The Life & Health Insurance Guaranty Association System

The Nation's Safety Net

2014 EDITION

A Foundation of Protection

America's life and health insurance policyholders have a powerful friend—one whose presence is felt only in times of trouble. Should their insurer fail, residents of every state, the District of Columbia, and Puerto Rico† can count on their life and health insurance guaranty association to provide protection for both local and national insolvencies. These guaranty associations provide a safety net for American consumers, ensuring that eligible residents continue to receive insurance coverage without interruption.

In the face of an insolvency that affects policyholders in many states, one of the guaranty system's greatest strengths becomes evident—the seamless cooperation of state guaranty associations working together to provide protection to policyholders across the country. Even in a multi-state insolvency, the guaranty association system stands ready—the safety net is in place.

Each state's guaranty association law is based on a version of the National Association of Insurance Commissioners Life and Health Insurance Guaranty Association Model Act, which has been updated several times since its creation in 1971. The most recent update occurred in 2009, and it included an increase in annuity coverage from $100,000 to $250,000 as well as $300,000 in benefit coverage for long-term-care insurance.* Most guaranty associations already provide the increased benefit protection for annuities and long-term-care insurance, and others are in the process of pursuing legislation that will embody these increases. It's important to note that policy amounts above guaranty association guarantees are backed by the remaining assets in the insolvent company, which can be quite substantial.

The core protections offered by the guaranty system safety net are similar no matter where policyholders live. Some states provide additional benefit levels to their residents, but as the charts in this brochure illustrate, the foundation of coverage provided by the guaranty association system stretches across the nation.

† *The Puerto Rico guaranty association is not a member of NOLHGA.*

* *The NAIC Model Act and the state laws provide certain limitations and exclusions on coverage, including an aggregate coverage limit that may apply in certain instances. Parties having specific coverage questions should contact their state's guaranty association.*

ANNUITIES

All state guaranty associations offer resident policyholders a minimum of $100,000 in benefit protection for annuities, regardless of whether the annuities are in deferred or payout status at the time of insolvency; most states provide at least $250,000 in protection.[1]

Policyholder Protection: Annuity Benefits

1. The above protection applies to individual annuity contracts or group annuity certificates which are issued to and owned by an individual or under which the insurer guarantees annuity benefits to an individual under the contract. The protection is subject to applicable limits and exclusions on coverage, including an exclusion for portions of an annuity contract not guaranteed by the insurer or under which the risk is borne by the contract owner.
2. Structured settlement annuities and individuals in government retirement plans are covered up to $100,000.
3. California covers 80% of the annuity contract value with a $250,000 benefit limit.
4. The $250,000 cash value benefit limit applies if the annuity is deferred. If the annuity is in payout status, a $410,000 benefit limit applies.
5. In these states, the $300,000 or $500,000 benefit limit applies if the annuity is in payout status. If the annuity is deferred, a $100,000 cash value limit applies (in Florida and Georgia, the cash value limit is $250,000).
6. North Carolina applies a $300,000 annuity limit except in the case of structured settlement annuities (SSAs), for which the limit is $1 million.

LIFE INSURANCE

All guaranty associations offer resident policyholders up to $300,000 for life insurance death benefits and $100,000 for net cash surrender and net cash withdrawal values. Some states provide even more protection to their policyholders.

Policyholder Protection: Life Insurance Death Benefits

7. California covers 80% of death benefits with a $300,000 benefit limit.
8. In Utah, the $500,000 limit applies if death occurs before the guaranty association is triggered. If death occurs after triggering, the benefit is limited to the covered portion of the policy as defined by statutory reference to the covered cash value (see next chart).

