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Travis County
D-1-GV-10-000454
Jessica Arzola

CAUSE NO. D-1-GV-10-000454

STATE OF TEXAS,	§	**IN THE DISTRICT COURT OF**
	§	
Plaintiff,	§	
	§	
v.	§	
	§	
RETIREMENT VALUE, LLC, RICHARD H. "DICK" GRAY, HILL COUNTRY FUNDING, LLC, a Texas Limited Liability Company, HILL COUNTRY FUNDING, a Nevada Limited Liability Company, and WENDY ROGERS,	§	**TRAVIS COUNTY, TEXAS**
	§	
Defendants,	§	
	§	
AND	§	
	§	
JAMES SETTLEMENT SERVICES, LLC, ET AL.,	§	
	§	
Third Party Defendants.	§	**126th JUDICIAL DISTRICT**

NOTICE OF FILING OF THE
RECEIVER'S ANNUAL REPORT AS OF DECEMBER 31, 2015

Eduardo S. Espinosa, receiver for Retirement Value, LLC, hereby provides notice that he is filing the attached Annual Report of Eduardo S. Espinosa, receiver for Retirement Value, LLC as of December 31, 2015.

In the Report, the Receiver discusses the status of the estate as of the end of the sixth calendar year of the receivership. The Report includes a discussion of (i) cash and insurance policies held by the estate, (ii) recoveries from third parties; and (iii) distributions that have been made as well as those projected to be made to the investors.

The Report has been served on all parties to this case and posted to the Receiver's website (www.rvllcreceivership.com). In an effort to save costs, the Receiver will not mail a copy of the Report to the more than 1,000 known investors. Instead, the Receiver will notify the investors that the Report has been filed and ask that the investors download a copy from the website. The Receiver will mail a copy of the Report upon request to investors who are unable to access it on the website.

Respectfully submitted,

By: * /s/Michael D. Napoli*
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State Bar No. 14803400

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document has been forwarded to all counsel of record listed below, through the electronic filing manager if that counsel's e-mail address is on file or via e-mail, if not, on this 7th day of March 2016.

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/s/ Michael D. Napoli
Michael D. Napoli

ANNUAL REPORT

OF

EDUARDO S. ESPINOSA, RECEIVER

FOR

RETIREMENT VALUE, LLC

As of December 31, 2015

State of Texas v. Retirement Value, LLC, et al.
Cause Number D-1-GV-10-000454
126th Judicial District Court of Travis County, Texas

This report updates the investors, the Court and the public as to the Receivership's status as of the end of December 2015, the sixth calendar year of the Receivership. This report supplements the Receiver's reports of July 28, 2010, April 30, 2011, December 31, 2011, May 31, 2013, May 31, 2014 and May 31, 2015 as well as his quarterly reports for the first, second and third quarters of 2015 and should be read in conjunction with those reports.

I. Introduction

2015 was a good year for the estate. Over the course of the year, the estate experienced three maturities in the portfolio generating $11.5 million in death benefits. Two of these maturities occurred in the second half of the year. As a result of these maturities and the overall performance of the portfolio over the last several years, the Receiver has asked the Court for permission to make a $2.5 million distribution to the investors.

The Receiver is continuing his efforts to collect from the licensees based on his settlements with certain of them and judgments against others. These efforts have been generally successful and the Receiver anticipates additional recoveries this year and into the future. Other than ongoing collection efforts, the Receiver's primary concerns are assisting the investors and managing the estate's assets.

On the negative side, several life insurers have announced that they will be raising the cost of insurance on certain of their policies. These cost increases have affected the estate. At their current level, the cost increases will reduce the estate's total recovery somewhat but the Receiver still anticipates making a 100% recovery of the net amount invested.

