



The Life & Health Insurance  
Guaranty Association System

The Answers  
You Need

For almost 40 years, America's life and health insurance guaranty associations have protected policyholders when they need it most. Located in every state as well as the District of Columbia and Puerto Rico, guaranty associations provide a financial safety net for consumers if their insurance company fails.

America's insurance safety net is time-tested, experienced—and little known, despite its proud history of helping millions of policyholders. Guaranty associations help keep the promises of the insurance industry and provide additional security to policyholders in troubled times. Here's how they do it.

### **What are life and health insurance guaranty associations?**

Life and health insurance guaranty associations are organized under state law to provide certain protections to state residents who own or are beneficiaries of policies issued by a life or health insurance company that has been ordered liquidated by a court. 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, by law, members of the state's guaranty association.

### **What do I have to do to obtain guaranty association protection?**

Nothing. State law specifies the types of policies that are protected by the guaranty association and the extent of that protection. The protection is **automatically** in place when the policy or annuity is purchased.

### **Does it matter where I live?**

Guaranty association protection will generally be provided by the association in your state of resi-

dence at the time of the liquidation, even if your 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 state where the failed company was domiciled.

### **What happens when my insurance company goes out of business as a result of insolvency?**

Insurance companies that experience severe financial difficulties are taken over by the insurance department of the state in which they are based, and that state's insurance commissioner becomes the "receiver." If the company is determined to be insolvent, it may be liquidated. When a liquidation is ordered by a court, state guaranty associations work with the receiver to pay covered claims directly or transfer the policies to a financially sound insurance company.

### **How will I know if my life or health insurance company has been liquidated?**

If a liquidation is ordered, you will be notified by the insurance department that has taken control of the company and/or by your state guaranty association.

### **What will happen to my insurance coverage if my state guaranty association becomes responsible for my policy?**

Guaranty associations work together to coordinate a comprehensive plan to provide protection for the failed insurer's policyholders, and this protection can be provided in several ways. The associations may work with the receiver to identify a financially sound insurer to take over the troubled company's policies. When this happens, the guaranty associations will help provide the funds necessary to support your policy. Alternatively, a guaranty association may continue the insurer's policies or issue replacement policies. The amount of protection provided and when you receive it may depend on the guaranty association law in the state that covers you and the particular arrangement worked out for handling the failed insurer's policyholder obligations.

## Protecting Policyholders When They Need It Most



It is important to remember that if you are paying premiums to your company, you must continue to do so—those premiums go to your guaranty association, which is continuing your coverage. If you stop paying premiums, your insurance coverage may be terminated.

### **How can I find out if my contract is covered by my guaranty association?**

You should contact the life and health insurance guaranty association in your state with any questions about guaranty protection. The Web site of the National Organization of Life & Health Insurance Guaranty Associations ([www.nolhga.com](http://www.nolhga.com)) offers direct links to the state associations' Web sites and also includes additional information on the guaranty system safety net.

Generally, individual or group life and health insurance policies and individual annuity contracts issued by the guaranty association's member insurers are covered by guaranty associations.

### **How much protection do I have?**

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 higher caps. 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 the non-guaranteed, variable component of a variable annuity.

### **What happens if my policy value is greater than my state's protection level?**

Guaranty associations, in conjunction with the receiver, may be able to negotiate a transfer of a company's policies, including some or all of the portions above guaranty association benefit limits, to a financially sound insurer. If an association administers the claim and reaches its benefit limit, the value in excess of that limit may be submitted as a policyholder-level 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.

### **Why aren't guaranty associations more widely publicized?**

Most states have laws prohibiting insurance agents and companies from using the existence of the guaranty association system in any advertising or as an inducement to purchase insurance (however, in some states, a notice about guaranty protection may be attached to your policy). A guaranty association is not and should not be a substitute for your prudent selection of an insurance company that is well-managed and financially sound.

*NOTE: The information provided in this report is not intended as legal advice, and no liability is assumed in connection with its use. For specific coverage information, contact your state guaranty association.*

## Protection You Can Count On

Learning that your life or health insurance company is in trouble can be frightening, but policyholders can take comfort in knowing that the guaranty association safety net has been in place for decades to help them in their time of need. By providing benefits and continuing coverage to policyholders of a failed insurer, state life and health insurance guaranty associations continue to play a vital role in keeping the promises made by the insurance industry—even when a company goes out of business. Since their creation, state guaranty associations have:

- Provided protection to more than 2.3 million policyholders
- Guaranteed more than \$21.2 billion in coverage benefits
- Contributed more than \$5.2 billion to ensure that policyholders received their benefits

When an insurance company fails, skilled guaranty association personnel work to ensure that policyholders' claims are paid promptly and that there is no lapse in their insurance coverage. Providing this continuing coverage is a vital aspect of the life and health insurance safety net—without it, some policyholders of a failed insurer would probably have difficulty finding comparable coverage elsewhere. Instead, guaranty associations often place the policies of an insolvent insurer with a financially sound insurer. In other cases, guaranty associations simply provide covered benefits directly.

The guaranty system safety net has grown stronger through the years, gaining valuable expertise in meeting the needs of policyholders of failed insurers and adapting to new insurance products and new regulatory structures. One major step in this process was the creation of the National Organization of Life & Health Insurance Guaranty Associations (NOLHGA) in 1983. NOLHGA was created to help the state guaranty associations deal efficiently with the large-scale challenges presented by national insurance company failures, which affect policyholders in many states. The system continues to adapt to the changing financial services marketplace, with a constant goal of protecting policyholders when they need it most.



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