



Journal of Insurance Regulation

Volume 44, Number 1

DOI: <https://doi.org/10.52227/26897.2025>

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Journal of Insurance Regulation: A Forum for Opinion and Discussion of Major Regulatory and Public Policy Issues in Insurance

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Retained Asset Accounts— The Past, the Present, and the Concern for Consumer Disclosure

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ABSTRACT: Retained Asset Accounts (RAAs) allow insurers to retain life insurance proceeds, using the funds in their operations while paying interest to beneficiaries. However, RAAs lack FDIC protections and have limited state insurance guaranty fund protections, exposing beneficiaries to financial risks. This research emphasizes the need for expanded consumer disclosures to ensure beneficiaries are well-informed about the risks and workings of RAAs.

INTRODUCTION: RAAs were introduced in 1984 as a life insurance settlement option. With the use of an RAA, the insurer retains the death benefit proceeds of a life insurance policy in its general account for the benefit of the beneficiary and compensates the beneficiary for the use of the funds through the payment of interest.¹ In 2010, RAAs faced scrutiny due to perceived issues like insufficient access to funds, low interest rates, and exploitation of beneficiaries during vulnerable times. This led to regulatory inquiries and proposed regulations by the NAIC and NCOIL.

HISTORY AND OPERATION: RAAs were created by MetLife in 1984 to meet beneficiaries' needs for safety, competitive returns, control, and deferred decision-making.² Funds in RAAs are held in insurers' general accounts, subject to the insurers' financial stability and creditors. RAAs are not FDIC insured and have limited state guaranty fund protections. They operate like checkbooks, allowing beneficiaries to withdraw funds at their discretion, but differ from regular bank accounts in terms of usage and protection.

CURRENT STATUS: We analyze the utilization of RAAs from 2010 to 2022 and, despite controversies, RAAs remain a significant part of the life insurance market. As of 2022, over 600,000 accounts held more than \$27.5 billion in assets. The number of RAAs has decreased, but the average account size has increased. Many accounts have remained open for several years and the percentage of the funds held in open accounts is increasing, indicating beneficiaries' reliance on these accounts.

CONCERNS OF DISCLOSURE: The NAIC requires insurers to provide detailed disclosures when RAAs are established, covering aspects like interest rates, fees, and lack of FDIC insurance. Given the emotional state of beneficiaries at the time of account establishment, a recommendation is made to provide annual disclosures to ensure ongoing awareness of RAA details and risks.

CONCLUSION: RAAs were designed to help beneficiaries defer financial decisions during grief. This research highlights the importance of continuous education through annual disclosures to ensure beneficiaries are well-informed about their accounts. Implementing annual disclosures will provide beneficiaries time to grieve and make informed financial decisions.

RECOMMENDATIONS: To better serve RAA account holders, we suggest implementing annual disclosures to keep beneficiaries informed about the nuances and risks of RAAs.

ABSTRACT

Retained asset accounts (RAAs) allow insurers to retain life insurance proceeds and utilize the funds in their operations while compensating beneficiaries with interest payments. The funds are held in the insurers' general account and have no Federal Deposit Insurance Corporation (FDIC) protection and limited protection from the state insurance guaranty fund. Combined, this exposes the beneficiaries to the financial risk of the insurer. The use of RAAs has had its controversies, especially regarding the information provided to consumers about the use and risks associated with these accounts. Insurers continue to utilize RAAs for life insurance settlements, and beneficiaries continue to leave funds in these accounts. Therefore, to ensure continued education of the beneficiaries, an expansion of consumer disclosures is recommended.

KEYWORDS: Retained asset account, life insurance, beneficiaries

JEL Classifications: G22, G23, G32

The authors wish to thank the audience at Great Lakes Academy of Legal Studies in Business 2022 conference for valuable comments.

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¹ National Association of Insurance Commissioners (NAIC). (2010). Consumer alert - Retained asset accounts and life insurance: What consumers need to know about life insurance benefit payment options.

² Lauria, J. E. (1997). Many default to the retained asset account. *National Underwriter*, 101(38), 22.

Introduction

In 1984, a new life insurance settlement option, retained asset accounts (RAAs), was introduced. The RAA allows insurers to retain life insurance proceeds and utilize these funds in their operations (Lauria, 1997). With the use of an RAA, the insurer retains the death benefit proceeds in its general account for the benefit of the beneficiary and compensates the beneficiary for the use of the funds through the payment of interest (NAIC, 2010a).

From their inception in 1984 until 2010, RAAs were promoted as “very simple and very powerful” and praised by leading financial columnists and consumer advocates as a way to help life insurance beneficiaries protect their assets (Goldsholle and Price, 1996). According to Goldsholle and Price (1996), they were also consistent with the recommendation of grief counselors to avoid making financial decisions immediately following the death of a loved one.

