

What Happens If Your Life Insurance Company Goes Bankrupt?

Assuris is a not for profit organization that provides an industry funded protection plan to protect Canadian policyholders in the event that their life insurance company should fail.

Assuris pays for the cost of providing coverage for members that fail by maintaining a Liquidity Fund of \$100 million. In addition, Assuris will levy assessments on the continuing Member Companies, following the failure. All life insurance companies licensed in Canada are required to become members of Assuris and to remain members as long as they have any business in Canada. Member companies are listed on the Assuris website: www.assuris.ca

Insurance Products Subject to Coverage

Assuris categorizes products offered by life insurance companies into five major benefit types and these benefit types define what coverage applies in the event that the life insurer fails. The benefit types are as follows:

1. Death Benefits

Death benefit policies pay a benefit amount when the insured person dies as long as the policy is current or paid-up. Specific features for the major products in this category are given below.

Term Life: a policy purchased for a defined term and which typically can be renewed up to age 65 or 70.

Universal Life: a policy that also provides tax-exempt savings in the form of an investment account.

Whole Life: a policy that also pays a cash benefit if it is surrendered prior to death.

Term-to-100: a policy that will insure the holder until death or age 100. Typically, it has no cash value if the policy is surrendered prior to death.

2. Health Expense Benefits

Supplementary Medical Expenses: a policy that provides coverage for medical expenses described in the policy that the insured person incurs and which government programs do not cover.

3. Monthly Income Benefits

Life Annuity (Payout Annuity): a policy that pays a monthly income benefit while the annuitant is alive, in exchange for an up-front investment.

Term-Certain Annuity (Payout Annuity): a policy that pays a monthly income benefit for an agreed fixed term, in exchange for an up-front investment.

Disability Income: a policy that pays a monthly income benefit if the insured person becomes disabled.

Long Term Care: A policy that pays a monthly income benefit if the insured person does not have the capacity for self-care as described in the policy.

RRIF: A Registered Retirement Income Fund (RRIF) can optionally be designated as belonging to the Monthly Income category. RRIFs are discussed in more detail later.

4. Cash Value Products

Critical Illness: a policy that pays a cash benefit if the insured person is diagnosed with one of the serious medical conditions listed in the policy.

Segregated Funds: A Segregated Fund policy accumulates value, similar to mutual funds, by investing in securities such as stocks and bonds. Unlike mutual funds, an Individual Segregated Fund policy also guarantees a cash value, usually 75% or more of the amounts invested, when the insured person dies or at specified maturity dates.

5. Accumulated Values

Accumulation Annuities: An Accumulation Annuity is a deposit type product that accumulates value by adding interest to the deposits. The interest rates may be guaranteed for defined periods such as 10 years.

Other variations: other variations of accumulation annuities include premium deposit accounts, dividend deposit accounts and universal life overflow accounts.

RRIF: A Registered Retirement Income Fund (RRIF) can optionally be designated as an Accumulated Value. RRIFs are discussed in more detail later.

Coverage Provided by Assuris

If your life insurance company fails, your policies will be transferred to a solvent company. The coverage that Assuris provides is dependent on benefit type as specified in this table:

Benefit Type	Full Coverage Based on Maximum Amount	Coverage Beyond Maximum Amount
Death Benefits	Death benefit policies are fully guaranteed up to \$200,000.	Death benefits in excess of \$200,000 are guaranteed for the greater of \$200,000 and 85% of your original death benefit. For example, Assuris would guarantee a \$500,000 policy at 85% of \$500,000 or \$425,000.
Health Expense Benefits	Health expense policies are fully guaranteed up to \$60,000.	Health expenses in excess of \$60,000 are guaranteed for the greater of \$60,000 and 85% of your eligible health expenses. For example, Assuris would guarantee eligible health expenses of \$100,000 at 85% of \$100,000 or \$85,000.
Monthly Income Benefits	Monthly income policies are fully guaranteed up to \$2,000 per month.	Monthly income policies in excess of \$2,000 per month are guaranteed for the greater of \$2,000 per month and 85% of your original monthly income. For example, Assuris would guarantee a \$4,000 per month annuity at 85% of \$4,000 or \$3,400 per month.

