

Death Records are Not Locating All Beneficiaries of Unclaimed Benefits

Richard M. Weber, MBA, CLU
NAIC Consumer Representative
Life Insurance Consumer Advocacy Center

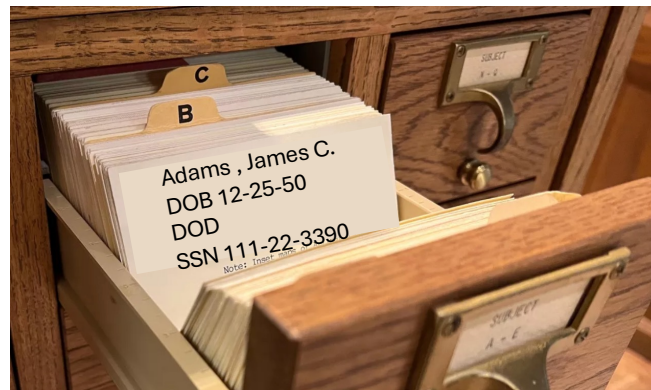
Kathy Belfi, CPA
Former Director of Financial Regulation – CT CID
KB Regulatory Solutions LLC

Each year in the US ~3 million people die, but not all are captured in the federal database insurers rely on.

As a result – benefits are delayed or never received by beneficiaries.

Each year in the US ~3 million people die, but only 16% are captured in the federal database insurers rely on. That means millions of families risk delayed or lost benefits.

The NAIC's **Life Insurance Policy Locator (LIPL)**

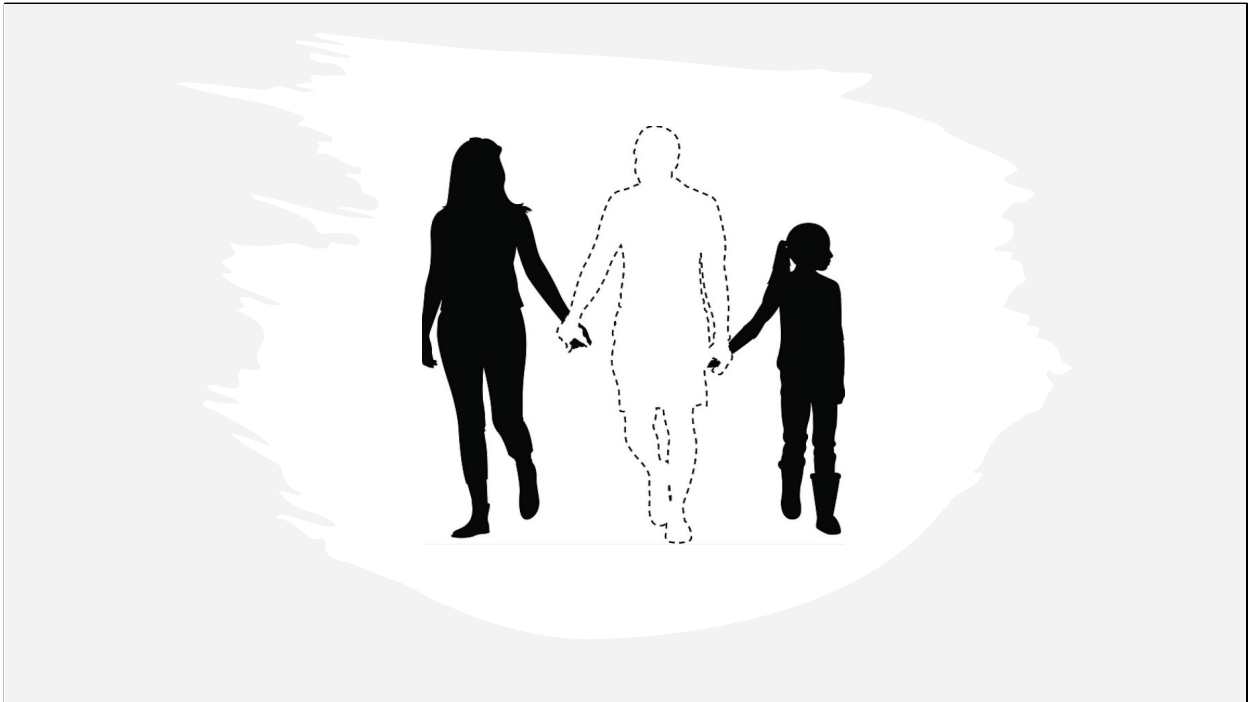


The NAIC established its **Life Insurance Policy Locator (LIPL)**, and, as we know, it **has** helped families receive millions of dollars in insurance benefits when there wasn't enough information to file a claim. This has some limitations; for example, insurers often don't promote the existence of this consumer tool on their websites, or if they do, it's not readily apparent.

