What happens when a pension is transferred to an insurance company?

In 2012, General Motors and Verizon entered into arrangements with Prudential Insurance Company to pay the pensions of certain groups of their salaried retirees. Both companies transferred pension assets to Prudential, which meant that the Pension Benefit Guaranty Corporation, the federal agency that insures most private pension plans, no longer insured the pensions. Since then, a number of other employers have followed suit, sparking questions and concerns from retirees who are affected.

**Q: What happens to my pension when it gets transferred to an insurance company?**

A: If you are already getting your pension and your former employer decides to convert it to an annuity paid by an insurance company, your monthly benefit should stay the same. However, your benefits will no longer be protected by the federal pension insurance program, the Pension Benefit Guaranty Corporation. Instead, insurance annuities are covered by State Guaranty Associations (see below), which provide some protection in the event that insurance companies fail.

If you haven’t retired yet, and your pension is transferred to an insurance company, you should make sure that both your employer and the insurance company have all of the correct information that goes into calculating your benefit. This includes dates of employment, salary history, and any survivors benefit you and your spouse have chosen. You should also make sure that you have the most recent copy of your individual benefit statement. It is not unusual for an insurance company to recalculate benefits when taking over a plan, and having this information will help to prevent disputes over how much you are supposed to receive once you start receiving your annuity.

**Q: What are State Guaranty Associations?**

A: Every state, the District of Columbia, and Puerto Rico, has a State Guaranty Association, a nonprofit institution established to protect insurance policyholders who live in that state in the event that an insurance company becomes insolvent (See this FAQ from the National Organization of Life and Health Guaranty Associations [NOLHGA]). All insurance companies that are licensed in a state are required by law to participate in that state’s State Guaranty Association.

**Q: What are the guarantee limits for an annuity from an insurance company?**

A: Guarantee limits vary by state. Each state provides a guarantee of at least $100,000 for the present value of an annuity. In many cases the limit is $250,000 or $300,000 or, in a few states, $500,000. You can use this NOLHGA table to find your state’s guarantee limits.

If the value of your benefit exceeds the amount protected by your State Guaranty Association, you can submit a claim for the excess in insolvency proceedings against the estate of the liquidated company.

**Q: How are the State Guaranty Associations paid for?**

A: If an insurance company is declared insolvent, the other insurance companies licensed in the state will be required to pay into the State Guaranty Association. Money in the Association and assets from the
liquidation of the insolvent company are used to provide as much of the annuity benefits promised by the insolvent insurer as possible. (See this NOLHGA FAQ).

Q: What are the requirements for receiving funds from a Guaranty Association if the insurance company providing my annuity fails?

A: If an insurance company licensed in your state becomes insolvent, a State Guaranty Association will cover your individual annuity (or individual certificate under a group annuity), and those of other residents of the state, up to the Association’s limits. Individual and group annuities are the policies that insurance companies typically issue when they take over pension plans.

If the insurance company is not licensed in your state, the State Guaranty Association in your state will not be responsible if the insurance company becomes insolvent. Instead, policyholders will most likely be covered by the State Guaranty Association in the state where the insurance company is incorporated.

Q. How can I find out if an insurance company is licensed in my state?

A: Contact your state insurance department to find out if the insurance company paying your annuity is licensed to operate in your state. The website for every state insurance commission is listed here. Many of these sites allow you to search for authorized/licensed companies.

Q: How often does an insurance company become insolvent?

A: According to NOLHGA, since 1983 there have been approximately 100 failures of life and health insurance companies that offer policies to residents of more than one state. Most of these failures occurred during the 1990s, and relatively few have occurred recently.

Q: Is there a way to assess the financial health of an insurance company?

A: Each insurance company is required to file an annual report, which should be posted on its website. You can also look at the financial strength grade provided Weiss Ratings. These ratings are independently compiled and you can search for your companies’ rating via TheStreet.com. You can also pay for a detailed report from Weiss. There are other rating companies, such as A.M. Best, S&P, Moody’s, and Fitch. However, they accept money from the insurance industry, which could create conflicts of interest.

Q: How can I get more information about my State Guaranty Association?

A: The NOLHGA website links to each of the State Guaranty Associations.

Related:

- A list of companies that have transferred pensions to insurance companies.
- Our fact sheet on whether you should take a lump sum.
- Our blog entry on GM’s lump-sum offer to retirees.

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i The “present value” of an annuity contract is calculated using several factors, including the date a state insurance commission takes over a failed insurance company, the individual’s age, and the interest rates in effect at the time. To get a rough idea of what the present value of your annuity might be today go to www.immediateannuities.com and put in your age and sex, where you live, and the amount of your monthly benefit.

ii All annuity policies that an individual holds from a failed insurance company are added together for purposes of determining the guaranteed amount.