LIFE INSURANCE

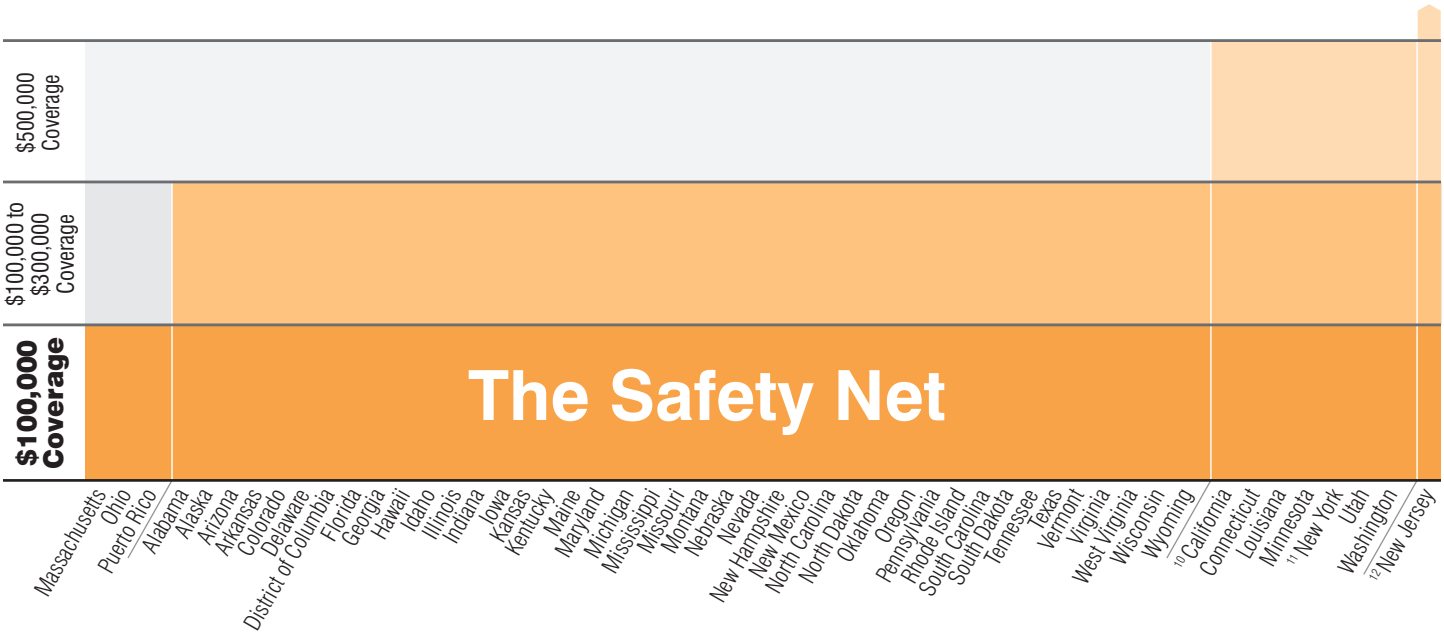
Policyholder Protection: Life Insurance Net Cash Surrender & Net Cash Withdrawal Values

