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**ANNUAL REPORT OF THE
MISSOURI LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION
FOR THE YEAR ENDING DECEMBER 31, 2008**

The Annual Report of the Missouri Life and Health Insurance Guaranty Association (the "Association") for the year ending December 31, 2008 is herewith submitted to the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration ("DIFP") and the Board of Directors.

GENERAL

As of December 31, 2008, there were 839 companies licensed to sell life, health, or annuity contracts and by the terms of sections 376.715 to 376.758, Revised Statutes of Missouri, are deemed to be members of the Association. Of the member companies, 494 had authority to sell life insurance, 804 had authority to sell health insurance, and there was one health service corporation.

2008 MEETINGS

The Annual Meeting of the Membership was held on May 21, 2008. As a course of business for this meeting, three members were elected to serve on the Board of Directors for a term that will expire in 2011. Those members are:

Assurant Employee Benefits/Union Security Insurance Company
Representative: Donna Bowles

Kansas City Life Insurance Company
Representative: Gary Hoffman

Ozark National Life Insurance Company
Representative: David Melton

On the same date, the Board of Directors elected the following officers to serve for a term of one year, or until a successor is duly elected:

<u>NAME</u>	<u>COMPANY</u>
Gary Hoffman, Chair	Kansas City Life Insurance Company
Steven Bledsoe, Vice-Chair	Blue Cross/Blue Shield of Kansas City
Patricia McDonald, Secretary/Treasurer	Shelter Life Insurance Company

In accordance with Article III, B, 2, of the Plan of Operation (the "Plan"), the officers of the Association constitute the Executive Committee. A full roster of the Board of Directors accompanies this report.

Also during 2008, the Executive Committee continued the practice of meeting regularly on a quarterly basis. Under Article III, B, 2, of the Plan, it is contemplated that the Executive Committee will be involved with the ongoing functions and the administrative duties of the Association as may occur between meetings of the Board of Directors. Minutes of all meetings of the Member Insurers, the Board of Directors, and the Executive Committee are on file at the office of the Association in Jefferson City, Missouri.

OFFICE OF THE EXECUTIVE DIRECTOR

The Association closed the records for three estates on December 31, 2008. Having received copies of the appropriate formal orders from courts, the Association closed the estates by making fund balance transfers to or from the Miscellaneous Estates fund. The closed estates were Diamond Benefits Life (AZ), Fidelity Mutual Life Insurance Company (PA) and Kentucky Central Life Insurance Company (KY). The following information represents the accumulated financial activity of the three closed estates and the aggregate impact of the closing entries:

Cost of Covered Contractual Obligations:	\$4,376,868	
Estate Expenses:	<u>\$326,357</u>	
<i>Total Cost of the Estates:</i>		<u>\$4,703,225</u>
Assessments from members:	\$4,912,377	
Post-liquidation Premium:	<u>\$0</u>	
<i>Revenues from Operations:</i>		<u>\$4,912,377</u>
Revenues from Investing:	\$102,596	
Assets Recovered from Estates:	\$5,078,679	
Transfers from Other Estates:	<u>\$10,662</u>	
<i>Total Revenues from Other Sources:</i>		<u>\$5,191,937</u>
Transfers to Other Estates:		(\$4,543,436)
 <u>Residual funds as of December 31, 2008 transferred to other estates:</u>		 <u>\$857,653</u>

The Association is an active member of NOLHGA and the Executive Director has represented the Association by serving on the following technical task forces and committees:

Accounting Issues Committee
Assessment Data Task Force (Chair)
MPC Executive Committee

In addition to these groups, the Association has also been active on the following task forces that are dealing with specific insolvencies:

American Western Life Insurance Company (Chair)
Benicorp Insurance Company
Lincoln Memorial Life Insurance Company
Thunor Trust Companies
Universe Life Insurance Company

FINANCIAL REPORTS

The financial statements for the fiscal year ending December 31, 2008, for both the Class A and Class B Funds are attached to this report. In addition to the basic financial statements, there are Supplemental Statements of Revenues, Expenses and Net Assets that represent the year-end status of each Class B estate. The report also includes Accumulative Statements of Revenue, Expenses, and Net Assets that depict the financial activity of each insolvency since its inception. These statements are unaudited.

Pursuant to the requirements of Article V, E, of the Plan, the Association retains an independent accounting firm to perform an annual audit of its financial records. The firm of Williams-Keepers, L.L.C., Jefferson City, Missouri, has been retained to conduct the annual audit of the financial records of the Association as of the year ending December 31, 2008. Copies of the audit report can be obtained by contacting the Association's office.

