership resolution expertise and the execution of a resolution strategy appropriate to the unique circumstances of each troubled company is the core mission of the OSD. Since the creation of the office, OSD has administered the resolution of 176 Illinois domestic insurer receiverships, subsidiaries, affiliates and supervisions, completing and closing 157 as of year-end 2017. These assignments have included receiverships and supervisions of the following types of insurance entities, their affiliates and subsidiaries:

Property & Casualty Insurers  
Mortgage Guaranty Insurers  
Captive Insurers  
Life Insurers  
Health Insurers  
HMOs  
Accident & Health Insurers  
Fraternal Benefit Societies

Burial Societies  
Group Workers' Compensation Pools  
Religious & Charitable Risk Pooling  
Trusts  
Farm Mutual Insurers  
Insurance Exchange Syndicates  
Unauthorized Insurers

The OSD currently has 53 employees. In addition to OSD staff, through the utilization of OSD's scalable and flexible staffing model, four receivership estates continue to employ legacy personnel in key insurance disciplines who assist the OSD in winding down their former company's operations. OSD staff handled 33,000 consumer telephone inquiries in 2017, registered 85,000 new proofs of claim, distributed 500,000 consumer notices, resolved or adjudicated 8000 policyholder claims, collected \$24.6 million in reinsurance, administered legal affairs and judicial proceedings, and prepared state and federal income tax returns for 24 receivership estates. Quarterly statutory financial statements for all pending receivership estates were prepared and filed with the Supervising Court, and published on the OSD's website. Annual financial statements for each estate were also reported to the National Association of Insurance Commissioners' ("NAIC") Global Receivership Information Database.

OSD also assisted the Director at the NAIC through participation in the work of the Receivership & Insolvency Task Force, Receivership Financial Analysis Working Group, Receivership Model Law Working Group, and the Receivership Technology & Administration Working Group.

### **Recent Results**

Receivership estate distributions and the expenses associated with their completion are the single most important measure for achieving success for the consumers that are affected by the impairment or insolvency of their insurer. During 2017 the OSD serviced 24 receivership estates for the Director, as well as two supervisions, marshalling and distributing \$236.6 million to consumers and other estate creditors. In addition to these direct consumer benefits, an additional \$105.4 million in claim payments by state insurance guaranty associations to consumers were facilitated by OSD staff through claim, information technology, and shared services. OSD's 2017 administrative expenses totaled \$9.3 million, resulting in an annual distribution to expense ratio of 2.7%. OSD's "all-in" average hourly professional services rate, including payroll, benefits, taxes, rent, insurance, and information technology costs, achieved its targeted range of \$95.00 per hour. 2017 distributions brought OSD's ten-year distribution total to \$2.3 billion.

Excluding confidential conservations and supervisions, the following receivership estates were serviced for the Director in 2017:

1. Administrative Employer Group, Inc., In Liquidation
2. Affirmative Insurance Co., In Liquidation
3. American Manufacturers Mutual Insurance Co., In Liquidation
4. American Motorists Insurance Co., In Liquidation
5. B&R Insurance Partners LLC, In Liquidation
6. Centaur Insurance Co., In Rehabilitation
7. Constitutional Casualty Company, In Liquidation
8. Employers' Consortium V, Inc., In Liquidation
9. IL Movers & Warehousemen's Risk Mgmt. Group, In Liquidation
10. IL Restaurant Risk Mgmt. Assoc., Inc., In Liquidation
11. IL State Bowling Proprietors & Recreational Ind.Trust, In Rehabilitation
12. Interstate Bankers Casualty Co., In Liquidation
13. Land of Lincoln Mutual Health Insurance Company, In Liquidation
14. Legion Indemnity Co., In Liquidation
15. Life Services Network Trust, In Rehabilitation
16. Lumbermens Mutual Casualty Co., In Liquidation
17. Millers Classified Insurance Co., In Rehabilitation
18. Millers First Insurance Co., In Liquidation
19. Polish Women's Alliance of America, In Rehabilitation
20. Public Service Insurance Company, In Rehabilitation
21. Public Service Mutual Holding Company, In Rehabilitation
22. Reinsurance Company of America, In Liquidation
23. Triad Guaranty Assurance Corp., In Rehabilitation
24. Triad Guaranty Insurance Corp., In Rehabilitation

