Current as of June 23, 2018

The following discussion provides general information about life and health insurance guaranty association ("GA" or "guaranty association") coverage. This information is based on the National Association of Insurance Commissioners' (NAIC) Life and Health Insurance Guaranty Association Model Act ("NAIC Model Act"), which may not be identical in all respects to the laws of a given state.

Coverage issues will be resolved by the applicable guaranty association based on the terms of the insurance product and applicable law in effect on the date the association becomes obligated to provide coverage. Therefore, you should contact your state guaranty association if you have specific questions about coverage.

Section 1: General Information

1. **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.

2. **What is a life and health insurance guaranty association?**

   Life and 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 a life and health insurance guaranty association.

   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.

3. **Who is eligible for guaranty association coverage?**

   When an insurance company that is a member of the guaranty associations fails, its policyholders are generally covered by the guaranty associations in the states where the policyholders reside. Depending on the type of contract, guaranty associations typically provide coverage to the owner of a policy, contract, or group certificate, and to the extent applicable, to the beneficiaries, assignees, and payees of those owners. There are some exceptions to this general rule. For example, most state guaranty association laws provide coverage to resident payees rather than owners of structured settlement annuity contracts.

4. **Which guaranty association will provide coverage for my policy?**

Subject to limited exceptions, the guaranty association in a policy owner's or certificate holder's state of residence at the time the insurer fails will provide coverage, regardless of where the policy was purchased. For purposes of determining coverage, a person may be a resident of only one state. In the case of a non-natural person (i.e., corporate or other entity), residency will be determined by a "principal place of business" test.

If a guaranty association does not cover its residents because the insurer was not licensed in the state, the guaranty association in the state where the insolvent insurer is domiciled will provide coverage in most cases.

Under the NAIC Model Act and most state laws, there are special rules for determining which guaranty association will provide coverage for structured settlement annuities (see Section 2, question 3, below) and "unallocated annuity contracts" (see Section 2, question 8). In the first instance, the guaranty association in the state of residence of the payee will provide coverage for a structured settlement annuity. In the case of an unallocated annuity contract owned by an employee benefit plan, the guaranty association in the state where the plan sponsor has its principal place of business will provide coverage.

5. **What if a person is not a resident of any U.S. state?**

   Under the NAIC Model Act and the laws of most states, U.S. citizens living in foreign countries or U.S. territories, possessions, or protectorates without a guaranty association will be considered residents of the state of domicile of the insurer that issued the policy or contract.

6. **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.

7. **Whom should I contact with questions about my policy or an old or lost insurance 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 websites and contact information.)

   The National Association of Insurance Commissioners (NAIC) website offers a Life Insurance Policy Locator Service for help in locating life insurance policies and annuity contracts of a deceased family member or close relationship. Click here to be taken to the NAIC site.

   Also, policyholders or their relatives who discover old insurance policies or lost policies can often find information about the issuing companies in the Impairments & Insolvencies section of this website.

8. **Are all types of insurance policies and annuities covered?**

   The guaranty association laws of each state spell out what types of insurance products are covered. Generally, individual and group life, health, and annuity policies or contracts issued by a member insurer of the guaranty association are eligible for coverage. Certain types of life, health, and annuity policies may not be covered. As an example, some states do not cover unallocated annuity contracts (see Section 2, question 8, below). In addition, exclusions or limitations on coverage may apply (e.g., guaranty association coverage does not extend to non-guaranteed portions of policies and contracts). It's best to contact your state's guaranty association with any specific questions about coverage.

9. **Are all covered policies fully covered?**

   Not always. Like the FDIC, state guaranty associations have maximum benefit levels (benefit amounts above the guaranty association levels would be paid out from the assets remaining in the estate of the company, which can often be substantial). These levels are established by state law and can vary from state to state, but most states are consistent with the NAIC Model Act and provide coverage at least in the amounts specified below. **Check your state association's website to confirm the applicable benefit levels in your state.**

   - $300,000 in life insurance death benefits
   - $100,000 in cash surrender or withdrawal values for life insurance
   - $250,000 in present value of annuity benefits, including net cash surrender/withdrawal values
   - $500,000 in major medical or basic hospital, medical and surgical insurance policy benefits
   - $300,000 in long term care insurance policy benefits
   - $300,000 in disability insurance policy benefits
   - $100,000 in other health insurance benefits

   In most states, the aggregate benefit level for an individual life in any one insolvency is $300,000 (except if there is covered major medical insurance or covered basic hospital, medical and surgical insurance, in which case the aggregate benefit is $500,000). The above coverage levels apply separately for each insolvent insurer (see question 10 below).