However, in 2010, the RAA came under scrutiny by the press and consumer advocate groups (Evans, 2010). Words such as “shocked,” “betrayal,” and “bad faith” were used in the same sentence when discussing RAAs (Evans, 2010). In dispute was the perception that the beneficiaries did not have access to the funds in the account, the interest rate paid to beneficiaries was insufficient, and that these accounts preyed on beneficiaries at a weak point in their lives—after the death of a loved one (Evans, 2010). As a result, several inquiries were conducted, and committees were formed to analyze RAAs. The National Association of Insurance Commissioners (NAIC) and the National Conference of Insurance Legislators (NCOIL) issued proposed regulations to address the growing controversy over the use of RAAs (Rothman, 2010). In addition, the NAIC issued a consumer alert detailing specific aspects of the RAAs, specifically, that the funds held in RAAs can be withdrawn at any point by the beneficiary (NAIC, 2010a).

To assist beneficiaries in their understanding of RAAs, in 2010, the NAIC issued a bulletin to establish standards regarding the payment of life insurance benefits through an RAA. The bulletin indicates that the insurer will provide three things to the beneficiary. First, the insurer will provide the beneficiary, at the time a claim is made, with a written notification describing the settlement options available under the policy and how to obtain details regarding these. Second, if utilizing the RAA, the insurer will provide the beneficiary with a supplemental contract that clearly discusses the rights of the beneficiary and obligations of the insurer. Third, if utilizing the RAA, the insurer will provide a written disclosure, no later than when the account is established. This disclosure will provide details to the beneficiary regarding the RAA including how they work, how to access the funds, fees charged and interest paid, and the fact that the RAA is not covered by the Federal Deposit Insurance Corporation (FDIC), as well as other aspects of the account (NAIC, 2010b).

With the controversy related to RAAs and the interest in informing consumers, it is important to note that the disclosure to consumers is only required when the claim is first made, which is during the period following the death of a loved one when most feel that financial decisions should not be made. Given the potential emotional state of the account holder at the time the account is established, the risks associated with RAAs (no FDIC protection, limited guaranty fund protections), and to ensure that ben

eficiaries are clear on the RAA details, we suggest that the disclosure be provided to these account holders no less than annually for as long as funds remain in the account.

In support of the annual disclosure, our analysis will show that over a 12-year period, a higher percentage of RAAs remain open after issuance and that RAA holders have increased the percentage of funds they maintain in the open accounts. The increased retention of RAAs may indicate that the holders are unaware of the risks associated with these accounts or that they find the value of the accounts exceeds the risks. To err on the side of caution and to ensure that account holders are sufficiently informed, it is recommended the annual disclosure be implemented as soon as reasonable. Note that the recommended disclosure is intended to further educate the account holders without recommending further education to all life insurance beneficiaries.

This study is organized as follows: First, we provide a history of RAAs and discuss the details of how they operate. We then discuss the current status of RAAs including their prevalence and the level of funds held by insurers utilizing RAAs. Following this discussion, we outline the existing disclosures and make recommendations to more adequately ensure consumer/beneficiary education. Finally, we offer a conclusion.

The History and Operation of Retained Asset Accounts

A retained asset account (RAA) is a generic name for an account established by a life insurer representing the insurer's obligation to a beneficiary for the proceeds of a life insurance policy (NOLHGA, 2011).² MetLife created RAAs in 1984 in response to research conducted with insurers and beneficiaries (Lauria, 1997).³ This research showed that beneficiaries wanted four things: 1) to keep their money safe; 2) to earn a competitive rate of return; 3) to be in control of their money; and 4) to defer decisions at a very emotional and vulnerable time in their lives (Goldsholle and Price, 1996).

Funds deposited in an RAA are held in the general account of the insurer (as opposed to a separate account), leaving them subject to the financial strength and claims-paying ability of the insurer. More importantly, the proceeds are subject to the creditors of the insurer (Evans, 2010).⁴ In addition, RAAs are not protected by the Federal Deposit Insurance Corporation (FDIC) and have limited protection through the guaranty fund established by the state of residence of the insured at the time of death (NOLHGA, 2011).⁵ Thus, RAAs have infused additional risk into the life insurance settlement process for the beneficiary.

² Life insurance proceeds refer to the death benefit paid out by a life insurance policy to the designated beneficiary(s) upon the death of the insured person(s). These proceeds are typically used to provide financial support to the beneficiaries.

³ RAAs are known by various names. MetLife introduced its account as the "Total Control Account" (Lauria, 1997), and Pruco Life Insurance Company calls its accounts "Alliance Accounts" (per the notes in the company's 2022 Statutory Annual Financial Statement).

⁴ This differs from separate accounts, which are separate from the general account and, therefore, may be protected from claims by creditors and other insureds (IRMI, 2024).