State insurance guaranty associations also serve as a vital component of the resolution process for insolvent insurers, providing consumer protection and replacement of benefits for certain covered insurance lines. Ten of the receivership estates administered on behalf of the Director during 2017 triggered guaranty association protection for consumers in Illinois and other states. The OSD effectively shared services and coordinated with the guaranty associations in each state and, as appropriate, their national organizations, the National Organization of Life & Health Insurance Guaranty Associations and the National Conference of Insurance Guaranty Funds. In one receivership that carries the potential to trigger guaranty association protection in all 50 states, OSD prepared electronic claim records for transfer to the guaranty associations in order to provide immediate protection to consumers in the event that liquidation is ordered. Claim payment and information sharing technology established between the Liquidator and the guaranty associations is in place in each of the pending liquidations in order to facilitate accurate financial reporting, reinsurance recovery, guaranty association claim reimbursement, and large deductible collateral need establishment, release, recovery, and reimbursement.

Readiness and the ability to assume the supervision and management of financially troubled insurers is a critical function for state insurance regulators, as is the ability to reform and improve their financial and consumer-oriented results, preventing against

insolvency and providing consumer protection. The OSD stood ready to assist the Director in discharging these responsibilities in 2017. Two troubled companies were placed in liquidation, two in rehabilitation, and two under enhanced supervision. Another troubled company was successfully merged with a stronger counter-party, facilitating its dismissal and release from rehabilitation while fully protecting its policyholders and other creditors. A plan of rehabilitation was developed for another company in order to transfer its remaining policyholder obligations to another insurer and permit the Rehabilitator to address claims of lower-tier creditors.

The OSD and the pending receivership estates are subject to an annual statutory audit by an independent outside certified public accountant engaged in the conduct of audits under the State Auditing Act. The Auditor General of the State of Illinois, pursuant to an agreed-upon procedure, further reviews the audit work papers of OSD's outside auditor and approves the audit for adequacy. The OSD and the receivership estates it administered on behalf of the Director were audited in 2017 for the year ending December 31, 2016 by the audit firm of Kerber Eck & Braeckel ("KEB"). KEB rendered clean audit opinions on the financial statements of the OSD and all of the pending receivership estates, finding that the financial statements of OSD present fairly, in all material respects the assets, liabilities, revenue and expenses as of December 31, 2016, and with respect to each audited receivership estate that the financial statements present fairly, in all material respects their cash and invested assets as of December 31, 2016. KEB also found no deficiencies in OSD's internal controls considered to be a material weakness as of December 31, 2016, and that OSD management's assertion of compliance with Articles XIII and XIII1/2 of the Illinois Insurance Code for calendar year 2016 was fairly stated in all respects. The Auditor General for the State of Illinois, pursuant to an agreed-upon procedure, completed its review and approval of the OSD's 2015 audited financial statements, and will undertake its review of the adequacy of KEB's 2016 statutory audits of the OSD and the pending receivership estates in early 2018. Copies of KEB's annual audit report of the OSD and each pending receivership estate can be found at [www.osdchi.com](http://www.osdchi.com)

## 2017 Corporate Goals

OSD established and achieved the following corporate goals in 2017.

Goal 1      Maintain a companywide chargeability ratio of 75% (percentage of employee time devoted to estate tasks) and a utilization ratio of 66% (percentage of total employee hours including time off devoted to estate tasks).

*OSD achieved 86% and 73%, respectively, for each of these annual metrics.*

Goal 2 Continue to develop enhanced financial reporting capabilities in support of the OSD's publication of good faith distribution estimates for liquidation estates, and cash flow monitoring for rehabilitation estates.

*A publication draft of the Lumbermens' asset distribution model and good faith estimate was completed and presented to the state insurance guaranty associations.*

*Cash flow analysis and reserve strengthening resulted in the conversion of the Millers First rehabilitation to liquidation proceedings, triggering consumer protections of the state insurance guaranty associations for the few remaining long-tail workers' compensation claims.*

*An updated forecast supporting the rehabilitation plan claim payment rate of 75% for the Triad estate was completed.*

*Cash flow projections for the resolution of the Land of Lincoln estate were completed and monitored.*

Goal 3 Identify consolidation opportunities and operational efficiencies for remote operations at field estates.

*Staff right-sizing initiatives were completed at 3 estates.*

*Office space reductions were completed for 2 estates.*

Goal 4 Complete 4 estate distributions and estate closings.

