FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

THRIFT SAVINGS PLAN

January 5, 2009

MEMORANDUM FOR THE EXECUTIVE DIRECTOR

FROM: JAMES PETRICK
Chief Financial Officer

SUBJECT: Protections Provided by State Insurance Guaranty Funds to TSP Participants Purchasing Annuities

Upon the request of Board member Whiting, the Office of Finance is providing the Board with a discussion of the role of state insurance guaranty funds in protecting TSP participants who purchase annuities from MetLife.

Under the laws of every state, the District of Columbia, and Puerto Rico, insurance companies licensed to do business in each jurisdiction are required to contribute to a "life and health insurance guaranty association" that, upon liquidation of an insurer, provides for the continuation of contractual protections from life and annuity contracts up to the limits of the association's coverage. Most of the state guaranty association laws are based on the model statutes promulgated by the National Association of Insurance Commissioners (NAIC). The principal focus of these laws is to provide an insurance safety net which will guarantee the fulfillment of the insurance promise to the consumer.

The current system is funded primarily by assessments levied by each state guaranty association upon the insurers who do business in that state, up to annual statutory limits, which are a percentage of a company's recent premium volume in the state.

Each jurisdiction's laws vary in terms of coverage, but most state life and health guaranty associations provide coverage of at least $100,000 for the current value of an annuity. A number of states provide coverage up to the amount of $300,000 per annuity. The benefits covered are also defined in the state law establishing each individual guaranty association. Attachment A is a chart showing the current state coverage amounts. In its previous Requests for Proposals for an annuity provider, the TSP has always required that the provider be licensed in all 50 states and the District of Columbia. This is to ensure that every participant purchasing a TSP annuity will be covered by his or her state's insurance guaranty fund. This is the case with the current TSP contract with MetLife. Consequently, all TSP annuitants are eligible to be reimbursed, up to the coverage limits, from their state of residence's guaranty fund in the event MetLife become insolvent.

Insurance companies are regulated by each state's insurance commissioner. In the case of a failure of an insurance company doing business in the state, the insurance commissioner of the state in which the insurance company is chartered becomes, by law, the receiver for that company. The consumer's safety net protection however, is provided by the guaranty association of the state in which the consumer (in this case the TSP annuitant) resides.

Through 2007, there had been few insurance failures involving life or annuity benefits. (Some failures of relatively small insurers have occurred in recent years in Florida as a result of hurricane claims.) Thus there was little cause to doubt the adequacy of the state protections (at least up to the guaranty fund amounts). Information is not yet available for 2008, which of course has presented unexpected financial difficulties in a number of previously solvent areas. However, no cases of large life or annuity insurance company failures have been reported; nor have there been any reports of state guaranty funds being insolvent.

Particular mention should be made of the case of American International Group (AIG). When AIG was taken over by the Treasury in September, the National Association of Insurance Commissioners stressed that AIG's insurance subsidiaries were solvent and able to pay claims. The two-year, $85 billion government bridge loan to AIG, in return for 80 percent of its stock, was provided to give the holding company time to overcome serious liquidity problems in other areas. However, there is no indication at this time that MetLife will be unable to meet its contractual obligations to the TSP. We will continue to review MetLife's financial health as part of our quarterly financial assessment of the TSP's major contractors.

Attachment

Attachment A

Liability Limits for State Guaranty Funds

State	Max. liability for present value of an annuity contract	State	Max. liability for present value of an annuity contract
Alabama	$100,000	Montana	$100,000
Alaska	$100,000	Nebraska	$100,000
Arizona	$100,000	Nevada	$100,000
Arkansas	$300,000	New Hampshire	$100,000
California	80% not to exceed $100,000	New Jersey	$100,000
Colorado	$100,000	New Mexico	$100,000
Connecticut	$500,000	New York	$500,000
Delaware	$100,000	No. Carolina	$300,000
Dist. of Col.	$300,000	North Dakota	$100,000
Florida	$100,000	Ohio	$100,000
Georgia	$100,000	Oklahoma	$300,000
Hawaii	$100,000	Oregon	$100,000
Idaho	$100,000	Pennsylvania	$100,000
Illinois	$100,000	Puerto Rico	$100,000
Indiana	$100,000	Rhode Island	$100,000
Iowa	$100,000	So. Carolina	$300,000
Kansas	$100,000	South Dakota	$100,000
Kentucky	$100,000	Tennessee	$100,000
Louisiana	$100,000	Texas	$100,000
Maine	$100,000	Utah	$200,000
Maryland	$100,000	Vermont	$100,000
Massachusetts	$100,000	Virginia	$100,000
Michigan	$100,000	Washington	$500,000
Minnesota	$100,000	West Virginia	$100,000
Mississippi	$100,000	Wisconsin	$300,000
Missouri	$100,000	Wyoming	$100,000

Source: Annuity .com