

# **Retained Asset Accounts Survey Results**



**Texas Department of Insurance**

**March 2011**

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### **Background and Key Issues**

Retained asset accounts (RAAs) provide a settlement option in which life insurance proceeds, due and owing a beneficiary, are placed in an account under the control of the insurer or its agent. The RAA is accessible in lump sum or from time to time by the beneficiary via checks or drafts. While RAAs have been in existence for over 25 years, they have come under scrutiny recently.

#### ***RAA critics charged:***

- Insurance carriers are profiting from RAAs by earning interest on funds held.
- Funds held in these accounts are not insured by the Federal Deposit Insurance Corporation (FDIC). Also, questions have arisen as to whether beneficiaries are entitled to the benefits and obligations provided by the Uniform Commercial Code regarding forged checks similar to bank customers.
- Drafts from RAAs do not have the liquidity that checks written off bank accounts have, and may not be accepted where checks would be.
- RAA fees are not fully disclosed.
- Beneficiary options are not clear
- Some insurers do not report dormant accounts under unclaimed property statutes.

#### ***Insurance carriers counter:***

- RAAs allow beneficiaries to delay accessing their funds during the grieving process, and allow beneficiaries to withdraw funds incrementally to cover expenses until they are ready to withdraw the full amount.
- RAAs earn the beneficiary interest on funds held in the account at rates competitive with, and in some instances greater than, those paid on traditional money market or savings accounts.
- Funds held in RAAs are protected by the Texas Life, Health & Hospital Service Insurance Guaranty Association (Guaranty Association) in amounts up to \$300,000, which is greater than the current FDIC limits.

### **Survey and Results**

In order to measure the prevalence of RAAs in Texas and to assess the practices of insurance carriers offering them, in early 2011, the Texas Department of Insurance (TDI) conducted a survey of 160 life insurance companies operating in Texas.

#### ***Key Findings:***

- Forty-four percent (71) of the respondents currently offer RAAs.
- As of December 31, 2010, there were 51,484 open accounts totaling nearly \$2.3 billion.

- More than half of the companies currently offering RAAs use it as the default settlement option.
- All respondents indicated that the beneficiary has an absolute and immediate right to terminate the account by writing a single draft for the entire amount or by formally closing the account.
- Most respondents have limitations on withdrawals. These limitations include minimum withdrawals (\$100 to \$500 per draft) and the inability to use drafts at point of sale locations.
- Nearly all respondents provide information to beneficiaries describing how interest is determined. Many advise consumers that the account is not FDIC insured, but some also indicate coverage by the Guaranty Association. However, the provision of other disclosures varies from company to company.
- The range of interest rates credited in the aggregate during calendar year 2010:
  - 18 (25%) companies – 0.5% or less
  - 15 (21%) companies – 0.51% to 1.0
  - 21 (30%) companies – 1.01% to 1.5%
  - 7 (10%) companies – 1.51% to 2.0%
  - 4 (6%) companies – 2.01% to 2.5%
  - 4 (6%) companies – 2.51% to 3.0%
  - 1 (1%) company – over 4.0%
- Close to 96 percent of companies offering RAAs indicated that the accounts have no fixed duration, but continue until the funds are exhausted or fall below a certain minimum or are terminated by the beneficiary.
- The average duration of an RAA in Texas is four years and three months. For accounts with no withdrawal activity for over four years, the average duration is nearly nine years.
- Over 12,000 RAAs had no withdrawal activity for more than three years and of these, 8,646 accounts had no activity for over four years. The total amount held in these inactive accounts is over \$329 million.
- Forty-nine percent (37) of companies offering RAAs did not report accounts exceeding three years without account holder contact to the Texas Comptroller of Public Accounts as unclaimed property.
- All but one respondent indicated that they report RAAs as a liability on their annual statement.

### **Survey Methodology**

In conducting the survey, TDI selected the top 140 life insurance carriers based on Texas direct written premium, as well as five carriers offering life insurance to military personnel. Data requested was for Texas direct written business only. While the survey sought responses from 145 companies, the total ultimately collected was 160. Several factors contributed to this divergence, including: the voluntary submission of data by companies not subject to the initial survey; and the consolidation of data from holding companies that managed multiple insurers. Also, some companies chose to include data for all beneficiaries living in Texas regardless of the state of origin of the policy, while others restricted the data submitted to this class. These variations should not impact the data regarding insurer practices regarding RAAs since on an insurer by insurer basis these practices are in most cases uniform throughout the country. Aggregate numbers such as the total number of RAAs currently open and combined account balances, however, could be affected.