*Liquidation dividends were distributed in 4 estates.*

*Rehabilitation Plan payments were distributed in 6 estates.*

*Five estates were closed in 2017: Administrative Employers Group, Inc., Illinois Restaurant Risk Management Association, Inc., Illinois State Bowling Proprietors & Recreational Workers' Compensation Trust, Polish Women's Alliance of America, and Reinsurance Company of America.*

Goal 5 Develop the rapid response capability of OSD systems and IT vendor NTT Data for more rapid guaranty association data transfer.

*IT server capacity was expanded in order to increase efficiency and data transfer speeds in servicing new and pending estates and guaranty associations.*

## Receivership Estate Summary

A summary of each of the pending receivership estates is presented below, excluding confidential supervisions and other matters. Additional information on the OSD as well as pending and closed receivership estates, including audited financial reports and the Receiver's pleadings, can be found at [www.osdchi.com](http://www.osdchi.com)

### **ADMINISTRATIVE EMPLOYER GROUP, INC. ("AEG") and EMPLOYER'S CONSORTIUM V, INC. ("ECI"), IN LIQUIDATION**

AEG and ECI were originally placed in liquidation based on the Director's determination that the companies were transacting unauthorized insurance business. AEG and ECI were wholly owned by Professional Employer Holdings, L.L.C. Although the two entities were licensed in Illinois as professional employer organizations ("PEOs"), they were never licensed for purposes of transacting the business of insurance yet began providing their client companies with unauthorized workers compensation coverage in August of 2005. Since their insurance certificates were issued by an unauthorized company, guaranty fund coverage was not available to consumers caught up in the illegal business activity. Further compounding matters, neither AEG nor ECI had sufficient assets to stand behind their unauthorized insurance commitments.

The Liquidator had previously sued an entity known as Leading Edge Group Holdings, Inc. to recover funds fraudulently transferred from AEG and ECI to Leading Edge and obtained default judgments in AEG and ECI's favor in the amounts of \$7,176,619 and \$7,090,387, respectively. Recovery on the judgments was obtained in July of 2014 in a federal civil forfeiture and remission proceeding conducted by the United States Department of Justice Asset Forfeiture and Money Laundering Section in the amounts of \$1,882,745.37 and \$1,900,906.90, respectively.

All timely-filed policyholder priority claims have been reviewed and adjudicated in both the AEG and ECI estates. Distributions representing 80% of the amount due to AEG's consumers, and 100% of the amount due to ECI's consumers, were completed in 2015 and 2016. The Liquidator resolved AEG's federal income tax liabilities, resulting in a second distribution to 96.2577% of the amount due to AEG's policyholders and the closing of the estate on June 29. The Liquidator is seeking to resolve ECI's federal income tax liabilities, and upon conclusion will close the estate.

### **AFFIRMATIVE INSURANCE COMPANY, IN LIQUIDATION ("AIC"), IN LIQUIDATION**

AIC was placed in rehabilitation in September of 2015 after the company was required to record in excess of \$40 million in adverse development on pending claim reserves. The company was subsequently placed in liquidation in March of 2016 after the completion of

a further review of its financial condition and the adequacy of its reserves, triggering guaranty associations in fifteen states. Covered claims are being paid by the guaranty associations. Early access agreements permitting early estate distributions to guaranty associations for expense and claim reimbursement have been put in place for participating guaranty associations.

Upon entry of the rehabilitation order AIC had 174,224 policies in force. Non-renewal notices were issued during rehabilitation to the company's policyholders in accordance with applicable state law, prior to the policy anniversary, minimizing the impact of the policy cancellations at liquidation.

Several asset recovery actions have been commenced by the Liquidator, including a settlement agreement reached in September of 2015 with the company's former managing general agent, Confie Seguros Holding II Co. ("Confie"), in connection with Confie's contested contingent liability to the company under the terms of a June 30, 2015 purchase agreement. Under the settlement, Confie contributed \$15 million to the AIC estate in consideration for the estate's release of a contested contingent payment of a similar amount due to AIC under the purchase agreement, and the grant of a non-interest bearing surplus note from AIC to Confie for the amount of its contribution.

A bar date for presenting timely-filed claims against the estate has been established as August 27, 2017. Timely-filed contingent claims must be liquidated on or before August 28, 2018.

**AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY ("AMM"), AMERICAN MOTORISTS INSURANCE COMPANY ("AMICO"), and LUMBERMENS MUTUAL CASUALTY COMPANY ("LMC"), IN LIQUIDATION**

AMM, AMICO and LMC were placed in rehabilitation in 2012. The rehabilitation was successfully used to provide a seamless transition at liquidation for the ongoing payment and administration of 6500 pending workers' compensation claims to the state insurance guaranty associations and large net worth employers excluded from the guaranty system without disruption in the payment of claims or provision of medical services to the injured workers. The estates were transitioned to liquidation in 2013 and substantively consolidated by judicial order to equitably distribute their combined assets to consumers and policyholders consistent with their pre-receivership financial operations. A merger of the three companies was effective as of December 31, 2014. LMC is the surviving legal entity.

A claim filing deadline of November 10, 2014 was established by the Supervising Court. Late claims may still be filed, but participate in estate distributions at a lower priority level. The deadline for the liquidation of timely-filed contingent claims recently expired on November 10, 2017.

Significant ongoing administrative activity includes the administration of 8000 open direct claims, as well as the adjustment and defense of 70 active insurance claims that are subject to a reinsurance cut through arrangement with Berkshire Hathaway. The estate carried \$222 million in outstanding reinsurance recoverable, net of assumed reinsurance offsets, at year end 2017, which come due as claims are allowed against the estate or paid by a guaranty association. The Liquidator's timely reinsurance recovery rate to date is running at 94% of the amounts due. Collateral need review and collection activity for 629 large deductible policyholder accounts remains ongoing. Escrow administration also continues for 47 policyholder accounts that are subject to pre-receivership large deductible buy-up agreements.

Significant progress was achieved in 2017 on the wind-down of LMC's three solvent subsidiaries Long Grove Insurance Company of Australia ("LGIC"), Lumbermens Casualty Insurance Company ("LCIC"), Specialty Surplus Insurance Company ("SSIC"), with closing on the sale of LGIC, fulfillment of administrative services obligations owed to LCIC's purchaser, and completion of the bid and auction process on SSIC.

2017 estate and guaranty association distributions totaled \$126 million to LMC's policyholders, guaranty associations and other estate creditors through the payment of policyholder claims, adjustment and return of excess collateral, payment of guaranty association claims and large deductible reimbursements, and the payment of policyholder claims on fully collateralized business segments.

### **CENTAUR INSURANCE COMPANY ("Centaur"), IN REHABILITATION**

In accordance with the court approved Plan of Rehabilitation, Revised Plan of Rehabilitation and Second Revised Plan of Rehabilitation, all of Centaur's timely-filed policyholder obligations have been paid in the ordinary course of business. Centaur's general creditor obligations on assumed reinsurance claims have also been fixed and adjudicated, but not paid. In total, \$131 million in policyholder claims and defense obligations were paid or discharged and \$103 million in general creditor claims have been fixed. Payment on the general creditor claims is subject to the resolution and release of the federal-priority claims of the United States, including claims asserted by the U.S. Environmental Protection Agency ("EPA").

In 2017 the Rehabilitator and the EPA completed the settlement of one EPA claim for \$8.75 million. The EPA and the Rehabilitator continue to work on the prove-up and adjudication of additional pollution claims. As the federal claims are brought to resolution, the Rehabilitator will cede and collect any reinsurance due from Centaur's reinsurers. A distribution on the general creditor claims will be made upon the resolution and release of the remaining EPA claims.

## **CONSTITUTIONAL CAUALTY COMPANY, IN LIQUIDATION**

CCC was a single state Illinois auto insurer placed in liquidation in 2011. The Liquidator completed the review and resolution of 1500 loss claims and 11,000 return premium claims. The Illinois Guaranty Fund was triggered as a result of the insolvency and continues to administer approximately 5 remaining claims. All outstanding litigation has been settled, including a \$5.4 million dollar settlement and recovery from the company's former ultimate control person. The liquidation is now substantially complete including the closing and asset consolidation of CCC's former holding company COPCO, Inc. The estate is expected to close in 2018.

