
Insurance Guaranty Associations: Frequently Asked Questions

What is an insurance guaranty association?

Insurance guaranty associations provide protection to insurance policyholders and beneficiaries of policies issued by an insurance company that has become insolvent and is no longer able to meet its obligations. All states, the District of Columbia, and Puerto Rico have insurance guaranty associations. Insurance companies are required by law to be members of the guaranty association in states in which they are licensed to do business.

Most states have two types of guaranty associations: a life and health guaranty association and a property and casualty insurance guaranty association. This document focuses on the life and health guaranty association system.

Do state guaranty associations cover all types of insurance?

Individual and group life insurance policies as well as annuities, long-term care and disability income insurance policies are covered by life and health guaranty associations.

How does the association work?

If an insolvent insurance company has insufficient assets to pay policyholder claims, a guaranty association will obtain funds by assessing member insurers that write the same kind of business as the insolvent insurer. These assessments (together with the assets of the insurer) are then used to pay, up to statutory limits, the covered claims of policyholders of the insolvent company. An association may also provide continued coverage for the policyholder or transfer policies to healthy insurers.

How are the assessments on companies determined?

The guaranty association's coverage of insurance company insolvencies is funded by post-insolvency assessments of the other guaranty association member companies. These assessments are based on each member's share of premium during the prior three years. However, the assessed insurers are granted—in a majority of states—an offset on state premium taxes as a way to recover, over time, all or a portion of the assessment.

What are the statutory limits on covered claims?

The amount of coverage provided by the guaranty association is set by state statute and differs from state to state. Most states provide the following coverage, which is based on the National Association of Insurance Commissioners' Life and Health Insurance Guaranty Association Model Law:

- \$300,000 in life insurance death benefits
- \$100,000 in net cash surrender or withdrawal values for life insurance
- \$250,000 in present value of annuity benefits, including cash surrender and withdrawal values
- \$300,000 in long-term care insurance benefits
- \$300,000 in disability income insurance benefits

In most states, there is an overall cap of \$300,000 in total benefits for any one individual with one or multiple policies with the insolvent insurer.

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The value in excess of these limits may be eligible to be submitted as a priority claim against the failed insurer, through which the policyholder may receive additional payments as the insurer's assets are liquidated.

Contact the state insurance department or state guaranty association with questions about coverage and exclusions in a particular state.

What are the statutory limits on group annuity contracts purchased by retirement plans?

Unallocated annuity contracts (contracts purchased by retirement plans as a funding mechanism for participants) are covered by some state guaranty associations. If covered, the limit is typically \$5 million for all unallocated group annuity contracts issued to the contract holder, regardless of the number of employees covered by the plan. Many states do not provide coverage for guaranteed investment contracts (GICs).

Who oversees the guaranty association?

A guaranty association is generally governed by a board of directors and the state's insurance regulator.

How are guaranty association activities coordinated when an insolvent company does business in multiple states?

All state guaranty associations are members of the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA). In the case of an insolvent life insurer that has policyholders in multiple states, the activities of the various guaranty associations are coordinated by NOLHGA. NOLHGA provides resources and technical expertise to the state guaranty associations, as well as a national forum for discussion of state guaranty association issues.

For more information, including what policyholders should do in the event of an insolvency, refer to NOLHGA's [Frequently Asked Questions](http://www.nolhga.com) available on www.nolhga.com.

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