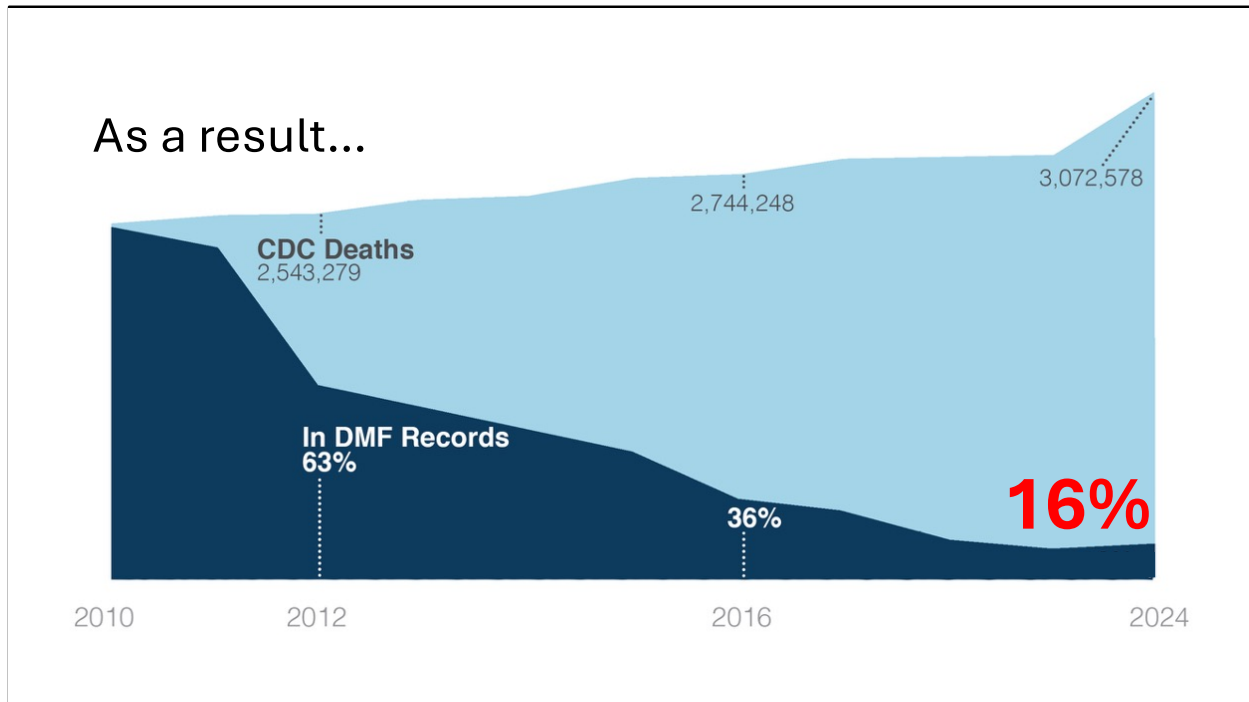
The NAIC's Life Insurance Policy Locator (LIPL)



But the NAIC's Life Insurance Policy Locator does not “own” or generate a master database of all life insurance policies, not does it attempt to find decedents via the DMF or any other source. The system works by receiving *requests* from consumers (with identifying information) and then **participating** life insurers compare those requests against their own internal policy records. If a match is found, the insurer reports it through the NAIC's tool and contacts the beneficiary.



And, there's another category of missing benefits for which the LIPL can't help - when the beneficiary doesn't KNOW the recently deceased family member had purchased and paid for a life insurance policy - or was covered under group benefits the survivor didn't know about. In that case, the beneficiary doesn't *know* the LIPL exists or how to access it.. Those beneficiary dollars are ultimately escheated to the state.



Today, Only a fraction (16%) of U.S. deaths are captured in the SSA Death Master File, which is the only federal database insurers are required to periodically check to locate deaths, which means families are left invisible in the system.

Our regulatory guardrails would have been much different if we had known how the Death Master File had negatively changed. While some states have taken a more rigorous approach than the minimal NAIC standards, uneven state rules mean some consumers are better protected than others, creating an inconsistent and unfair system nationwide.