## **ILLINOIS MOVERS' & WAREHOUSEMEN'S RISK MANAGEMENT GROUP ("Illinois Movers"), IN LIQUIDATION**

Illinois Movers was an Illinois domestic qualified group workers' compensation pool that was placed in liquidation in 2012. Based on its licensing status, traditional guaranty association protection was not available to its policyholder members or their workers' compensation claimants. A limited guaranty fund mechanism administered by the Illinois Group Self-insurers Insolvency Fund is available to make up the shortfall that injured workers receive on their distributions from the liquidation estate. 345 claims have been settled and 2 claims remain pending with contested hearings before the Supervising Court to be completed. The Liquidator is marshalling assets to pay the policyholder claims by levy of contractual assessments upon its member employers. An interim dividend on policyholder claims is expected to be made in 2018. A final distribution and estate closing will take place after the collection of the assessment levy is exhausted.

## **ILLINOIS RESTAURANT RISK MANAGEMENT ASSOCIATION, INC. ("IRRMA"), IN LIQUIDATION**

IRRMA was an Illinois domestic qualified group workers' compensation pool that was placed in liquidation in 2011. Based on its licensing status, traditional guaranty association protection was not available to its policyholder members or their workers' compensation claimants. A limited guaranty fund mechanism administered by the Illinois Group Self-insurers Insolvency Fund ("GSIF") is available to make up the shortfall that injured workers receive on their distributions from the liquidation estate.

A claim filing deadline of January 31, 2013 was established by order of the Supervising Court. The last of 63 allowed claims was settled in November of 2014. Dividend distributions totaling 70% of the amount due on claims were paid to all of the claimants by year-end 2014, based on the assets marshaled for the estate to date. The 30% shortfall in payment was thereafter transmitted to the GSIF for payment.

The estate closed in 2017 upon final collection of the outstanding assessments due from the pool's former policyholder members, and the distribution of any remaining assets to the GSIF after it discharged its obligations to the injured workers of IRRMA's policyholders.

### **ILLINOIS STATE BOWLING PROPRIETORS & RECREATIONAL INDUSTRY WORKERS' COMPENSATION TRUST ("ILLINOIS BOWLING TRUST"), IN REHABILITATION**

The Illinois Bowling Trust was an Illinois domestic qualified group workers' compensation pool that was placed in rehabilitation in 2011. Based on its licensing status, traditional guaranty fund protection was not available to its policyholder members or their workers' compensation claimants. A limited guaranty fund mechanism administered by the Group Self-insurers Insolvency Fund ("GSIF") is available to make up the shortfall that injured workers receive on their distributions from the liquidation estate.

The estate operated pursuant to a Plan of Rehabilitation, which provided for the continued payment of claims of policyholders, insureds, medical service providers and other creditors properly made under any liability policies at the rate of 70% of the amount due, and the continued defense of claims against policyholder members. The GSIF paid the 30% shortfall in rehabilitation plan payments to the claimants, and as a result became entitled to reimbursement from the rehabilitation estate. The last outstanding workers' compensation claim was settled and paid in 2015.

An assessment was levied by the Rehabilitator upon Illinois Bowling Trust members in a total amount of \$820,000 pursuant to the members Pooling Agreement. The amount of the Rehabilitator's assessment was contested and litigated before the Supervising Court. The litigation concluded with a 2015 Order from the Supervising Court reducing the total amount of the assessment to \$649,000. The Rehabilitator collected the assessment, reimbursed the GSIF for its 30% payment on the claims, and closed the estate in 2017.

### **INTERSTATE BANKERS CASUALTY COMPANY ("INTERSTATE"), IN LIQUIDATION**

Interstate was a regional auto carrier writing non-standard auto insurance in the Chicagoland area. It was placed in rehabilitation in July of 2014 after losing financial statement credit for an unqualified deferred tax asset.

The Rehabilitator immediately ceased selling new business and commenced the non-renewal of Interstate's 11,000 in-force policies as of April 2014. The final policy expired in May of 2015. Claims for unearned premium and insurance losses were discharged in the ordinary course of business during the rehabilitation.

The Rehabilitator determined that the company was insolvent and obtained an Order of Liquidation for the company in August of 2015, which triggered the Illinois Insurance Guaranty Fund to assume financial responsibility for Interstate's covered claims obligations. All covered claims will be discharged by the Guaranty Fund and the remaining claims will be subject to *pro rata* dividends from the estate.

From commencement of the rehabilitation proceedings through December 31, 2017, the Receiver distributed approximately \$9 million on claims by or against Interstate's policyholders, guaranty funds and other estate creditors.

