

How Safe Are Life Insurance Companies?

If the life insurance company is a **legal reserve life insurance company**, the answer is very safe.

Under the legal reserve system, a life insurance company must have a policy reserve fund into which a large percentage of each premium dollar goes. This fund is the method by which a legal reserve life insurance company determines the assets it must maintain in order to meet its future commitments under the life insurance policies it has issued.

The **policy reserve fund** is considered a liability to the company, not an asset of the company. In maintaining its reserve fund liabilities, a life insurance company then has the funds to pay the future living and death benefits guaranteed by life insurance and annuity contracts when they come due.

Legal reserve life insurance companies are regulated at the state level, with the state Departments of Insurance monitoring the financial well-being of the insurance companies headquartered in their state. Life insurance companies must comply with the legal reserve requirements established by the state in which they are headquartered and must submit annual financial statements to the insurance departments of each state in which they do business, as well as undergo periodic examinations. If an insurance company becomes "at risk," it does not simply go out of business, declaring the policies it has issued null and void. Instead, the insurance department steps in to save the company from going bankrupt and oversees the company's liquidation if it cannot be saved.

Every state has an insurance guaranty association that has been established to protect policyholders if their insurance company becomes insolvent. A legal reserve life insurance company must be a member of the insurance guaranty association of every state in which it does business. If a company becomes insolvent, these insurance guaranty associations then ensure continuation of policyholders' coverage either by taking policies directly or by transferring the policies to a financially stable insurer. According to the Better Business Bureau, "since 1988, the life and health guaranty system has participated in approximately 100 multi-state insurer insolvencies, guaranteeing more than \$21 billion in coverage benefits and assessed their member insurers more than \$6 billion to protect more than 2.2 million insured consumers."

To help consumers evaluate their life insurance companies, there are several rating agencies that evaluate the financial strength of insurance companies, including A.M Best, Moody's and Standard & Poor's.