National Funeral Directors Association

GUIDELINES FOR EVALUATING PRENEED INSURERS

Your responsibility as a prudent and ethical funeral business owner is to research the financial strength and business practices of any preneed insurer whose products you are considering to make available to customers.

Preneed insurance, which may also be called funeral or burial insurance, is a specialized form of life insurance specifically used to fund the predetermined expense of a funeral, cremation or burial. Your funeral home (generally) is the beneficiary or assignee of the insurance policy proceeds, contingent upon your delivery of the funeral. Proceeds are not taxable, but you should always consult your tax advisor about possible tax implications in your specific situation.

Follow these steps before making a decision about a preneed insurer for the families you serve.

1. <u>Check with the department of insurance in your state</u> **(your best resource) to:**

- **locate information about the specific laws and regulations that govern preneed insurance agreements and that protect consumers**
- **determine if an insurer is licensed with the state**
- **check on the insurer's complaint record.**

Most state insurance departments provide this information online. You may also inquire to determine if the insurer is in good standing, in compliance with all applicable federal and state actuarial standards, statutory provisions, and administrative rules. You may also find information about the company's financial strength, its history, management and control practices, current financial statement data, and other business practice and performance data, if available.

You also need to verify that the policies issued by the insurer are guaranteed by your state's insurance guaranty fund association. Some insurers, such as fraternal or benevolent organizations, may issue policies that are not covered by the state guaranty fund. In the event that such an insurer becomes insolvent, there will not be a guaranty fund that will pay the face amount of the policy. The funeral home needs to use an insurer that is issuing policies that are backed up by the state guaranty fund association.

State insurance department websites are accessible through the following link, created by the National Association of Insurance Commissioners (NAIC):
http://www.naic.org/state_web_map.htm.

2. <u>Ask the insurer</u> for detailed, current information about its:

- **balance sheet strength**
- **operating performance**
- **business profile and practices**
- **management history**
- **compliance with all state and federal laws and regulations.**

You have the right and the responsibility as a business owner to determine that an insurer is able to meet its ongoing obligations to its policyholders - who are the families you serve. You can also check the insurer's website for information about its policies, practices, and performance. Examine the features and benefits of the company's insurance products to be sure they meet your long-term business needs and the needs of your families.

If your state association endorses a preneed insurance program, ask the same questions and expect verifiable answers about program operations and financial stability as you would with any other insurer.

Get verifiable answers to every question. Key questions follow.

Administration and Management

- What is the reputation and track record of the insurance company? What is the insurance company's specific experience with preneed insurance policies?
- Does the insurance company have legal counsel that is available to advise on state preneed issues and Medicaid issues?
- In how many states is the insurance company licensed to sell preneed insurance? Is this a side business for the insurance company or is it a major block of business?
- What are the insurance company's business standards and strategies, privacy policies, service philosophies, ethics and quality control initiatives?
- Will the insurance company provide you with sample insurance policies that you can review to see if they address issues such as growth rates, coverage, ownership of the policy, etc.

Financial Stability

- What is the insurer's balance sheet strength?
- Where are the funds invested?
- What is the overall portfolio rating?
- What is the ratio of capital and surplus to total assets?
- Does the company show growth in key areas (assets, premiums, capital, surplus)?
- Does the insurer have a history of stability through various economic cycles?
- If the insurance company becomes insolvent and the business is placed in receivership, will the full amount of the policies be paid by a state insurance guaranty fund? Will any growth be paid on the policies if the state insurance guaranty fund takes over?
- Who owns or controls the policy? Policies should remain under the control of the consumer unless there are specific reasons for making changes, such as Medicaid qualification.

Growth Rate and Commissions

- What has been the growth rate for each year over the past five years?
- Who or what determines the growth rate and how often can it be changed? Are the changes based on an index or formula, or are they discretionary with the insurance company?
- Is there a written guaranty on the growth rate for future years?
- Is there any floor that the growth rate cannot go below? Can the growth rate be reduced to 0%?
- Is the growth rate part of the insurance policy (which would be covered by state insurance guaranty funds) or is it provided by a separate non-insurance company that would not be guaranteed by the state insurance guaranty fund?
- What is the commission structure? What are commissions based on?
- When and how are commissions paid?
- Is the commission structure comparable, better, or worse than commissions paid by other preneed insurance companies?