And, take note:

- The DMF was once regarded as the source of “truth” until 2011
- In 2011 the **SSA removed ~4.2M state death records** from the publicly available DMF in response to State privacy and identify theft concerns
- The Bipartisan Budget Act of 2013 codified restricted access to the Full DMF, resulting in the formation of the **Limited Access DMF** used by insurers today
 - Coverage completeness fell from **~95% in 2010** to 16% today, depending on State participation
 - Timeliness degraded with States reporting
 - Quality issues arose with fewer independent sources

Life Insurance Policy Locator issues ...

The data comes from **insurance company internal records**

The data comes from **insurance companies' internal records**—the insurers maintain their own policy databases, which are the ultimate source of matchable records. When a consumer reaches out via the LIPL that may be the first time the insurer is alerted to a potential death. That insurer would have at a minimum hit up against the DMF to satisfy the ULIBA requirements, but if there was no hit then they simply keep the policy status as active.

Life Insurance Policy Locator issues ...

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It's important to note that not all insurers participate in the LIPL. Those insurers who do voluntarily (or as part of regulatory cooperation) connect to the NAIC portal and review submitted search requests to see if any of their policies match.

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AND. the NAIC itself does *not* maintain full policy-level data (i.e. it does not compile a full archive of all policies or beneficiaries). In official descriptions, the NAIC states “the NAIC has no policy or beneficiary information.”



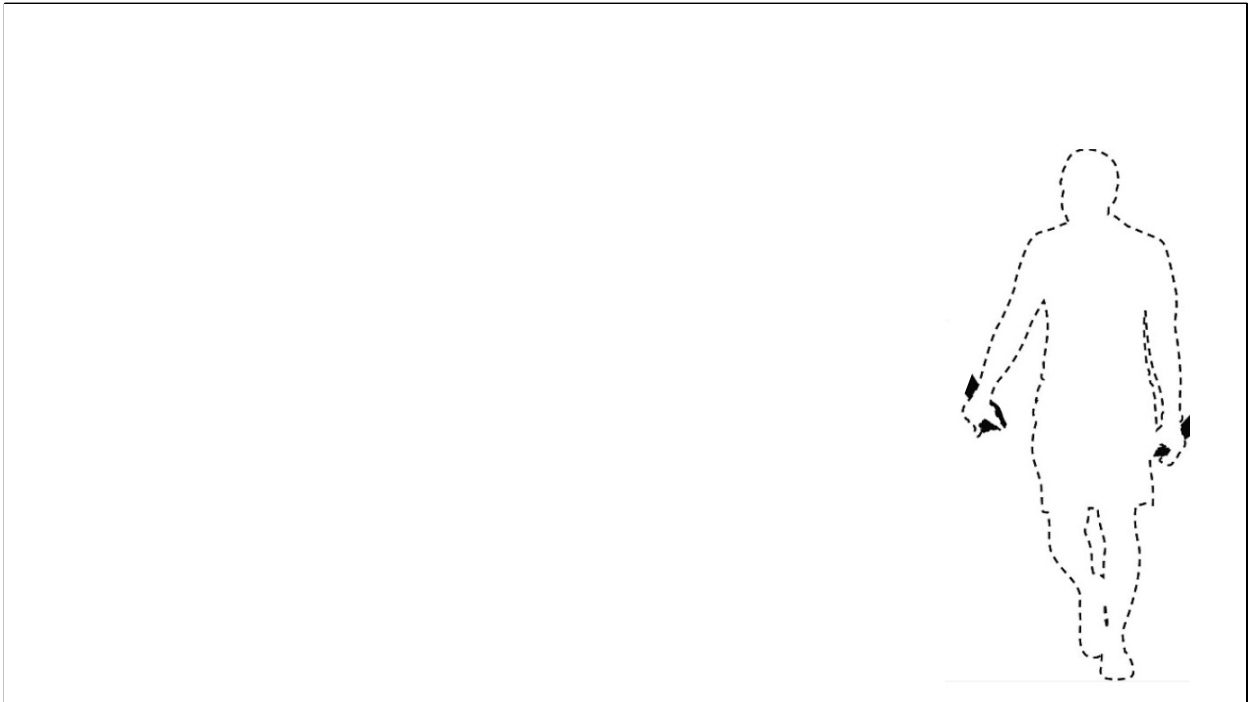
From the insurance carrier's standpoint, it knows there's a policy, but doesn't know there's been a death unless there's been a benefit claim.



And far too often do not have current and accurate contact information for heirs and beneficiaries.



When I came into the industry 59 years ago, there was an agent or agency that might be among the first to know that a death had occurred



With industry consolidation, “aging out” of the agent workforce, and the rise of embedded benefits, the critical link between the insurer and the insured has been lost.

