**National Organization of Life and Health Insurance Guaranty Associations**
13873 Park Center Road, Suite 329 | Herndon, VA 20171
Phone: 703.481.5206 | Fax: 703.481.5209
www.nolhga.com

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**Contact: Sean M. McKenna**
**703.787.4106**
**smckenna@nolhga.com**

# NOLHGA Statement on Bloomberg "Safety Net" Article

**Herndon, Va.:** In response to the recent Bloomberg article "Lawmakers Question Value of Insurer Safety Net to Beneficiaries," NOLHGA has released the following statement:

NOLHGA was extremely disappointed by the article and the inaccurate impression it gave readers concerning guaranty association coverage of retained-asset accounts (RAAs) funded by life insurance policy death benefits. Senior members of NOLHGA staff spent many hours being interviewed by Mr. Frye (the article's author) and his colleagues, providing them with the facts of the case. We are puzzled why he chose to ignore those facts in favor of unfounded speculation about a lack of guaranty coverage—speculation that could bring needless concern to families of fallen service members who are already struggling with immeasurable grief.

To set the record straight and dispel any fears over guaranty association coverage of RAAs, we present the following facts—all of which were provided to Bloomberg:

- Every guaranty association has clear and incontrovertible language in its statute stating that it *must* cover death benefits, whether they are paid out directly or through a supplemental contract, such as an RAA.
- The guaranty associations, the National Association of Insurance Commissioners (NAIC), and the American Council of Life Insurers (ACLI) all confirmed in 1993 that RAAs *are* covered by guaranty associations up to state statutory limits (typically $300,000 per person). These accounts have *in fact* received guaranty association coverage in past insolvencies, before and after 1993, with no legal challenges.
- Contracts or documents stating that the beneficiary receiving payments through an RAA is a "creditor" of the insurance company have no bearing on guaranty association coverage. Once a life insurer becomes obligated to pay a death benefit, the beneficiary is *always* legally a

"creditor" of the insurance company, regardless of whether an RAA is used. Use of an RAA does not change that relationship. Guaranty associations are obligated *by law* to cover the death benefits of life insurance policies. Unsurprisingly, this obligation extends to RAAs. In addition, policyholders do not need any "special relationship" with their insurer to receive guaranty association coverage—they simply need to be owed a death benefit under an insurance policy or a contract entered into to satisfy a death benefit obligation (such as an RAA).

- As a group, the guaranty associations are capable of raising up to $10 billion each year (through assessments of member insurers) and can also borrow against the value of future assessments for additional funds. The figures quoted in the article do not accurately describe the billions of dollars available to fund the obligations of the associations, should the need arise. (Again, NOLHGA provided this information to the author well before the article was published.) Moreover, in the rare cases where companies writing life insurance fail, typically there are substantial liquid assets available in the "estate" of the failed company to meet any and all cash flow needs for a substantial period of time after the company goes into receivership. (In the past 20 years, even consumers with policies *above* guaranty association limits have on average recovered more than 95% of what their insurers owed them.)
- The guaranty associations have promptly satisfied all obligations they owe to consumers since NOLHGA was formed over 25 years ago. Even during the recent financial crisis and several other past recessions, the costs of protecting consumers have never remotely approached the total funding sources available to the guaranty system.
- A competition among creditors for the remaining assets of an insolvent insurer—a common occurrence in any type of insolvency proceeding—would not alter the guaranty associations' obligations to cover in full the account values of RAA holders. Such disputes only affect the relative rights of other creditors to claim assets of the failed insurer and do not affect the guaranty associations' obligations to protect covered policies.
- The article quotes a party who mistakenly asserts that a "widespread problem" would cause the guaranty associations to "collapse." During the widespread crisis in the insurance marketplace in the early 1990s, the guaranty associations withstood the failures of several national insurers as well as dozens of smaller insurers without collapsing or even remotely approaching their annual assessment capacity.

We will not speculate why some wish to cast doubt on the clear legal obligation and demonstrated financial ability of the guaranty associations to cover RAAs, but we feel the article ill-served the public, especially the beneficiaries of fallen service members, by sowing doubt where there should be peace of mind. The reality is that guaranty associations stand ready and able to protect consumers, including RAA holders, in any case where the need may arise.

Founded in 1983, the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) is a voluntary association made up of the life and health insurance guaranty associations of all 50 states, the District of Columbia, and Puerto Rico. State guaranty associations provide coverage for resident policyholders when a life or health insurance company is declared insolvent, and NOLHGA assists its member associations in coordinating their efforts to protect policyholders when an insolvency affects policyholders in multiple states. The organization is headquartered in Herndon, Virginia.

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