2010 Edition

The Life & Health Insurance Guaranty Association System

The Nation's Safety Net

Keeping Promises

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—even when a company fails (i.e., is found to be insolvent and ordered into liquidation). In the last 30 years alone, guaranty associations have:

- Provided protection to more than 2.6 million policyholders
- Guaranteed more than $24.5 billion in coverage benefits
- Contributed more than $5.3 billion in benefits toward fulfillment of insurer promises

Each state, along with the District of Columbia and Puerto Rico, has a life and health insurance guaranty association to protect its residents if an 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 (a common occurrence with insolvent insurance companies), each guaranty association ensures that the covered claims of resident policyholders continue to be paid.

Associations may also provide continuing coverage—a vital aspect of the life and health insurance safety net. In some cases, it would be difficult for people whose company has failed to find comparable coverage elsewhere. When a failure does occur, guaranty associations often place the policies of an insolvent insurer (including the policies of those who might otherwise be uninsurable) with 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 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 the state guaranty associations deal efficiently with the large-scale challenges presented by the failure of an 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.

A Foundation of Protection

Each of the 50 states, along with the District of Columbia and Puerto Rico, has a life and health insurance guaranty association to protect residents if an insurance company licensed in that state is placed in liquidation. (A separate set of state guaranty funds provides protection for property & casualty insurance claims—contact the National Conference of Insurance Guaranty Funds (www.ncigf.org) with questions about this type of coverage.)

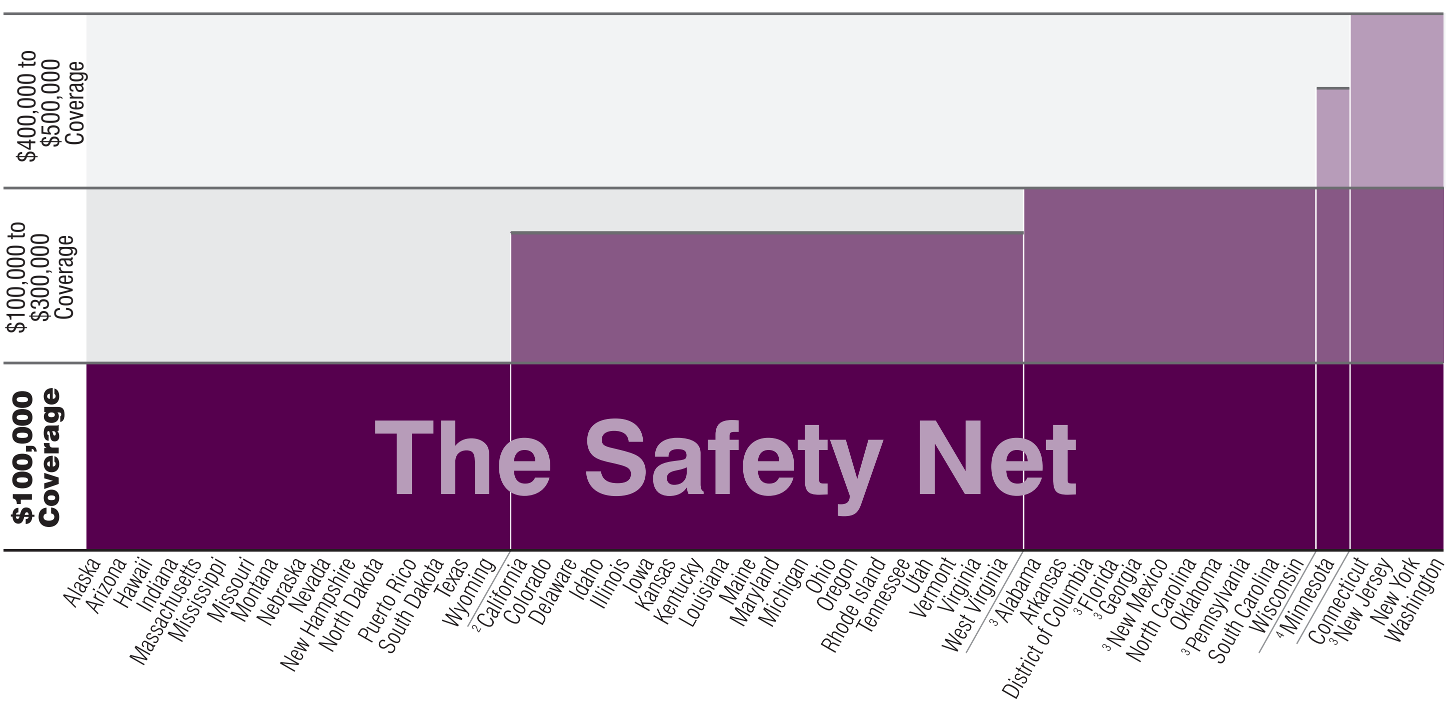
Each state's guaranty association law is based on a version of the National Association of Insurance Commissioners Life and Health Insurance Guaranty Association Model Act, which has been updated several times since its creation in 1971. The most recent update occurred in 2009, and it included an increase in annuity coverage from $100,000 to $250,000 as well as a $300,000 benefit level for long-term-care insurance. Many states have already increased their limits to comply with the new version of the Model Act—in fact, more than half of the guaranty associations now provide the increased benefit levels for annuities and long-term-care insurance—and others are in the process of doing so. It's important to note that policy amounts above guaranty association limits are backed by the remaining assets in the insolvent company, which are often quite substantial.