RAAs are sometimes compared to checkbooks; however, there are distinct differences. Normally, in the case of RAAs, the insurer arranges through a bank to issue a draft book with writing privileges, and through this account, the beneficiary can request a portion of the funds or the full balance at the beneficiary's sole discretion (NOLHGA, 2011). The drafts written on RAAs cannot be used as regular checks (Evans, 2010). For instance, they cannot be used to pay bills or purchase merchandise. Instead, upon receiving the draft, the issuing bank will request funds from the insurer, and the funds will then be transferred to the bank for disbursement to the beneficiary or, when possible based on the rules of the draft account, to the payee listed on the draft (NOLHGA, 2011). These multiple steps can cause a delay in the disbursement of funds and limit the use of the account, as compared to a bank checking account.⁶ Another difference is that once the account is established, the only funds that can be added to the account are interest earned and additional life insurance proceeds. Otherwise, no additional funds can be deposited (Lauria, 1997).⁷

Initially, the RAA was one of several settlement options from which the beneficiary could select.⁸ By 1997, RAAs became the default life insurance settlement option for nearly all life insurance companies that offered them (Lauria, 1997). In 1997, 175 life insurers utilized RAAs, and these companies opened over 1.5 million accounts involving over \$50 billion (Lauria, 1997).

In 2010, several news articles presented negative commentary on the use of RAAs for military beneficiaries (Evans, 2010; Sturdevant, 2010; Weston and Willey, 2016). As a result of this negative publicity, the Department of Veterans Affairs (VA), the FDIC, and the NAIC investigated the use of RAAs and the disclosures utilized by life insurers. Model legislation and disclosures were created and sent to insurers (Evans, 2010; Holm, 2010; Sturdevant, 2010). The controversy and subsequent changes to the reporting of RAAs appear to have impacted their utilization by insurers and through these changes, an analysis of the use of these accounts over time can now be done.

⁵ The guaranty fund offered through a state-sponsored guaranty association does not provide the same type of coverage as the FDIC does, nor does it have the same amount of funds available to it. Guaranty funds generally rely on funds from non-failing insurance companies to fund policies at the time of an insurer's failure, whereas the FDIC relies on a "war chest" made up of annual payments from banks (Barrese, 2012). In most states, the insured of a life insurance policy is protected by the guaranty fund for up to \$300,000 in death benefits (Brewer III, Monschean, and Strahan, 1997). The guaranty fund provides the owners of RAAs protection under the fund; however, there are some unique limitations applicable. If a single RAA is established for a single beneficiary, the maximum coverage provided by the guaranty fund is the maximum per-insured limit established by the state of residence of the insured at the time of death (NOLHGA, 2011). If more than one RAA is established to pay the proceeds of one or more life insurance policies for a single individual, the maximum amount of coverage for all the RAAs will equal the maximum per-insured limit established by the state of residence of the insured at the time of death. Each RAA is only guaranteed up to the percentage of its value relative to the maximum amount of coverage permitted by the state (NOLHGA, 2011). Note that coverage is not provided on a per-policy basis.

⁶ The delay in access to the funds experienced by the RAA owner will vary based on several factors, such as whether the insurer deposits funds (for the purpose of paying out RAA drafts) at the institution that accepts the drafts. With the advances in electronic reporting and banking, this delay may be virtually imperceptible to the account owners.

⁷ Insurers are not permitted to accept additional deposits into RAAs because they are not licensed as depository institutions (Nordman, 2013).

⁸ Other settlement options available to beneficiaries and common in life insurance include cash lump sum, interest only, and life options.

The Current Status of Retained Asset Accounts

Following the controversy in 2010, the statutory annual statement was updated to require the reporting of specific information related to the RAAs.⁹ As a result of this change, an analysis of the trends in the number and funds held in RAAs is possible. Therefore, we analyze the data provided on the statutory annual statements for U.S. life insurers from 2010 to 2022.

RAAs are a significant part of the life insurance market (Bisco and McCullough, 2017). In 2010, 18.03 percent of life insurers in the U.S. (141 of the 782 insurers) offered RAAs. Table 1 shows the summary of the utilization of RAAs for each year under review. As can be seen, the percentage of life insurers utilizing RAAs has remained steady at around 20 percent, however, the total number of accounts has decreased year over year from a high of nearly 1.05 million in 2010 to just over 613,000 in 2022. Even with this drop in the number of accounts, the level of total assets in these accounts remains strong at over \$27.5 billion in 2022. The average amount held in an RAA has increased from \$29,636 in 2010 to \$44,904 in 2022.¹⁰ Even though the number of RAAs has dropped over the years, this does not diminish the necessity to ensure that the account holders are sufficiently informed about the risks associated with these accounts.