10. **How are coverage benefit levels applied?**

    Generally speaking, guaranty association coverage benefits are limited to the lesser of (i) the contractual obligations of the insurer under the policy or contract and (ii) the statutory dollar limit on coverage benefits (see question 9 above), which is applied on the basis of an individual life. The "life" used to limit coverage is typically the life of the insured. For a life insurance contract, the "life" is the individual whose death triggers the payment of a death benefit. For an income (also known as a "payout") annuity contract, the "life" is the annuitant; however, for a deferred annuity contract, the "life" is the owner (unless the owner is an entity, whereupon the "life" is the annuitant). (See Section 2, question 1(a) below for an explanation of income annuity contracts and deferred annuity contracts.) For a health insurance policy, the "life" is the individual whose life is insured against loss due to ill health.

    Under the NAIC Model Act and most state laws, there are special rules for applying coverage benefit levels for structured settlement annuities (principally based on the payee or payees listed in the contract) and unallocated annuity contracts (see Section 2, questions 3 and 8 below).

11. **Do guaranty association benefit levels put a limit on the benefits I can receive for my policy?**

    Guaranty association coverage acts as a "floor" and not a "ceiling." If your policy benefits are less than or equal to the guaranty association benefit level in your state, your policy will be fully covered. If your policy benefits are more than the guaranty association benefit level, you are guaranteed *at least* that level of coverage. Any amount above the guaranty association benefit level becomes a claim against the estate of the failed insurer.

    For example, if you have an annuity providing for $300,000 in present value of annuity benefits and the benefit level in your state is $250,000, you are guaranteed $250,000 in benefits from your state's guaranty association. The remaining $50,000 becomes a claim against the estate of the insurer. If the insurer has enough assets to cover 70% of policyholder claims, you would receive $35,000 (70% of $50,000) from the insurer's estate, for a total of $285,000 ($250,000 in guaranty association coverage and $35,000 from the insurer's estate).

    If the failed insurer's estate has no assets remaining (which is unusual), then the guaranty association coverage would be the only benefits you receive.

12. **Are guaranty association coverage levels applied on a lifetime basis regardless of the number of insolvencies, or are they applied on a per insolvent insurer basis?**

    Guaranty association coverage levels are applied separately for each insolvent insurer. As a result, coverage in one insurer insolvency based on an individual's life will not reduce or eliminate coverage in another insurer insolvency relating to the same individual's life.

13. **If my state guaranty association becomes obligated to cover my policy, how will it provide that coverage?**

    In many situations, your guaranty association will work with other state associations to develop an overall plan to provide protection for the failed insurer's policyholders. This protection can be provided in one of several different ways. For example, a financially sound insurer may take over the failed company's policies and assume the responsibility for continuing coverage and paying covered claims. Alternatively, the guaranty association may provide coverage directly by continuing the insurer's policies or issuing replacement policies to the policyholder.

14. **What happens if the benefits promised in my policy are greater than the coverage benefit levels provided by the guaranty association?**

    Any benefits above the guaranty association benefit levels should be a policy-level priority claim against the estate of the failed insurer, payable from the remaining assets in the insurer's estate (see question 11 above). In addition, the receiver, in conjunction with the guaranty association, may seek to negotiate a transfer of some of the benefits in excess of guaranty association coverage to a financially sound insurer.

15. **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 (the state insurance department overseeing the company) and/or the state guaranty association if your insurance company is found to be insolvent and ordered liquidated.

16. **What about property and casualty insurance?**

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

Section 2: Coverage of Specific Products

The following discussion provides general information about guaranty association coverage of certain products. This information is based on the NAIC Model Act and may not be identical in all respects to the law of a given state.

Coverage for a particular insurance product will be determined by the applicable guaranty association based on the terms of the insurance product and the law in effect on the date the association becomes obligated to provide coverage. Therefore, you should contact your state guaranty association if you have specific questions about coverage.

1. **Individual Fixed Annuities**

   a. **What are individual fixed annuities?**

      Generally speaking, there are two types of individual fixed annuities:

      i. A fixed income annuity (which is sometimes referred to as a payout annuity) is a contract between an individual and an insurance company that provides for the insurer to make fixed periodic payments to the payee listed in the contract ("Income Annuity Contract"). The contract may provide for those payments to begin immediately or several years into the future. The payments may be paid for a fixed period and/or a contingent period based on the life of an annuitant listed in the contract.

      ii. A fixed deferred annuity is an asset accumulation product that generally grows tax deferred until the owner elects to begin periodic payments ("Deferred Annuity Contract"). Prior to the commencement of the periodic payments (i.e., during the accumulation phase), the insurer will credit fixed interest amounts to the account value of the contract on a periodic basis.

