



1-800-927-4357

www.insurance.ca.gov

Unclaimed Life Insurance Benefits Payout to Beneficiaries:

A Multistate Investigation of Insurers' use of the Social Security Death Master File



Dave Jones, Insurance Commissioner
California Department of Insurance



Dave Jones
Insurance Commissioner

Dear California Consumer:

The Death Master File Multi-State Examination is one of the most successful and far reaching investigations and enforcement initiatives that helped beneficiaries to rightfully receive life insurance benefits. I am proud to share this report, which discusses the history and outcomes of this effort led by the California Department of Insurance and the National Association of Insurance Commissioners. Nearly \$10 billion in life insurance benefits have been paid to beneficiaries across the United States as a result.

The California Department of Insurance played a critical leadership role in the Death Master File effort as a lead state. I would like to thank the hard working men and women of the California Department of Insurance who have worked so diligently to make sure life insurance beneficiaries received the benefits they were owed. Thanks especially to the leadership of Lisbeth Landsman, Attorney IV, Legal Branch, and Pamela O'Connell, Division Chief, Market Conduct Division, and to former General Counsels Adam Cole and John Finston, former Deputy General Counsel Patricia Staggs, Legal Division staff Raquel Cano and Ron Reyna and Market Conduct Division staff including Don McKinley. Thanks also to our contract examiner, Verus Analytics LLC.

There is perhaps no better example of the benefits of the strong consumer protection provided by the California Department of Insurance and the benefits of the Department's leadership nationally than the Death Master File Examination.

A handwritten signature in blue ink that reads "Dave Jones".

DAVE JONES
California Insurance Commissioner
December 2018



Table of Contents



Page

Executive Summary	3
Public Hearing.	4
Examinations.	5
<i>Overview of Examination Objectives</i>	5
<i>Overview of Examination Approach</i>	5
<i>Examination Results</i>	6
Settlements	7
Results	10
<i>Conclusion</i>	10
Pie Chart - Benefits Paid to Beneficiaries.	10
Chart	11

I. Executive Summary

California Insurance Commissioner Dave Jones is one of the leaders of a national insurance commissioners' investigation into life insurers' use of the Social Security Administration's Death Master File for their business benefit while ignoring information the database contained that would allow life insurers to identify deceased life insurance policyholders whose beneficiaries were owed benefits.

The investigation led by Commissioner Jones and several other state insurance commissioners has resulted in multistate regulatory settlements with 27 life insurers, representing over 80 percent of the market (by premium volume based on 2010 annual reporting). In the settlements, the insurers agreed to use the Death Master File and match it against their lists of past and current policyholders to determine if a policyholder has died and then to search for the beneficiaries of the policyholder to pay benefits.

The nationwide Death Master File investigation is one of the most important investigative and enforcement efforts ever undertaken by insurance regulators. The investigation of insurers' failure to use the Social Security Administration's Death Master File to identify deceased life insurance policyholders and pay beneficiaries and the settlement agreements obtained by Commissioner Jones and the other lead state commissioners have resulted in nearly \$10 billion in life insurance benefits being paid to hundreds of thousands of beneficiaries nationwide. Insurers paid more than \$1 billion to California beneficiaries alone.

Created by the Social Security Administration, the Death Master File contains the names and identity of almost everyone for whom a death certificate is filed in the United States. The Social Security Administration ("SSA") uses the Death Master File to determine when to stop paying social security benefits because someone has died. Years ago, the SSA licensed the Death Master File to life insurance companies. Until recently, many life insurers only used the Death Master File for their economic benefit to identify deceased annuity holders to stop making annuity payments, but the life insurers failed to use the Death Master File to identify deceased policyholders to pay life insurance benefits.

II. Public Hearing

Very early in his first term, Commissioner Jones convened a public hearing which investigated and exposed the failure of life insurers to use the Death Master File to identify deceased policyholders and to pay their life insurance beneficiaries. On May 23, 2011, Insurance Commissioner Dave Jones and State Controller John Chiang conducted a joint investigative hearing into the practices of Metropolitan Life Insurance Company (MLIC), also known as MetLife. The hearing focused on MetLife's practices regarding payment of benefits under life insurance policies after MetLife learns of an insured's death either to the beneficiaries or, if insurers cannot locate them, for three years or more, to the State's Unclaimed Property program.

The Commissioner and the Controller conducted the hearing based on preliminary findings from an audit the Controller launched in 2008, indicating that for two decades, MetLife failed to pay life insurance policy benefits to named beneficiaries or the State even after learning that an insured had died. The company had a huge number of so-called Industrial Policies, valued at an estimated \$1.2 billion, which it primarily sold in the 1940s and 1950s to working-class people. The payments, which MetLife collected weekly, typically were higher than the final death benefit. The Controller's unclaimed property audit indicated that MetLife did not take steps to determine whether policy owners of dormant accounts were still alive, and if not, pay the beneficiaries, or the State if it could not locate them.

