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Protection for AIG Customers

*Billions in Loans,
Guaranty Funds
Provide Safety Net*

By M.P. MCQUEEN and JANE J. KIM

As word of financial giant [American International Group Inc.](#)'s desperate efforts to stay afloat spread yesterday, customers were calling the company and their agents with concerns about the safety of their life- and property-insurance policies and annuities.

Alan Sirota of Mansfield, Mass., said he has about \$90,000 locked up in AIG Individual Retirement Annuities for himself and his wife. After reading about the company's losses, he tried to surrender the deferred annuities on Monday, but said he couldn't get through to anyone at the company. "I'm worried that the entire investment could be forfeited, could be lost," he said.

"My plan was to liquidate the annuity, no matter what the penalty was going to be because it just doesn't sound good," the 60-year-old psychologist said. "I just don't know what the worst-case scenario could be." For cashing in early, policyholders could face surrender charges and tax penalties.

Bailing out of an AIG annuity or life-insurance policy may offer psychological comfort, but may not make financial sense, some experts say. Monday evening, ratings agency A.M. Best downgraded the financial strength ratings of American International Group and many of its domestic- and life-insurance subsidiaries, and property-casualty subsidiaries to "excellent," from "superior."

For now, AIG's subsidiaries, such as AIG American General, one of the country's leading insurers, appeared to have adequate financial reserves and should be able to pay claims from people who hold its annuities, homeowner, commercial and life-insurance policies.

Moreover, the insurance industry and its regulators long have had rules in place to protect investors. State guaranty associations exist to pay claims in the event that insurance companies fail. The associations are in all states and are funded by insurers in each state.

"There is a procedure for insolvencies, and it involves trying to settle the liabilities of the company to the maximum extent possible. To the extent they can't be met, there are guaranty funds in every state that cover certain types of insurance," said Robert Hartwig, president of the Insurance Information Institute, a nonprofit industry group.

AIG scrambled Monday to reassure worried insurance clients. "Insurance policies written by AIG companies are direct obligations of our regulated insurance companies around the world. These companies are well capitalized and meet or exceed local regulatory capital requirements," said Peter Tulupman, a company spokesman in an emailed statement.

The giant insurer was reported to be working on a survival plan that included selling some of its most valuable assets and raising more capital. With the Federal Reserve's encouragement, the company is seeking help from J.P. Morgan Chase and Goldman Sachs to raise as much as \$75 billion in loans. Separately, New York State Gov. David Paterson allowed the company to access \$20 billion in capital from its subsidiary companies to cover day-to-day operating needs.

When an insurer does fail, if the company is short of funds to cover claims, guaranty funds step in to cover claims either within policy limits or limits set by state laws. The state guaranty-fund system has paid out more than \$21 billion in property claims, half since 1998, according to the National Conference of Insurance Guaranty Funds, a nonprofit national group. Guaranty-fund limits vary from state to state, but generally are capped at \$300,000 for property insurance policies..

For life-insurance policies and annuity contracts, death benefits generally are guaranteed up to \$300,000; \$100,000 for cash surrender or withdrawal value of life insurance, \$100,000 for withdrawal and cash value of annuities and \$100,000 for health-insurance benefits, according to the National Organization of Life & Health Insurance Guaranty Associations in Herndon, Va.

If an insurance company can't pay existing claims because of insolvency, the state's courts and insurance commissioner meet to work out a plan, which could include rehabilitation, when the commissioner or a receiver takes control of the company's assets, figures out its liabilities and distributes the assets to creditors.

Liquidation is a last resort. Under court-ordered liquidation with a finding of insolvency, property-insurance policies are canceled, and the holders must seek coverage elsewhere. Outstanding claims are paid from the states' guaranty funds, and beneficiaries are the first to be paid.

Owners of life, health or annuity policies are given the opportunity to have their insurance policies assumed by a carrier in good financial health, according to the life and health guaranty group.

But it's unclear whether protective measures will be enough to calm customers.

Byron Udell, president and chief executive of AccuQuote, an online insurance broker based in Chicago, said his company had fielded dozens of inquiries from clients on Monday and that few new AIG policies were being written. And some companies say they were reaching out to customers discomfited by the insurer's problems.

"We are hearing from brokers that customers are looking for options" as insurance contracts come up for renewal, said Mario P. Vitale, deputy chief executive of [Zurich Financial Services](#)' global corporate unit in North America, told Dow Jones Newswires.

Daniel Smith, 62, of Norwood, Mass., says he has about \$120,000 tied up in a single

premium immediate annuity that is underwritten by AIG. He says he's not too worried because he believes about \$100,000 of that amount would be covered by the state's guaranty association. "I'm not overly concerned because I think I'm protected and I think there's an even chance that nothing will happen at all," says the software engineer. "Right now, I'm sort of whistling in the dark, assuming nothing too terrible will happen."

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