## **LAND OF LINCOLN MUTUAL HEALTH INSURANCE COMPANY ('LLH'), IN LIQUIDATION**

LLH was established in 2013 under the Affordable Care Act (ACA) as a consumer oriented and operated health plan. The United States federal government ultimately contributed \$160 million to LLH through a start-up loan in the amount of \$16 million, which was converted to a surplus note in February 2016, and access to \$144 million in additional surplus notes that had been fully drawn by February 2016. Under the express terms of the surplus notes, repayment of LLH's federal obligations is subordinate to claims of policyholders and all other general creditors.

LLH lost approximately \$160 million its first three years of operation from 2014 through 2016. The company was determined to be insolvent as of June 30, 2016 when the result of its 2015 risk adjustment liability under Section 1343 of the Affordable Care Act was released by the federal Centers for Medicare and Medicaid Services. The company was accordingly placed in rehabilitation by the Circuit Court of Cook County, Illinois on July 14, 2016, and in liquidation on October 1, 2016. The rehabilitation was used to establish an "Advance Special Enrollment Period" in order to transition LLH's 40,000 policyholders to new insurers, prior to the immediate cancellation of their coverage upon liquidation.

Liquidation of the company triggered the Illinois Life and Health Insurance Guaranty Association, which became responsible for the payment of covered claims and for providing continuing coverage to policyholders who did not transfer or otherwise cancel their LLH coverage during the Advance Special Enrollment Period. The Guaranty Association's continuing coverage concluded under Illinois law on November 15, 2016 for group business and on December 31, 2016 for individuals.

The Liquidator assisted the Guaranty Association in discharging its obligation to process and pay covered LLH claims and retained LLH's former third party claims administrator, Valence Health Systems, key LLH staff and information systems to do so. Since liquidation the Guaranty Association has paid out in excess of \$45 million in claim payments. Claims will continue to be received and processed throughout 2018. The Guaranty Association is projected to incur approximately \$58.3 million in claims and expense obligations.

The Liquidator has reimbursed the Guaranty Association \$16.8 million to date through

early access payments from the estate. The Liquidator's ability to fully discharge LLH's policyholder obligations and reimburse the Guaranty Association is dependent upon whether recovery is had in LLH's lawsuit seeking in excess of \$98 million in federal risk corridor payments due under Section 1342 of the ACA.

### **LEGION INDEMNITY COMPANY ("LEGION INDEMNITY"), IN LIQUIDATION**

Legion Indemnity was placed in liquidation in 2003 on or about the time that its affiliate Legion Insurance Co. entered receivership in Pennsylvania. As a surplus lines insurer, guaranty fund coverage was not available to policyholders and claimants residing outside of the states of Illinois and New Jersey where Legion Indemnity was licensed.

Claim payments exceeding \$105 million (representing 100% of the amount due on timely-filed claims at all priority levels, and 38% of the amount due on late-filed policyholder priority claims) have been distributed by the Liquidator. The late-filed policyholder priority claims that have been allowed but yet to be paid currently total approximately \$15 million and will be entitled to share in a *pro rata* distribution of the estates remaining assets and any additional assets marshalled. The estate is expected to close after the settlement and resolution of two remaining late-filed policyholder priority claims, final collection of the outstanding reinsurance recoverables due to the estate, and the satisfaction and release of Legion Indemnity's federal claims and income tax obligations.

### **LIFE SERVICES NETWORK TRUST ("LSNT"), IN REHABILITATION**

LSNT is a Religious and Charitable Risk Pooling Trust that was placed in rehabilitation in late 2009. No guaranty fund protection was available to its policyholders and creditors, whose claims resulted from workers' compensation injuries.

A Rehabilitation Plan was approved by the Supervising Court and commenced in April 2010. The Rehabilitation Plan called for the collection of approximately \$11.2 million in assessments levied by the Rehabilitator upon the LSNT's members settled under judicially approved payment plan options. The Rehabilitation Plan provided for claims against the estate to be paid as they came due at a rate of 70% of the amount due. As of year-end 2017, the assessments have all been collected and \$15.6 million has been distributed in satisfaction of policyholder obligations under the Rehabilitation Plan. Six claims remaining pending. Claim payments under the plan are currently expected to continue throughout 2018, unless final settlement agreements can be reached with the remaining claimants.

### **MILLERS FIRST INSURANCE COMPANY ("MFIC"), IN LIQUIDATION AND MILLERS CLASSIFIED INSURANCE COMPANY ("MCIC"), IN REHABILITATION**

MFIC is a wholly owned subsidiary of Affiliated Mutual Holding Company (“AMHC”), based in Alton IL. Under its mutual holding company structure, the assets of AMHC were held in trust for the benefit of MFIC and its policyholders and creditors.

