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CARRIER RISK REPORT
TRUST-OWNED LIFE INSURANCE

When a Life Insurance Carrier Gets Downgraded, Who Actually Bears the Risk?

What the PHL Variable collapse — and a wave of new industry data — means for trust-owned life insurance policies

> ***Why we're sharing this:*** *This report was prompted by a recent, real event — the collapse of PHL Variable Insurance. Since then, our team continues to actively review poorly rated carriers so that the trusts we administer aren't caught off guard. This report shares what we've learned so far.*

A CAUTIONARY STORY

Annie Benjamin paid an insurance company $99,000 to generate retirement income for the rest of her life. The company was PHL Variable Insurance Company, once a well-known name backed by private equity ownership. In 2024, PHL collapsed.

> *"What you thought you could depend on, you no longer have. I am stuck."*
> — Annie Benjamin, PHL Variable policyholder

She was not alone. Roughly 100,000 policyholders were caught in PHL's liquidation, which regulators now estimate left a $2.2 billion shortfall between what customers were owed and what the company could actually pay. The root cause: a 2019 reinsurance transaction built around a $450 million asset that, on closer inspection during liquidation, turned out to have no real value. AM Best subsequently downgraded PHL's financial strength rating to B (Fair) from B+ (Good), citing a "very weak" balance sheet, weak operating performance, and higher-than-expected mortality in an older policy block.

Under state guaranty association rules, payouts to affected policyholders were capped — typically between $250,000 and $300,000 per policy, regardless of the policy's actual value.

WHY PHL ISN'T AN ISOLATED CASE

PHL's collapse is the most visible example of a structural shift that has been building across the life insurance industry for a decade, and the data behind it is striking:

$700B	~40%
PE-CONTROLLED LIFE INSURANCE ASSETS	ILLIQUID INVESTMENTS AT PE-BACKED INSURERS

$928B	$150B
OFFSHORE REINSURANCE IN 2024 (UP FROM $205B IN 2014)	POTENTIAL CAPITAL SHORTFALL IN A 2008-SCALE DOWNTURN

1. **Private equity firms** now control roughly $700 billion in U.S. life insurance assets, and insurers they influence hold nearly double the industry-average share of illiquid investments — around 40%, versus roughly 20% for the industry overall, according to the International Monetary Fund.
2. **Offshore reinsurance** ceded to Bermuda-based entities grew from $205 billion in 2014 to $928 billion in 2024 — now more than 60% of all reinsurance U.S. insurers purchase, per Bloomberg's reporting. These offshore structures are harder for regulators and policyholders alike to see into.
3. **Moody's** recently found U.S. life insurers now hold $807 billion in highly illiquid, private credit assets — up from $685 billion just a year earlier — with concentration running highest at private-equity-affiliated carriers.
4. **Economists** at the Bank for International Settlements estimate that in a downturn on the scale of 2008, publicly traded U.S. life insurers alone could face a combined $150 billion capital shortfall.

None of this means every carrier — or every private-equity-owned carrier — is at risk. It does mean that a company's rating and balance sheet strength matter more today than they have in decades, and that ratings can move faster than most policyholders expect. PHL was downgraded five notches by S&P in a single year before its collapse became public.

WHY THIS MATTERS MORE FOR A TRUST-OWNED POLICY

Most life insurance held inside an irrevocable life insurance trust (ILIT) was purchased for a specific reason: to provide liquidity — for estate taxes, for equalizing an inheritance, for a beneficiary's future — outside of the estate, guaranteed. A grantor has often paid premiums for years, sometimes decades, to protect that outcome.

If the carrier behind that policy is downgraded or becomes insolvent, three things can happen, none of them favorable: the guaranty association cap may pay out far less than the policy's actual death benefit; the trustee may be asked to fund higher premiums to keep a struggling policy in force; or the claim can be delayed for months or years during a rehabilitation or liquidation proceeding — exactly when a beneficiary needs it most.

WHAT A GRANTOR OR TRUSTEE CAN DO NOW

This isn't about panic — it's about the same diligence you'd expect from any fiduciary decision. A few concrete steps:

1. **Confirm your carrier's current financial strength rating** with your trustee. Ratings are public and can change quickly, as PHL's did.
2. **Request a review with your team** to see how the policy is actually performing today against its original projections — not just whether the premium is being paid.
3. **Ask about your state's guaranty association coverage limit,** and understand that it may be well below the policy's face value.
4. **If your policy sits with a carrier whose rating have weakened,** ask your team about your options: a 1035 exchange into a stronger-rated carrier, reissuing or replacing coverage, or — if the policy is underperforming or no longer needed for its original purpose — a life settlement that converts it into certain, liquid value now rather than an

uncertain outcome later.

5 **A policy review costs nothing** and takes very little of your time — the only real cost is not knowing where you stand.

> *We're already reviewing the trust-owned policies in our administration and reaching out individually to grantors and beneficiaries whose carriers have been downgraded or flagged. If you'd like us to take a look at your policy now, rather than wait for that call, just reply to this email or reach out directly below — there's no cost and no obligation.*

A NOTE ON OUR ROLE

Life Insurance Trust Company (LITCO) serves as independent trustee for irrevocable life insurance trusts (ILITs) like the one connected to you. Working with our affiliate, Insurance Trust Monitor (ITM), which monitors trust-owned policies on our behalf, we help grantors, trustees, and beneficiaries understand exactly where a policy stands — its carrier's financial strength, how it's actually performing, and what options exist if it isn't performing as intended. We don't manufacture or sell insurance policies. Our role is simply to help you see clearly and decide what's right for your family or your trust.

SOURCES & FURTHER READING

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— Bloomberg — "America's Insurance" series, Part 1 https://www.bloomberg.com/graphics/2025-america-insurance-part-1/

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