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What happens when my insurance company goes out of business?

Insurance companies that experience severe financial difficulties are taken over by the insurance department of the state in which they are based. You should be notified by the insurance department if this occurs. Even if the company is placed under the control of the insurance department, claims will continue to be honored as long as premiums are paid or cash value exists. The claims will be covered by state guaranty associations, which will either pay them directly or transfer the policies to a financially stable insurance company.

What is a life & health insurance guaranty association?

Life & health insurance guaranty associations were created to protect state residents who are policyholders and beneficiaries of policies issued by a life or health insurance company that has gone out of business. All 50 states, the District of Columbia, and Puerto Rico have life and health insurance guaranty associations.
All insurance companies (with limited exceptions) licensed to write life and health insurance or annuities in a state are required to be members of the state's life and health insurance guaranty association. If a member company becomes insolvent (goes out of business), the state guaranty association obtains money to continue coverage and pay claims from member insurance companies writing the same line or lines of insurance as the insolvent company.

If my company is out of business, why should I keep paying my premiums?

If you are paying premiums to your company, you must continue to do so even after your company has been taken over. Those premiums go to the guaranty association providing you continuing coverage, and if you stop paying premiums, your insurance benefits may be terminated.

Whom should I contact with questions about my policy?

You should contact your state insurance department or your state guaranty association with questions about coverage. Coverage will be provided by the guaranty association in your state of residence, even if the policy was purchased in another state. Policyholders who reside in states where the insolvent insurer was not licensed are covered, in most cases, by the guaranty association of the company's domiciliary state. (Click here for a list of guaranty association Web sites and contact information.)

Who do the guaranty associations protect?

Life & health insurance guaranty associations cover individual policyholders and their beneficiaries; typically, persons protected by certificates of insurance issued under policies of group life or group health insurance are also covered. For more information about coverage, contact your state's guaranty association or insurance department.

Are all types of insurance policies and annuities covered?

Generally, direct individual or direct group life and health insurance policies as well as individual annuity contracts issued by the guaranty association's member insurers are covered by the association. Guaranty association coverage does not extend to any non-guaranteed policy or annuity, or portion thereof, or any portion of a policy in which investment risk is borne by the individual, such as a variable annuity.
The guaranty association laws of each state spell out what types of policies are protected by the associations. Most states do not provide guaranty association coverage for non-indemnity health plans, such as HMOs. Unallocated annuity contracts (e.g., contracts purchased by retirement plans as a funding vehicle for participants) are protected by guaranty associations in some states. When covered, the limit is usually $5 million for all unallocated group annuity contracts issued to the contract holder, regardless of how many employees are covered.

It's best to contact your state's guaranty association with any questions about coverage.

Is long-term-care insurance covered by the guaranty associations?

Yes, long-term-care insurance is typically considered health insurance for guaranty coverage purposes.

Are variable annuities covered by guaranty associations?

Generally speaking, if there are obligations under a variable annuity contract that are guaranteed by a member insurer, the contract will be eligible for guaranty association coverage, subject to applicable limits and exclusions on coverage. However, specific questions regarding coverage will be determined by the applicable guaranty association based on the terms of the contract, other relevant facts, and the guaranty association law in effect at the time of insolvency.

Are all policies fully protected?

Not always. Like the FDIC, state guaranty associations have maximum benefit limits. These limits are established by state law and can vary from state to state, but most states provide at least:

- $300,000 in life insurance death benefits
- $100,000 in cash surrender or withdrawal values for life insurance
- $100,000 in withdrawal and cash values for annuities
- $100,000 in health insurance policy benefits

The overall benefit "cap" in most states for an individual life is $300,000, although some states have maximums that are much higher.

If my policy values are higher than the benefit limits, do I lose that money?

Not necessarily. The value in excess of guaranty association benefit limits is eligible for submission as a policyholder claim against the estate of the failed insurance company, and the contract holder may receive distributions as the company's assets are liquidated by the receiver.

What will happen to my insurance coverage if my state guaranty association becomes liable for my policy?

Protection can be provided in one of several different ways. For example, a financially sound insurer may take over the troubled company's policies and assume the responsibility for continuing coverage and paying covered claims. The guaranty association may provide coverage directly by continuing the insurer's policies or issuing replacement policies with the guaranty association; in some situations, the association may work with other state guaranty associations to develop an overall plan to provide protection for the failed insurer's policyholders. The amount of protection provided and when you receive it may depend on the particular arrangement worked out for handling the failed insurer's policyholder obligations.

How will I know if my life or health insurance company has failed or is unable to fulfill its obligations to its policyholders?

You will receive a notification from the receiver and/or the state guaranty association if your insurance company is found to be insolvent and ordered liquidated.

What about property and casualty insurance?

A separate set of state guaranty associations provides protection for property & casualty insurance claims. Policyholders can contact the National Conference of Insurance Guaranty Funds with questions about this type of coverage.

NOTE: The above responses are not intended as legal advice, and no liability is assumed in connection with its use. ***The applicable state guaranty association statute is the controlling authority with respect to coverage and related issues, regardless of any information presented on this site.*** Users should seek advice from a qualified attorney and should not rely on information on this website when considering any questions relating to guaranty association coverage.