II. The Receiver plans to make a $2.5 million distribution

Based on the portfolio's performance over the last several years, the Receiver has asked the Court for permission to make a $2.5 million distribution to the investors. Under the proposed distribution, the RV Investors would receive $2,372,170 and the HCF Investors would receive $127,830. If approved, this distribution would be the third distribution raising the total distributed to the investors to $11.0 million.

The Receiver can make this distribution because the cash he has on hand exceeds the amount that he is required to keep as a premium reserve. The Plan of Distribution requires that the Receiver maintain reserves that are "at least equal to (a) the needed premium reserves calculated at the 97½ percentile in the most recent stochastic model prepared by the Receiver's actuaries, plus (b) the amount calculated by the Receiver as necessary to meet anticipated future expenses." Plan at § VI.B.3.

To determine whether he could make a distribution in 2016, the Receiver had his actuaries, Lewis & Ellis, prepare a stochastic analysis of the portfolio as of December 31, 2015.[1] According to the stochastic analysis, the needed premium reserve calculated at the 97½ percentile is $12,815,246 as of December 31, 2015. Of note, the needed premium reserve calculated at the median or 50th percentile is

[1]This analysis takes into account the increased cost of insurance discussed below.

$3,549,470 and the needed premium reserve calculated as an average of all results in the stochastic analysis is of $4,433,736. The results of Lewis & Ellis's analysis are attached as Exhibit A. Like the previous actuarial reports that formed the basis for the initial and first interim distributions, this stochastic analysis was performed based on the historical life expectancies acquired by the Receivership from ISC in the 4th quarter of 2010.

Lewis & Ellis also prepared a stochastic analysis based on a separate set of life expectancies that were subsequently acquired from AVS. The AVS LE's extend the insureds' projected longevity and increase the portfolio's reserve requirements accordingly. The results of the second analysis suggest premium reserves of (i) $17,446,830 at the 97½ percentile; and (ii) $5,372,180 at the median.

The Receiver believes and has recommended to the Court that the stochastic analysis based on the ISC LE's should continue to be used to set reserves. To begin with, the Plan was based on the ISC LE's, the portfolio appears to be performing in conformity with the model based on those LE's, and consistency suggests that we continue to rely on those LE's. Moreover, the Plan's required reserve is very conservative. By reserving at the 97½ percentile, we are building in a significant cushion against unexpected results. In addition, the life expectancies of the HCF insureds are probably overstated. Because we do not have current health information on these insureds, we have been unable to obtain a life expectancy calculation on them. Therefore, we have used standard life expectancies based on the insureds' ages without any discount for health issues. However, old life expectancy calculations that we have obtained on these insureds suggest that each insured does have health issues that may result in a shorter than standard life expectancy. Finally, the extended longevity risk suggested by the AVS LE's is substantially mitigated by the estate's ability to borrow additional capital, if necessary.[2] In sum, the Receiver believes the estate and the defrauded investor victims are better served by making a distribution now.

As of December 31, 2015, the Receiver has $15.4 million in cash on hand. Looking only at the cash on hand, the Receiver has slightly more than $2.6 million in excess of the required premium reserve. The Receiver will propose a distribution of $2.5 million and a reserve of $12.9 million. This will create an excess reserve of $100,000 to cover non-premium expenses and to provide protection against potential increases in the cost of insurance.[3] The proposed reserve level exceeds the 97.5 percentile of the current ISC analysis and the 92nd percentile of the current AVS analysis.

The Receiver does not know when another distribution will occur. When another distribution will be made and how much it may be, depends largely upon the maturities that occur in the portfolio. Each maturity will not necessarily result in a distribution. Distributions can be made only when the cash held by the Receiver exceeds the amount he is required to keep in reserve to pay premiums and

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[2] Because of the costs involved, borrowing money to pay premiums should be a last resort.

[3] As discussed below, AXA Equitable and Voya have notified the Receiver that they are increasing the cost of insurance on some of the policies held by the estate. The Receiver does not know whether this is a one-time event or the beginning of a trend.

other expenses. If a significant number of maturities occur in 2016, the Receiver will obtain a new actuarial analysis and consider a distribution at that time.