The Survey is based exclusively on self-reported data provided by the selected insurers. Where responses were ambiguous or conflicting, TDI staff corresponded with companies for clarification. In a few cases, TDI made a survey selection where a company provided a narrative answer that otherwise fit one of the multiple choices offered, but which it did not select. Other narrative responses to open ended questions required analysis and categorization by TDI staff. All data is presented in aggregated form.

Following are the detailed questions and aggregate responses to the survey questions.

**Has your company ever offered an RAA?**

- 82 (51%) – Yes
- 78 (49%) – No

Participants answering ‘No’ were considered exempt from the rest of the survey

**QUESTION 1**

**Is your company currently offering an RAA?**

- 71 (87%) – Yes
- 11 (13%) – No

Of those companies answering ‘No’ and no longer holding any RAA funds,

2 companies stopped offering the RAA option in 2002

2 companies stopped offering the RAA option in 2006

2 companies stopped offering the RAA option in 2008

Of those companies answering ‘No’ but still holding RAA funds,

1 company stopped offering the RAA option in 2000

1 company stopped offering the RAA option in 2009

3 companies stopped offering the RAA option in 2010

**QUESTION 2**

**If your company currently offers RAA’s, are the RAA’s terms and method of selection uniform throughout all policy forms?**

- 56 (79%) – Yes, the terms and manner of selecting RAA’s are uniform throughout all policy forms and our responses to Questions 3 through 30 apply to all RAA’s currently offered.
- 15 (21%) – No. Our company uses RAAs which differ as to terms or manner of selection. Our responses to Questions 3 through 30 correspond to the RAA most frequently offered for the period of 06-01-09 to date

### **QUESTION 3**

**Does your company require the death benefit to exceed a certain dollar amount before the RAA option is made available?**

- 71 (100%) – Yes
- 0 (0%) – No

All companies answered “Yes”, and provided minimum death benefit data for a specific amount that the death benefit must exceed. For all companies responding, the range was \$500 to \$50,000, with \$10,000 being the most commonly reported minimum.

### **QUESTION 4**

**Where are the terms of the RAA set out in writing?**

Seventy-one companies responded in the following way:

- 0 – In the policy only
- 16 – In the claim form only (13 of these also selected “Somewhere else”)
- 8 – In both the policy and claim form (4 of these also selected “Somewhere else”)
- 64 – Somewhere else (17 of these also selected one of the previous options)

Of those choosing “Somewhere else”, the top responses provided were:

1. Claim form and at least one other document
2. Brochure
3. Account certificate
4. Welcome kit/Claim kit/RAA kit

### **QUESTION 5**

**Are all the terms of the RAA set out in writing?**

- 71 (100%) – Yes. All of the terms are in writing and binding on the parties.
- 0 (0%) – No. Some terms are not set out in writing and are developed on a case-by-case or other basis.

**QUESTION 6**

**If all terms are set out in writing, what terms, if any, can be unilaterally modified by the insurer?**

- 25 (35%) – None
- 46 (65%) – The following terms, by subject matter, are subject to change

Of those selecting the latter answer choice, the following were the most common terms subject to change:

1. Interest rate
2. Any account terms/conditions
3. Fees

**QUESTION 7**

**Prior to the death of the insured, does the policy owner have the right to select a RAA as a settlement option?**

- 25 (35%) – Yes
- 46 (65%) – No

## **QUESTION 8**

**How is the RAA chosen by the beneficiary? (Assume that the policy owner had not chosen a settlement option while the insured was living and that the death benefit proceeds equal or exceed the minimum amount established by the company for the RAA option.)**

Seventy-one companies responded in the following way:

- 27 – The beneficiary must affirmatively select the RAA from a list of options (3 of these also selected another choice)
- 23 – The beneficiary will receive a RAA if he does not elect another option (10 of these also selected another choice)
- 29 – The beneficiary will receive a RAA if he selects a lump sum settlement option and does not expressly reject the RAA (7 of these also selected another choice)
- 5 – The beneficiary will receive a RAA if he selects a lump sum settlement option (3 of these also selected another choice)
- 18 – Offered and selected in some other way (8 of these also selected another choice)

Of those offered and selected in some other way, the following were most commonly cited:

1. Plan sponsor driven – When part of a group insurance offering, if the plan sponsor chooses the RAA program, the RAA becomes the default for the members.
2. Beneficiary can affirmatively select the RAA from a list of options, or if he does not elect another option, the beneficiary will receive an RAA
3. The beneficiary will receive a RAA if he selects a lump sum settlement option unless the policy is a variable annuity – whereas the beneficiary has the ability to opt out.
4. Specifically written in on form
5. Governed by contract with the Secretary of Veterans Affairs