9. California covers 80% of the cash surrender value with a $100,000 benefit limit.

HEALTH INSURANCE

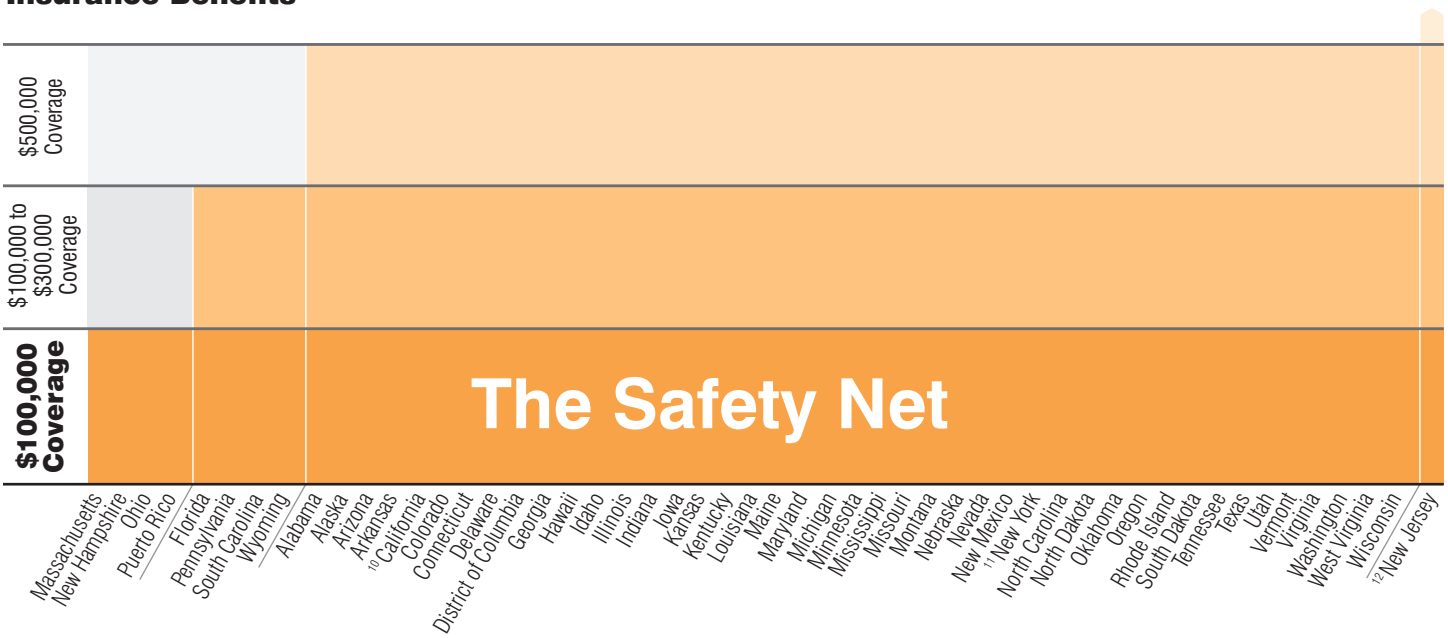
All guaranty associations offer resident policyholders at least $100,000 in benefit protection for health insurance (Health Maintenance Organizations (HMOs) are not typically covered by guaranty associations), and many provide even more protection to their policyholders. A number of associations offer different levels of protection for different types of health insurance, as the following charts show.