2008 CLASS A ASSESSMENT

The Board is authorized under section 376.735 to make either a pro-rata or a non-pro-rata Class A assessment of the membership for the purpose of providing the funding to cover administrative expenses. The Association allocates administrative expenses among all insolvencies. It was not necessary to levy a Class A assessment during 2008.

2008 CLASS B INSOLVENCY ASSESSMENT

The Association is authorized under section 376.735, Revised Statutes of Missouri, to assess its membership for the purpose of providing the funding necessary to meet the Association's requirements with respect to insolvent and impaired insurers. The Association did not find it necessary to levy a Class B assessment during the year of 2008.

OPEN INSOLVENCIES

Article V, C, of the Plan, requires that the Annual Report contain a review of the activities of the Association during the preceding year. The following vignettes are intended to fulfill that requirement and to update the membership with regard to the status of each estate that had significant and material activity during the calendar year 2008. Also, a listing of all open estates is included for the memberships' reference.

<u>1988</u> First Columbia Life Ins. Co. (LA)	<u>1999</u> First National Life Ins. Co. of America (MS) International Financial Services Life Ins. Co. (MO)
<u>1989</u> American Mutual Liability Ins. Co. (MA)	<u>2000</u> American Chambers Life Ins. Co. (OH)
<u>1991</u> Executive Life Ins. Co. (CA) Fidelity Bankers Life Ins. Co. (VA) Midwest Life Ins. Co. (LA)	<u>2001</u> Reliance Insurance Co. (PA)
<u>1993</u> American Integrity Ins. Co. (PA) Consumers United Life Ins. Co. (DE)	<u>2003</u> Legion Insurance Co. (PA)
<u>1994</u> National Heritage Life Ins. Co. (DE)	<u>2004</u> Life & Health Ins. Co. of America (PA) London Pacific Life & Annuity Co. (NC)
<u>1996</u> Confederation Life Ins. Co., U.S. (MI)	<u>2006</u> Shelby Casualty Insurance Company (TX)
<u>1997</u> American Western Life Ins. Co. (UT)	<u>2007</u> Benicorp Insurance Company (IN)
<u>1998</u> Centennial Life Ins. Co. (KS) Universe Life Ins. Co. (ID)	<u>2008</u> Lincoln Memorial Life Insurance Co. (TX)

SUMMARY COMMENTS ON ESTATES WITH SIGNIFICANT AND MATERIAL ACTIVITY

Benicorp Insurance Company

Benicorp, an Indiana domiciled insurer, was licensed in 28 states. The company focused its marketing in the small employer group health business. The primary products were major medical products along with life coverage and drug plan options. All health forms were cancelable with 30 days notice prior to the next premium due date.

At July 31, 2008, the estate had approximately \$12.5 million in cash and other invested assets. This is excluding \$500,000 in special state deposits. The estate has paid the guaranty associations for their 2007 administrative expenses and has budgeted \$815,000 for future guaranty association expenses. The administrative expenses of the estate are being reserved at approximately \$2.5 million.

The Class 2 – Policyholder Level claims are estimated at \$52 million. The receiver made a \$7.1 million distribution in the fall of 2008. After making the distribution and factoring in the reserves, there will be approximately \$3 million in liquid assets available in the estate. There may be additional assets in the form of potential collections on reinsurance and contingent assets from litigation. The Association has paid over \$5 million in claims. Total distributions received from the estate are \$829,310.

Continental Security (Peoples Mutual Assessment Business)

The Association continues to handle all the administration of this block of business. As of the end of 2008, there were 574 active policies that represented approximately 1000 insured lives. The total number of death claims paid was 77. Administrative expenses were approximately 200% of policyholder assessments and 99% percent of the total expenses of the estate.

Executive Life Insurance Company

In April of 2008, the Association paid the Seventeenth Installment Billing, in the amount of \$1,626,701. These annual payments are made under the Enhancement Agreement that allowed for the preservation of policyholder benefits of this former member insurer.

In 2008, a ruling was made on the appeals in the civil litigation between the California Commissioner and Artemis S. A. The Ninth Circuit Court of Appeals reversed the lower court's ruling and remanded the case for retrial on two issues. First, the court is to reconsider the validity of the fact that the Commissioner would have selected the guaranty association proposal for handling the insolvency of Executive Life if there had been knowledge of the fraud of Altus at the time the selection was made. Second, the retrial will also address the issue of damages. This damages issue includes both the consequential and punitive damages. In the original ruling, there were no compensatory damages yet the court awarded \$700 million in punitive damages. The trial is set for early in November of 2009.