III. Assets of the estate

The estate's assets consist generally of three things: (a) the insurance policies owned by Retirement Value and Hill Country Funding; (b) the cash reserves held by the Receiver; and (c) the Receiver's claims against various persons, all of which have been either settled or reduced to judgment. The Receiver is currently engaged in managing the policies and the cash and in collecting on the settlements and judgments in his favor.

A. Insurance policies

The life insurance policies owned by Retirement Value and Hill Country Funding constitute one of the estate's primary assets. At the time the receivership began, Retirement Value owned 49 policies insuring the lives of 44 individuals with an aggregate face value of $134.8 million. Hill Country Funding owned five policies insuring the lives of two individuals with an aggregate face value of $6.75 million. The combined portfolio consisted of 54 policies insuring 46 lives for $141.6 million.

Six of the insureds have died causing seven policies to mature and generating $26.5 million in death benefits plus associated interest paid by the insurers. The portfolio currently consists of 47 policies insuring 40 lives for $115.1 million.

	Policies	Lives	Face Value
As of May 5, 2010	54	46	$141,585,000
Maturities (prior periods)	7	6	26,500,000
As of December 31, 2015	**47**	**40**	**$115,085,000**

The portfolio is worth about $12.7 million, based on a valuation performed by Lewis & Ellis in January 2015.[4]

Policy premiums are the estate's largest expense averaging about $4.5 million annually over the last several years. The table below summarizes the premiums paid by the estate to date and projects the premium expense for 2016 taking into account the cost of insurance increases announced to date.

Time Period	**Premium**
05/05/2010 – 12/31/2010	$3,285,402
01/01/2011 - 12/31/2011	3,949,754
01/01/2012 – 12/31/2012	4,088,867
01/01/2013- 12/31/2013	3,975,059
01/01/2014 – 12/31/2014	4,691,908
01/01/2015 – 12/31/2015	4,682,406
1/01/2016 – 12/31/2016 (proj)	$5,181,190

The Receiver anticipates that annual premium payments will be approximately $5 million until maturities in the portfolio substantially increase. This may change depending upon future increases in the cost of insurance.

In October 2015, several major life insurers – AXA Equitable, Voya, Transamerica and William Penn – announced that they would increase the costs of certain of their universal life policies. The estate owns policies issued by each of these insurers. In October 2015, we received notice from AXA and Voya that they are raising the cost of insurance on eight policies in the portfolio:

[4] The recent increase in the cost of insurance for certain of the policies suggests that a valuation dated in 2016 would be lower. Because of the cost involved and because he has no plans to sell the policies, the Receiver has not obtained a more recent valuation of the policies.

Policy	Face Value
HCF-AXA058-PF	$ 2,500,000
AXA091-012110-PC	5,000,000
AXA335-022410-PS	3,000,000
AXA826-110509-IC	1,250,000
AXA994-011510-BD	2,100,000
AXA729-112009-SF	2,000,000
AXA146-090409-GJ	2,000,000
ING036-071509-EB	3,000,000
Total	$20,850,000

The decision by these life insurers to increase the cost of insurance on certain of their policies was not anticipated. When policies are issued, the insurer creates a cost of insurance table that it believes is actuarially sound, i.e., the payment of premiums plus anticipated net investment income will provide sufficient funds to the insurer to pay death benefits as they come do. This cost of insurance table is lower than the maximum cost of insurance table guaranteed in the policy. Accordingly, the insurer may alter the cost of insurance if the actuarial soundness of the policies is threatened. Although insurers have long reserved the right to increase the cost of insurance, insurers have rarely exercised that right before 2015.

The increase in the cost of insurance has been controversial. The insurers have argued that it was necessary to raise the cost of insurance because their actual mortality experience differs from what was expected and because the historically low interest rates experienced over the last several years have reduced the income that the insurers earned on the premium payments received. The life settlement industry has responded that the insurers do not have an actuarial need to raise the cost of insurance but instead have targeted life settlement policies in an attempt force investors to allow their policies to lapse.