### **QUESTION 9**

**If the RAA is the settlement option selected, are beneficiaries permitted to elect other settlement options available under the original life insurance policy?**

- 48 (68%) – Yes. Beneficiaries may allocate proceeds among other options
- 12 (17%) – No
- 11 (15%) – Other

Of those that selected “Other”, the following were the most common explanations given:

1. The beneficiary has the ability to selected other options at the point of election, but the decision is irrevocable
2. Beneficiary may change form of payment as long as funds are not depleted
3. Beneficiary can select a lump sum at any time

### **QUESTION 10**

**Does the claim form expressly set out each of the settlement options available under the policy upon which a claim is made?**

- 30 (42%) – Yes. The claim form identifies each settlement option available under the policy
- 14 (20%) – No. The claim form does not set out each settlement option available under the policy, but refers the claimant to the policy for a complete listing of all settlement options
- 10 (14%) – No. The claim form does not set out each settlement option available under the policy.
- 17 (24%) – Other

Of those selecting “Other”, the most common explanations were:

1. Brochures
2. In Group Policy
3. Claim form refers to home office for options details
4. Initial letter
5. Claim kit
6. Other materials

**QUESTION 11**

**Does the beneficiary have an absolute and immediate right to terminate the RAA?**

- 71 (100%) – Yes
- 0 (0%) – No

All companies answered “Yes” and elaborated that a beneficiary may terminate the account by either closing the account or writing a single draft for the entire amount in the RAA.

**QUESTION 12**

**Does your company restrict the right to withdraw sums from the RAA account?**

Seventy-one companies responded in the following way:

- 52 – Dollar Minimum (8 of these also selected another choice)
- 1 – Dollar Maximum (this company also selected another choice)
- 1 – Frequency (this company also selected another choice)
- 26 – Other (8 of these also selected another choice)

Of those that selected “Dollar Minimum”, the range of minimum withdrawal amounts varied from \$100 to \$500, with \$250 being the most commonly reported minimum.

Of those companies choosing “Other”, the most common explanations were:

1. There are no restrictions
2. There is a stated minimum, but it is not enforced
3. The RAA automatically closes if it falls below a certain amount
4. Drafts may not be accepted by retailers who require electronic check processing (point of sale/ACH)

### **QUESTION 13**

#### **RAA Duration**

- 0 (0%) – The account is designed to be a temporary repository of funds while the beneficiary considers all available options and has a fixed duration
- 68 (96%) – The account has no fixed duration. It continues until the funds are exhausted or the balance falls below a certain minimum or is otherwise terminated by the beneficiary.
- 3 (4%) – Other

Companies answering “Other” responded that the account is designed to be temporary, but there is no fixed duration.

### **QUESTION 14**

#### **Companies were asked to complete Schedule A**

*See Schedule A worksheet.*

### **QUESTION 15**

#### **Does your company have procedures in place to determine the date the RAA account holder last initiated and had positive contact with the company and/or became deceased?**

Respondents also included those companies that no longer offer RAAs as an option, but continue to hold RAA account funds.

- 71 (93%) – Yes
- 5 (7%) – No

Of those companies that answered “Yes”, the responses were reviewed and most commonly fell into one of the following categories:

1. 40 (56.3%) – Correspondence to beneficiary based on inactivity
2. 23 (32.4%) – Activity date tracking only
3. 5 (7.0%) – Periodic reviews
4. 3 (4.2%) – None or other response

**QUESTION 16**

**Do you report “unclaimed”, RAA’s for which there has been no owner (beneficiary) initiated positive contact for a period longer than three years to the Texas Comptroller of Public Accounts?**

Respondents also included those companies that no longer offer RAAs as an option, but continue to hold RAA account funds.

- 39 (51%) – Yes
- 37 (49%) – No

Of those that answered “No”, explanations provided were reviewed and most commonly fell into one of the following categories:

1. 12 (32.4%) – Current policy does not address the reporting requirements
2. 11 (29.7%) – The company was unaware of the requirement but will comply going forward
3. 6 (16.2%) – No response
4. 4 (10.8%) – Do not have unclaimed assets, or have not identified unclaimed assets
5. 4 (10.8%) – RAA’s are considered paid proceeds and not unclaimed assets

**QUESTION 17**

**Is interest paid on the fund in the RAA?**

- 71 (100%) – Yes
- 0 (0%) – No

### **QUESTION 18**

#### **How is the interest rate determined?**

Seventy-one companies responded in the following way:

- 22 – From an objective outside index of money market rates (One of these also selected another choice)
- 37 – At the sole discretion of the company (4 of these also selected another choice)
- 16 – Other (3 of these also selected another choice)

Of those responding that they use an outside index, the most common indexes were:

1. Bank Rate Monitor Rate
2. iMoneyNet Fund averages

Of those companies answering “Other”, nearly all explained that their rates are based on the current market environment, citing a company review of numerous financial guides such as bank savings rates, Certificate of Deposit rates, U.S. Treasury rates, and other rate benchmarks.

