



September 19, 2008

## **What's in Store for AIG Life Policies?**

Dear Friends,

As you know, AIG has hit the headlines lately as news about its financial status continues to develop. With 103,000 employees and more than \$1 trillion of assets, AIG is the nation's largest insurance company.

To address its financial problems, AIG is reportedly developing a comprehensive restructuring plan that could include divesting major assets such as its aircraft-leasing business and other holdings. While this restructuring – the details of which have not been made public – may have a significant impact on AIG stockholders, we do not expect it to affect the terms of the insurance policies. However, it is possible that AIG's restructuring plan could include the sale of the subsidiary that issued the policies.

On September 16, 2008, the Federal Reserve announced that it will provide AIG an \$85 billion two-year line of credit in exchange for a 79.5% ownership interest in the firm. This financial support is designed to give AIG time to execute its restructuring plan. The line of credit will also give AIG funds to meet any future obligations to both its policyholders and creditors.

AIG's financial problems are driven in large part by losses in units separate from its life and annuity subsidiaries. Despite financial problems in these other areas of its business, AIG remains a strong life insurance and annuity provider. For example, despite incurring some losses, AIG Sun America Life Assurance Co., American General and Annuity Insurance Company – all AIG subsidiaries – are still well capitalized. While the problems that AIG is experiencing are not within its life and annuity subsidiaries, the parent company's cash and capital constraints do affect each of AIG's subsidiaries. As AIG needs additional funding, it is likely that the Federal Reserve will be its only available source for some time to come.

AIG life insurance policies are backed by the full faith and credit of AIG. Even before AIG secured the line of credit from the Federal Reserve, we saw no indication that AIG was encountering any problems meeting its life insurance obligations.

### **MAKING A CHANGE**

Despite the Federal Reserve's decision to support AIG financially, policy holders may remain understandably concerned about their policies. Transferring or liquidating these life insurance policies likely entails both advantages and disadvantages.

First and foremost, if a policy holder wants to leave they will need to replace the policy with another. Even if their insurability has not changed, there is no assurance that equivalent coverage will be available at the same cost.

Please feel free to call us, to discuss the AIG situation.

Sincerely,



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