



Conservation & Liquidation Office

Executive Life Insurance Company Estate
For the Period January 1, 2021 through December 31, 2021

Team Members

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Transmitted via e-mail

June 17, 2022

Joseph B. Holloway, Chief Executive Officer
Conservation & Liquidation Office
100 Pine Street, 12th Floor
San Francisco, CA 94111

**Final Report—Executive Life Insurance Company Financial Statement Review,
December 2021**

In accordance with California Insurance Code section 1061, the California Department of Finance, Office of State Audits and Evaluations, has completed its review of the Executive Life Insurance Company Estate assigned to the Conservation & Liquidation Office (CLO) for the period January 1, 2021 through December 31, 2021.

The enclosed report is for your information and use. We appreciate the assistance and cooperation of CLO. If you have any questions regarding this report, please contact Rick Cervantes, Manager, or David Shockey, Supervisor, at (916) 322-2985.

Sincerely,

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations

cc: Regina Alava, Chief Financial Officer, Conservation & Liquidation Office
Catalina Hayes-Bautista, Chief Deputy Insurance Commissioner, California
Department of Insurance

TABLE OF CONTENTS

INDEPENDENT ACCOUNTANT'S REVIEW REPORT	1
STATEMENT OF NET ASSETS IN LIQUIDATION	3
STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION	4
STATEMENT OF CASH FLOWS IN LIQUIDATION.....	5
NOTES TO THE STATEMENTS	6

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Joseph B. Holloway, Chief Executive Officer
Conservation & Liquidation Office
100 Pine Street, 12th Floor
San Francisco, CA 94111

We have reviewed the accompanying financial statements of the Executive Life Insurance Company Estate which comprise the Statement of Net Assets in Liquidation as of December 31, 2021, Statement of Changes in Net Assets in Liquidation, and Statement of Cash Flows in Liquidation for the period then ended; and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Conservation & Liquidation Office (CLO) management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

CLO's Responsibility for the Financial Statements

CLO, as assigned conservator/liquidator, is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements and the related notes to the financial statements of the Executive Life Insurance Company Estate for the year ended December 31, 2021, in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

This report is intended solely for the information and use of the California Department of Insurance, CLO, and the courts, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in blue ink that reads "Cheryl L. McCormick". The signature is written in a cursive, flowing style.

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations

May 31, 2022

STATEMENT OF NET
ASSETS IN LIQUIDATION

**Executive Life Insurance Company Estate
Statement of Net Assets in Liquidation
As of December 31, 2021**

	<u>Balance</u>
Assets	
Participation in Pooled Investments, at Market	\$ 1,849,583
Accrued Investment Income	3,753
Total Assets	<u>\$ 1,853,336</u>
Liabilities	
Accrued Administrative Expenses	\$ 97,911
Policyholder Liability	194,391,623
Distributions	<u>(194,391,623)</u>
Total Liabilities	<u>\$ 97,911</u>
Net Assets (Deficiency) in Liquidation	<u>\$ 1,755,425</u>

The notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION

Executive Life Insurance Company Estate Statement of Changes in Net Assets in Liquidation For the Year Ended December 31, 2021

Net Assets in Liquidation December 31, 2020	\$ 2,657,745
Expenses	
Legal Expenses	6,690
Consultants and Temps	209,636
Office Expenses	140,559
Net Allocated Expenses	<u>213,113</u>
Total Administrative Expenses	569,998
Federal Income Tax Expense	<u>5,000</u>
Total Expenses	574,998
Investments	
Investment Income	32,489
Investment Expenses	(534)
Gain (Loss) on Securities	<u>(42,944)</u>
Net Investment Income	(10,989)
Changes in Net Assets	(585,987)
Adjustment for the Executive Life Opt-Out Trust Closing Costs	(316,333)
Net Assets in Liquidation December 31, 2021	<u>\$ 1,755,425</u>

The notes are an integral part of the financial statements.

STATEMENT OF
CASH FLOWS IN LIQUIDATION

**Executive Life Insurance Company Estate
Statement of Cash Flows in Liquidation
For the Year Ended December 31, 2021**

Cash Flows from Operating Activities

Changes in Net Assets	\$ (585,987)
Increase (Decrease) in Accrued Administrative Expenses	97,911
Adjustments to Net Assets	<u>(316,333)</u>
Net Cash Flows from Operating Activities	(804,409)

Cash Flows from Investing Activities

Decrease (Increase) in Accrued Investment Income	2,060
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Cash Flows from Financing Activities

	<u>0</u>
Net Increase (Decrease) in Cash	(802,349)

Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	<u>2,651,932</u>
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Cash, Cash Equivalents, and Restricted Cash at End of Period	<u>\$ 1,849,583</u>
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The notes are an integral part of the financial statements.

1. Organization

The California Insurance Commissioner (Commissioner), an elected official of the State of California, acts under the supervision of the Superior Court (Court) when conserving and liquidating insurance enterprises. In this capacity, the Commissioner is responsible for taking possession (conservation) of the assets of financially troubled insurance enterprises domiciled or incorporated in California. An enterprise subject to a conservation or liquidation order is referred to as an estate.