### **QUESTION 19**

#### **If the interest rate is determined from an outside index, how often is it reset?**

- 13 – Weekly
- 7 – Monthly
- 1 – Semi-annually
- 22 – Other

Of those answering “Other”, the most common explanations were:

1. N/A – The question is not applicable
2. Periodically at the discretion of the company
3. Quarterly

**QUESTION 20**

**If the interest rate is determined from an outside index, is there a guaranteed effective annual yield below which the rate will not go?**

- 8 – There is a guaranteed rate
- 29 – There is no guaranteed floor

Of those responding that there is a guaranteed rate:

- 3 answered N/A
- 2 answered 1%
- 2 answered 0.25%
- 1 answered 3%

**QUESTION 21**

**How often is interest compounded and credited?**

- 18 (25%) – monthly
- 9 (13%) – daily
- 43 (61%) – compounded daily and credited monthly
- 1 (1%) – annually

**QUESTION 22**

**Are interest rates calculated on a tiered basis? (For example, X% for the first \$50,000, X+Y% for \$50,001 to \$100,000, etc.)**

- 6 (8%) – Yes
- 65 (92%) – No

**QUESTION 23**

**What is the interest rate (aggregate effective yield) credited during calendar year 2010 for all RAA account balances in the aggregate?**

- 18 (25%) – 0.5% or less
- 15 (21%) – 0.51% to 1.0%
- 21 (30%) – 1.01% to 1.5%
- 7 (10%) – 1.51% to 2.0%
- 4 (6%) – 2.01% to 2.5%
- 4 (6%) – 2.51% to 3.0%
- 1 (1%) – over 4.0%
- 1 (1%) – did not provide rate information

Information provided includes exact interest rates and the best estimates for each company. In some cases, companies had multiple interest rates, depending on when the RAA was initiated. In these cases, older accounts were earning a higher interest rate than more recently established accounts. One company provided a tiered interest schedule with larger accounts earning a higher interest rate. One company explained that their response is their national average, since they cannot separate Texas business. One company did not supply rate information, advising that a rate for Texas was not available.

**QUESTION 24**

**Do beneficiaries periodically receive statements reflecting the activity in the RAA?**

- 70 (99%) – Yes
- 1 (1%) – No

**QUESTION 25**

**If beneficiaries receive statements reflecting the activity in the RAA, how frequently are they provided?**

Seventy-one companies responded in the following way:

- 41 – Monthly (3 of these also selected “Some other interval”)
- 0 – Monthly for the first year and every \_\_\_\_\_ months thereafter
- 5 – Quarterly
- 0 – Semi-annually
- 0 – Annually
- 26 – Some other interval (3 of these also selected “Monthly”)

Companies answering “Some other interval” responded that they provide statements on a quarterly basis, unless there is account activity, in which case statements are provided monthly.

**QUESTION 26**

**Are beneficiaries provided copies of cancelled checks or drafts drawn on the RAA?**

- 66 (93%) – Yes, upon the beneficiary’s request
- 3 (4%) – Yes, automatically
- 2 (3%) – No



**QUESTION 27**

**What fees, if any, are charged to RAA account holders? (Check all that apply. Include the amount charged and at what intervals or how the fees is otherwise calculated e.g., per item, etc.)**

ACCOUNT HOLDER FEE SCHEDULE			
FEE TYPE	NUMBER OF COMPANIES WITH FEE	AMOUNT RANGE	INTERVAL
Account fee	0		
Statement Fee	8	\$2	upon request, specially run statements
Check/Draft ordering fee	3	\$1 to \$2	upon request
Check/Draft clearing fee	0		
Check/Draft copy fee	41	\$2 to \$5	per check/item, upon request
Stopped check/draft fee	60	\$10 to \$30	per item/check/request
Insufficient funds fee	56	\$10 to \$25	per item/draft/occurrence/ISF transaction
Account closing fee	0		
Other fee	46	\$0 to \$50	overnight shipping/wire transfer

**QUESTION 28**

**In the event funds in the account are improperly withdrawn through a stolen or forged check, the insurer:**

- 12 (16.9%) – Will make the beneficiary whole as a matter of policy
- 1(1.4%) – Will disclaim any liability as a matter of policy
- 1 (1.4%) – Will disclaim any liability as a matter of contract
- 57 (80.3%) – Other

