



Executive Life Insurance Company Opt-Out Trust

Conservation & Liquidation Office

For the Period January 1, 2019 through December 31, 2019

Team Members

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Transmitted via e-mail

June 12, 2020

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

Final Report—Executive Life Insurance Company Opt-Out Trust Financial Statement Review, December 2019

The California Department of Finance, Office of State Audits and Evaluations, has completed its review of the Executive Life Insurance Company Opt-Out Trust assigned to the Conservation & Liquidation Office (CLO) for the period January 1, 2019 through December 31, 2019.

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: Ray Minehan, Chief Financial Officer, Conservation & Liquidation Office
Regina Alava, Vice President, Finance, Conservation & Liquidation Office
Catalina Hayes-Bautista, Chief Deputy Insurance Commissioner, California
Department of Insurance

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Joe 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 (ELIC) Opt-Out Trust, which comprise the Statement of Assets and Liabilities as of December 31, 2019, Statement of Operations, and Statement of Cash Flows 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 ELIC Opt-Out Trust for the year ended December 31, 2019, 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
Chief, Office of State Audits and Evaluations

May 6, 2020

STATEMENT OF
ASSETS AND LIABILITIES

Executive Life Insurance Company Opt-Out Trust
Statement of Assets and Liabilities
As of December 31, 2019

| | <u>Balance</u> |
|--|----------------------|
| Assets | |
| Participation in Pooled Investments, at Market | \$ 12,055,505 |
| Accrued Investment Income | <u>31,129</u> |
| Total Assets | <u>\$ 12,086,634</u> |
| Liabilities | |
| Secured Claims | \$ 9,615,810 |
| Unclaimed Funds Payable | 1,793,651 |
| Reserve for Administrative Expenses | <u>677,173</u> |
| Total Liabilities | <u>\$ 12,086,634</u> |

The notes are an integral part of the financial statements.

STATEMENT OF OPERATIONS

Executive Life Insurance Company Opt-Out Trust
Statement of Operations
For the Year Ended December 31, 2019

| Investments | |
|-------------------------------|-------------------------|
| Investment Income | \$ 275,002 |
| Investment Expenses | (10,039) |
| Gain (Loss) on Securities | <u>149,672</u> |
| Net Investment Income | 414,635 |
| | |
| Expenses | |
| Consultants and Temps | 136,855 |
| Office Expenses | 18,788 |
| Allocated Overhead Expenses | <u>168,797</u> |
| Total Administrative Expenses | 324,440 |
| | |
| Net Income (Loss) | <u>\$ 90,195</u> |

The notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

Executive Life Insurance Company Opt-Out Trust Statement of Cash Flows For the Year Ended December 31, 2019

Cash Flows from Operating Activities

| | |
|---|----------------|
| Net Income (Loss) | \$ 90,195 |
| Increase (Decrease) in Secured Claim Liabilities | (38,039) |
| Adjustment to Reserve for Administrative Expenses | <u>(3,568)</u> |
| Net Cash Flows from Operating Activities | 48,588 |

Cash Flows from Investing Activities

| | |
|--|-------|
| Decrease (Increase) in Accrued Investment Income | 2,855 |
|--|-------|

Cash Flows from Financing Activities

| | |
|---------------------------------|--------------------|
| Net Increase (Decrease) in Cash | <u>0</u> 51,443 |
|---------------------------------|--------------------|

| | |
|--|-------------------|
| Cash, Cash Equivalents, and Restricted Cash at Beginning of Period | <u>12,004,062</u> |
|--|-------------------|

| | |
|--|----------------------|
| Cash, Cash Equivalents, and Restricted Cash at End of Period | <u>\$ 12,055,505</u> |
|--|----------------------|

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 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 (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 Superior 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 Superior 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.

The ELIC Opt-Out Trust (Trust) was created in 1994 to hold assets to be disbursed to policyholders who opted out. It is also a cost center for charging expenses that apply only to opt-out policyholders. The Trust received funds from the Enhancement Trusts, and with those trusts being closed, it now receives funds from the ELIC Estate. Specific processes for how ELIC funds are distributed to Opt-In and Opt-Out policyholders are determined by the provisions of the ELIC Rehabilitation Plan and the ELIC Enhancement Agreement.

2. Basis of Presentation

The accompanying financial statements of the Trust have been prepared in conformity with generally accepted accounting principles. These financial statements reflect the financial position and activities of the Trust.

3. Summary of Significant Accounting Policies

ASSETS:

Pooled Investments

The invested assets of the Trust are combined for investment purposes into an investment pool, divided equally between two investment management firms. Each of the participating trusts 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 ownership is computed monthly based on contributions and withdrawals by participating trusts. Realized and unrealized gains and losses are allocated monthly based on the Trust's ownership percentage in the pool at month-end.

Pooled investments may be considered restricted. However, the Trust held no restricted pooled investments as of December 31, 2019.

Accrued Investment Income

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

LIABILITIES:

Secured Claims

Secured Claims represents amounts due to Trust Opt-Out contract holders which have not yet been disbursed.

Unclaimed Funds Payable

Unclaimed Funds Payable are funds distributed to claimants that were returned as undeliverable and/or an accurate address could not be located. Unclaimed funds are eventually escheated to the California State Controller's Office or the state treasurer of the claimants' last known address.

Reserve for Administrative Expenses

The Reserve for Administrative Expenses is used to offset expenses to be incurred in closing the Trust.

INVESTMENTS:

Investment Income

Investment Income is comprised of interest and dividends earned on cash and investments held by the Trust. For trusts with investments in the pool, income is allocated based on the trust'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 Trust. For trusts with investments in the pool, the expenses are allocated based on the trust'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 trust's proportional share in the pool.

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 (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 and losses and a non-cash transfer. Transfers from one pool to the other are a sale resulting in pooled realized gains and losses and a non-cash transfer.

EXPENSES:

Administrative Expenses

Administrative Expenses consists of both direct and indirect expenses. Direct expenses are directly charged to the Trust whenever individually attributable. These expenses consist of legal costs, consultants and contractors, and office expenses. Administrative expenses not directly charged to an individual trust are allocated on a proportional basis. Allocated expenses include CLO employee compensation and benefits, payroll taxes, indirect legal expenses, rent, utilities, and other general overhead costs. These shared expenses are allocated to the Trust based on factors derived from the direct CLO labor hours charged to each estate or trust.

4. Distributions

In 2019, the Trust made no distributions.

5. Litigation

There are no pending legal proceedings involving the Trust as of December 31, 2019.

6. Subsequent Events

There are no reportable subsequent events for the Trust.

7. Planned Distribution and Trust Closing

The ELIC Estate (Estate) filed an application for order approving the final accounting; closing budget; document destruction; final distribution plan; and discharging the Commissioner after filing a Declaration of Compliance. The hearing occurred on November 21, 2019 and the judge signed the order on December 4, 2019. The Estate is positioned for a final distribution on or about July 1, 2020, which will include a distribution of approximately \$25 million to the Trust, to be distributed in July 2020 by the Trust to Opt-Out contract holders.