TABLE 1: Participation and Level of Benefits in Retained Asset Accounts

| Year | No. of Insurers | Insurers with RAAs | % with RAAs | Total RAA Accts | Total \$ in RAA Accounts | Avg. Account Size |
|-------------|-----------------|--------------------|-------------|-----------------|--------------------------|-------------------|
| 2010 | 782 | 141 | 18.03% | 1,049,804 | \$31,112,850,113 | \$29,636.82 |
| 2011 | 775 | 157 | 20.26% | 1,043,537 | \$31,938,369,234 | \$30,605.88 |
| 2012 | 754 | 161 | 21.35% | 1,007,252 | \$32,153,761,537 | \$31,922.26 |
| 2013 | 740 | 156 | 21.08% | 950,343 | \$31,984,925,763 | \$33,656.19 |
| 2014 | 726 | 154 | 21.21% | 889,796 | \$31,006,169,978 | \$34,846.38 |
| 2015 | 715 | 152 | 21.26% | 884,317 | \$32,215,476,135 | \$36,429.78 |
| 2016 | 701 | 152 | 21.68% | 863,955 | \$33,092,257,430 | \$38,303.22 |
| 2017 | 690 | 152 | 22.03% | 816,801 | \$32,672,760,596 | \$40,000.88 |
| 2018 | 682 | 151 | 22.14% | 783,728 | \$32,749,609,998 | \$41,786.96 |
| 2019 | 674 | 149 | 22.11% | 750,916 | \$32,280,603,151 | \$42,988.30 |
| 2020 | 663 | 148 | 22.32% | 668,654 | \$28,191,665,682 | \$42,161.81 |
| 2021 | 661 | 138 | 20.88% | 644,703 | \$28,738,477,178 | \$44,576.30 |
| 2022 | 660 | 132 | 20.00% | 613,615 | \$27,553,962,466 | \$44,904.32 |

Note: This table shows the number of life insurers in the indicated year as well as the number of those insurers offering RAAs as a life insurance settlement option (as well as the percentage). It further shows the total number of RAA accounts, the total funds deposited in the accounts, and the average RAA account size.

In the early years of the RAA, it was one of many settlement options available to beneficiaries. By 1985, some companies had started to make the RAA the default settlement option for life insurance proceeds (Goldsholle and Price, 1996). As previously stated, by 1997, the RAA was the default option for the majority of life insurers that offered them (Lauria, 1997).¹¹ Even with the increased use of RAAs as the default method, the cash (lump sum) option remained the most common settlement option for life insurance proceeds (Rejda and McNamara, 2014).

Over the years, the use of RAAs as the default settlement option has varied. By the end of 2010, 57.45 percent of the insurers offering RAAs elected to make them their default settlement method for life insurance proceeds. This decreased to a low of 34.87 percent in 2016. In 2022, this number had increased to almost 40.91 percent. Table 2 shows the number and percentage of insurers electing to make the RAA the default settlement option when permissible by law.

TABLE 2: Retained Asset Account as the Default Settlement Option

| Year | Insurers with RAAs | # Electing Default | % Electing Default |
|-------------|---------------------------|---------------------------|---------------------------|
| 2010 | 141 | 81 | 57.45% |
| 2011 | 157 | 80 | 50.96% |
| 2012 | 161 | 67 | 41.61% |
| 2013 | 156 | 68 | 43.59% |
| 2014 | 154 | 60 | 38.96% |
| 2015 | 152 | 60 | 39.47% |
| 2016 | 152 | 53 | 34.87% |
| 2017 | 152 | 59 | 38.82% |
| 2018 | 151 | 59 | 39.07% |
| 2019 | 149 | 58 | 38.93% |
| 2020 | 148 | 58 | 39.19% |
| 2021 | 138 | 57 | 41.30% |
| 2022 | 132 | 54 | 40.91% |

Note: This table shows the number of insurers offering RAAs in the indicated year and how many of those make the RAA the default settlement option when permitted by law.

⁹ Information on RAAs is generally found in the Notes to Financials, 21, Other Items, of the statutory annual statement of life insurers.

¹⁰ According to the U.S. Bureau of Labor Statistics, in 2022, the average annual wage in the U.S. was \$77,643 (Statista, 2024). This number can vary based on factors such as industry, location, and individual qualifications. However, this would indicate that the average held in an RAA is 57.8% of the average individual annual wage in the U.S.

¹¹ Life insurance is regulated at the state level, and therefore, how states regulate default settlement options for proceeds will vary. Some states may require that the default option be indicated in the contract while others may simply require that the insured be notified of such determination at the time the claim is made or, in some states, the insurer may have to offer a lump sum payment unless another option is selected by the beneficiary(s) (Bisco and McCullough, 2017).

