



Transmitted via e-mail

May 11, 2017

Mr. David E. Wilson, Chief Executive Officer  
Conservation & Liquidation Office  
100 Pine Street, 12<sup>th</sup> Floor  
San Francisco, CA 94111

Dear Mr. Wilson:

**Final Report—Executive Life Insurance Company Estate Financial Statement Review,  
December 2016**

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, 2016 through December 31, 2016.

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 Marilyn Santiago, Supervisor, at (916) 322-2985.

Sincerely,

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

Enclosure

cc: Mr. Ray Minehan, Chief Financial Officer, Conservation & Liquidation Office  
Ms. Regina Alava, Vice President, Finance, Conservation & Liquidation Office  
Mr. Joel Laucher, Chief Deputy Insurance Commissioner, California Department of  
Insurance

# FINANCIAL STATEMENT REVIEW

---

## Executive Life Insurance Company Estate Conservation & Liquidation Office For the Period January 1, 2016 through December 31, 2016

Prepared By:  
Office of State Audits and Evaluations  
California Department of Finance

## **MEMBERS OF THE TEAM**

Kimberly Tarvin, CPA  
Manager

Marilyn Santiago, CPA  
Supervisor

### Staff

Jack Liu, CPA  
Hanzhao Meng, CPA  
Jeffrey Neller

You can contact our office at:

California Department of Finance  
Office of State Audits and Evaluations  
915 L Street, 6<sup>th</sup> Floor  
Sacramento, CA 95814  
(916) 322-2985

# TABLE OF CONTENTS

---

Independent Accountant's 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

Mr. David E. Wilson, Chief Executive Officer  
Conservation & Liquidation Office  
100 Pine Street, 12<sup>th</sup> 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, 2016, 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 AICPA. 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, 2016, 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.



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

April 22, 2017

STATEMENT OF NET  
ASSETS IN LIQUIDATION

---

**Executive Life Insurance Company Estate  
Statement of Net Assets in Liquidation  
As of December 31, 2016**

	<u>Balance</u>
<b>Assets</b>	
Cash and Investments	\$ 75,675,262
Accrued Investment Income	219,658
Receivables from ELIC Opt-Out Trust	<u>590,037</u>
Total Assets	<u>\$ 76,484,957</u>
<b>Liabilities</b>	
Secured Claims	\$ 84,468
Policyholder Liability	7,005,828,702
Distributions	(115,299,605)
Other Claims	<u>428,836</u>
Total Liabilities	<u>6,891,042,401</u>
<b>Net Assets (Deficiency) in Liquidation</b>	<b><u>\$ (6,814,557,444)</u></b>

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, 2016**

<b>Net Assets in Liquidation December 31, 2015</b>	<b>\$ (6,640,531,263)</b>
<b>Expenses</b>	
Legal Expenses	3,229,678
Consultants and Temps	442,383
Office Expenses	64,077
Allocated Overhead Expenses	<u>627,430</u>
Total Administrative Expenses	4,363,568
Interest on Policyholder Liabilities	170,242,011
Federal Income Tax Expenses	<u>1,623,000</u>
Total Expenses	176,228,579
<b>Investments</b>	
Investment Income	2,086,946
Investment Expenses	(109,770)
Gain (Loss) on Securities	<u>225,222</u>
Net Investment Income	2,202,398
<b>Changes in Net Assets</b>	<b>(174,026,181)</b>
<b>Net Assets in Liquidation December 31, 2016</b>	<b><u>\$ (6,814,557,444)</u></b>

---

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, 2016**

<b>Cash Flows from Operating Activities</b>	
Changes in Net Assets	\$ (174,026,181)
Decrease (Increase) in Other Receivables	88,505,925
Increase (Decrease) in Secured Claim Liabilities	(2,616,610)
Increase (Decrease) in Unpaid Policyholder Liabilities	170,717,467
Increase (Decrease) in Distributions	<u>(115,299,605)</u>
Net Cash Flows from Operating Activities	(32,719,004)
 <b>Cash Flows from Investing Activities</b>	
Decrease (Increase) in Accrued Investment Income	(47,932)
 <b>Cash Flows from Financing Activities</b>	<u>0</u>
<b>Net Increase (Decrease) in Cash</b>	<b>(32,766,936)</b>
 Cash at Beginning of Period	<u>108,442,198</u>
 <b>Cash at End of Period</b>	<b><u>\$ 75,675,262</u></b>

---

The notes are an integral part of the financial statements.