No matter where they live, policyholders throughout the United States can look to state guaranty associations to provide a nationwide safety net of protection should their insurance company fail.

ANNUITIES

All state guaranty associations offer resident policyholders a minimum of $100,000 in benefit protection for **fixed annuities**[1], 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. Guaranty associations do not cover the variable portions of **variable annuities**, but generally speaking, if there are obligations under a variable annuity contract that are guaranteed by a member insurer, this guaranteed portion of the contract will be eligible for guaranty association coverage, subject to applicable limits and exclusions on coverage.

Policyholder Protection: Annuity Benefits

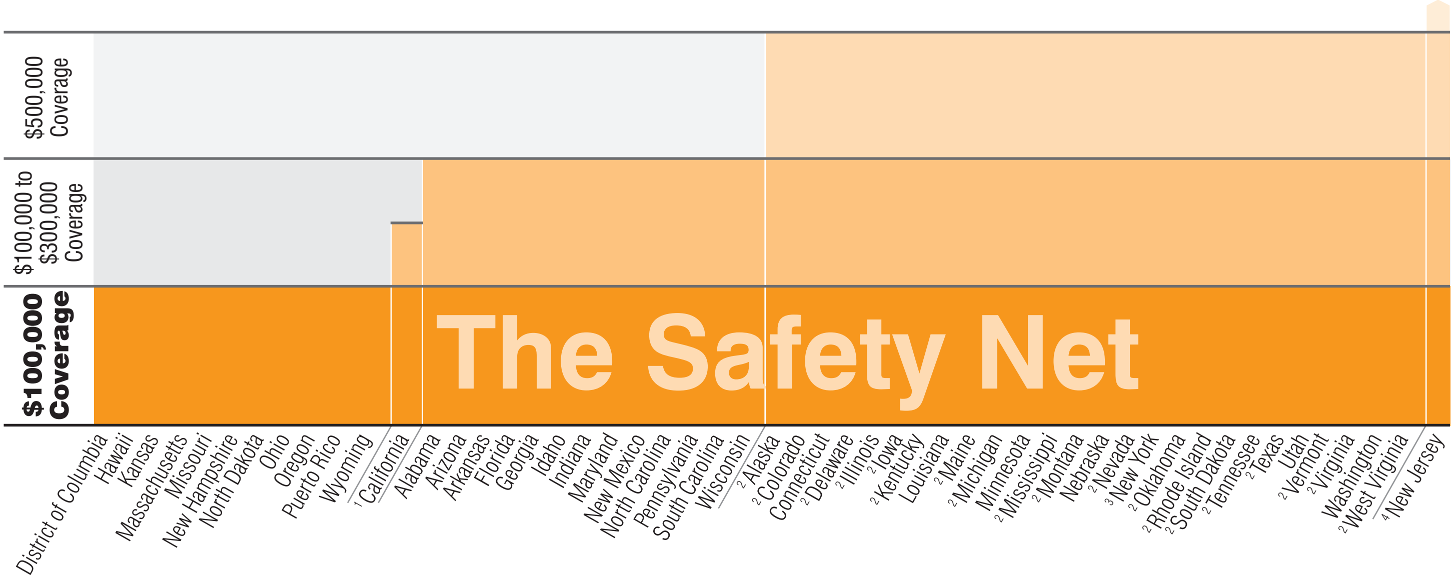


1. In general, protection is provided for contracts or certificates, or portions thereof, issued to individuals, which are guaranteed by the insurer and under which the policy owner has not agreed to bear investment risks such as stock market or interest rate fluctuations.
2. California covers 80% of the annuity contract value with a $250,000 benefit limit.
3. 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, the cash value limit is $250,000).
4. The $410,000 benefit limit applies if the annuity is in payout status. If the annuity is deferred, a $250,000 cash value limit applies.