   b. **Are individual fixed annuities covered?**

      If the insurer that issued an individual fixed annuity becomes insolvent, the guaranty association of the state in which the contract owner resides will provide coverage for the annuity, subject to certain statutory exclusions and limits. In most states, the coverage level for a fixed annuity is $250,000 in present value of annuity benefits, including net cash surrender/net withdrawal values. In addition, most states adjust the amount of interest eligible for coverage if the interest exceeds maximum rates specified in the guaranty association act. In order to determine whether a particular annuity is fully or partially covered, the guaranty association will compare (i) the present value of remaining annuity benefits under the contract as of the date the guaranty association becomes obligated to provide coverage, to (ii) the guaranty association's coverage benefit level (e.g., $250,000). If the present value of remaining annuity benefits is less than or equal to the guaranty association's coverage level, the annuity will be fully covered. If the present value of remaining annuity benefits exceeds the guaranty association coverage level, the annuity will be partially covered based on a ratio of the coverage level (e.g., $250,000) divided by the present value of annuity benefits. As an example, if an annuity contract has a present value of $300,000, then the guaranty association would cover 83.3% ($250,000/$300,000) of the annuity benefits under the contract. A contract owner with annuity benefits in excess of guaranty association levels may submit a claim for the benefits in excess of the guaranty association coverage against the estate of the failed insurer, which often contains substantial assets even after the company fails (see Section 1, question 14, above).

2. **Indexed Annuities**

   a. **What is an indexed annuity?**

   Generally, an "indexed annuity" is a type of fixed annuity where the insurance company credits interest or value to the contract based on the performance of an index or other external reference, such as the S&P 500 Stock Index. In addition, indexed annuities typically provide that the contract value will be no less than a specified minimum, regardless of index performance.

   b. **Are indexed annuities covered?**

   Yes, but most guaranty association laws have special provisions that govern coverage of indexed annuities. These provisions: (1) exclude from coverage most indexed-linked interest or value that has not been credited to, or which is subject to forfeiture under the contract; and (2) permit the guaranty association to provide coverage through an alternative form of annuity that provides for a fixed or other means of calculating interest in lieu of the index mechanism in the original contract. In addition, most states adjust the amount of index-linked value or interest eligible for coverage if it exceeds maximum rates specified in the guaranty association act. The coverage of indexed annuities with respect to who is covered (i.e., the owner) and the maximum benefit levels (i.e., up to $250,000 in present value of annuity benefits) is otherwise consistent with individual fixed annuities.

3. **Structured Settlement Annuities**

   a. **What are structured settlement annuities?**

   A "structured settlement annuity" is a type of fixed annuity purchased to fund periodic payments for a plaintiff in a court action or other claimant in payment for or with respect to personal injury suffered by the plaintiff or other claimant.

   b. **Are structured settlement annuities covered?**

   Unlike other fixed annuities, coverage for structured settlement annuities is provided to each payee listed in the contract (or the beneficiary listed in the contract if the payee is deceased). Most guaranty associations provide coverage for structured settlement annuities in the amount provided for in the NAIC Model Act (i.e., with respect to each payee or beneficiary, up to $250,000 in present value of annuity benefits). Under the NAIC Model Act, coverage for a structured settlement annuity is typically provided by the guaranty association in the state of residence of the payee.

4. **Variable Insurance Products**

   a. **What are variable insurance products?**

   There are two types of variable insurance products: (i) variable annuity contracts and (ii) variable life insurance policies. These products are referred to as variable because the cash withdrawal and benefit values may fluctuate up or down based on the investment performance of a separate account, which is a fund held by a life insurance company that is maintained separately from the insurer's general assets. Many variable products include riders in which the insurer's general account guarantees certain values or benefits under the contract.

   b. **Are variable insurance products covered?**

   Variable insurance products are eligible for guaranty association coverage, subject to certain exclusions and limitations, including that guaranty associations do not cover portions of contracts that are not guaranteed by the insurer or under which the contract holder bears the risk. The coverage of variable annuities with respect to who is entitled to coverage (owner) and maximum benefit levels (up to $250,000 in present value of annuity benefits) is consistent with individual fixed annuities. Similarly, the coverage of variable life insurance with respect to who is entitled to coverage (owner or beneficiary) and maximum benefit levels (up to $300,000 in death benefits and $100,000 in cash surrender or withdrawal values) is consistent with individual fixed life insurance. The existence of a separate account with respect to a variable product does not impact the product's eligibility for coverage.

5. **Contingent Deferred Annuity**

   a. **What is a contingent deferred annuity?**

   The NAIC has adopted the following definition: "a contingent deferred annuity is an annuity contract that establishes a life insurer's obligation to make periodic payments for the annuitant's lifetime at the time designated investments, which are not owned or held by the insurer, are depleted to a contractually defined amount due to contractually permitted withdrawals, market performance, fees and/or other charges."

   b. **Are contingent deferred annuities covered?**

   Assuming contingent deferred annuities ("CDAs") are considered annuities for insurance regulatory purposes, such contracts would be eligible for coverage as annuity contracts under the NAIC Model Act. The coverage of CDAs with respect to who is entitled to coverage (owner) and maximum benefit levels (up to $250,000 in present value of annuity benefits) is consistent with individual fixed annuities.