RAAs create a significant money management opportunity for an insurance company because many beneficiaries do not immediately write a draft for the full death benefit (Belth 2010).¹² As previously indicated, the life insurer retains the death benefit proceeds deposited into an RAA in its general account for the benefit of the beneficiary and compensates the beneficiary for the use of the funds through the payment of interest (NAIC, 2010a). Retaining the proceeds in the general account permits the insurer to utilize the funds in its operations and adds additional risk to the beneficiary (Bisco and McCullough, 2017). According to Goldsholle and Price (1996), in a well-functioning RAA, few beneficiaries will withdraw all their money from the account; rather, they will keep their accounts open for some time.¹³

Table 3 and Table 4 show the retention of these accounts. Table 3 shows the retention of the accounts over time. The year indicates the year the accounts were opened, and the percentage indicates the percentage of the accounts open at the end of the designated timeframe. For instance, for all RAA accounts opened in 2010, 56.66 percent remained open at the end of 2010, while 21.41 percent remained open at the end of the fifth year (2014). From this table, it is clear that the retention of accounts remains fairly steady for each year in the study and throughout the time the accounts remain open.

TABLE 3: Retained Asset Account—Retention—Number of Accounts

| End of: Year Deposited | Current Year | 2 nd Year | 3 rd Year | 4 th Year | 5 th Year |
|---------------------------|--------------|----------------------|----------------------|----------------------|----------------------|
| 2010 | 56.66% | 36.82% | 30.59% | 24.84% | 21.41% |
| 2011 | 59.45% | 40.28% | 32.58% | 27.91% | 23.13% |
| 2012 | 56.98% | 41.29% | 33.61% | 28.92% | 24.39% |
| 2013 | 61.79% | 42.88% | 36.52% | 31.62% | 26.88% |
| 2014 | 64.82% | 45.15% | 38.45% | 33.03% | 26.26% |
| 2015 | 65.84% | 46.39% | 37.18% | 30.32% | 26.74% |
| 2016 | 67.50% | 46.15% | 36.57% | 30.16% | 25.52% |
| 2017 | 67.00% | 48.32% | 38.66% | 31.05% | 28.42% |
| 2018 | 63.20% | 42.38% | 32.19% | 28.51% | 25.28% |
| 2019 | 66.59% | 46.46% | 39.56% | 33.41% | |
| 2020 | 65.37% | 47.07% | 38.77% | | |
| 2021 | 64.81% | 44.99% | | | |
| 2022 | 63.33% | | | | |

Note: This table presents the retention percentages of the number of RAAs. The year deposited indicates the year in which the RAA was first opened.

¹² This creates a unique opportunity for life insurers to obtain capital without significant effort and without expending search and acquisition costs.

¹³ By “well-functioning,” Goldsholle and Price (1996) indicate in such an account, most beneficiaries will leave their account open for a period of time and that few drafts will be written at the start of the account.

Table 4 indicates the retention of the funds deposited into the RAA. The data show that of the funds deposited into RAAs, in most years, just over 50 percent of the funds are removed during the same year the account is opened. This should not be surprising as the funds could be used to cover funeral costs or other end-of-life expenses. As can be seen, over the years, the percentage of funds remaining in the accounts at the end of each subsequent year end has been increasing. For instance, at the end of 2010, on average 43.44 percent of the funds deposited during that year remained in the account. By 2022, this percentage had increased to 51.85 percent. Even after two full years (third year), 20-25 percent of the funds remain, and after four full years (fifth year), around 15 percent of the funds remain in the RAAs.

TABLE 4: Retained Asset Account–Retention–Dollars Invested

| End of: Year Deposited | Current Year | 2 nd Year | 3 rd Year | 4 th Year | 5 th Year |
|---------------------------|--------------|----------------------|----------------------|----------------------|----------------------|
| 2010 | 43.44% | 25.20% | 19.97% | 15.54% | 14.61% |
| 2011 | 45.97% | 26.92% | 21.30% | 18.24% | 14.84% |
| 2012 | 45.11% | 26.58% | 21.65% | 17.58% | 14.56% |
| 2013 | 47.70% | 30.48% | 24.84% | 19.56% | 18.41% |
| 2014 | 52.82% | 31.43% | 25.16% | 22.50% | 17.37% |
| 2015 | 50.33% | 30.35% | 23.93% | 18.68% | 16.58% |
| 2016 | 49.90% | 28.29% | 20.66% | 16.03% | 12.88% |
| 2017 | 49.28% | 31.19% | 23.63% | 17.95% | 15.50% |
| 2018 | 46.89% | 26.35% | 19.45% | 17.30% | 15.88% |
| 2019 | 49.60% | 28.65% | 23.02% | 17.81% | |
| 2020 | 51.97% | 31.76% | 24.89% | | |
| 2021 | 52.85% | 30.45% | | | |
| 2022 | 51.85% | | | | |

Note: This table presents the retention percentages of the funds deposited in RAAs. The year deposited indicates the year in which the RAA was first opened.