First National Life Insurance Company of America

See the "*Thunor Trust*"

International Financial Services Life Insurance Company

See the "*Thunor Trust*"

Life and Health Insurance Company of America

On March 7, 2008, the Liquidator distributed approximately \$8 million to the affected guaranty associations. This represented the remaining assets in this Pennsylvania domiciled insurer's estate. A Final Settlement Summary schedule and supporting documents were distributed to the affected associations in June of 2008.

The Final Settlement summary combined the allocation of funds from the December 31, 2007 True-up of the Escrow Account with the allocation of the Final Estate Distribution and accrued escrow account interest. It also provides for a reserve of funds for on-going policy administration and claims payments. In early July, NOLHGA received the final true-up payment from Philadelphia American for the assumption reinsurance agreement that was closed in late January of 2008. This amount was included as part of the true-up of the September of 2008 escrow account reconciliation.

In total, the affected guaranty associations have recovered \$26,598,589 from this estate. This aggregate amount includes allowed administrative expenses of over \$6 million that have been paid at 100% and policyholder level claims of approximately \$49 million that have been recovered at approximately 42%. The Association's total recoveries are \$1,524,458. The total related incurred claims and expenses are approximately \$3.7 million and \$493,000, respectively. With the distribution of assets in 2008, the estate is now ready to be formally closed.

Lincoln Memorial Life Insurance Company

On May 14, 2008, the Texas Department of Insurance obtained an Order of Rehabilitation from the Travis County Circuit Court in Texas against Lincoln Memorial Life Insurance Company ("Lincoln Memorial"), Memorial Services Life Insurance Company and National Prearranged Services, Inc ("NPS"). These companies were subsequently ordered into liquidation by the Texas court on September 22, 2008. Lincoln Memorial was licensed in 44 states. Memorial Service Life Insurance Company was only licensed in Texas. The insurance companies were part of a holding company system and had a direct relationship with the affiliate NPS, that sold pre-need funeral plans.

The insurance company had limited liquid assets. There was approximately \$10 million in cash assets as of November 30, 2008 among all three affiliates. There is reinsurance in force but every treaty is in some stage of dispute. At this point, there is no clear determination on what, if any, contingent assets are available.

Combined the companies have approximately 200,000 policies in force with face amounts totaling approximately \$650 million. The nature of the liquidation plan is one of a compromise and settlement that addresses regulatory concerns and orders issued against the company during late 2007 and early 2008. The special deputy receiver entered into an administrative service agreement with the affected guaranty associations to handle the claims processing.

The liquidation order became final on October 22, 2008. The special deputy receiver began processing claims against the policies funding the pre-need contracts. By the end of the year, the Association had paid approximately \$2.8 million for 682 claims. The initial claims processing involved addressing a backlog that dated from the middle of August of 2008. That was the date that the estates ran out of funds to pay claims. Subsequent to year end, the claims processing procedures have been refined and the backlog has been eliminated. The Association could pay as much as \$180 million in claims over time.

Thunor Trust

Nine years ago, state insurance regulators seized the seven companies making up the Thunor Trust. The involved companies were as follows:

<u>Company</u>	<u>State of Domicile</u>
Family Guardian Life Insurance Company	Mississippi
First National Life Insurance Company of America	Mississippi
Franklin Protective Life Insurance Company	Mississippi
Farmers and Ranchers Life Insurance Company	Oklahoma
Franklin American Life Insurance Company	Tennessee
Old Southwest Life Insurance Company	Arkansas
International Financial Services Life Insurance Company	Missouri

In July of 2008, the Association received over \$1.2 million from the Missouri estate and approximately \$1.3 million from the estate of the First National Life. Subsequently, the Missouri liquidator sent notice in late October of 2008 to the affected guaranty associations advising them of their allowed policyholder level claims. This is in anticipation of the ultimate liquidation of an additional \$1 million in estate assets. Further, the Missouri liquidator also began the process of adjudicating the administrative expense claims of the affected associations.

With regard to a significant legal action involved with these estates, the federal court in Mississippi granted summary judgment on all counts against the liquidators in their suit with Dreyfus. The ruling has been appealed to the Fifth Circuit Court of Appeals. There are still other suits in various stages of development involving these estates representing asset recovery efforts on the part of the liquidators.

LITIGATION

As of December 31, 2008, there was no active litigation where the Association is either a defendant or a plaintiff.