Policyholder Protection: Long-Term-Care & Disability Insurance Benefits

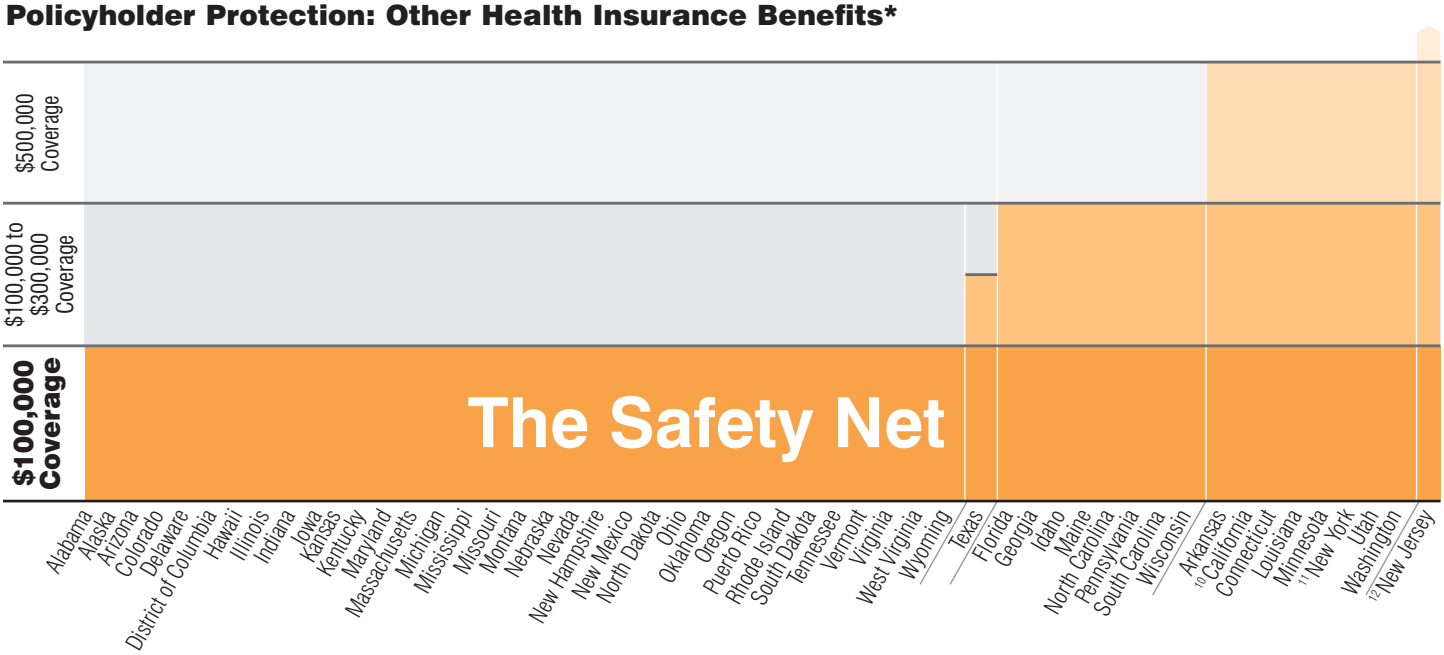


HEALTH INSURANCE

Policyholder Protection: Basic Hospital, Medical & Surgical Insurance or Major Medical Insurance Benefits



Policyholder Protection: Other Health Insurance Benefits*



* Coverages not defined as disability insurance; basic hospital, medical, and surgical insurance; major medical insurance; or long-term-care insurance.

10. California's health insurance and long-term-care insurance benefit protection has increased from the January 1, 1991, statutory amount of $200,000 based on changes in the health-care cost component of the Consumer Price Index to the date of the insolvency. As of December 31, 2013, the amount of benefit protection for health insurance and long-term-care insurance was $504,833. Benefit protection for an insolvency occurring after December 31, 2013, could increase or decrease depending on changes in the health-care cost component of the Consumer Price Index.
11. New York provides coverage for health, disability, and long-term-care insurance only if it has been issued by a life insurance company. The $500,000 benefit limit applies to individual health policies; group or blanket health insurance is covered up to the limits stated in the policy.
12. New Jersey sets no dollar cap on its medical coverage, covering claims up to the limits of the policy but limiting the benefit to 80% if the provider seeks coverage as opposed to the insured. New Jersey also applies other exclusions and limitations as stated in its statute.

NOTE: The information and charts provided in this report are general in nature and are based on information available as of August 1, 2014. They are not intended as legal advice, and no liability is assumed in connection with their use. For specific coverage provisions, consult the applicable guaranty association statutes.

Protecting Policyholders

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 will be there when they need it. By continuing coverage for policyholders of a failed insurer and providing benefits under its policies, state life and health insurance guaranty associations play a vital role in standing behind the promises made by the insurance industry. In the last 30 years alone, guaranty associations have:

- Provided protection to more than 2.5 million policyholders
- Guaranteed more than $22 billion in coverage benefits
- Contributed approximately $6.2 billion toward fulfillment of insurer promises

Each state, along with the District of Columbia and Puerto Rico, has a nonprofit life and health insurance guaranty association to protect its residents if a life or health insurance company licensed in the state fails. When a company failure occurs, affected associations are triggered to provide benefits to policyholders living in their states. If the company does not have enough funds to meet its obligations to policyholders, each guaranty association collects funds from its other member insurance companies to ensure that the eligible claims of resident policyholders continue to be paid to the limits of its law.

Guaranty associations may also provide continuing coverage—a vital aspect of the life and health insurance safety net. In many cases, it would be difficult for people whose company has failed to find comparable coverage elsewhere. When a failure does occur, guaranty associations often fund the transfer of the policies of an insolvent insurer (including the policies of those who might otherwise be uninsurable) to a financially sound insurer. In other cases, guaranty associations simply provide covered benefits directly.

The guaranty system safety net has evolved over the years as guaranty associations have become more experienced in meeting the needs of policyholders of failed insurers. One major step in this evolution was the creation of the National Organization of Life & Health Insurance Guaranty Associations (NOLHGA) in 1983. NOLHGA was created to help state guaranty associations deal efficiently with the large-scale challenges presented by the failure of a national insurance company that affects policyholders in many states.

In short, the guaranty system safety net has grown stronger through the years, and it stands ready to protect policyholders if their company fails.

To contact your state's life and health insurance guaranty association, please visit the NOLHGA website (www.nolhga.com) and click on *Policyholder Information* for a menu of association website links.


nolhga

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