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## Insurance Guaranty Associations: Frequently Asked Questions

### What is an insurance guaranty association?

Insurance guaranty associations offer a safety net that provides protection to insurance policyholders for their guaranteed contract benefits. All states, the District of Columbia, and Puerto Rico have insurance guaranty associations. Insurance companies are required by law to be members of the guaranty association in states in which they are licensed to do business.

### Do state guaranty associations cover all types of insurance?

Most states have two types of guaranty associations: a life and health guaranty association and a property and casualty insurance guaranty association. This document focuses on the life and health guaranty association system.

### Who oversees the guaranty association?

A guaranty association is generally governed by a board of directors and the state's insurance regulator.

### How does the association work?

When an insurance company has insufficient assets to pay policyholder claims, a guaranty association first obtains funds by assessing member insurers that write the same kind of business as the insolvent insurer. These assessments are then used to pay, up to statutory limits, the covered claims of policyholders of the insolvent company. An association may also provide continued coverage for the policyholder or transfer policies to healthy insurers.

### What are the statutory limits on covered claims?

The amount of coverage provided by the guaranty association is set by state statute. Although states' laws differ as to dollar amounts covered by their guaranty associations, nearly all states have enacted a version of the National Association of Insurance Commissioners' (NAIC) Life and Health Insurance Guaranty Association Model Law, and provide coverage for life, annuity, and health insurance with limits of at least:

- \$300,000 in life insurance death benefits
- \$100,000 in net cash surrender or withdrawal values for life insurance
- \$100,000 in present value fixed annuity benefits, including cash surrender and withdrawal values
- \$100,000 for health insurance benefits

There also is an overall cap for any one individual of \$300,000.

### How are the assessments on companies determined?

The guaranty association's coverage of insurance company insolvencies is funded by post-insolvency assessments of the other guaranty association members and are based on each member's share of premium. However, the assessed insurers are granted—in a majority of states—an offset on state premium taxes as a way to recover, over time, all or a portion of the assessment.

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**How are guaranty association activities coordinated when an insolvent company does business in multiple states?**

All state guaranty associations are members of the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA). In the case of an insolvent life insurer that has policyholders in multiple states, the activities of the various guaranty associations are coordinated by NOLHGA. NOLHGA provides resources and technical expertise to the state guaranty associations, as well as a national forum for discussion of state guaranty association issues.

**Does the guaranty association system work?**

Yes. Throughout its history, the state guaranty association system has performed as it was designed to do, namely to protect policyholders of insolvent insurers. The system is efficient and has performed extremely well. Preservation of this proven system of protection is vital to both insurance companies and their policyholders.

As Congress considers federal insurance charter proposals, it is worth noting that all such current proposals preserve the current guaranty association system model. A proven record of efficient, relative policyholder protection speaks for itself.

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