

POLICY INSIGHT

A Policy Newsletter on Life and Health Insurance and Financial Security Issues

JANUARY 2019

Guaranty Associations Are Critical Part of State's Insurance Safety Net Structure

Each state, including Texas, uses a system of guaranty associations to protect policyholders in the unlikely event of an insurance company's insolvency.

An insolvency occurs when an insurance company does not have enough funds to cover its outstanding policy obligations. Should an insolvency happen, a state's Guaranty Association (GA) works to arrange substitute policies for the affected policyholders, adjust and pay claims, and reissue or reinsure policies. The GA raises the funds to administer claims and fulfill related responsibilities through assessments.



THE LIFE INSURANCE
INDUSTRY GENERATES
APPROXIMATELY

221,700
jobs in Texas

When an insolvency is declared, members of the GA are assessed an amount to cover the expected claims for Texas policyholders. Assessments are only paid on an as-needed basis,

and their values are determined based on each member's market share of the specific line of insurance in which the insolvency occurs.

In addition to allocating assessment funds to respond to insurance insolvencies, GAs help preempt insurance funding crises.

Texas has GAs for life and health insurance, property and casualty insurance, and title insurance. In Texas, GA board members are appointed by the state insurance commissioner and tasked with the detection and prevention of insolvencies in the insurance industry.

In cases of multi-state life and health insurance insolvencies, the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) acts as a centralized source of information for regulators and the industry. The NOLHGA also helps state life and health insurance GAs control costs and expedite crucial programs.

In 2017, the insolvency of long-term care insurer Penn Treaty became the costliest health insurance failure ever. Industry analysts estimated that the company had long-term claims liabilities approaching \$4 billion, but only \$700 million in assets.

The Texas Life and Health Insurance Guaranty Association (TLHIGA) stepped in to provide coverage for Texas Penn Treaty policyholders. TLHIGA assessed its members a total of \$130 million to cover expected long-term care claims. Under Texas law, long-term care is classified as health insurance, so most of this amount was paid by health insurance companies (85 percent), with the remainder paid by life and annuity companies (14 percent), and HMOs paying 0 percent of the assessment fee, despite operating in the state's health insurance market.

CONTINUED ON PAGE 4

IN THIS ISSUE:

Is Your Future Financially Secure?.....2

An Economic Engine for the Texas Economy and Local Communities3



Is Your Future Financially Secure?

You already insure your home, health and car. But did you know you can insure your financial future?

According to an analysis by American Council of Life Insurers (ACLI), only 45 percent of U.S. households are “on track” to achieve financial security.

ACLI defines households with strong financial security as those “practicing good financial behaviors and taking full advantage of products and solutions available to help ensure their financial and retirement security.” These products extend beyond the typical coverage for health and property to include other forms of insurance like retirement, life, disability, long-term care and annuities.



LIFE INSURANCE COMPANIES
INVEST APPROXIMATELY

\$472B
in Texas' economy

Whatever an individual's income, education or employer-sponsored savings options, it's essential to understand the advantages of insurance products designed to protect financial security and the dangers of not adequately saving. In fact, ACLI reports that nearly 50 percent of U.S. households recognize the importance of “expert retirement planning.” Despite

that, a 2016 Harris Poll suggested 62 percent of Americans had no help with respect to financial planning.

Individuals without adequate protection can be financially crippled by unforeseen expenses. Whether forced to draw on retirement savings to cover emergencies, long-term care or disability-related expenses, the risks of going uncovered are a total dependence on social security or financial instability late in life.

Alternatively, those who start saving early and arrange broad coverage can realize huge benefits from relatively minor contributions. For example, with annual contributions of only \$4,000 to a 401(k) with a 5 percent return, an individual who starts saving at 20 can turn \$180,000 invested over the course of their career into more than \$670,000 at retirement age.

Understanding and effectively utilizing financial and insurance products can give consumers confidence that they are choosing the right products to suit their unique circumstance and best prepare for a range of unexpected expenses. A financial planner can help consumers pay off debts, maximize the value of existing assets, and allocate savings across a range of products to build a foundation for lifelong financial comfort. Most importantly, ensuring financial security is inexpensive. ACLI data suggest that 25 percent of the households rated most financially secure earn less than \$50,000 per year.

Employers are a great source of motivation to get saving, but they aren't a comprehensive solution to financial vulnerability. According to the Bureau of



TEXAS RESIDENTS HAVE

\$2.4T
in total life
insurance coverage

Labor Statistics, workers 35 to 44 years old are holding onto jobs for less than five years, on average. That highlights the need for savings options that are customizable, flexible and portable.

Financial security insurance can sound unfamiliar and expensive, but the fact is Americans already pay for public coverage that protects them from financial crises. Aspects of unemployment insurance, workers' compensation, Social Security and Medicaid share some common elements with private insurance products like annuities, retirement accounts and disability insurance. Public programs provide a valuable public safety net, but to be truly protected in the event of financial catastrophe, or best prepared for a financially secure retirement, investors should take advantage of the options available in a robust private insurance marketplace.



An Economic Engine for the Texas Economy and Local Communities

Texas life and health insurers administer claims and sell policies that protect Texas families from financial uncertainty. Simultaneously, insurers invest billions of dollars within the state, spurring job creation and funding brick-and-mortar projects that strengthen local economies.

According to the latest available data, life insurers invested \$472 billion in Texas in 2016. Of the industry's investment in Texas, roughly \$377 billion is in the form of stocks and bonds that help create business development opportunities, finance job creation and fund new growth in infrastructure projects such as hospitals, roads and clean water. Life insurers also provided \$42 billion in mortgage loans on farm, residential and commercial properties, and own \$3 billion in Texas real estate. In 2018, taxes paid by Texas insurers totaled \$2.5 billion, accounting for 2.1 percent of the state's total tax revenue.