A class action lawsuit (*Brach Family Foundation, Inc. v. AXA Equitable Life Insurance Company*) has been filed against AXA in New York. In that case, the plaintiff alleges that AXA breached the insurance contracts by raising the cost of insurance. The plaintiff argues that the AXA's justifications for raising the cost of insurance – that mortality experience and investment income are worse than predicted – are not true and that AXA's increases are discriminatory in that they are limited to polices issued to persons over the age of 70 with more than $1 million in face. If a class is certified, the estate will be part of the class and will benefit from any recovery to the same extent as other class members. Although supportive of its goals, the Receiver is not involved the *Brach* lawsuit.

Depending upon the reaction of the public and the various state insurance regulators and upon the outcome of the *Brach* lawsuit, these cost of insurance increases may be a one-time event or they may herald a broader push by life insurers to raise the cost of insurance on existing policies. The Receiver and his counsel are evaluating potential responses to the cost of insurance increases. In this regard, the Receiver notes that he has maintained large cash reserves in order to deal with unanticipated events such as the cost of insurance increase.

To determine the effect of the cost of insurance increases on the Plan, the Receiver had his actuaries at Lewis & Ellis prepare two stochastic analyses of the portfolio: one that takes the higher cost of insurance into account and one that is based on the previous cost of insurance. Lewis & Ellis performed both analyses as of December 31, 2015 – the effective date of this report.

The actuaries determined that with the increased cost of insurance the portfolio would likely generate between \$38.6 million and \$71.6 million at maturity with a median outcome of \$57.5 million. Taking into account the \$8.5 million distributed to date and the \$15.4 million in cash on hand, the estate should be able to distribute between \$62.5 million and \$95.5 million, with a median distribution of \$81.4 million. This means that the Receiver still anticipates distributing sufficient money so that investors recover all of their net investments, plus or minus 20%.

A comparison of these results with the stochastic analysis using the old (lower) cost of insurance illustrates the impact of the cost increases on the investors. This analysis predicted that the portfolio would have generated between \$41.1 million and \$73.4 million in net proceeds at maturity with a median of \$59.7 million. Taking into account, the \$8.5 million distributed to date and the \$15.4 million in reserves held by the Receiver, the investors would have expected distributions between \$65 million and \$97.3 million with a median of \$83.6 million. In sum, the cost of insurance increases by AXA and Voya will reduce the investors' recoveries between \$1.8 million and \$2.5 million with the most likely outcome being a \$2.2 million reduction.[5]

B. Cash

Another significant asset of the estate is the cash held to pay premiums on the policies and other expenses. In May of 2010, the Receiver started with

[5] In that analysis, the needed premium reserve calculated at the 97½ percentile was \$11.6 million as of December 31, 2015. This means that the Receiver could have made a \$3.7 million distribution instead of the planned \$2.5 million distribution this year.

approximately $23.2 million in cash. As of December 31, 2015, the Receiver held $15.4 million. The chart below summarizes the Receiver's sources and uses of cash from the beginning of the receivership through December 31, 2015.

	05/05/2010 thru 12/31/2015
Beginning Balance	**$23,150,192.47**
Plus	
Death Benefits	26,661,496.52
Asset Sale/Recovery	2,623,161.70
Cash from Defendants[6]	9,850,983.82
Interest Rec'd	307,222.33
Sub total	*39,442,864.37*
Less	
Premiums Paid	(24,673,420.78)
RV Mortgage (P&I)	(45,487.56)
Taxes	(3,072,218.49)
Fees and Expenses	(10,025,059.59)
3rd Party Disb.	(950,928.89)
Distributions	(8,402,782.16)
Sub total	*(47,169,897.47)*
Ending Balance	**$15,423,159.37**