MFIC entered rehabilitation in 2012 based upon its failure to meet Illinois’ minimum and capital surplus requirements, after experiencing significant catastrophe storm losses during the 2010 to 2012 time period in its key markets in Missouri and Illinois. At rehabilitation, the company ceased writing new business, and was also required to stop the renewal of its in-force business. The last policy expired in July 2013.

At the commencement of the rehabilitation, MFIC’s primary business focus had shifted to personal lines insurance (auto and homeowners), but it was continuing to service the run-off of discontinued operations that included long tail workers’ compensation claims resulting from its agricultural business segment that had entered run off in the late 1990s.

Due to its long history, the company also supported a traditional defined benefit pension fund for its former employees. Although the pension fund was frozen several years prior to MFIC’s rehabilitation, legacy obligations, both administrative and financial remained and were transitioned by the Rehabilitator to a third party provider Principal Financial Group in early 2015. After that transition was completed, the Pension Benefit Guaranty Corp. invoked the involuntary termination of the pension plan, and assumed all plan assets and liabilities as of September 30, 2015. MFIC’s liability for funding its terminated pension plan is a general creditor obligation of the estate, subordinate to the payment of its policyholder obligations.

MFIC’s wholly owned subsidiary, MCIC, was placed in rehabilitation in January of 2015, after its redomestication from Wisconsin to Illinois in late 2014. MCIC’s policyholder claims have now all been resolved and paid. The Rehabilitator is exploring the viability of a merger into MFIC in order to consolidate the estate’s remaining assets into MFIC, while preserving guaranty association protection for MCIC’s former policyholders. Such a merger requires the approval of the Wisconsin Office of Commissioner of Insurance.

AMHC, as MFIC’s mutual holding company, was dissolved in February 2015 and its assets of approximately \$1.6 million were transferred to the MFIC estate pursuant to the applicable provisions of Illinois’ Mutual Holding Company Act.

MFIC was adjudicated insolvent and placed into liquidation on August 30, 2017, triggering the protection of state insurance guaranty associations for the remaining long-tail workers’ compensation claims.

## **POLISH WOMENS ALLIANCE OF AMERICA, IN REHABILITATION (“PWA”), IN REHABILITATION**

PWA is an Illinois domestic fraternal benefit society that was placed in rehabilitation in November 2015. PWA provides life insurance and annuity products to its members and had approximately \$53 million in insurance obligations in-force at December 31, 2016. The sale of new products were suspended prior to rehabilitation. As a fraternal benefit society, PWA is not a member of the Illinois Life and Health Insurance Guaranty Association. Guaranty association coverage is accordingly not available to its members.

The PWA had negative surplus of approximately \$1.25 million at December 31, 2016. The Rehabilitator continues to pay policyholder claims and other insurance benefits as they come due, and has implemented restructuring measures in order to reduce administrative expenses.

Merger proposals were solicited by the Rehabilitator from four fraternal benefit societies. The Rehabilitator selected a proposal from the Ohio based First Catholic Slovak Ladies Association (“FCSLA”) as the best and most competitive proposal. The FCSLA merger proposal included the assumption of 100% of PWA’s insurance and general creditor obligations. The Rehabilitator’s selection was unanimously affirmed by an advisory committee formed by the Rehabilitator of interested stakeholders. The merger was completed in July 2017. The estate closed on July 27, 2017.

#### **PUBLIC SERVICE MUTUAL HOLDING COMPANY (“PSMHC”) AND PUBLIC SERVICE INSURANCE COMPANY (“PSIC”) , IN REHABILITATION**

PSMHC AND PSIC were placed in rehabilitation on March 16, 2017, after PSIC was not able to formulate a satisfactory RBC action plan to address its Risk Based Capital deficiencies under section 5/35A-15 of the Illinois Insurance Code. PSIC is an Illinois domestic stock property & casualty insurance company located in New York City, New York. PSIC was previously organized as a mutual insurance company, which upon its conversion to a stock company became a subsidiary of PSMHC. In accordance with the provisions of the Agreed Order of Rehabilitation, the Rehabilitator cancelled all of PSIC’s in-force policies as of June 30, 2017, continues the administration and payment of policyholder claims and suspended payment of lower priority general creditor claims.