Simultaneously, the preliminary findings showed that MetLife knew, from its access to the Death Master File, that an owner of an annuity contract - which generates income for the policy owner at the time the annuity matures - had died, or the annuity had matured, the company terminated the annuity. However, it did not simultaneously use the Death Master File to determine whether its life insurance policyholders died so that it could contact the life insurance beneficiaries and pay them. Even worse, following the deaths of life insurance policyholders, MetLife continued withdrawing premium payments from the life insurance policy holder's account until the cash reserves were used up and then canceled the policy.

Upon learning that life insurers with access to the Social Security Administration's "Death Master File" were not using information about deaths to trigger payments to life insurance beneficiaries, Commissioner Jones and four other lead insurance regulators launched examinations of the 40 largest life insurance groups. The examinations determined whether these insurers violated state insurance laws by engaging in unfair claims settlement practices. Only four of these insurers were deemed in compliance.

¹ The top 40 insurers were based on 2010 NAIC Annual Reports for Direct Life, Annuity and Other Considerations.

III. Examinations

Overview of Examination Objectives

Led by the Insurance Commissioners of California, Florida, Illinois, Pennsylvania, New Hampshire and North Dakota (“Lead States”), insurance regulators from these state insurance departments launched examinations to review insurers’ practices and procedures, dating back to 1992, related to the following areas:

- Unpaid death benefits due under the insurers’ life insurance policies and annuity contracts;
- Unpaid proceeds due under matured annuities;
- Balances remaining in retained asset accounts on which no recent owner-initiated activity has occurred;
- Any efforts made by insurers to locate and pay beneficiaries or contingent payees; and
- Potential inconsistencies in how Social Security Administration data identifying deceased individuals, or other similar information, was used by the insurers.

Overview of Examination Approach

To accomplish these objectives, the examiners sought to collect and review the following written policies and procedures, narrative descriptions and explanations, and data sets:

- Written policies and procedures for unclaimed property and its escheatment, and the insurers’ application of those procedures;
- Death claim processing manuals and instructions;
- Information on a variety of business unit processes related to life insurance, annuities and retained asset accounts obtained through verbal interviews and walk-throughs;
- Written policies and procedures and narrative descriptions of the insurers’ use of the Social Security Administration’s Death Master File database;
- Written policies and procedures for returned and undeliverable mail, and uncashed stale-dated checks;
- Procedures for maintaining current contact information for insureds, contract owners, and accountholders;

(III. Examinations continued)

- Non-forfeiture and contract maturity policies and procedures;
- Systems data extracts of open individual annuity contracts, open retained asset accounts, and in-force life insurance policies, and related individual contract and policy file documentation for sample subsets of life insurance policies and annuity contracts;
- Internal audit reports;
- Board of Directors meeting minutes from periods of time relevant to the implementation of certain policies, procedures, and business activities;
- Internal executive and management-level communications, including email communications, memos, and any records of any other written or verbal discussion relevant to the implementation of certain policies, procedures, and business activities.

In addition to the six Lead States, additional states elected to participate in these examinations.

Examination Results

After examining insurers, the Lead States issued four examination reports that determined Massachusetts Mutual, USAA, American Equity and Citigroup insurance groups complied with state insurance regulations. Another 27 insurers entered into regulatory settlement agreements in which they agreed to use the Death Master File to identify deceased policyholders and to pay their beneficiaries.

IV. Settlements

On February 2, 2012, Insurance Commissioner Dave Jones announced the first of many settlements with life insurers that the California Department of Insurance (CDI) negotiated, along with Florida, Illinois, New Hampshire, North Dakota, and Pennsylvania. The first insurer to settle was Prudential Insurance Company (Prudential).

“Prudential Life Insurance should be acknowledged for reaching this agreement, which requires that they use Death Master and all other means available to them to ensure that when life insurance policyholders die, their beneficiaries receive the benefits owed,” said Commissioner Jones.

The settlement agreement required Prudential regularly to check the Social Security Death Master file to determine whether any of its life insurance policyholders, owners of annuities, and holders of retained asset account have died. If Prudential found that a policyholder died, the agreement required Prudential to conduct a thorough search for beneficiaries, using all contact information in its records and online search and locator tools. If insurers beneficiaries could not locate them, Prudential was required to turn the proceeds owed to beneficiaries over to the states as required by state unclaimed property laws.

The agreement also required Prudential to pay \$17 million collectively to the states participating in the settlement. California’s share of the settlement was \$1.4 million.

“This settlement is an important step in the efforts of the California Department of Insurance to ensure that beneficiaries promptly receive the benefits they are due when a relative or loved one dies,” Commissioner Jones said. “I am hopeful this settlement will lead other life insurers to come forward and enter into similar agreements.”