As previously indicated, the beneficiary can request the full balance from the RAA at the beneficiary's sole discretion (NOLHGA, 2011). However, Tables 3 and 4 show that most beneficiaries do not withdraw all their funds for expenses or move them to other investment opportunities, which is certainly an option for them. Instead, they leave a significant portion of the funds with the insurer and in the RAA.

For the insurer, the level of profitability of RAAs depends on three critical aspects of the program: 1) the total amount of all the RAAs held by the insurer; 2) how long funds remain in the RAAs; and 3) the "spread" between the interest received on funds held by the insurer and the interest paid to the beneficiary (Goldsholle and Price, 1996). In essence, the insurers are borrowing the funds held in RAAs and are compensating the beneficiaries through the payment of interest.

The interest paid on RAAs varies among insurers with some insurers using a flat interest rate and others using a tiered approach depending on the level of funds on deposit. As mentioned earlier, the insurer's profit comes from the spread between the earnings on the invested retained assets and the rate paid to the beneficiary (Heaton and White, 1997). Table 5 shows the average interest rate paid on funds held in RAAs. The average has dropped from a high of 1.52 percent in 2010 to a low in 2021 of 1.10 percent. Also shown is the average low and the average high interest rate, for each year, as recorded in the statutory annual statements.¹⁴

TABLE 5: Retained Asset Account Interest Rates

| Year | Obs. | Avg. Interest | Std. Dev. | Avg. Low Interest | Avg. High Interest | Min. | Max. |
|-------------|-------------|----------------------|------------------|--------------------------|---------------------------|-------------|-------------|
| 2010 | 141 | 1.52% | 1.04% | 1.27% | 1.77% | 0.01% | 5.25% |
| 2011 | 157 | 1.40% | 1.00% | 1.16% | 1.63% | 0.01% | 5.25% |
| 2012 | 161 | 1.30% | 1.01% | 1.02% | 1.57% | 0.01% | 5.50% |
| 2013 | 156 | 1.26% | 1.05% | 1.35% | 1.50% | 0.01% | 6.00% |
| 2014 | 154 | 1.23% | 1.02% | 0.97% | 1.50% | 0.01% | 6.00% |
| 2015 | 152 | 1.21% | 0.98% | 0.96% | 1.47% | 0.01% | 5.25% |
| 2016 | 152 | 1.11% | 0.94% | 0.90% | 1.32% | 0.05% | 4.50% |
| 2017 | 152 | 1.12% | 0.94% | 0.87% | 1.38% | 0.05% | 4.25% |
| 2018 | 151 | 1.23% | 0.94% | 0.95% | 1.51% | 0.01% | 4.50% |
| 2019 | 149 | 1.31% | 0.92% | 1.03% | 1.60% | 0.01% | 4.50% |
| 2020 | 148 | 1.17% | 0.97% | 0.87% | 1.47% | 0.01% | 4.50% |
| 2021 | 138 | 1.10% | 0.97% | 0.72% | 1.48% | 0.01% | 6.00% |
| 2022 | 132 | 1.16% | 0.92% | 0.71% | 1.60% | 0.01% | 6.00% |

Note: This table shows the average interest rates paid on RAAs by year as well as the standard deviation of the average. It further shows the average low and average high interest rates for the sample. Finally, it shows the lowest and highest interest rates recorded in any given year. The data for this table were taken from information shown in the Notes to Financials for RAAs. Insurers differ in how they report interest paid, and therefore, only the highest and lowest rates shown are captured for this study.

During the controversy that occurred in 2010, it became clear that many beneficiaries did not understand that while the insurance company paid interest on the account, the companies made far more interest than what they paid out (Weston and Wiley, 2016). In 1996, it was estimated that U.S. life insurers obtained an estimated \$100 million annually from earnings from RAAs (Goldsholle and Price, 1996). Any profits from RAAs that are gained by the insurer can reduce the need for capital obtained in more costly ways.

¹⁴ The data for Table 5 were taken from information shown in the Notes to Financials in the statutory annual statements. Insurers differ in how they report interest paid on RAAs, and therefore, only the highest and lowest rate indicated is captured for this study.

According to Aldrich and Underwood (2023), the national average interest rate paid on savings accounts in 2009 averaged 0.21 percent APY but fell to 0.17 percent in 2010 and 0.11 percent in 2011. It declined even further in 2013 but then remained steady at 0.06 percent through 2017. This indicates that the RAAs are being paid a higher interest rate than the average on savings accounts. This additional interest may be compensation for the added risk associated with RAAs. Bisco and McCullough (2017) showed that RAA holders were at least somewhat aware of the added risk associated with these accounts, as the account holders appear to react to downgrades in the A.M. Best rating of the insurer holding their funds.