Of those answering “Other”, nearly all the responses fell into one or both of the following two categories:

1. Would be handled on a fact-specific/case-by-case basis
2. Company would work with the bank to resolve

## QUESTION 29

**After the death of the insured, which of the following disclosures, if any, are made at the time the RAA is first presented to the beneficiary? (Check all that apply.)**

- 62 (87%) – The RAA is not insured by the FDIC
- 9 (13%) – The RAA is protected by the Texas Guarantee Association
- 3 (4%) – The RAA is protected for up to \$300,000 by the Texas Guarantee Association
- 8 (11%) – The checkbook is made up of drafts which may not be accepted by all businesses
- 32 (45%) – Funds in the RAA are held in the Insurer’s account and no separate account is established for the beneficiary
- 54 (76%) – All fees charged
- 45 (63%) – How the interest rate is determined
- 63 (89%) – How interest is calculated, accrued and credited
- 55 (77%) – Other

“Other” responses included:

- Notice that the draft book cannot be used as bill pay, or other electronic transfer
- Customer service phone numbers
- Process to close account
- Minimum balance requirement
- Notification on balance statements
- Notice of ability to write a single draft for entire amount
- Notice of process to order more checks
- Information on naming a beneficiary
- RAA program brochure
- Notice that the insurer may earn interest at a higher or lower rate than the RAA
- Notice that no additional deposits can be made
- Notice that funds are not FDIC insured, but may be covered by guarantee association
- Notice of tax implications
- Current interest rate
- Account is kept in insurer’s general account, and subject to claims against the insurer

### **QUESTION 30**

**How does your company reflect its liability for RAA's on the liabilities page of the NAIC financial statement forms that are filed with insurance regulators (e.g. page 3 of the NAIC financial statement form)?**

- 60 (85%) – As a liability on line 3, “Liability for deposit-type contracts.”
- 8 (11%) – As a liability on line 17, “Amounts withheld or retained by company as agent or trustee.”
- 2 (3%) – As a “write-in liability”
- 0 – Not reflected as a liability
- 1 (1%) – Other

Of those responding companies that reflect liabilities as “write-in” liabilities:

- One company responded, “We have chosen to report separately to provide greater clarity to the reader rather than comingling with other liability accounts.”
- The other company responded that they report RAA funds as liability to claimants and other miscellaneous liabilities.”

The company responding “Other”, responded, “Assets and liabilities relating to retained asset accounts are transferred to [another company] and are not reported within the Company's financial statements.”

SCHEDULE A: Texas Direct Written Business

DEATH CLAIMS PAID			
	Total Number	Total Amount Paid <sup>1</sup>	Total Amount Initially Deposited <sup>2</sup>
Death Claims Paid 01/01/04 through 12/31/10	729,121	\$21,158,466,800	
RAA Funded	140,926		\$9,473,742,216
All Other Settlement Options <sup>3</sup>	537,753		

OPEN RAA ACCOUNTS			
	Total Number	Current Total Balance <sup>4</sup>	Average Duration Since Account Opened in Months <sup>5</sup>
Open RAA Accounts as of 12/31/10	51,484	\$2,260,864,956	51.5
No withdrawal Activity (in months) <sup>6</sup>			
6-12	8,637	\$353,123,383	38.7
13-18	5,038	\$200,906,824	45.7
19-24	3,757	\$217,288,149	47.9
25-36	4,757	\$212,529,262	56.7
37-48	3,382	\$96,928,410	61.5
Greater than 48	8,646	\$232,118,224	104.9

RAA "UNCLAIMED" ACCOUNTS		
	Total Number	Total Amount Paid
RAA Accounts Reported as "Unclaimed" to Texas Comptroller of Public Accounts 01/01/04 through 12/31/10 <sup>7</sup>	6,601	\$1,912,853

1. Means the total aggregate policy death benefits whether paid in cash or under other settlement options
2. Total aggregate amount deposited in all RAA's opened during the period
3. While most companies included lump sum payments in this figure, some companies did not include lump sums payments
4. Aggregate current balance for RAA's as of 12/31/2010 (includes interest)
5. Companies were instructed to calculate the average duration by summing the months from inception to 12/31/2010 for each RAA in the applicable row and then divide by the number of such accounts, presenting to one decimal rounded near
6. Measured in months immediately preceding 12/31/2010
7. For "Total Amount Paid", companies were instructed to calculate the total value of all unclaimed RAA's reported to the Comptroller for the period