On April 30, 2012, Insurance Commissioner Dave Jones announced a second multi-million dollar settlement with MetLife, Inc. (MetLife).

MetLife agreed to strict business reforms to ensure it quickly pays out life insurance benefits. The company agreed to pay \$40 million to state insurance departments. California’s share of the settlement was approximately \$4 million.

(IV. Settlements continued)

Commissioner Jones stated “The settlement I am announcing today represents an important victory for consumers,” said Commissioner Jones. “For many years, MetLife selectively used the Social Security Administration’s Death Master File database to cut off payments to annuity holders but did not use that database to identify deceased life insurance-policyholders and pay their beneficiaries. Under today’s settlement, that practice will end. I hope other life insurers will follow MetLife’s lead and enter into similar agreements.”

The settlement required MetLife to run the Social Security Death Master File or similar database monthly to determine whether its life insurance policyholders, annuity owners, and holders of retained asset accounts (accounts holding insurance benefits paid to beneficiaries) have died. If MetLife learned that a policyholder died, it was required to conduct a thorough search for beneficiaries, using beneficiary contact information in its records and online search and locator tools. If MetLife did not find a beneficiary within a year of learning of a death, it was required to transfer the benefit to the appropriate state controller as unclaimed property.

Subsequently, California’s Department of Insurance negotiated eight settlements as a lead state. These were with the following insurance groups:

- New York Life
- John Hancock
- Jackson National
- Ameriprise
- Pacific Life
- Aflac
- White Mountains (Symetra)
- Standard

In addition to MetLife and Prudential, other insurers who settled with the lead states include the following insurance groups:

- Lincoln National
- Aegon
- AIG
- ING
- TIAA

(IV. Settlements continued)

- AXA
- Nationwide
- Allianz
- Hartford
- Aviva
- Sun Life
- Midland National (Sammons)
- Guardian
- State Farm
- Minnesota Mutual
- Genworth
- American Financial

These insurers represent approximately 80% of the life and annuity insurance market. As a result of the state insurance regulator settlements, in addition to paying benefits to beneficiaries, insurers have paid approximately \$180 million to states that participated in the settlement. Insurers have paid approximately \$20 million to California alone.

The Lead States continue to examine the following insurance groups:

- Northwestern Mutual
- Great West
- Principal
- Western Southern
- OneAmerica
- Ohio National
- American National
- Protective Life
- Allstate

While the lead states have been conducting these examinations, Kemper and Thrivent, two small life insurers, have aggressively fought and continue to fight with insurance regulators and unclaimed property officials over their obligations to find and pay beneficiaries of their deceased insureds. Both have litigated with states, seeking to prevent insurance regulators and unclaimed property officials from enforcing laws requiring them to do so.

V. Results

As a result of state insurance regulator settlements, life and annuity insurers have paid over \$9.7 billion to life insurance beneficiaries nationwide . These insurers have paid more than \$1 billion to California beneficiaries, alone. Also, these insurers have escheated approximately \$33 million in unclaimed benefits to state unclaimed property officials.

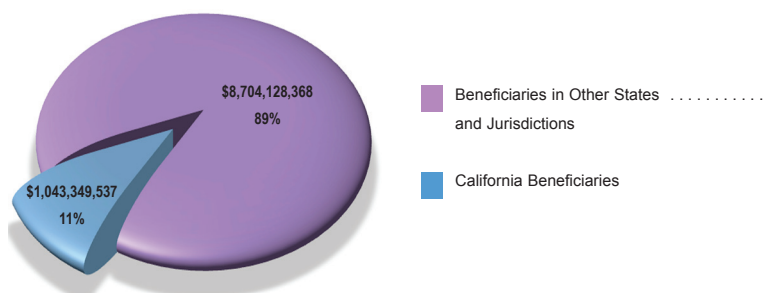
Finally, to amplify efforts to match beneficiaries with life insurance policies, the California Department of Insurance and other states, in cooperation with National Association of Insurance Commissioners' (NAIC), launched the Life Insurance Policy Locator. This service has matched consumers with policies totaling \$17,332,464 just in the past 12 months, and \$33,863,187 since the 2016 launch. In its initial two years, the locator has matched 24,934 consumers with policies across the U.S., totaling \$368 million. More than 48,000 consumers have conducted searches nationwide in that time. During its first year, the policy locator initially found \$92.5 million in lost benefits for consumers. As more matches were made to requests from that year, the first-year total has increased to \$166.7 million.

Conclusion

The Insurance Commissioners multi-state Death Master File investigation is one of the most successful examples of regulatory action taken by insurance commissioners to protect consumers. A priority from the very beginning of his tenure as California's Insurance Commissioner, Commissioner Jones was one of the five leaders of this successful multi-state investigation. The Death Master File investigation and results demonstrates the important role that state insurance regulators can play in protecting consumers and the important leadership role of the California Insurance Commissioner working in concert with other state commissioners.