Benefit Type	Full Coverage Based on Maximum Amount	Coverage Beyond Maximum Amount
Cash Value Products	Cash value policies are fully guaranteed up to \$60,000.	Cash value policies in excess of \$60,000 are guaranteed for the greater of \$60,000 and 85% of your original cash value policy. For example, Assuris would guarantee a \$80,000 policy at 85% of \$80,000 or \$68,000.
Accumulated Values	Accumulated Value products are fully guaranteed up to \$100,000.	The fate of assets that you may hold that exceed \$100,000 will depend on an assessment of remaining assets of the failed life insurer as it is wound down.

RRIF Coverage

Holders of a Registered Retirement Income Fund (RRIF) have an option when it comes to their coverage. As the RRIF account is transferred to a solvent company, there are two choices:

- *You can choose to withdraw the RRIF as a lump sum*, in which case your RRIF receives Accumulated Value protection. On transfer, Assuris guarantees that you will retain 100% of the promised Accumulated Value up to \$100,000.
- *If you have more than \$100,000 in your RRIF and you choose to withdraw a monthly amount of \$2,000 or less*, Assuris guarantees that your monthly withdrawal of \$2000/month will be fully protected.

If you hold multiple policies at the same failed life insurer, special rules apply. Please refer to this article's Appendix for the details of those rules, along with examples.

The Process of Transferring Your Policy

In the event that your life insurer goes bankrupt, it is not necessary for policyholders to file a claim with Assuris. Each policyholder will be informed on how their respective benefits are protected by Assuris. The liquidators arrange for the transfer of policies to a solvent life insurance company. The policyholder is assigned to a solvent company by the liquidator (i.e. the policyholder does not make a selection).

While your policy will be transferred to a solvent firm, the ongoing status of that policy varies.

Term Policies

An insurance policy that runs for a fixed term is only guaranteed at the new insurer for the remainder of the term subject to the original conditions and the benefit type maximums that may be capped at 85% as noted above. After the term of the policy has expired, it's up to the insurer and insured to decide what (if any) new policies, rates and conditions would apply. This means that someone holding a term life insurance or term health insurance policy is only covered until the end of the original term. At their discretion, the new insurance company may require a medical examination before issuing a new term policy. This may contrast with the situation where a client renews a policy at an existing company. Generally, when renewing an existing term policy with the same benefits, a medical examination is not required. So new health issues for the client might

mean that it is no longer possible to renew an insurance policy at the new company or the new company might require much higher premiums for the new term policy.

Life Policies

By contrast, clients with an insurance policy that runs for life (e.g. Universal Life, Whole Life, Life Annuity) can expect the terms of the original policy to be in force for life, subject only to the benefit type maximums which might cap benefits at 85% of the original value. For example, a client holding a Whole Life policy that had an original prescribed annual contribution could retain that policy with the original terms for potentially decades into the future.

Conclusion

Since Assuris was set up in 1990, Canadians have been well protected in products that they purchase from life insurance companies. With no action required on their part, at least 85% of the benefits of most insurance policies are guaranteed by Assuris.

The one area where policyholders should take special care is with Asset Accumulation type products. With these products, there may be no coverage at all for amounts in excess of \$100,000 (much like the Canadian Depository Insurance Corp. limits for bank deposits). A policyholder with large asset holdings would be wise to diversify their Asset Accumulation holdings amongst several insurance companies for better protection.

As an industry funded protection plan, Assuris should have the capacity to deal with the bankruptcy of some of its industry players. However as Assuris itself warns, an external event causing an industry-wide distress and many bankruptcies might not leave the remaining firms in a position where they could make up massive shortfalls.

You can learn more about Assuris on their website, www.assuris.ca.

This has been the third of RetirementAdvisor.ca's three-part series on the safety of your assets:

Part I CDIC : What happens to your savings if your Bank or Financial Institution becomes bankrupt?
Part II CIPF : What protects you if your Investment Dealer goes bankrupt?
Part III Assuris : What happens if your Life Insurer goes bankrupt?

