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Governor

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Superintendent

Final Report of the Superintendent
Pursuant to Section 308 of the New York Insurance Law
Relating to Investigating Claims and Locating Beneficiaries Entitled to Death Benefits
Under Life Insurance Policies, Annuity Contracts, and Retained Asset Accounts
July 2013

Data as of May 2013

Summary

In response to the Department's investigation to determine if any death benefit payments are due under life insurance policies, annuity contracts, or retained asset accounts, life insurers have made an additional $30.8 million in payments to about 6,050 beneficiaries during the first five months of 2013. About $9.7 million of that sum has been paid to New York payees.

In total, in response to the Department's investigation since inception, life insurers have made approximately $812.5 million in payments to almost 113,559 beneficiaries, of which approximately $241.5 million in payments was made to New York payees (about 30% of the amount paid to all beneficiaries). Three company groups are responsible for about 55% of the total amount paid to beneficiaries.

In addition to the reported payments to beneficiaries, life insurers have reported approximately $338.8 million in funds escheated or identified, in accordance with state statutes nationwide, for escheatment in future years, of which approximately $144.6 million was identified as paid or to be payable to the state of New York (about 43% of the total escheated, or set up for escheatment, for all states). As life insurers did not uniformly provide detail by escheatment state of the funds reported as escheated or to be escheated in future years, the $144.6 million may be understated.

The grand total of the payments made directly to beneficiaries and the amounts reported escheated, or identified for escheatment, to the states on behalf of beneficiaries amounts to **$1,151,238,879**. As a direct result of New York's unique approach to this issue and the overwhelming support of the NY life insurance industry, over 70% of the total amounts identified for payment were paid directly to beneficiaries.

Background

THE DEPARTMENT OF FINANCIAL SERVICES (the "Department" or "DFS") has been conducting a review of claims practices by authorized life insurers and fraternal benefit societies (collectively, "insurers") regarding the use of the U. S. Social Security Administration's Death Master File ("SSA-DMF") for investigating claims and locating beneficiaries with respect to death benefits under life insurance policies, annuity contracts, and retained asset accounts. In particular, there have been instances where a death has occurred and no claim has been filed, but premiums continue to be deducted from the account value or cash value until the policy lapses. In some instances beneficiaries were unaware that they have been named as beneficiaries and did not realize that they needed to file claims. In the context of a retained asset account, funds simply remained dormant after the death of the accountholder because the beneficiary, if a beneficiary was designated at all, was not aware of the account. In all of these instances, a valid death benefit was either not paid or the payment was delayed.

On July 5, 2011, the New York State Insurance Department (now, the DFS) issued a letter pursuant to Section 308 of the New York Insurance Law ("308 letter") advising all insurers that a cross-check of all life insurance policies, annuity contracts, and retained asset accounts on their administration data files, including group policies for which an insurer maintains detailed insured records, should be performed with the latest updated version of the SSA-DMF—or another database or service that is at least as comprehensive as the SSA-DMF—to identify any death benefit payments that may be due under life insurance policies, annuity contracts, or retained asset accounts as a result of the death of an insured or contract or account holder. The Department supplemented the 308 letter with guidance to the life industry in New York issued August 8, 2011, September 28, 2011, and October 14, 2011.

Findings to Date

BASED ON THE DEPARTMENT'S DISCUSSIONS WITH INSURERS, hearings held by other state insurance departments, accounts reported in the press, and responses to the Department's 308 requests, some insurers that utilized the SSA-DMF to stop annuity payments once a contract holder dies, did not use the SSA-DMF to determine if any death benefit payments were due under life insurance policies, annuity contracts, or retained asset accounts.

In addition, technology had advanced to the point that all insurers should have adopted standard procedures to cross-check life insurance policies, annuity contracts and retained asset accounts on their administration data files with SSA-DMF, or another database or service that is at least as comprehensive as SSA-DMF, on a regular basis as a supplement to the historical death claim reporting processes. Many life insurers had purchased the SSA-DMF or subscribed to a service that utilizes SSA-DMF for some purposes (e.g., terminating annuity payments). Best practices should have required that insurers utilize the SSA-DMF or a database that is at least as comprehensive, to determine if any death benefit payments were due as a result of unreported claims.