\$9.7 Billion in Unclaimed Benefits Paid to Beneficiaries

As Reported Through August 15, 2018



² As reported through August 15, 2018, insurers have paid \$9,747,477,905 to beneficiaries, nationwide.

³ As reported through August 15, 2018, insurers have paid \$1,043,349,537 to California beneficiaries.

⁴ As reported through August 15, 2018 (This includes approximately \$7 million paid to the California Controller.)

Group Name	Sum of Premium ⁱ	Sum of % of Market	Sum of National Settlement (M)	Sum of California's Share (M)
METROPOLITAN GRP	\$58,999,277,590.00	13.50%	\$40.00	\$4.00
PRUDENTIAL OF AMER GRP	\$40,103,838,847.00	9.20%	\$17.00	\$1.40
NEW YORK LIFE GRP	\$22,257,858,802.00	5.10%	\$15.00	\$2.00
JOHN HANCOCK GRP	\$22,039,465,858.00	5.00%	\$13.30	\$2.00
LINCOLN NATL GRP	\$19,479,749,369.00	4.40%	\$12.60	\$1.40
JACKSON NATL GRP	\$18,169,748,652.00	4.10%	\$2.50	\$0.30
AGON US HOLDING Grp	\$16,862,831,548.00	3.80%	\$11.20	\$1.50
AMERICAN INTL GRP	\$16,489,353,296.00	3.80%	\$11.00	\$1.20
ING Amer Ins Holding Grp	\$15,844,769,265.00	3.60%	\$10.70	\$1.20
MASS MUT LIFE INS GRP	\$11,746,104,318.00	2.70%	\$0.00	\$0.00
TIAA FAMILY GRP	\$11,311,510,550.00	2.60%	\$6.20	\$0.60
AXA INS GRP	\$11,158,772,455.00	2.50%	\$3.28	\$0.41
NATIONWIDE CORP GRP	\$10,726,892,399.00	2.40%	\$7.20	\$0.80
ALLIANZ INS GRP	\$10,553,977,048.00	2.40%	\$4.74	\$0.59
HARTFORD FIRE & CAS GRP	\$8,111,162,458.00	1.90%	\$2.10	\$0.23
AMERIPRISE FIN Grp	\$7,854,756,186.00	1.80%	\$1.50	\$0.17
AVIVA Grp	\$6,990,345,232.00	1.60%	\$4.00	\$0.58
PACIFIC LIFE GRP	\$6,584,466,584.00	1.50%	\$2.45	\$0.37
SUN LIFE ASSUR CO OF CN GRP	\$5,666,064,608.00	1.30%	\$3.20	\$0.37
MIDLAND NATL LIFE INS GRP	\$5,206,139,861.00	1.20%	\$3.30	\$0.46
GUARDIAN LIFE GRP	\$4,759,109,190.00	1.10%	\$2.00	\$0.17
American Equity Investment Grp*	\$4,680,475,286.00	1.10%	\$0.00	\$0.00
STATE FARM GRP	\$4,495,094,348.00	1.00%	\$0.25	\$0.02
MINNESOTA MUT GRP	\$4,368,542,425.00	1.00%	\$0.63	\$0.07
AFLAC Grp	\$3,868,306,892.00	0.90%	\$0.35	\$0.03
GENWORTH FIN Grp	\$3,189,668,870.00	0.70%	\$1.90	\$0.20
WHITE MOUNTAINS GRP	\$2,749,915,310.00	0.60%	\$1.20	\$0.17
AMERICAN FINANCIAL Grp	\$2,393,873,518.00	0.50%	\$0.40	\$0.04
UNITED SERV AUTOMOBILE ASSN GRP*	\$2,284,378,265.00	0.50%	\$0.00	\$0.00
STANCORP FIN GRP	\$2,097,874,623.00	0.50%	\$0.28	\$0.02
CITIGROUP GRP*	\$1,995,396,924.00	0.50%	\$0.00	\$0.00
Grand Total	\$366,300,873,744.00	83.50%	\$178.42	\$20.31

ⁱBased on 2010 Top NATSIG Groups Writing Direct Life, Annuity and Other Considerations

* Insurer did not settle. Investigation indicated Insurer was in compliance

The California Department of Insurance

Consumer Education and Outreach Bureau

300 South Spring Street, South Tower, Los Angeles, CA 90013

1-800-927-4357 (Consumer Hotline)

1-800-482-4833 (TTY)

1-877-401-9550 (Consumer Education & Outreach)

www.insurance.ca.gov



This brochure is a project of the California Department of Insurance
January 2019