HEALTH AND LONG-TERM-CARE INSURANCE

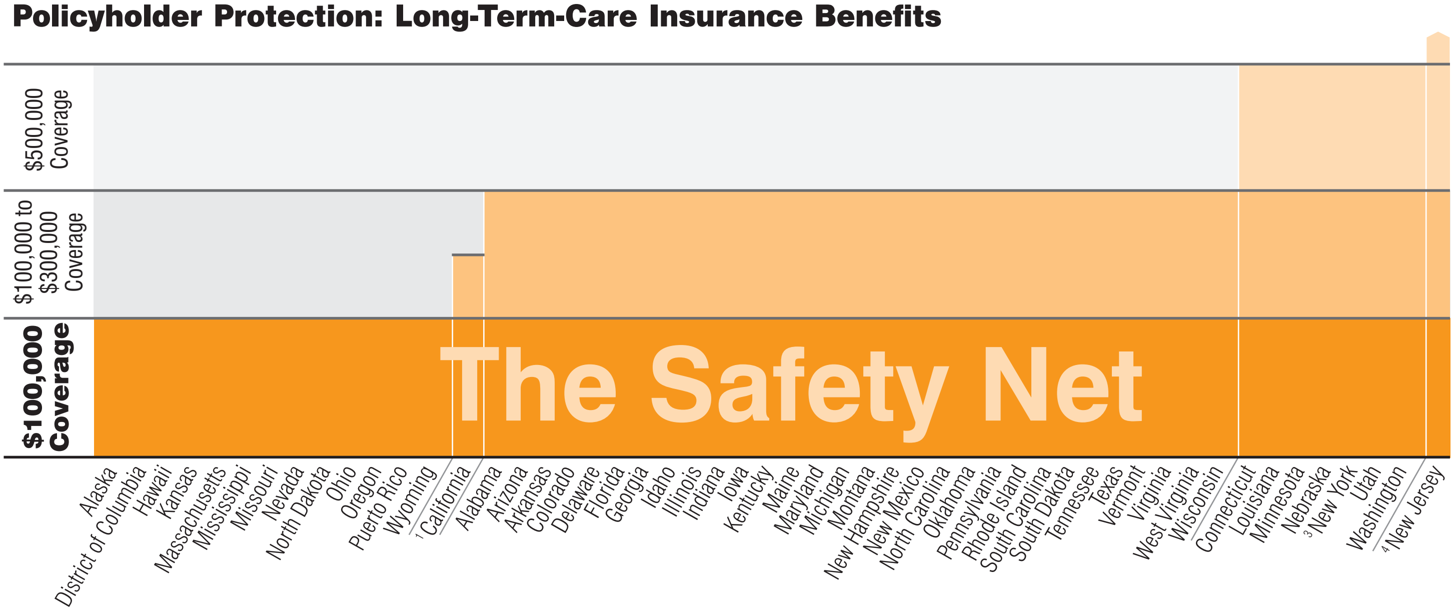
All guaranty associations offer resident policyholders up to $100,000 in benefit protection for health insurance. More than half provide even more protection to their policyholders. Health Maintenance Organizations (HMOs) are not typically covered by guaranty associations.

Policyholder Protection: Health Insurance Benefits



Long-term care insurance is typically considered health insurance for guaranty association purposes. While all guaranty associations offer resident policyholders up to $100,000 in benefit protection, many states provide even more protection.

Policyholder Protection: Long-Term-Care Insurance Benefits



1. Health insurance and long-term-care benefits are adjusted from the $200,000 level based on changes in the health-care cost component of the Consumer Price Index from January 1, 1991, to the date of the insolvency.
2. These states provide up to $500,000 for basic hospital, medical, and surgical insurance or major medical insurance; $300,000 in disability coverage; and $100,000 for health benefits not defined as disability insurance or major medical insurance (with the exception of Maine, which provides $300,000 instead of $100,000 for supplemental health coverage, and Texas, which provides $200,000 instead of $100,000 for supplemental health coverage).
3. Coverage is provided only for health and long-term-care insurance 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.
4. New Jersey sets no 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.

NOTE: The information and charts provided in this report are general in nature and are based on information available as of November 1, 2010. 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.

LIFE INSURANCE

All guaranty associations, with the exception of California (see the charts below), 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

1. California covers 80% of death benefits up to $300,000.
2. 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 below).

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

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

Protecting Policyholders

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 can count on their life and health insurance guaranty association to provide protection for both local and national insolvencies. Each association serves as a safety net, ensuring that 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.

The core protections offered by this safety net are similar no matter where policyholders live. Some state guaranty laws offer additional benefit levels to their residents, but the foundation of coverage provided by the guaranty association system stretches across the nation.

In times of economic uncertainty, the protections offered by guaranty associations are more important than ever. No one can be sure when the next insurer insolvency will occur. When it does, the nation's safety net will do what it has done so well for years—protect policyholders in their time of need.

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