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Safety in Numbers

Worried about insurers? Pick a highly rated one.

By Carrie Coolidge

WHEN WORD LEAKED OUT SEPT. 16 that American International Group was about to blow up, customers in Singapore lined up to cancel life insurance and annuity policies.

They shouldn't have bothered. Yes, AIG's parent holding company had gored itself with bum mortgage investments. But as is common in the insurance business, the AIG subsidiaries that underwrote the policies were safely walled off, along with capital to make good on their obligations.

"AIG's life insurance policyholders should have a completely soft landing," says Peter Gallanis, president of the National Organization of Life & Health Insurance Guaranty Associations.

This is not to say insurance customers should be indifferent to balance sheets. But historically, insolvencies are rare—only 100 or so life insurers have failed in the past 40 years, according to Gallanis' organization. Even if an insurer goes under, it rarely spells disaster for policyholders. They get first dibs, ahead of general creditors, on the reserves.

Following a bankruptcy, state regulators typically transfer policies to a new insurer, with no changes in benefits. After the early 1990s demise of Executive Life (depressed junk bonds) and Mutual Benefit Life (soured real estate) policies were transferred and almost all customers made whole.

Life insurers are also backstopped by guaranty associations, whose benefit limits vary by state. Most cap death benefits at $300,000 and cash surrender or withdrawal values at $100,000. Annuities are protected up to at least $100,000. The investment component of variable products is not guaranteed at all, but the assets in the investment pool belong to the annuity holders, not to the insurer or its creditors.

To be safer still, don't count on either rescues or guaranty pools. Buy a policy from an insurer with a strong balance sheet. A.M. Best's ratings are good indicators and are available for free at www.ambest.com.

In AIG's case A.M. Best didn't downgrade the holding company to a dodgy BBB until the day before its demise. But it cut its rating of 14 life insurance subsidiaries only from A+ to A, reflecting the fact that these, unlike the parent company, are not endangered.

One in 500 firms rated A or A– can be expected to go out of business, says Andrew Edelsberg of A.M. Best's life and health division. Among those rated A+ or better, only one in 1,667 is likely to go bust. Mutually owned insurers tend to have the best balance sheets *(see table)*. F

Wise Policy

COMPANY	A.M. BEST'S FINANCIAL STRENGTH RATING
New York Life	A++
MassMutual	A++
Northwestern Mutual	A++
Guardian Life	A+
Mutual of Omaha	A+

Source: A.M. Best.