Missouri Life & Health Insurance Guaranty Association
Class A Fund Only
Statement of Financial Position
for the periods ending December 31, 2008 & 2007

	ASSETS	
	2008	2007
Current Assets		
Cash in bank	\$ (9,675.57)	17,601.27
Petty Cash	100.00	100.00
Due from Class B	25,250.11	13,530.60
Due from MOPCIGA	16,187.01	30,941.43
Investments	47,000.00	51,000.00
Accounts Receivable	0.00	0.00
Due from NOLHGA	0.00	0.00
Interest Receivable	0.00	0.00
Prepaid Expenses	3,202.03	2,084.59
Property and Equipment		
Equipment	66,015.94	50,859.57
Accumulated Depreciation	(47,728.39)	(40,766.33)
Total Property and Equipment	18,287.55	10,093.24
Other Assets		
Total Other Assets	0.00	0.00
Total Assets	\$ 100,351.13	125,351.13

LIABILITIES AND NET ASSETS

Current Liabilities		
Due to Class B	\$ 0.00	25,000.00
Accounts Payable	0.00	0.00
Payroll Taxes Due (Summary)	0.00	0.00
401K Deductions Withheld	0.00	0.00
Vacation Accrual	30,768.46	0.00
Total Current Liabilities	30,768.46	25,000.00
Long-Term Liabilities		
Total Long-Term Liabilities	0.00	0.00
Total Liabilities	30,768.46	25,000.00
Net Assets	69,582.67	159,914.30
Excess Receipts/(Disbursements)	0.00	(59,563.17)
Total Net Assets	69,582.67	100,351.13
Total Liabilities & Net Assets	\$ 100,351.13	125,351.13

Missouri Life & Health Insurance Guaranty Association
Class A Fund Only
Comparative Statement of Activity
for the periods ending December 31, 2008 & 2007

	CURRENT MONTH	PRIOR YEAR	YEAR TO DATE	PRIOR YEAR TO DATE
REVENUES				
Interest Income	\$ 12.89	164.94	\$ 403.08	2,638.98
Misc. Income	7.07	10.00	151.05	171.00
Allocations to Estates	24,777.70	13,530.60	211,790.99	149,471.76
Allocations to MOPCIGA	0.00	26,863.60	0.00	288,606.10
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	24,797.66	40,569.14	212,345.12	440,887.84
EXPENSES				
General & Admin Expense	424.55	50.17	3,067.36	2,541.85
Rent	1,033.38	453.78	8,148.20	5,097.90
Utilities	164.21	71.80	1,287.52	875.75
Audit Fees	0.00	0.00	9,000.00	15,000.00
Legal Fees	805.00	654.38	911.19	20,006.77
Computer Support	378.38	300.88	1,269.59	1,717.32
MO State Examination Expenses	0.00	0.00	0.00	11,679.79
Depreciation Expense	461.83	112.06	2,858.09	1,217.70
Dues, Fees & Subscriptions	47.69	221.00	2,424.92	2,321.76
Insurance	175.20	139.79	1,396.55	1,271.71
Printing	0.00	0.00	814.64	603.87
Postage	12.48	23.93	961.95	657.71
Contractor Services	0.00	0.00	1,168.55	0.00
Salary Expense/Joint Employees	0.00	0.00	0.00	5,066.50
Employee Expenses	20,088.91	36,728.21	153,320.43	403,454.15
Office Supplies	12.18	249.16	2,375.78	1,832.24
Telephone & Fax	403.30	154.96	2,655.49	1,970.23
Taxes - Employer's FICA	790.55	1,961.80	9,023.98	18,791.25
Tax - Unemployment	0.00	0.00	389.21	475.18
Travel Expense	0.00	(552.78)	11,271.67	5,869.33
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses	24,797.66	40,569.14	212,345.12	500,451.01
Net Income	\$ 0.00	0.00	\$ 0.00	(59,563.17)

Missouri Life & Health Insurance Guaranty Association
Class B Fund Only
Statement of Financial Position
for the periods ending December 31, 2008 & 2007

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
ASSETS:		
Current Assets:		
Cash & Cash Equivalents	2,197,284.95	1,045,967.94
Accounts Receivable	290,096.16	452,692.31
Other Short Term Investments	26,828,138.33	32,026,933.59
	29,315,519.44	33,525,593.84
Total Current Assets		
Long Term Assets:		
Unbilled Assessments	0.00	0.00
Long Term Investments	0.00	0.00
	0.00	0.00
Total Long Term Assets		
Total Assets	\$ 29,315,519.44	\$ 33,525,593.84
 LIABILITIES AND NET ASSETS:		
Accounts Payable	25,250.11	13,530.60
Funds Held for Others	256.00	23.07
Notes Payable	1.00	1.00
Estimated Claims Payable	23,156,788.63	25,682,734.98
	23,182,295.74	25,696,289.65
Total Liabilities		
Net Assets	6,133,223.70	7,829,304.19
Total Liabilities & Net Assets	\$ 29,315,519.44	\$ 33,525,593.84

