



Death, Taxes ... and Unclaimed Property?

The insurance industry was shaken in recent weeks by California's settlement with John Hancock Financial Service Inc. over the company's non-compliance with the State's unclaimed property laws. We believe that California's willingness to re-examine an industry with a history of strong compliance with the unclaimed property laws may signal a renewed focus by all states on unclaimed property as a valuable source of revenue resulting in tougher scrutiny of all companies. Consequently, we strongly encourage all corporations to review their unclaimed property compliance function immediately.

Background

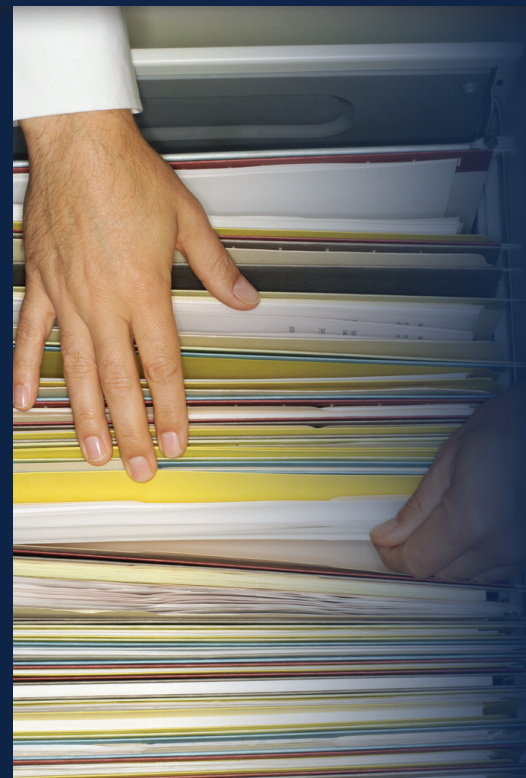
With those unfamiliar with the story, California's three-year audit of John Hancock to determine whether the company was in compliance with California's unclaimed property laws revealed undelivered death benefits and matured annuities owed to the insurer's clients in excess of \$20 million. In addition to reuniting owners with their property, the company will pay California compounded interest on the property. Due to the settlement agreement, it is unlikely

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that the any of the company's officers will face criminal charges or jail time. However, even beyond the public relations issues, the impact to the company may still be significant, considering that the \$20 million settlement only represents the company's agreement with California. Currently, the company that worked with California on the John Hancock audit is also conducting audits on behalf 34 other states.

On the heels of John Hancock, information about MetLife's recent unclaimed property audit also hit a live news wire sending further shock through the life insurance and unclaimed property communities. On April 25, 2011, California Insurance Commissioner Dave Jones and California Controller John Chiang subpoenaed information from MetLife, with the state holding an investigative hearing to take place on May 23rd. "The thrust of this hearing is to determine whether MetLife, one of the largest life insurers and issuers of annuities in the United States, engaged in unfair practices regarding the payment of life insurance claims to beneficiaries," Jones said.

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California's investigation of 21 life insurance companies allegedly revealed that the insurers often failed to pay death benefits to the beneficiary or report the unclaimed property to the state. Instead, the funds were often used to continue premium payments until the amounts in the account were fully depleted. The California State Controller's Office website quoted the State's Controller, John Chaing, as stating "while John Hancock is the first to be held accountable, it will not be the last. I am prepared to pursue all actions necessary—including litigation—to bring the rest of the industry into compliance."

California is not alone in its new focus on life insurance companies. Florida is also beginning to focus on insurers' compliance with its unclaimed property laws. Recent investigations in that State revealed that while some insurers used available information to cease annuity payments, that same information may not have been used to pay out claims for death benefits.

California and Florida are part of the 35-state group that has signed on to work with Verus Financial LLC, the company that conducted the John Hancock audit for California. According to James Hartley, Jr., co-founder and CEO of Verus, the firm typically gets a 10.5% cut of the sum of the unclaimed life insurance policies and annuities that it identifies for the states as unclaimed property. Although the company was only formed in 2007, Verus has already shaken up the insurance industry with the

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threat of potential unclaimed property examinations. According to an article in the Wall Street Journal on April 28, 2011, it has been the recessionary pressures on the states' finances which have prompted the search for new revenue sources.

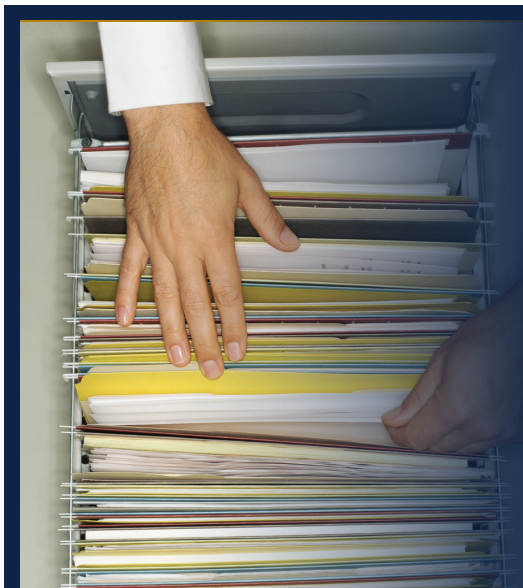
The Law

Unclaimed property laws require a company to report and remit any abandoned property to the state after a defined period of time (known as a "dormancy period") so that the property can be reunited with the owner. Financial and insurance industries have complied with these laws for decades, however, these laws apply to all companies and industries. And although the concept of unclaimed property is as well known as death and taxes in the insurance industry, apparently there were some skeletons in the closet that may have been unearthed by these recent audits.

As states face larger financial burdens, enforcing unclaimed property laws is becoming an important source of revenue. Seeing the life insurance world rocked by the recent news of multi-million dollar settlements in an industry that has a long standing knowledge of the unclaimed property reporting rules and requirements should cause all industries to stand at attention. Not only are other insurers likely to undergo similar examinations, this news may point towards increased and tougher scrutiny in industries that historically have not fully complied with the unclaimed property laws across the U.S.

Our Expertise

The True Partners Consulting Unclaimed Property Management Solutions Team is comprised of a national group of professionals with diverse backgrounds, including industry and government. Based on our proven track record of successfully defending dozens of companies in all industries across the U.S., we have grown to be one of the top five service providers in the country. We believe we possess the best combination of experience, expertise and resources to address all of your unclaimed property needs across all industries. Whether you're a life insurance company or not, we encourage you to contact one of our professionals to discuss any questions or concerns that you may have regarding unclaimed property and what these recent developments may mean to your company.




Intelligent Tax Advice

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