In summary, we see that RAAs are a significant part of the life insurance industry. As of 2022, there were over 600,000 accounts with assets over \$27.5 billion. Although the beneficiaries have options as to how they wish to receive the proceeds of a life insurance policy, over 40% of insurers offering RAAs make them the default option, appearing to give limited flexibility to the beneficiary. In addition, approximately 25% of RAA accounts are open for more than four full years and at this same time, approximately 15% of the funds remain in the account. This indicates that for many RAA account holders, their relationship with the insurer, with regards to the RAA, is quite long.

Concerns of Disclosure

In 2010, the NAIC, in conjunction with consumer groups and industry representatives, developed and approved a model bulletin that stated insurance regulators' expectations for RAAs (ACLI, 2010). According to the American Council of Life Insurers (ACLI) (2010), this bulletin, issued prior to the controversy in 2010, included disclosure to consumers of the important features of the account, tax implications, and interest rate payments. The level to which this bulletin was adopted or utilized is unknown.

Following a *Bloomberg Markets* article (Evans, 2010), the NAIC announced that it was reviewing the disclosure requirements associated with the RAA and would be issuing a consumer alert to help policyholders better understand the terms of this settlement option (Rothman, 2010).¹⁵ Later that same year, the NAIC adopted an updated bulletin that provides guidance to insurers utilizing RAAs and the disclosure to beneficiaries (NAIC, 2010b). Specifically, this bulletin indicates that:

1. The insurer shall provide the beneficiary, at the time a claim is made, with written information describing the settlement options available under the policy and how to receive specific details regarding these options.
2. The insurer shall, if benefits are settled through an RAA, provide the beneficiary with a supplemental contract that clearly discloses the rights of the beneficiary and obligations of the insurer under the contract.
3. The insurer shall provide a disclosure of the RAA to beneficiaries. This disclosure is to be provided before the account is selected if the RAA is optional or when the account is established if it is the default option.

¹⁵ A copy of the consumer alert issued by the NAIC in 2010 can be found as Appendix A.

The disclosure indicated in No. 3 is to provide at least the following information: the payment of the full benefit is accomplished by issuance of the check/draft book, which of these is being issued, and an explanation of how the account works; the beneficiary can withdraw all funds, including interest earned, at any time; whether the other settlement options are preserved until the full amount of the RAA is withdrawn or falls below some specified amount; and information about the account services provided and, if some are offered, how to obtain these services. The insurer must also indicate any fees that may be charged as well as the frequency of any statements that the beneficiary will receive. Regarding interest, the insurer must indicate any minimum interest rate to be credited and how the actual interest rate will be determined. They must further explain that interest on an RAA is taxable. The insurer must indicate its policy regarding an RAA that becomes inactive. Finally, the insurer must include in the disclosure the fact that funds held in the RAA are not protected by the FDIC; however, they may have some protection through the state guaranty association (NAIC, 2010b).

The guidance provided and the information recommended for the disclosure appears to be quite extensive. However, given the prevalence of RAAs and the significant amount of funds held within these accounts, some of which remain for four or more years, as well as the added risk of these accounts (i.e., no FDIC protection, limited protection from the guaranty fund), it would seem prudent to provide a disclosure beyond this first initial notice. In fact, one of the reasons for the development of the RAA was that beneficiaries wanted to defer financial decisions at what is most likely a very emotional and vulnerable time in their lives (Goldsholle and Price 1996). However, it is during this time that the disclosure is provided and possibly overlooked. Therefore, given the potential emotional state of the beneficiary at the time the account is established, the potential risks associated with RAAs and to ensure that beneficiaries are consistently informed on the details regarding the RAA, we suggest that the disclosure be provided to these account holders no less than annually for as long as funds remain in the accounts. Only through additional disclosures can we ensure that the account holder understands the nuances of this unique settlement option.

Conclusion

RAAs were created to alleviate the burden of beneficiaries in making financial decisions at a time of considerable grief (Goldsholle and Price, 1996). Even though they were created in 1984 by MetLife (Lauria, 1997), negative press in 2010 revealed that many life beneficiaries did not fully understand how these accounts worked, and any information they had received regarding the account was ignored or not understood. To address this issue, the NAIC provided a consumer alert and a revised bulletin to better educate account holders.

We have shown that the use of RAAs has remained strong. Accounts continue to be opened, and life insurance proceeds continue to be deposited into these accounts. In 2022, there were over 600,000 accounts with over \$27.5 billion in total assets. In addition, although beneficiaries do withdraw approximately 50 percent of the funds in the same year the account is open, we have shown that 20-25 percent of the funds remain after the second full year, and after four full years, around 15 percent of the

funds remain in the RAAs. This indicates that the relationship between the life insurer issuing the RAA account and the beneficiary is long.