6. **Joint Annuities**

   a. **What is a joint annuity?**

A joint annuity is an individual annuity contract or a certificate under a group annuity contract which has: (a) a single annuity owner with multiple annuitants, (b) multiple annuity owners with a single annuitant, or (c) multiple annuity owners with multiple annuitants.

b. **How are joint annuities covered by a guaranty association?**

The NAIC Model Act covers annuities in an amount up to $250,000 in present value of annuity benefits with respect to "one life," regardless of the number of policies or contracts. In determining the life (or lives) used to apply the coverage level, there are differences between "Deferred Annuity Contracts" and "Income Annuity Contracts" (see Section 2, question 1(a) for an explanation of these terms). In the case of a Deferred Annuity Contract, there is one coverage level even for contracts with multiple annuitants and/or multiple owners. However, if the contract is an Income Annuity Contract, and there are multiple annuitants, then multiple coverage levels will be applied based on the life of each annuitant. On the other hand, jointly "owned" annuities (regardless of whether the contract is a Deferred Annuity or an Income Annuity) are always treated as having a single owner (i.e., the owners are treated as a single unit). Therefore, the existence of multiple owners does not impact the amount of coverage provided.

7. **Group Annuity Contracts**

a. **What is a group annuity contract?**

A group annuity contract consists of an annuity entered into by an owner for the benefit of a designated group, such as pension plan participants.

b. **Are group annuity contracts covered?**

Guaranty associations cover group annuity contracts that are allocated (i.e., the insurer guarantees annuity benefits to individuals under the contract or under certificates issued pursuant to the contract). In most states, guaranty associations provide coverage to each group annuity certificate holder of up to $250,000 in present value of annuity benefits, including net cash surrender and withdrawal values.

8. **Unallocated Annuity Contracts**

a. **What is an unallocated annuity contract?**

Under the NAIC Model Act, an unallocated annuity contract is "an annuity contract or group annuity certificate that is not issued to and owned by an individual, except to the extent of any annuity benefits guaranteed to an individual by an insurer under the contract or certificate." (See NAIC Model Act § 5(X)). Unallocated annuity contracts typically are contracts purchased by sophisticated institutional investors, such as retirement plans that use such contracts as funding vehicles for participants.

b. **Are unallocated annuity contracts covered?**

Given the institutional nature of unallocated annuities, not all states provide coverage for such contracts. Under the NAIC Model Act (and the laws of many states that do cover unallocated annuities), coverage runs to the contract owner and is limited to $5 million in benefits per plan sponsor, regardless of the number of plans or contracts involved. In the case of governmental retirement plans established under Section 401, 403(b), or 457 of the U.S. Internal Revenue Code, the NAIC Model Act and some states provide a coverage level of $250,000 in present value of annuity benefits, in the aggregate, with respect to each plan participant. Coverage is typically provided by the guaranty association in the state where the plan sponsor has its principal place of business. States covering unallocated annuity contracts typically exclude from coverage (1) portions of such contracts that are not issued to or in connection with a specific employee, union, or association of natural persons benefit plan or a government lottery; and (2) unallocated annuity contracts issued to or in connection with benefit plans that are protected under the federal Pension Benefit Guaranty Corporation Act.

9. **Retained Asset Accounts**

   a. **What is a retained asset account?**

   Retained Asset Accounts (or "RAAs") refer to accounts that life insurers establish to distribute proceeds (typically death benefits) from a life insurance policy or an annuity. In a typical RAA, the insurer will retain the death benefit proceeds for the benefit of the beneficiary and pay out the funds, at the beneficiary's sole discretion, by arranging (through a designated bank) for the beneficiary to issue bank drafts.

   b. **Are RAAs eligible for coverage?**

   Generally speaking, RAAs are provided guaranty association coverage on the basis that they represent a death benefit under a covered life insurance policy or annuity contract. Therefore, the dollar limit on coverage, regardless of the number of beneficiaries involved, will be the same as the guaranty association death benefit level applicable to the insurance contract that provided the death benefit. In most states the maximum coverage level for death benefits under life insurance policies would be $300,000 and the maximum coverage level for death benefits under an individual annuity would be $250,000.

10. **Long-Term Care Insurance**

   a. **What is long-term care insurance?**

   Long-term care (LTC) insurance pays for nursing care, home health care, and other services for individuals who are unable to perform daily living activities or require supervision due to chronic illness or impairment.

   b. **Is long-term care insurance covered?**

   Under the NAIC Model Act, long-term care insurance is considered health insurance and in most states is eligible for up to $300,000 in coverage benefits. Contact your state's guaranty association with any specific questions about coverage.