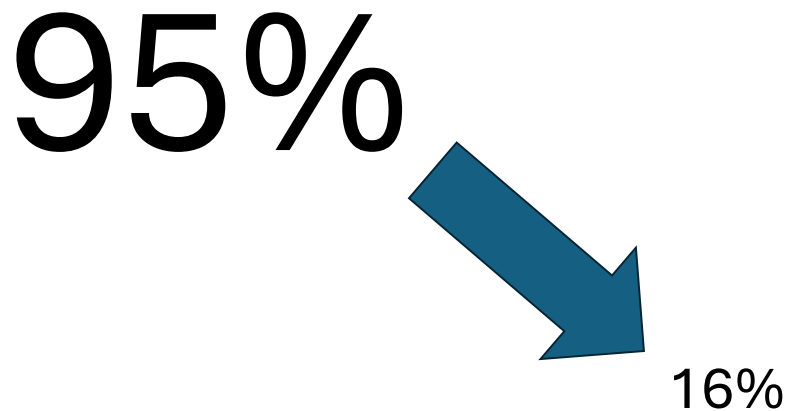


Another Wave of Changes: **SSA Death Master File**

That's where the SSA's Death Master File (DMF) has been the key source for tracking deaths. The DMF was created to facilitate terminating monthly Social Security checks for those recipients who have died. Insurance companies have used the DMF for the same reason - terminating monthly annuity checks when the annuitant has passed.

Accessing the DMF also allows carriers to cross-reference their policy records and discover life insurance policies (or group benefits) for which a claim hasn't been submitted. But not all insurers are as thorough with finding death claims on life insurance as they are on annuities! Insurers may only choose to only satisfy the minimum requirements outlined in the Model Unclaimed Life Insurance Benefits Act according to a 2011 NCOIL study.

COMPLETENESS



I want to come back to this significant problems: 15 years ago the SSA removed over 4 million records from the DMF, privacy issues and concerns over identify theft raised by several states, SSA, other federal agencies led to the transformation of the DMF into the Limited Access DMF, the primary and the ONLY resource required by the Unclaimed Life Insurance Benefits Act (ULIBA) created by NCOIL in 2011. ULIBA used by insurers today.

Further, where coverage “completeness” (a measure of paying all entitled death benefits) was ~95% in 2010, today it is estimated to be only 16% effective. Coverage completeness relates to the % of deaths captured in the DMF which are ultimately captured by the CDC. It is not a measure of paying death benefits.

95% → 16% DUE TO

- States death records largely excluded from the Limited Access DMF

States supplied death records are largely excluded from the Limited Access DMF, because several states stopped supplying them and the SSA has a strict interpretation of section 205[®] of the Social Security Act and their ability to share those records.

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- States death records largely excluded from the Limited Access DMF
- Delay in reporting and data processing before a death would be included in the LA DMF

There is also a lag or delay in reporting and data processing before a death would be included in the Limited Access DMF. Some sources that once provided death data to the SSA (families, funeral directors, hospitals, etc.) delay or simply no longer report to the SSA. If the reporting source does not have sufficient and matching data (Name, SSN, Date of Birth, etc.) then the death may never be accepted and captured within the Limited Access DMF.

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- Delay in reporting and data processing before a death would be included in the LA DMF
- Record of a newly deceased individual are withheld from the general public for 3 years

Under the Bipartisan Budget Act of 2013 record of a newly deceased individual are withheld from the general public for 3 years unless accessed under permissible use rules. Lastly, the increasing adoption of Electronic Death Registration Systems has resulted in many deaths being reported directly and only to state vital records offices, bypassing the SSA's DMF.

The process has been reduced to ...



Among other “tools” that have evolved:

Obituaries

There are ~40,000 news outlets today providing 67% of the needed death data via obituaries on top of the DMF’s 16% and State Records’ 17%. But so many obituary sources are unwieldy and inconsistent as to be insufficient for tracking, and obituaries are “here today / gone tomorrow.” Worse, it is becoming less customary for families to post (and pay for) a published obituary. The bigger issue is creating a systematic approach to evaluating this “unstructured” data. The investment and time required to build these systems is prohibitive for any one company to develop effectively and efficiently.

**NCOIL's Model Unclaimed Life Insurance Benefits Act
(ULIBA)**

Scope: Applies to life insurance policies, annuity contracts, and retained asset accounts.

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Unclaimed Property: Escheat only after statutory dormancy period; notice at dormancy.

NCOIL and Iowa ...

Iowa's statute retains semiannual DMF comparisons and 90-day validation and outreach obligations and also expands the triggering framework as well as adds mechanisms that materially affect escheat timing.