Features

- How does claims processing work?
- What is the turnaround on claims payments?
- How are claims payments made?
- What is the free-look period policy of the insurer (period in which family may cancel and receive all premiums paid)?
- What options are available if the family wants to pay off the policy early?
- Is the insured provided a copy of the policy?
- How are transfers and cancellations handled?
- Does the company offer free services such as training and customer and marketing support?

3. Check insurer's scores with independent rating services.

A number of independent rating services make financial strength evaluations that examine profitability, debt, liquidity, credit rating, and other insurance company performance measures.

The top three insurance-rating companies are A.M. Best, Moody's (rates only publicly traded companies), and Standard and Poor's. Each of these services uses slightly different rating criteria - so views of a given company may vary. Only Standard and Poor's rates most life insurance companies without having been asked to do so through an application by the insurance company; so, not all insurers are necessarily graded by all agencies.

In general, ratings are based on official annual and quarterly (if available) financial statements that insurers must file with regulators, as well as on supplementary data such as Securities and Exchange Commission (SEC) filings and Generally Accepted Accounting Principles (GAAP) statements. Because ratings companies do not conduct formal audits of company financial records, the ratings scores represent opinion and are not warranties of performance.

All three services provide ratings over the phone at no cost. Online ratings are free to registered users. Your local library should have one or more of the insurance ratings or registers on file.

What to look for in the ratings:

- A good investment portfolio mix.
- Investment quality.
- A good total return on the investment portfolio.
- A strong balance sheet.

National Association of Insurance Commissioners (NAIC) - www.naic.org

While NAIC does not rate insurance companies, through its online Consumer Information Source (CIS) it does provide insurer licensing information, detailed financial reports and profiles, and closed consumer complaint reports through a simple to use search feature. Complaints can also be made via CIS; reports of suspected insurance fraud can be made to the NAIC Online Fraud Reporting System (OFRS). NAIC is an organization of insurance regulators from all 50 states, D.C. and the 5 U.S. territories, whose primary responsibility is to protect the interests of insurance consumers. NAIC's mission is to protect the public interest and to support and improve state regulation of insurance, among other aims.

RATINGS COMPANIES

A.M. Best Company
908-439-2200 (Free ratings)
www.ambest.com
Free basic access with online registration.

Based on financial conditions and performance. Intended to evaluate a company's ability to meet its ongoing obligations to policyholders. The criteria to evaluate a company are based on in-depth analysis of both quantitative and qualitative measures, including balance sheet strength, operating performance and business profile. Does not charge a fee for its basic ratings.

Moody's Investor Services
212-553-0377 (Free ratings)
www.moodys.com
Free basic access with online registration.

Uses rating system based on claims-paying ability. Provides debt ratings and financial strength ratings that reflect ability of a company to meet its obligations to punctually repay its senior policyholder claims and obligations, analyzing a company's business fundamentals, including financial factors, franchise value, and organizational structure and ownership. Rates publicly traded companies only.

Standard & Poor's
212-438-2000 (Free ratings)
www.standardandpoors.com
Free basic access with online registration.

Uses rating system based on claims-paying ability. Provides financial security ratings of current performance characteristics of a company, including the company's ability to pay under its policies and contracts in accordance with the terms of the policies. Rates general creditworthiness or specific financial obligations.

Common preneed insurer product and service features. ***A number of preneed insurers currently rated B+ and above by A.M. Best include most of these features and benefits in their service mix:***

- *Simple applications; quick processing*
- *Choice of growth rates (depending on the folio)*
- *Flexible payment options for families - single pay and multi-pay (3, 5, 7, 10 year)*
- *Death benefit options*
- *Simplified health questions*
- *Simple claims processing (with a phone call; within 24 hours, 3 business days, etc.)*
- *Counselor training*
- *Managers training*
- *Field support*
- *Customer service support*
- *Competitive commissions*
- *Marketing programs and support*
- *Monthly policy updates on each contract in force*
- *Online financial reports and reviews*
- *Annuity options (for those who do not qualify for insurance due to age or health reasons)*