# NOTES TO THE 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 350,000 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 bidder 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 his role as liquidator.

## **3. Summary of Significant Accounting Policies**

CLO, as liquidator, plans to complete its liquidation activities by December 2020 and close the Estate within a reasonable time thereafter. There can be no assurance that this date can be achieved due to the nature of the liquidation of an insurance estate. Further, due to uncertainties relative to the claims settlement process, reinsurance collections or settlements, and litigation activities, it is not possible to provide with any reasonable assurance the ultimate cost of closing the Estate.

## **ASSETS:**

### **Cash and Investments**

All investments, including short-term investments and debt and equity securities, are stated at 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:**

### **Secured Claims**

Secured Claims represents funds allocated to Opt-In policyholders, and unclaimed funds payable, which are funds distributed to claimants, which were returned as undeliverable and/or an accurate address could not be located. Unclaimed funds are eventually escheated to the state agency of the claimants' last known address.

### **Accrued Administrative Expenses**

Accrued Administrative Expenses represent administrative expenses, which have been accrued but not yet paid. Generally accepted accounting principles require that the financial statements of entities in liquidation provide for an estimate of future administrative costs. The IRS tax matters which impact the closure of an estate will take approximately three more years to resolve. It is CLO's policy not to accrue estimates of future administrative costs, except when the Court has approved a final distribution order and the estate is scheduled to be closed within the following twelve months.

### **Policyholder Liability**

Policyholder Liability represents the amount the Estate owes to policyholders in accordance with provisions of the Modified Rehabilitation Plan and relevant judicial decisions, and includes accrued but unpaid interest of approximately \$3.7 billion.

### **Other Claims**

Other Claims represent pre-liquidation accounts payable and claims due to general creditors. The stated amount does not include interest that has accrued on such claims. Accrued interest on these Other Claims will not be paid unless and until the Estate has sufficient funds to do so after paying all principal and interest owed to policyholders and other creditors with priority over these Other Claims.

## **REVENUES:**

### **Other Revenue**

Other Revenue primarily consists of fees collected and miscellaneous income received by the Estate.

## **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.

## **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**

In September 2016, the Estate made a distribution of \$110.8 million to policyholder claimants pursuant to the ELIC Rehabilitation Plan.

## **5. Litigation**

The Commissioner, in his capacity as conservator, rehabilitator, and liquidator of the Estate, commenced a civil action in 1999 against Altus Finance S.A. (Altus) and other defendants alleging that they had acquired the junk bond portfolio and insurance assets of the Estate through fraud. Settlements were reached with Altus and some of the other defendants in 2004 and 2005.

A trial against the remaining defendants in 2005 resulted in a jury verdict finding Artemis S.A., a two-thirds owner of Aurora, liable for knowing participation in a conspiracy with members of the Altus/MAAF group to defraud the Commissioner. In August 2008, the jury's verdict of liability was upheld on appeal and the case was remanded to the U.S. District Court for a new trial on the issue of damages.

The new trial concluded on October 29, 2012 and the jury rendered a verdict finding of no damages. Thereafter, the judge indicated his tentative decision to reinstate the restitution award of \$241 million which the court previously awarded at the end of the 2005 trial. In July 2015, Artemis and the Commissioner reached a settlement agreement in which Artemis agreed and paid \$200 million to the Estate.

During April 2016, the Estate also settled the Thelen contingent fee matter for \$1,950,000. Thelen's original claim was \$14 million.

## **6. Subsequent Events**

There are no reportable subsequent events for the Estate.