The safety of the estate's cash reserves is of paramount importance. To date, the Receiver has paid about $24.7 million in premiums which have been offset by the $26.5 million in death benefits received. Maintaining the policies currently costs about $5.1 million a year. Other than the anticipated death benefits from the insurance policies, the estate has no income and a limited ability to obtain credit on beneficial terms. The existing reserves are the only ready source of money to pay

[6] The "Cash from Defendants" category includes all cash from defendants whether by virtue of litigation or seizure of bank accounts. The "Asset Sale/Recovery" category includes assets recovered from the defendants either by seizure or by litigation. The "3rd Party Disbursement" category includes amounts that the Court ordered returned to the defendants, paid to their counsel or paid to HCF.

premiums until the next policy matures. As a result, the estate cannot enter into any investment that puts the estate's principal at risk.

Except for an account for current needs, the Receiver has placed the estate's cash in certificates of deposit and savings accounts at various banks. Before depositing money in each bank, the Receiver investigated each bank's financial wherewithal to confirm that it was well-capitalized and not in danger of failure. In addition, he has been able to negotiate interest rates that are slightly better than what the banks would normally pay. Nevertheless, due to current economic conditions, interest rates remain at historic lows.

Over the past several years, the Receiver has asked numerous financial advisors to propose investment strategies that would increase the estate's return without significantly increasing its risk. With the help of these advisors, he has investigated a variety of strategies including investing in corporate and government bonds, purchasing short term corporate notes and purchasing other more exotic financial instruments. Unless the Receiver were willing to speculate in junk bonds, none of these strategies would pay as much as the bank accounts that the Receiver currently holds.

The Receiver has also determined that investing in the stock market is too risky. Recent market activity has borne out the Receiver's concerns about the stock market. The S&P 500 lost 0.7% for 2015 and the Dow Jones Industrial Average was down 2.2% for 2015. The first days of 2016 have been much worse. The S&P 500 was down 7.5% as of January 13, 2016 and the Dow Jones was down 7.3% as of that date. As recent history has demonstrated, the stock market is very volatile. If he were to invest the estate's cash in the market, there would be a substantial risk that the Receiver would need to withdraw money to pay premiums at a time when the market is on a downturn and sustain a loss.

IV. Litigation and other recoveries

The litigation surrounding Retirement Value, Hill Country Funding and their securities offerings is largely complete. The Receiver generally prevailed in his efforts to obtain the return of money wrongfully taken from Retirement Value by its principals, its sales agents and others.

The Receiver has entered into settlement agreements with numerous persons. Pursuant to settlement agreements approved by the Court, the settling defendants are obligated to pay $9.52 million dollars to the estate, of which $9.37 million has been paid. Most of the outstanding $150,000 is secured by judgments against the individual defendants in amounts that greatly exceed the amounts owed by each under their settlement agreements.

In addition, the Receiver has obtained approximately $6 million in judgments against licensees who did not settle, on which he has collected about $420,000. As of December 31, 2015, two of these judgments (involving James Poe and Salvatore Magaraci) totaling $1.3 million were on appeal. On March 4, 2016, the Texas court of appeals affirmed the judgments. A third judgment, (involving Scott Schroeder) totaling $580,000 was also on appeal, but stayed by the court of appeals pending resolution of Schroeder's bankruptcy. On November 10, 2015, the bankruptcy court denied Schroeder a discharge, but the case remains pending as to the administration of his estate's assets. This means that the judgment against Schroeder will remain in effect after his bankruptcy is completed.

The chart below summarizes the Receiver's litigation and non-litigation recoveries.

