Talk of the Town

What Is A Legal Reserve Insurance Company?

James D. Stillman

I hope everyone had a great summer, got to spend some time on the lake, and had a party or two with family and friends. Last month we reached out to the younger crowd to discuss how they could create a "Tax Free Retirement" by using investment grade life insurance. Roth IRA planning is really the only other option that's available for tax free income. Our discussions on life insurance benefits led us to a conversation about life insurance companies that offer these policies and how secure these companies are. People often ask how insurance companies can afford to provide the benefits that they do and how they can do it safely, so this month's article is about legal reserve insurance companies.

Legal reserve insurance companies; wow, does that sound fancy or what! In reality it's very simple, but few know how legal reserve insurance companies work, so hopefully this article will shed some light on the subject. Basically, what a legal reserve insurance company does is provide insurance policies that have some sort of protection(s) through a contractual guarantee(s). This could mean health insurance, life insurance, disability insurance, long term care insurance, and annuities. Below are all the demands and "rules of the road" that are placed upon these companies:

A.) Required Reserves: These companies must hold at least a dollar in reserve for every dollar on deposit. That's a requirement of 100 percent held in reserve. These reserves are to cover the cost of insurance and to back the contractual guarantees made by the company. The money is invested very conservatively and must be spread over various conservative strategies in an attempt to protect principal at all times. Just for comparison, note that banks are only required to hold 0 to 10 percent in reserve, based on the amount of liabilities they carry.

B.) Excess or Surplus Capital: Most highly rated legal reserve insurance companies have approximately $1.04 - $1.09 in reserve for every dollar on deposit. That's an excess of 4 to 9 percent – putting them at 104 to 109 percent in reserve.

C.) Reinsurance: Most legal reserve companies have what are known as "reinsurance agreements" with other legal reserve companies. In other words, the insurance companies are insuring each other. This is very smart, because it spreads risk among various companies that all have money in reserve.

D.) State Guaranty Funds: Every state has in place "guaranty associations" that come into play if a legal reserve company gets into financial trouble and reinsurance is not enough to solve the problem. Basically, it's a last resort, but the "safety net" is there should things get to that point. Here in North Carolina, protection is up to $300,000 per individual per company for annuities, and protection can be as high as $5 million for certain group life insurance contracts.

E.) Company Ratings: Company ratings are also important, but not the end all. In my opinion, any company rated B+ or better (AM Best) is fine as long as their surplus capital and balance sheets are okay. There are various ratings agencies that have different criteria such as Dunn & Phelps, S&P, Weiss, Fitch, etc. Many A++ rated companies have less surplus capital than lower rated companies. So, in reality they are less solvent than lower rated companies. There is also something called a Comdex Rating. The Comdex Rating states how any one insurance company compares to the industry. A Comdex Rating of 90, for example, means the company is more secure than 90% of the competition, based on certain measures. But, that does not always mean that should be the company of choice! Just be aware that ratings are a good indicator of financial stability, but they aren't the only metric to rely on.

Legal Reserve Insurance Companies are audited every year by federal agencies and state insurance departments to make sure they are meeting all of their requirements and obligations. The bottom line is that these companies are highly regulated and monitored to protect the consumer. So, here's a word of advice to all of our readers - if you meet someone who says that insurance companies are not regulated (or something along those lines), they are simply uninformed. Insurance companies are not regulated by the Securities & Exchange Commission (SEC), but they certainly are highly regulated, and that's a good thing!

Be sure to tune in to "The Safe Harbor Retirement Planning Show" every Saturday at 10am and Wednesday at 8am on WSIC AM 1400 & FM 100.7. Also, feel free to check out our website for a ton of information, lists of our free reports, our uploaded radio shows, to request copy of my book "Finding Safe Harbor in Retirement" or a free consultation, or to sign up for any of our upcoming seminars.

And, as always, remember: The purpose of the money dictates where you put it!

Until next month,

James D. Stillman

"Social Security Decisions"

Thursday October 6th & Tuesday October 11th

(Check-In at 5:30pm, Doors Close at 6:00pm)

CHILLFIRE BAR & GRILL

Chillfire Bar & Grill - Denver

Register Now! Space is limited!

Please RSVP no later than 3 business days prior to your preferred event for you and up to 3 guests, ages 55+

To RSVP: Call (704)660-0340 or email matt@jdswealthmanagement.com

JDS Wealth Management Corp.

(704) 660-0214
jdswealthmanagement.com
119-F Poplar Pointe Drive
Mooresville, NC 28117

Retirement Safe Harbor Planning Show