First-stage reports were due from insurers in response to the inquiries on October 31, 2011. Subsequent progress reports were due on the last day of each month, with a final report originally expected April 30, 2012. Extensions of the April 30, 2012 due date were granted by the Department on a case-by-case basis to provide insurers with additional time to locate beneficiaries and pay benefits on confirmed matches. This Final Report is based upon the information the Department received as a result of the progress reports received from January through May 2013.

Based on what has been reported to the Department, recipients of the inquiry letters paid approximately $30.8 million to beneficiaries in the months of January, February, March, April, and May, 2013 (cumulative total of $812.5 million paid since the start of DFS's investigation), including approximately $9.7 million paid to New York payees (cumulative NY total of $241.5 million paid since the start of DFS's investigation).

In addition to the reported payments to beneficiaries, life insurers have reported approximately $338.8 million in funds escheated or identified, in accordance with state statutes nationwide, for escheatment in future years, of which approximately $144.6 million was identified as paid or to be payable to the state of New York. As life insurers did not uniformly provide detail by escheatment state of the funds reported as escheated or to be escheated in future years, the $144.6 million may be understated.

Based on all reporting since the start of the DFS investigation, the earliest year of death for which a benefit payment has been made thus far is 1960, and the largest benefit payment made thus far is $2,555,892. Average payments have ranged from $3,959 to $28,327, depending on the type of business. See the table below for further details set forth by type of business:

Type of Business	Earliest Year of Death	Largest Amount Paid	Average Amount Paid
Individual Life	1960	$2,555,892	$4,982
Group Life	1968	$1,407,586	$3,959
Individual Annuity	1977	$1,588,563	$28,327
Group Annuity	1969	$840,483	$9,559
Retained Assets	1995	$1,015,304	$13,491

Notable payments made on policies or contracts resulting from the DFS investigation reported for the period January through May 2013 include:

- $406,598 to a Montauk, New York beneficiary on an individual life insurance policy where the insured died in 2003;

- $171,177 to a Staten Island, New York beneficiary on an individual life insurance policy where the insured died in 2001;
- $99,931 to a Bayside, New York beneficiary on an individual annuity contract where the insured died in 2008: and
- $97847 to a Leroy, New York beneficiary on an individual annuity contract where the insured died in 2009.

Separately, several insurers have reported to the Department about similar ongoing initiatives that pre-date the Department's inquiry. Those separate efforts have resulted in payments totaling approximately $388.2 million, cumulatively. These initiatives and payments also highlight the merit of the Department's 308 initiative, the Department's regulation, and the recently enacted legislation, requiring all insurers to proceed similarly.

Overall, insurers report that they have cross-checked approximately 89.58 million policy records against the SSA-DMF. This resulted in approximately 2.9 million initial matches. Many initial matches were eliminated for reasons such as: policies not in force at time of death; match is not with the same person; and claim already submitted.

Insurers are finalizing some additional payments to beneficiaries totaling about $43.8 million. Insurers have contacted these beneficiaries and have either experienced delays beyond their control or the beneficiaries have deferred benefit payments in accordance with provisions in the insurance contracts. Insurers have provided inventories of these policies, which will be reviewed upon examination. With minor exception, insurers have now filed their final 308 reports[1].

Next Steps

On May 14, 2012, the Department adopted Regulation No. 200 (Unclaimed Life Insurance Benefits and Policy Identification) on an emergency basis to require insurers to perform SSA-DMF cross-checks no less frequently than quarterly going forward and to require insurers to request, when issuing policies, specified information from owners, insureds and beneficiaries to ensure that all benefits and other monies can be distributed to the appropriate persons upon the death of the insured or account holder. The Department is working to adopt such regulation on a permanent basis. Subsequent to the adoption of Regulation No. 200, these requirements have become enshrined by statute in New York.

[1] One company will file its final report in late July. The company is expected to report a few hundred thousand dollars in additional payments made to beneficiaries, approximately $2.5 million in additional escheatments, and roughly $2 million in additional claim payments that they are still finalizing with beneficiaries.