Author: Laura Woodger

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Appendix: Coverage for Multiple Policies at the Same Failed Life Insurer

If you have more than one policy with the failed company, the Benefit Type and Funding Category are taken into account to determine what coverage applies.

Let's begin by looking at how Benefit Types impact the coverage, by using an example where the policies come from the same Funding Source.

Suppose that Susan has the following benefits (all purchased as an individual, using non-registered funds):

- a whole life policy worth \$180,000
- a 10-year term annuity paying \$1,700 per month
- a disability benefit paying \$1,300 per month
- an accumulation annuity with a value of \$150,000

In the event that this life insurer went bankrupt, Assuris would guarantee the following coverage (via a solvent insurer) to Susan:

- Death Benefits: the whole life policy is the only policy in the death benefits category and it is under the benefit type limit of \$200,000 so the entire whole life policy for \$180,000 would be transferred to the solvent insurer under the existing terms.
- Monthly Income Benefits: the 10-year term annuity and the disability benefit are of the same "monthly income" benefit type and so would be added together. Since \$3,000 per month (\$1,700 + \$1,300) exceeds the guaranteed benefit type maximum of \$2,000 per month, the 85% limit would apply and Susan would be guaranteed 85% of \$3,000 or \$2,550 per month.
- Accumulation Annuity: the accumulation annuity is valued at \$150,000 which is above the benefit type limit of \$100,000 so only \$100,000 would be guaranteed by Assuris.

Benefit Funding Source

The process for adding benefits belonging to the same benefit type together is actually a bit more complicated than the above example illustrates. Fortunately, the additional twist means that certain benefits are not added together providing the policyholder with potentially higher overall coverage.

Policies from a life insurer can be obtained in four ways:

- **Individual, Registered**: through a policy purchased directly by the individual with registered funds (e.g. through RRSP funds, RRIF funds and the like)
- **Individual, Non-Registered**: through a policy purchased directly by the individual with non-registered funds (i.e. with funds outside a registered plan)
- **Group Plan, Registered**: through a policy purchased via a group (such as an employer) with registered funds
- **Group Plan, Non-Registered**: through a policy purchased via a group (such as an employer) with non-registered funds

If you have multiple policies in the same benefit type (e.g. monthly income) but those policies come from different funding sources, then each funding source applies the benefit type limit separately.

It should be noted that certain benefits types (death benefits, health benefits) always come from a non-registered funding source. The remaining benefit types can have policies paid from either a registered or non-registered funding source.

Let's review two examples:

Situation	Assuris Coverage
<p>Bill holds two annuities and a disability policy with his failed life insurer.</p> <ul style="list-style-type: none"> • a 10-year term annuity purchased on his own with <i>non-registered</i> funds paying \$1700 per month • a disability benefit purchased on his own with <i>non-registered</i> funds paying \$1800 per month • a 20-year term annuity purchased on his own with <i>registered</i> funds paying \$1500 per month 	<p>Considering Bill's policies by both benefit type and funding source, Assuris will consider two separate totals:</p> <ul style="list-style-type: none"> • monthly income benefits purchased with <i>individual non-registered</i> funds: $\\$1700 + \\$1800 = \\$3500/\text{month}$. Since it's over the \$2000/month maximum, it will be subject to 85% limit, paying \$2975/month at the new insurer. • monthly income benefits purchased with <i>individual registered</i> funds: the \$1800 per month annuity. Since it's under the \$2000/month limit, the entire \$1500/month will be covered at the new insurer.
<p>Tom has two life insurance (death benefit) policies at the same life insurer but the insurance company failed.</p> <ul style="list-style-type: none"> • Tom has a policy obtained through his company (a group plan) with a death benefit of \$300,000. • Separately, Tom had purchased an individual life insurance policy for \$100,000. 	<p>Considering Tom's policies by both benefit type and funding source, Assuris will consider two separate totals:</p> <ul style="list-style-type: none"> • the death benefit obtained through a <i>group plan</i> for \$300,000 is greater than the \$200,000 maximum and so the 85% rule will apply and a death benefit of \$255,000 via the new insurer applies. • the death benefit purchased on <i>individual basis</i> for \$100,000 which is less than the \$200,000 maximum and so it transferred in full to the new insurer.