THE WALL STREET JOURNAL.

TUESDAY, MARCH 17, 2009

Worry Grows Over Insurers As Ratings Slip

More Companies Weakened By Bad Investment Choices; Shenandoah Sales Moratorium

BY M.P. MCQUEEN

While consumers have been fretting about the safety of their policies at large, publicly traded insurers, some smaller, less-watched companies have been running into trouble too.

Insurers of all sizes are being slammed by investment losses. Some also are being dragged down by higher-than-expected claims in areas like long-term-care insurance. Regulators have taken over companies with policies owned by more than half a million people in more than 30 states, including life insurance and annuities. At one insurer, a receiver has imposed a moratorium on policyholders taking cash out of their policies or turning them in for cash.

Shenandoah Life Insurance Co., a small insurer based in Roanoke, Va., recently fell below state requirements for capital and cash reserves because of its investments in mortgage-backed securities, which were hammered in the housing meltdown. Shenandoah has stopped selling new policies and has instituted a moratorium on policyholders cashing out, selling, surrendering or borrowing from their contracts. The company is continuing to pay death and annuity benefits as well as health-insurance claims. The state receiver who has been running Shenandoah since last month declined to comment.

A Question Of Policies

Consumers are growing concerned as insurers' ratings are falling. Here's what they should keep in mind:

- States regulate the amount of capital and reserves insurers need to keep.
- Some companies have run into trouble by falling short of these levels because of bad investments.
- Regulators try to work out problems with insurers so that policy owners are protected.

The life-insurance industry's troubles are causing angst for policyholders, even at institutions still regarded as solid, driving some consumers to delve deeper into the financial health of their insurers. Phyllis Myers of Washington, D.C., says she and her husband, who both work for nonprofit institutions, recently looked into the financial strength of Teachers Insurance & Annuity Association, part of retirement giant **TIAA-CREF**, which issues their annuities—an insurance contract that promises a stream of income over a period of time.

Ms. Myers, an environmental consultant, says she was somewhat reassured by TIAA's triple-A ratings. But, she adds, "we are not sure

Please turn to page D5

Worry Grows Over Insurers

Continued from page D1

right now how much confidence we have in the ratings based on what I am reading in the paper and hearing on the television."

Such behemoths as **MetLife** Inc., **Hartford Financial Services Group** Inc. and **Prudential Financial** Inc. have all been hit with slumping share prices and downgrades in their financial-strength ratings—the main gauge used to assess an insurer's ability to pay claims—though the ratings remain strong or very strong.

Worst Blowups

Some of the worst blowups so far have taken place at insurers that offer long-term-care policies to defray nursing-home expenses. The problem here was a higher-than-expected level of claims, partly because of owners' longevity, and partly because few customers are letting their policies lapse. Senior Health Insurance Co. in Pennsylvania, a unit of **Conseco** Inc., and **Penn Treaty American** Corp. and one of its subsidiaries recently were taken over by regulators in Pennsylvania. That prompted worries that policies won't pay off when they're needed, or that people will get a much-smaller benefit than they expected for their premiums.

"In good times the issues get swept under the rug, and in bad times rough spots show up," says Martin Weiss, president of Weiss Research Inc. in Jupiter, Fla., an investment-research firm that also rates insurers.

More trouble could be on the horizon. More than a dozen major insurers have seen ratings downgrades in recent weeks, and several have dropped into categories reflecting relatively weaker financial health. Analysts say their ability to pay claims could be affected by continuing investment losses.

They include **Phoenix** Cos., of Hartford, Conn., and its subsidiaries, which sell life insurance and annuities to the affluent, and **Security Benefit Life Insurance** Co. of Topeka, Kan. Phoenix has been weighed down by problematic investments in mortgage-backed securities. The company recently announced that its top two distributors had ceased to sell its policies. A Phoenix spokeswoman says the company's key financial "metrics remain solid."

Security Benefit, which sells 403(b) retirement plans and annuities, and which recently acquired mutual-fund company Rydex Investments, was recently downgraded for the fourth time since 2005. It is now at the top of the "vulnerable" range, according to the scale used by A.M. Best—the range at which ratings agencies have determined that an insurer's financial condition could be subject to outside economic factors. Its problems stem from exposure to financial derivatives and subprime mortgages. Security Benefit executives and Kansas state regulators say they expect the company to be able to manage its way through.

Playing It Safe

With some life insurers' ratings slipping, here's what consumers can do to navigate the tricky terrain:

- **New insurance:** Buy only from companies with top financial-strength ratings. (You can check ratings at www.insure.com.) To be extra secure, you could buy several policies from different insurers so that you don't exceed state maximum guaranty limits.
- **Annuities:** Even if your insurer is ailing, you need to do your homework before you cash in an annuity because you may trigger big surrender charges. You may also start the clock on a new surrender period with a new policy. If you do switch your policy to another insurer, use a so-called Section 1035 Exchange to avoid tax penalties.
- **Borrowing:** If you are worried about your insurer but don't want to ditch your cash-value policy, you could borrow against it and safeguard the cash.
- **Medical exams:** Life insurers generally will require a medical exam before issuing a new policy—so it's important not to cancel a policy before being approved for another.

Source: WSJ research

So far, long-term-care policy writers have had some of the worst blowups.

In an unusual situation, Shenandoah was suddenly taken over by Virginia regulators last month after receiving a "good" financial-strength rating from a ratings firm just weeks earlier. The company has about 200,000 individual and group life-insurance policies and 21,000 annuity contracts in force in more than 30 states, mostly in the South. Regulators stepped in after a proposed merger with an Indianapolis financial-services company fell through. They said they hope to get the company back on its feet and avoid liquidation, but "it is too early to determine whether that can be achieved."

Virginia's state guaranty association, which compensates policy owners when an insurer is liquidated, protects life insurance and individual annuity cash values up to $100,000, and death benefits up to $300,000. Guaranty-fund limits vary by state; Virginia's are typical. For those in your state check the Web site of the National Organization of Life and Health Insurance Guaranty Associations, www.nolhga.com.

Financial Stability

"The industry continues to hold capital and surplus well in excess of the minimum requirements—even after the detrimental effects from 2008," says Therese M. Vaughan, the CEO of the National Association of Insurance Commissioners.

Even if they're not panicking, financial advisers and their clients are doing some soul-searching after hearing about some big insurers' troubles. Henry Montag, a certified financial planner in Jericho, N.Y., said he hasn't switched or sold any of his own or clients' contracts lately, but he is discussing the solvency issue with clients.

"We are in uncharted waters," he says. "So many of the major companies like the Prudentials and Hartfords have been downgraded, that I am bringing it up rather than waiting for clients to bring it up." Mr. Montag is now pairing new clients with insurers "that are more financially stable and secure even if the premiums are higher."