Unclaimed Property and Life Insurance Companies

2011 ACLI Annual Meeting
Agenda

• Property Types
• Dormancy - Life Insurance and Annuities
• Dormancy – Other Property
• Holding Periods
• Claims Process
• DMF Usage
• Levels of Regulation
Unclaimed Property Types Administered
By Life Insurers (1 of 2)

- **Life insurance policies**
  - Single premium or multiple premium payments
  - Varying cash values
  - Single or multiple beneficiaries
  - SSN required now; historically not required

- **Annuity contracts**
  - Complex product terms
  - Often purchased for tax and estate planning
  - IRC 72s – five year election period
  - Owner/annuitant vs. beneficiary relationship
  - SSN required
Unclaimed Property Types Administered By Life Insurers (2 of 2)

• Demutualization proceeds
  — Unclaimed stock
  — Cash
  — SSN not required

• Retained asset accounts
  — Bank accounts or general account property
  — SSN required (interest)

• Pension and retirement accounts/ERISA Preemption
  — SSN may be required
• "Dormancy" is when property becomes inactive, as a matter of state unclaimed property law

• **Life insurance and Annuities - Common Dormancy Triggers**
  - Policy claim
  - Limiting age
  - Maturity date or expiration

• **Life Insurance and Annuities - “Knowledge of Death”**
  - 19 states
  - No definition of “knowledge” in statutes
  - Insurance policies and insurance product standards and claims handling laws all use submission of a claim and due proof of death as triggering “knowledge”
Dormancy
Life Insurance and Annuities - Issues

• **Date of policyholder death** – no state uses date of death as part of its definition of a dormancy trigger for life insurance or annuities.

• **Lack of documented positive customer contact**
  — Applicable in some states after limiting age reached.
  — Fully paid policies and annuities – tax implications.

• **Linking** – insurance law concept in few states; distinguish between benefits and products.
  — E.g., unclaimed demutualization does not trigger life insurance dormancy.
Dormancy Triggers - Other Intangibles

• **Demutualization proceeds**
  - Stock or uncashed check statutes
  - Some states address demutualization in their unclaimed property codes
  - Dormancy triggers separate from product triggers

• **Retained asset accounts**
  - Bank accounts
  - General accounts
  - Dormancy triggers separate from product triggers
Holding Periods

• **“Holding Period”**
  - Time period that property remains dormant before it is abandoned, as a matter of law
  - Varies by state

• **Life insurance and annuities**
  - 3 to 5 years after dormancy trigger
  - If limiting age, property could be on books until policyholder age would be 99-120

• **Demutualization proceeds, uncashed checks and general intangibles**
  - Generally 1-2 years
  - Separate from products
Life Insurance and Annuities – Claims Process
1 of 3

• State insurance codes and insurance policy or annuity contract terms govern claims process; life insurance policies and annuity contracts require pre-approval by insurance regulators
• State insurance codes require life insurance companies to:
  – Address policy claims promptly,
  – Mandate prompt contact with beneficiaries, and
  – Mandate prompt payment of valid claims.
• State insurance laws provide for the insurance company to obtain “due proof of death” before paying a claim
• “Due proof of death” = death certificate and claim election form
• State insurance laws do not require a life insurer or annuity issuer to:
  – Determine when a policyholder or annuitant has died
  – Locate a beneficiary and instruct them to file a claim
  – Pay an insurance policy or annuity death benefit in the absence of a valid claim and death certificate
  – Utilize the SSA Death Master File for initiating the claims process

• Automatic Premium Loans and Lapses Before Death
  – If beneficiary makes a claim on a policy that had an APL triggered, and death occurred before lapse, claim is always honored, with return of funds deducted after date of death from APL
  – State insurance codes allow for APL terms in policies as a consumer protection; laws are silent on insurer obligations to determine if policyholder is deceased prior to policy lapse
• Vast majority of death claims are made within a year of death
• Few claims delayed by beneficiary
  – Taxes
  – Grief
  – Disputes among beneficiaries
  – Statutory interest
• Small number of claims not initiated – unclaimed property reporting triggers apply
• DMF used by many payors, including pensions, SSA and insurers, to determine if payouts should cease due to death
• Risk management concerns:
  – Tax liability for beneficiaries – elections required for annuities
  – Fraud prevention
• Search services including the DMF have begun to increase the amount of information available to insurance companies regarding policyholder’s potential death
  – Returned mail or no response to calls
  – Customer service
• Some, but not all insurers, use DMF services
  – Expense
  – Staffing

• No final stoppage without investigation and written notice

• Additional research needed to confirm DMF information
  – DMF includes false positives and information often does not match insurer records
  – Confirmation from independent sources – agents or other representatives
  – Matches not resulting in payout (contestable, first to die, owner not insured)
  – Due diligence methods vary – developing technology
Multiple Levels of Regulation Apply to Unclaimed Property Administered by Life Insurers

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Questions and Comments?

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