Litigation Recoveries[7]		
Settlements		
Collins, Bruce		$322,078.97
Gray, Richard H		623,099.56
James Settlement Services, et al		5,500,000.00
Kiesling Porter Kiesling & Free		710,000.00
Licensees		2,183,887.13
Rogers, Wendy		182,963.63
Total Settlements		9,522,029.29
(To Be Funded)		(152,598.36)
Collected		**9,369,430.93**
Judgments		6,086,239.49
Collected		**418,738.36**
Total Litigation Recoveries		**9,788,169.29**
Non-Litigation Recoveries		
James Settlement Services	Disputed Assets	1,659,304.12
Pacific Life	Disputed policy	10,117,534.00
Special Acquisition	Hidden Assets	1,231,925.00
State of Texas	Franchise Tax	34,564.00
Total Non-Litigation Recoveries		**13,043,327.12**
Total Recoveries		**$22,831,496.41**

[7] "Litigation recoveries" are all value received as a result of settlements with or judgments against defendants, including non-cash items such as real estate. It does not include cash seized from individual bank accounts as part of estate operations.

V. Liquidation Value

The most readily apparent proxy for the current value of investor claims should be their estimated participation in an immediate liquidation of the estate's assets. The table below reflects the potential recovery from liquidation per dollar of claim: (i) as to the investors' total claim, taking into account the $8.5 million in prior distributions; and (ii) as to remaining assets and remaining claim balances.

	Total Investor Claims	**Outstanding Investor Claims**
Assets	*Comb. Estates*	*Comb. Estates*
Policies	$12,744,462.61	$12,744,462.61
Pending Claims	0.00	0.00
Cash On Hand	$15,423,159.37	$15,423,159.37
Prior Distributions	8,485,790.89	0.00
Est. Liquidation Value	36,653,412.87	28,167,621.98
Investor Claims	$80,361,992.34	$71,876,201.45
Recovery/$ if liquidated	**$0.46**	**$0.39**

VI. Criminal Cases

The State of Texas indicted Dick Gray, Wendy Rogers, Michael McDermott, Ron James and Don James for crimes arising out of their roles in Retirement Value. Each has been accused of money laundering, conspiracy, fraud in connection with the sale of a security and theft by fraud, all of which are felonies under state law. The indictments were handed down by a grand jury in Collin County. Those cases remain pending. The Receiver has no role in the criminal case pending in Collin County; except that he may be called as a witness or be required to respond to subpoenas issued by the State or the defendants.

Wendy Rogers and Michael McDermott had asserted claims against the State and the Receiver arising out of their indictments. Those claims have been dismissed.

VII. Going Forward

The active phase of the Receivership has ended. The Receiver will concentrate on the following tasks:

- Monitoring the portfolio of life insurance policies:
- Responding to the recent cost of insurance increases;
- Paying premiums and other expenses;
- Making and prosecuting claims for benefits under insurance policies as needed;
- Maintaining the estate's books and records, including the claims' holders of records;
- Analyzing the portfolio and the cash reserves to determine when a distribution may be made;
- Collecting on judgments and settlements (including responding to appeals of judgments in his favor);
- Communicating with investors and other creditors indirectly via the website and reports and directly on an individual basis as needed; and
- Reporting to the Court as required.

Issues, which will require the Receiver's attention, will no doubt arise in the future. Depending upon their nature, new issues may require a more active role for the Receiver and his counsel.

VIII. Conclusion

The estate is being administered in accordance with the Plan of Distribution. The actuarial model supporting the Plan forecasts that the portfolio should yield distributable net cash flow roughly equal to 100% of investors' initial investment, plus or minus 20%. It will take 20 or so years for the portfolio to be fully matured. Investors should not anticipate distributions whenever a mortality occurs. Death benefits from the earlier maturing policies are being used to maintain the premium reserves. Upon the occurrence of one or more mortalities in any calendar year, the Receiver will revisit the actuarial model and reassess the adequacy of the estates' cash reserves. When the estate's cash on hand substantially exceeds its reserve requirements, the Receiver will make additional interim distributions.

In the meantime, the Receiver will continue to maintain the portfolio of policies and collect on the settlements and judgments that he has recovered on behalf of the estate.