To best serve the RAA account holders and ensure that they are informed about the nuances of the accounts, we recommend that a disclosure be sent to the beneficiaries at least annually. Providing additional disclosures beyond the initial disclosure given at account establishment will allow the beneficiary time to grieve and more fully address the purpose of these accounts. It will also allow for informed financial decisions following the death of a loved one.

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Appendix A



RETAINED ASSET ACCOUNTS AND LIFE INSURANCE: *What Consumers Need to Know About Life Insurance Benefit Payment Options*

The death of a spouse, parent, child, partner or other loved one is a difficult time. In addition to the emotional stress present during the weeks, months or years following a death, financial burdens may also arise. Life insurance is intended to assist with these financial burdens. While life insurance policies provide for a single payment of the death benefit, policies may also offer other payout options that are intended to fit your needs and those of your family. The National Association of Insurance Commissioners (NAIC) suggests you consider the following information if a life insurance company offers you a Retained Asset Account as an option to a single payment.

What is a Retained Asset Account?

A Retained Asset Account (RAA) is a temporary repository of funds. The account's function is to give you (the beneficiary) the time you need to consider all of the financial options available. The payment of the total proceeds will be accomplished by delivery of a "checkbook." While the documents you receive might look like a checkbook, it might actually be drafts which are similar to checks, but different in some ways.

The use of a RAA provides you the flexibility to make the right decision regarding your long-term financial needs while earning interest on the life insurance proceeds. You can choose to write one check or draft to access the entire proceeds at any time. However, you may be able to earn a higher rate of interest on the life insurance proceeds if you select a different payout option.

RAAs are generally provided as an option to the beneficiary, however for some group policies, the employer might have agreed that a RAA is the only way life insurance claims are settled. If that is true in your case, you may write a check or draft to transfer the remaining funds as you see fit.

Key Questions to Ask and Issues to Understand

If you are considering the option of a RAA or are provided one to settle a death claim, here are some important issues to consider:

- What interest rate will be paid on the proceeds, how will the interest rate be determined and how will the interest amount be credited to the account?
- Will the proceeds be held in a bank, which would make the proceeds FDIC insured up to the limit permitted by law?

- Will the proceeds be held by the insurer, which would make the proceeds subject to coverage by a state guaranty fund should the insurer fail?
- Will the proceeds be held in a bank checking or an insurer draft account and what banking services, if any, will be provided?
- What services will be provided at no charge and what services will involve a fee?

Other Payout Options

One size does not fit all and this is why various payout options are offered. If you choose to initially receive life insurance proceeds through a RAA, other payment options should be preserved until the entire balance is withdrawn or the balance drops below a certain dollar amount. Other payout options may include one or more of the following:

- **A Single Payment, also known as a “Lump Sum” Payout:** Through this option, you will receive the entire proceeds in one payment.
- **Installment Payout for Fixed Amount or Period:** Through this option, you may choose to receive either: a fixed monthly, quarterly, or annual payment amount selected by you until the proceeds are depleted; or a fixed monthly, quarterly, or annual payment amount determined by your insurer for a fixed period of time that you select.
- **Installment Payout for Lifetime:** Through this option, you will receive fixed monthly, quarterly, or annual payments determined by your insurer for the remainder of your life.
- **Interest Only Payout:** Through this option, proceeds are left with the insurance company and you will receive interest payments which the insurer will pay you on a monthly (quarterly, annual) basis. If you choose this option, be sure you understand if the interest rate is fixed or variable and if there are any guaranteed minimums or maximum limits. Proceeds are passed on to your beneficiaries upon your death.

Other Tips

- If you are the beneficiary of a life insurance policy, contact the insurance company in a timely manner after the death of the insured. Be prepared to provide a death certificate to initiate the claims process.
- Always obtain the necessary contact information for your insurance company, such as a phone number and address, where you can obtain additional information and answers to your questions.
- Make sure you read and understand all information the insurance company sends to you.
- Assess your financial needs and tax status.
- Take your time in determining the right payout option for you. You should not be pressured to act quickly.
- If you need help, consult a trusted financial or tax advisor.

More Information

If you have questions about RAAs or other life insurance proceed options, contact your state insurance department. Visit www.naic.org for contact information and Web links to your state insurance department.

Get smart about your insurance needs! For more information about auto, home, life and health insurance options - as well as tips for choosing the coverage that is right for you and your family - visit www.InsureUonline.org.

August 2010

About the NAIC



Formed in 1871, the [National Association of Insurance Commissioners \(NAIC\)](http://www.naic.org) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and five U.S. territories. The NAIC has three offices: Executive Office, Washington, D.C.; Central Office, Kansas City, Mo.; and Securities Valuation Office, New York City. The NAIC serves the needs of consumers and the industry, with an overriding objective of supporting state insurance regulators as they protect consumers and maintain the financial stability of the insurance marketplace. For more consumer information, visit insureUonline.org.