There is some good news. In 2011, NCOIL adopted its "Model Unclaimed Life Insurance Benefits Act" – which was adopted by Iowa and has been very helpful to Iowans. Iowa's Code §507B requires semiannual DMF comparisons along with faster validations and consumer outreach.

But ...

Approximately half the states have adopted the NCOIL model, but a number of states have yet to take specific action.

BUT, While as many as 25 states have adopted all or important portions of the NCOIL model – a number of states have yet to take specific action.

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State-by-state variations of those adopting the framework have produced materially different compliance obligations and consumer outcomes.

The **PROBLEM** is that the likelihood of matching a beneficiary to entitled benefits largely rests on which state they live in – leaving consumers with materially different outcomes.

But ...

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State-by-state variations of those adopting the framework have produced materially different compliance obligations and consumer outcomes.

At the same time, the Social Security Administration’s Death Master File (DMF)—a tool still central to many statutes—has degraded materially over time and is no longer an effective or appropriate mechanism for establishing statutory “knowledge of death.”

At the same time, the degraded Death Master File renders much of the 2011 NCOIL Model less effective – so that consumers are not benefited as much as they could if there were consistency in the requirements of carriers to find beneficiaries – and there were upgraded methods of determining deaths in the first place.

And ...

A fundamental concept of state-based regulation is **CONSISTENCY** in regulatory matters with all states.

Tools the NAIC could promote via a Model Regulation

1. NAIC to gather data from states that sell vital records data and make it available to all states.

In addition to state, obituary AND commercially available death data – a Model Regulation should require insurers to demonstrate that in addition to searching the Limited Access DMF, they have also searched the states that sell vital records data, and that they have implemented and maintain or outsource a process for systematically searching public records and sources of death information such as obituaries, funeral home websites, digital news outlets, etc.

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- 3. Establish annual metrics**

Establish annual metrics on death matches, validations, rate of false positives and successful beneficiary resolutions to be reported along with other required annual reports

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2. Require standardized validation protocols with evidence that all sources have been tapped
3. Establish annual metrics
- 4. Tighten the timeframe for locating beneficiaries and paying benefits to 60 days**

Tighten the timeframe for locating beneficiaries and paying benefits to 60 days (as opposed to 90) and start the clock at date of death (as opposed to date of notification/validation).

Tools the NAIC could promote via a Model Regulation

1. Require insurers to search the states that sell vital records data
2. Require standardized validation protocols with evidence that all sources have been tapped
3. Establish annual metrics
4. Tighten the timeframe for locating beneficiaries and paying benefits to 60 days
- 5. Require carriers to 1) document searches of all sources, and 2) perform this monthly**

Require documentation of searching all sources to be done monthly as opposed to twice annually or in some states quarterly

Where does the Regulatory Gap belong?

Additional guidance probably should be in Market Conduct – but we look to you to recommend the best Committee “home.” We’ve done a lot of work with “A” Committee so far – should this be referred to “D” Committee?

The current regulatory framework – with roughly half the states following the NCOIL Model - will place an extraordinary burden on states to manage unclaimed benefits if insurers do not do all they can to find beneficiaries.

An NAIC Model Regulation provides consistency for all beneficiaries, regardless of where they live.

The current regulatory framework will place an extraordinary burden on states to manage unclaimed benefits if insurers do not do all they can to find beneficiaries

The time to act is NOW

- **\$14 trillion** in individual life insurance coverage in force.
- **\$8.1 trillion** in group life insurance coverage in force.
Together, that's approximately **\$22 trillion** in total life insurance face value currently active.
- **Another \$16 trillion sits in retirement plans, pensions and annuity contracts**

And the time is now. The most recent data reflect

This is why we must act NOW!

You might have asked ...

1. How does NAIC accomplish our “ask?”
2. How do carriers get in compliance?
3. What would the cost be for carriers to get into compliance?
4. With which NAIC Committee does this belong?
5. What’s the first step?

When we agreed in 2011 this had to be done – the DMF was still 90% effective. This is the fundamental promise of a life insurance product – it doesn’t matter what it costs – but of course it does – there are solutions ...

Companies who deal with this data ...

1. The Berwyn Group
2. Guidehouse
3. MIB Group
4. LexisNexis Risk Solutions
5. Evadata
6. AIS Info
7. Pulse419
8. LifeStatus360
9. ABL Technologies LLC
10. Veritas Data Research
11. Thomson Reuters
12. Tracers
13. TransUnion

... and there are a number of companies that provide solutions