Shortly after entry of the Order of Rehabilitation, the Rehabilitator designed a policyholder loss portfolio structure to transfer all of PSIC’s remaining policyholder-priority obligations to another licensed direct insurer, and solicited potential bids from 140 potential counterparties. The winning bid, and a financially viable transaction, was proffered by Sparta Insurance Company (“Sparta”) and its parent Catalina Reinsurance Ltd. The Liquidator accordingly petitioned the Supervising Court on October 2, 2017 for approval of an Assignment Assumption and Novation Agreement (“Assumption Agreement”) between PSIC and Sparta, and a Plan of Rehabilitation for PSIC. After a notice, comment and hearing process was completed, the Supervising Court granted approval of the Assumption Agreement on November 29, 2017. Sparta ultimately declined to close the Assumption Agreement as a result of PSIC’s inability to satisfy all conditions precedent

to closing. With the Assumption Agreement having been the cornerstone of the Plan of Rehabilitation, PSIC's rehabilitation plan was withdrawn on January 24, 2018.

The Rehabilitator continues to administer and pay policyholder claims against the PSIC, and is exploring whether alternative rehabilitation structures are feasible in order to avoid liquidation.

### **REINSURANCE COMPANY OF AMERICA, INC. ("RCA"), IN LIQUIDATION**

Prior to its liquidation in April of 2011, RCA was running-off its discontinued workers' compensation operations, insuring a small book of large deductible workers' compensation business, and underwriting one month non-standard auto liability policies in the State of Texas. Claims are being paid by state insurance guaranty funds. Final distributions have been made to the guaranty funds for reimbursement of their administrative expenses.

The estate was administratively insolvent due to the liquidation of the reinsurer of RCA's auto liability program, and RCA's unsecured and uncollectible policyholder large deductible obligations on workers' compensation policies.

A final distribution of assets to the guaranty associations and closing of the estate was completed in December of 2017.

### **TRIAD GUARANTY INSURANCE CORPORATION ("TGIC") AND TRIAD GUARANTY ASSURANCE CORPORATION ("TGAC"), IN REHABILITATION**

TGIC and its wholly owned subsidiary TGAC were placed in rehabilitation in December of 2012.

The companies are based in Winston-Salem, North Carolina and were authorized to transact the business of mortgage guaranty insurance. After encountering financial troubles stemming from the historic national housing collapse that began in 2007, the companies ceased issuing new insurance commitments in 2008 and were operating in run-off under corrective orders issued by the Director in 2009. The corrective orders provided that TGIC could only pay 60% of the amount due on mortgage insurance claims, and required TGIC to hold escrow funds for the remaining 40%. In early 2012, due to its further financial deterioration, TGIC sought relief from the provision in the corrective order that required the 40% escrow. In connection with TGIC's request for relief from the escrow requirement of the corrective order, the Director conducted a public administrative hearing, which resulted in the Director's denial of relief from the escrow requirement and the placement of TGIC and TGAC in rehabilitation.

A Plan of Rehabilitation was approved by the Supervising Court in October of 2013. As of year-end 2017, \$881.2 million in estate assets have been distributed to consumers under the Plan of Rehabilitation. \$86.7 million was distributed in 2017. Claims are being paid in the ordinary course of business at the rate of 75% of the amount due, with a deferred payment obligation created and carried as a liability of the estate for the remaining 25%. Due to the nature of the mortgage guaranty business, approximately 80% of TGIC's obligations are due to the government service entities known as Fannie Mae and Freddie Mac, which in turn are under the conservatorship of the Federal Housing Finance Authority.

TGIC was wholly owned by Triad Guaranty Inc. ("TGI"), which was a publically traded Delaware corporation. TGI sued the Rehabilitator in an adversary proceeding brought in TGI's federal bankruptcy proceeding over the ultimate ownership and control of TGIC's carry-forward net operating losses ("CNOL") of approximately \$900 million. TGI asserted that as TGIC's parent and as its consolidated federal income tax filer, it retained ultimate control of TGIC's CNOL and was seeking payment from the Rehabilitator in order for the TGIC estate to continue to use its CNOL to offset taxable income. The federal Bankruptcy Court ruled in the Rehabilitator's favor in August of 2014. The U.S. District Court for the District of Delaware affirmed the lower court ruling in June of 2016. The decision is now final, preserving the rehabilitation estate's CNOL to offset federal income tax liability on estate income.