While a pillar in the state's economy, perhaps the most critical contribution life and health insurers make to Texans is providing a safety net against the financial uncertainty that results when the unthinkable happens.



THE INSURANCE
INDUSTRY CONTRIBUTED
\$33.9B
to the Texas gross
state product in 2015

Insurers have provided financial assistance to Texans after the death of a loved one or business partner, or in the case of a prolonged illness or health crisis that can similarly undo a lifetime of financial planning. Life insurers provide financial and retirement security through life insurance, annuities, long-term care, disability income insurance and retirement plans. In 2016 alone, insurers paid \$29 billion to Texas residents in the form of life insurance and annuity benefits.

Individual life insurance coverage bought in Texas in 2016 totaled \$139 billion, and overall, Texas residents have \$2.5 trillion in total life insurance coverage. There are more than 10.5 million individual life insurance policies in Texas, with additional coverage totaling \$973 billion from group life insurance coverage.

Insurers also play a critical role in keeping seniors healthy for the long-term and provide financial protection for others in the case of disabling injuries. While roughly two-thirds of adults over the age of 65 will need help with bathing, eating or getting dressed over an extended time, only about 10 percent of Americans have long-term care insurance. Many seniors find out too late that neither Medicare nor traditional health insurance pays assisted living expenses or nursing home care related to a long-term illness or disability, forcing middle-income people to spend down their assets to qualify for long-term Medicaid services. Texas insurers offer long-term care protection to help prevent seniors

from being forced to spend their life savings when they need help the most.

One in three workers, on average, will suffer a disability that keeps them out of work for 90 days or longer. Disability insurance offers a safety net to employees by paying a portion of earnings while they are unable to work.



THE INSURANCE
INDUSTRY PAID
\$19.6B
in compensation
in 2016

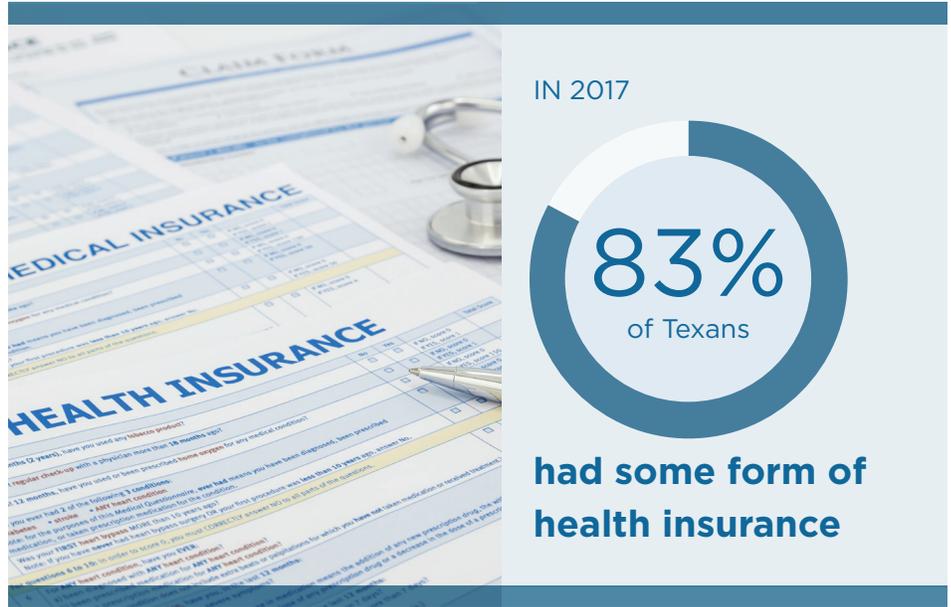
Of the 520 total life insurers operating in Texas, 103 are domiciled in the state, where they employ 81,200 individuals and indirectly generate an additional 140,500 jobs.



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The Penn Treaty insolvency proved that guaranty associations are an effective solution to ensure that consumers receive the coverage they're owed. It also revealed shortcomings within the current safety net structure.

Following Penn Treaty's failure, the fear of future long-term care insurance insolvencies led life and health insurers to work alongside regulators to reevaluate the assessment methodology to ensure the protection it affords consumers remains strong. Recommendations to strengthen the guaranty association process will be made to Texas legislators for consideration during the 2019 regular session.



REGULAR MEMBERS

- Aetna
- Aflac
- AIG
- Allstate
- American Fidelity Group
- American National Insurance Company
- Americo Group
- Axa
- Best Life & Health Insurance Company
- Blue Cross and Blue Shield of Texas
- BrightHouse
- Central Security Life Insurance Company
- Central States Group
- Cigna
- Colonial Life Insurance Co. of Texas
- Conseco Insurance Group

- Continental General Insurance Company
- Croy-Hall Management, Inc.
- Funeral Directors Life Insurance Company
- Genworth
- Germania Life Insurance Co.
- Government Personnel Mutual Life Insurance Company
- Guardian Life Insurance Company
- Kemper Corporation/Reliable Life
- Landmark Life Insurance Company
- MetLife
- Mutual of Omaha Group
- National Farm Life Insurance Company
- National Life Group®
- National Teachers Associates Life Insurance Company

- National Western Life Insurance Company
- Nationwide
- New Era Life Insurance Company
- New York Life Group
- Pacific Life Insurance Company
- Primerica
- Prudential
- Security Benefit
- Security National Life Insurance Company
- Southern Farm Bureau Group
- State Farm Insurance
- SWBC Life Insurance Company
- Texas Service Life Insurance Company
- Trustmark Companies
- United Benefits, Inc.
- UnitedHealth Group
- USAA Life Insurance Company

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