Missouri Life & Health Insurance Guaranty Association
Class B Fund Only
Comparative Statement of Activity
for the periods ending December 31, 2008 & 2007

	<u>Current Yr. to</u> <u>Date</u>	<u>Prior Yr. to</u> <u>Date</u>	<u>Prior Yr. Ended</u> <u>Dec. 31</u>
CHANGES IN NET ASSETS:			
REVENUES:			
Assessment Income	\$ 0.00	\$ 0.00	0.00
Change in Unbilled Asmnts	0.00	0.00	0.00
Premium Income	301,984.49	242,341.60	242,341.60
Investment Income	897,198.60	1,535,914.24	1,535,914.24
Liquidation Distributions	5,172,372.69	715,561.11	715,561.11
Ceding Allowance	0.00	0.00	0.00
Misc Income	0.00	0.00	0.00
	<hr/>	<hr/>	<hr/>
Total Revenues	6,371,555.78	2,493,816.95	2,493,816.95
	<hr/>	<hr/>	<hr/>
EXPENSES:			
Claims and Claims Handling:			
Policyholder Claims	8,273,131.06	2,502,479.34	2,502,479.34
Assumption Reins Ceding Costs	1,626,701.00	1,625,437.00	1,625,437.00
Change in Est. Claims	(2,525,946.35)	(1,232,439.34)	(1,232,439.34)
Professional/Consult Fees	55,844.70	25,089.78	25,089.78
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Total Claims & Claims Handling	7,429,730.41	2,920,566.78	2,920,566.78
NOLHGA Expenses	419,887.00	255,031.00	255,031.00
General & Administrative	218,018.86	150,638.87	150,638.87
	<hr/>	<hr/>	<hr/>
Total Expenses	8,067,636.27	3,326,236.65	3,326,236.65
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Increase/(Decrease) in Net Assets	(1,696,080.49)	(832,419.70)	(832,419.70)
Beginning Net Assets as of January 1, 2008	7,829,304.19	8,661,723.89	8,661,723.89
	<hr/>	<hr/>	<hr/>
Ending Net Assets	\$ 6,133,223.70	\$ 7,829,304.19	7,829,304.19
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December 31, 2008

Missouri Life & Health Insurance Guaranty Association
Class B Fund Only
Statement of Cash Flow
For the twelve Months Ended December 31, 2008

	<u>Current Month</u>	<u>Year to Date</u>
Cash Flows from Operating Activities		
Net Inc(Dec) in Fund Balance	\$ (311,760.46)	\$ (1,696,080.49)
Adjustments to reconcile net income to net cash provided by operating activities		
Dec(Inc) in Inter-Acct Rec.	3,593.39	230,594.59
Dec(Inc) in Accts. Rec.	(128,167.64)	(67,998.44)
Inc (Dec) in Accts Pay	(2,430.30)	11,952.44
Inc(Dec) in Est. Claims Pay.	221,278.87	(2,525,946.35)
Dec(Inc) in Unbilled Asmts.	0.00	0.00
	94,274.32	(2,351,397.76)
Total Adjustments	94,274.32	(2,351,397.76)
Net Cash provided by Operations	(217,486.14)	(4,047,478.25)
 Cash Flows from Investing Activities		
Proceeds(Costs) of Bonds	(1,016,065.19)	5,198,795.26
Proceeds(Cost) of Stock	0.00	0.00
Dec(Inc) in Money Market	1,246,000.00	(1,276,000.00)
Proceeds(Costs) Other Invest	0.00	0.00
	229,934.81	3,922,795.26
Net cash used in investing	229,934.81	3,922,795.26
 Cash Flows from Financing Activities		
Refunds due Companies	0.00	0.00
Dec(Inc)Notes Payable	0.00	0.00
	0.00	0.00
Net cash from financing	0.00	0.00
 Net increase <decrease> in cash	12,448.67	(124,682.99)
 Summary		
Beginning Cash Balance	(11,163.72)	125,967.94
Ending Cash Balance	1,284.95	1,284.95
Net increase(decrease) in cash	12,448.67	(124,682.99)