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Rauner Sides with Life Insurers Over Grieving Families

Rauner's Veto Defies Common Sense and Will Cost Millions Because it Strips Away the Only Enforcement Tool

CHICAGO – Governor Bruce Rauner’s amendatory veto of the Life Insurance Reform Act guarantees life insurance companies will pocket millions of dollars rather than pay death benefits to grieving families, Illinois State Treasurer Michael Frerichs said today. Frerichs called upon the General Assembly to override the veto because paying death benefits should not be a partisan issue.

“Governor Rauner chose special interests over real people,” Frerichs said. “Common sense says that when a loved one dies the family should be paid.”

Currently, some life insurance companies do not pay death benefits when they know, or should have known, a customer died. Between 2011 and 2015, treasurer office audits found more than \$550 million in death benefits that were not paid to grieving families in Illinois. Nationally, the figure is more than \$7.4 billion, according to the Wall Street Journal.

Rauner’s veto outlaws the audits. Without this enforcement tool, life insurers can act with impunity. “This is clear evidence that Gov. Rauner is lining corporate pockets with this veto,” Frerichs said.

There are three commonsense reasons why Rauner’s veto is wrong and his focus on contingency-fee auditors is misplaced.

- 1) Rauner’s amendatory veto makes Illinois the only state in the country to prohibit contingency-fee auditors and eliminates any hope that an unscrupulous company will pay 100 percent of what they owe to Illinois residents.
- 2) Audits would not be necessary if life insurance companies made it a priority to pay death benefits when they know or should have known that a customer has died.
- 3) Signing the legislation and requiring life insurance companies to review their records would move compliance away from the treasurer and into the Governor’s Department of Insurance, which has stronger enforcement tools, including the ability to suspend a company’s license to do business in Illinois.

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The Life Insurance Reform Act, House Bill 302, called upon life insurance companies to evaluate electronic records of policies in force since 2000 to determine if they should have been paid to grieving families.

Opponents argued that life insurance companies would lose money if required to pay death benefits without surviving family members taking the first step. However, some also acknowledged that not every survivor knows about a policy, such as a spouse, or has the capacity to determine if a policy exists, such as a minor or a child with a disability. There also is the example of a person leaving money to a church or charity without telling the recipient, so the recipient would not know to pursue a claim.

Using contingency-fee auditors is a best-practice approach because it leverages expertise to maximize efficiency. Families receive every cent they are owed. Without the audits, insurance companies keep 100 percent of the death benefits.

“Rauner vetoed this bill because he wants to stop auditors who have successfully found hundreds of millions of dollars in unpaid life insurance benefits. However, auditors never get a penny of your loved one’s life insurance policy,” Frerichs said. “All Rauner did was take away the tool that allowed us to return \$550 million to grieving families.”

More is at stake than just unpaid life insurance policies.

For example, without a veto override, the treasurer’s office would lose its ability to effectively look at the books of large banks, such as Wells Fargo, to confirm it did not inappropriately keep funds from bank customers. Or the ability to look at Sprint and Radio Shack to confirm each has paid out all rebate checks issued as an incentive to make a purchase.

“Governor Rauner’s amendatory veto that prohibits effective auditing takes away any incentive for many companies to follow the rules,” Frerichs said. “Most businesses treat their customers with respect. For the rest, we have audits.”

In Illinois, unpaid life insurance benefits are considered unclaimed property and returning unclaimed property to owners is among the duties of the Illinois State Treasurer. Illinois holds unclaimed property until the items or funds are claimed by the owner or heir.

Treasurer Frerichs’ office never charges money to search for, and return, unclaimed property.

About the Illinois Treasurer

The Illinois Treasurer is the state’s chief investment officer and Frerichs is a Certified Public Finance Officer. He protects consumers by encouraging savings plans for college or trade school, increasing financial education among all ages, and removing barriers to a secure retirement. As the state’s Chief Investment Officer, he actively manages approximately \$25 billion. The portfolio includes \$13 billion in state funds, \$7 billion in college savings plans and \$5 billion on behalf of local and state governments. The investment approach is cautious to ensure the preservation of capital and returns \$28 to the state for every \$1 spent in operations. The Treasurer’s Office predates Illinois incorporation in 1818. Voters in 1848 chose to make it an elected office.

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