Executive Life Insurance Company (ELIC) was placed in conservation by order of the Los Angeles County Superior Court on April 11, 1991. At the time, ELIC, which had more than 330,000 policyholders, was the largest life insurance insolvency in United States history. In the summer and fall of 1991, the Commissioner conducted an auction seeking bids to acquire the junk bond portfolio and insurance assets of ELIC. In December 1991, the Commissioner's selection of a group of French and European investors (the Altus/MAAF group) as the winning bidders was approved by the Court.

In March 1992, ELIC's junk bond portfolio was transferred to Altus Finance for a total purchase price of approximately \$3 billion. In August 1993, the Court approved a final Rehabilitation Plan under which the majority of ELIC's assets and its restructured insurance policies were transferred to a new California insurance company created by the European consortium that had won the 1991 bid. The Rehabilitation Plan became effective in September 1993. Under the terms of the Rehabilitation Plan, former ELIC policyholders were given a choice either to accept new coverage (Opt-In) from Aurora National Life Assurance Company (Aurora) or to terminate their policies (Opt-Out) in return for a pro rata share of ELIC's assets. The Rehabilitation Plan also provided for the establishment of various trusts, collectively known as the Enhancement Trusts, to marshal and distribute assets for the benefit of former ELIC policyholders.

2. Basis of Presentation

The accompanying financial statements of the ELIC Estate (Estate) have been prepared on the liquidation basis of accounting in conformity with generally accepted accounting principles. These financial statements reflect the financial position and activity of the Estate, which has been assigned to CLO by the Commissioner in their role as liquidator.

3. Summary of Significant Accounting Policies

ASSETS:

Pooled Investments

All investments, including short-term investments and debt and equity securities, are stated at fair value, which approximates market value. Market values are those provided by the depository trust institution in possession of the securities at the balance sheet date or through brokerage institutions.

The majority of the invested assets of the estates are combined for investment purposes into an investment pool, divided equally between two investment management firms. Each of the participating estates owns a percentage of the pool based on its proportionate share of the fair value of the pool's net assets. The net assets are valued at fair value on a monthly basis and estate ownership is computed monthly based on contributions and withdrawals by participating estates. Realized and unrealized gains and losses are allocated monthly based on the Estate's ownership percentage in the pool at month-end.

Accrued Investment Income

Accrued Investment Income represents monthly estimates of interest and dividends earned on cash and investments held by the Estate. For pooled investments, interest accruals are allocated based on the Estate's percentage of ownership in the pool. Non-pooled interest accruals are on an estate by estate basis. Each month, interest and dividends are accrued and posted to the Estate's account. Upon receipt of the earnings, the accruals are reversed and actual amounts received are posted.

LIABILITIES:

Accrued Administrative Expenses (Class 1)

Accrued Administrative Expenses (Class 1) represents accrued CLO administrative expenses and reserves for federal income tax liabilities.

The CLO does not accrue estimates of future administrative costs because a reasonable basis for the costs cannot be determined, except when the Court has approved a final distribution order and the estate is scheduled to be closed within the following twelve months.

Administrative Expenses (Class 1) liabilities have the first priority payment of an estate's assets after all secured claims are satisfied.

Policyholder Liability

The Estate received a court order in December 2019 for its final distribution and closing. Policyholder Liability is \$0 after the 2020 distribution. (See Notes 4 and 7)

EXPENSES:

Administrative Expenses

Administrative Expenses consists of both direct and indirect expenses. Direct expenses are those expenses which are directly charged to the Estate, such as legal costs, consultants and contractors, office expenses, and federal income taxes. Indirect expenses are administrative expenses not directly charged to an estate but allocated to each estate on a proportional basis. Allocated expenses applicable to all of the estates include CLO employee compensation and benefits, payroll taxes, rent, utilities, and other general overhead costs. These shared expenses are allocated to each estate based on factors derived from the direct CLO labor hours charged to each estate.

Legal Expenses

Expenses are incurred with respect to the Court's oversight of the Estate's operations.

INVESTMENTS:

Investment Income

Investment Income is comprised of interest and dividends earned on cash and investments held by the Estate. For estates with investments in the pool, income is allocated based on the estate's proportional share in the pool.

Investment Expenses

Investment Expenses is comprised of investment and interest expenses related to cash and investments held by the Estate. For estates with investments in the pool, the expenses are allocated based on the estate's proportional share in the pool.

Gain (Loss) on Securities

Gain (Loss) on Securities consists of long and short-term gains and losses incurred as part of the investment pool, mark to market adjustments, gains and losses on non-pooled reappraisals of securities, and gains and losses incurred on the transfer of non-pooled securities into the pool. The long and short-term gains and losses and mark to market adjustments are allocated based on the estate's proportional share in the pool. Gains and losses on the reappraisal of non-pooled securities and the transfer of non-pooled securities into the pool are reported on an estate by estate basis.

Unrealized and realized gains and losses are included as a component of net investment income. The cost of securities sold is based on specific identification and realized gains or losses are computed based on the securities' original cost. Transfers of non-pooled investments to a pool are a sale resulting in non-pooled realized gains or losses and a non-cash transfer. Transfers from one pool to the other are a sale resulting in pooled realized gains or losses and a non-cash transfer.

4. Distributions

The Estate made no distributions in 2021.

5. Litigation

There are no pending legal proceedings involving the Estate as of December 31, 2021.

6. Subsequent Events

There are no reportable subsequent events for the Estate.

7. Planned Estate Closing

The Estate will be closed by December 31, 2022.