

What happens when an Insurance Company Fails?

(Source: www.nolhga.com)

All 50 states, the District of Columbia, and Puerto Rico have insurance company associations which help pay the claims of financially-impaired companies that operate in that state. Your state legislature determines the types of insurance which are covered by its Guaranty Fund and the dollar amount of that coverage.

The table below indicates the coverage which might be available in your state. You are strongly advised not to rely upon this information alone but to verify the coverage yourself by calling the consumer affairs division of your state's insurance department. There are many issues, too numerous to describe here, which may influence the type and extent of your coverage. Another source for this information is the National Organization of Life and Health Insurance Guaranty Associations. www.nolhga.com

A Company In Trouble

Insurance is monitored and regulated by state insurance departments, and one of their primary objectives is protecting policyholders from the risk of a company in financial distress. When a company enters a period of financial difficulty and is unable to meet its obligations, the insurance commissioner in the company's home state initiates a process—dictated by the laws of the state—whereby every attempt is first made to help the company regain its financial footing. This period is known as rehabilitation. If it is determined that the company cannot be rehabilitated, the company is declared insolvent, and the laws of the state require the commissioner to ask the state court to order the liquidation of the company.

Role of the Insurance Commissioner

The insurance commissioner, either appointed by the governor or elected, heads the state insurance department and monitors and regulates insurance activity within the state. The commissioner also has the responsibility to determine when an insurance company domiciled in the state should be declared insolvent and to seek authority from the state court to seize its assets and operate the company pending rehabilitation or liquidation.

Role of the Receiver

By obtaining control of a company, the commissioner (or the insurance department) is, by law, the rehabilitator or liquidator of the company. In this capacity, the commissioner or department takes control of the company's operations. Rather than do so directly, the commissioner may retain a special deputy receiver to supervise the company's activities. The receiver may be an employee of the state insurance department or an independent professional experienced in legal, accounting, and actuarial issues.

The receiver oversees an accounting of the company's assets and liabilities and administers the estate of the company. In doing so, the receiver seeks to maximize the company's assets, transfer them to cash, and then distribute that cash to creditors having valid claims against the insurer in accordance with payment priorities specified by state law.

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Role of the Guaranty Associations

State life and health insurance guaranty associations are state entities (in all 50 states as well as Puerto Rico and the District of Columbia) created to protect policyholders of an insolvent insurance company. All insurance companies licensed to sell life or health insurance in a state must be members of that state's guaranty association.

The guaranty association cooperates with the commissioner and the receiver in determining whether the company can be rehabilitated or if the failed company should be liquidated and its policies transferred to financially sound insurance companies. Once the liquidation is ordered, the guaranty association provides coverage to the company's policyholders who are state residents (up to the limits specified by state laws—see below). For a complete listing of each state's laws regarding this coverage, see the [State Guaranty Laws and Provisions](#) in the "Facts & Figures" section.

Guaranteed Coverage

While laws governing maximum limits and types of policies covered vary from state to state, most states set basic limits of:

- \$300,000 in life insurance death benefits
- \$100,000 in cash surrender or withdrawal value for life insurance
- \$100,000 in withdrawal and cash values for annuities
- \$100,000 in health insurance policy benefits

The overall benefit "cap" in most states for an individual life is \$300,000, though some states have maximums that are higher. For more information on covered and uncovered policies, see the [FAQ](#) section.

How Coverage Is Funded

When an insurer fails and there is a shortfall of funds needed to meet the obligations to policyholders, state guaranty associations are activated. To amass the funds needed to protect the state's policyholders, insurers doing business in that state are assessed a share of the amount required to meet all covered claims. The amount insurers are assessed is based on the amount of premiums that they collect in that state.

Role of NOLHGA

The National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) is made up of the 52 life and health insurance guaranty associations. Through NOLHGA, the associations voluntarily work together efficiently and effectively to provide continued protection for policyholders affected by a multi-state insurance insolvency. NOLHGA establishes a task force of representative guaranty associations to work with the insurance commissioner to develop a plan to protect policyholders.

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Liability Limits of the State Guaranty Associations

You are strongly advised to call your state insurance department to confirm the current liability limits in effect.

State	Max. aggregate benefits for all lines of insurance	Max. death benefit with respect to any one life	Max. liability for cash or withdrawal value of life insurance policy	Max. liability for present value of an annuity contract	Insurance Commissioners' Phone Numbers
Alabama	\$300,000	-	\$100,000	\$100,000	(334) 269-3550
Alaska	\$300,000	\$300,000	\$100,000	\$100,000	(907) 465-2515
Arizona	\$300,000	-	\$100,000	\$100,000	(602) 912-8400
Arkansas	\$300,000	\$100,000	\$100,000	\$100,000	(501) 371-2600
California	\$250,000	\$250,000	\$100,000	\$100,000	(916) 492-3500
Colorado	\$300,000	\$300,000	\$100,000	\$100,000	(303) 894-7499
Connecticut	\$300,000	\$300,000	\$100,000	\$100,000	(860) 297-3802
Delaware	\$300,000	\$300,000	\$100,000	\$100,000	(302) 739-4251
Dist. of Col.	\$300,000	\$300,000	\$100,000	\$100,000	(202) 727-8000
Florida	\$300,000	-	\$100,000	\$100,000	(850) 922-3101

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State	Max. aggregate benefits for all lines of insurance	Max. death benefit with respect to any one life	Max. liability for cash or withdrawal value of life insurance policy	Max. liability for present value of an annuity contract	Insurance Commissioners' Phone Numbers
Georgia	\$300,000	-	\$100,000	\$100,000	(404) 656-2056
Hawaii	\$300,000	\$300,000	\$100,000	\$100,000	(808) 586-2790
Idaho	\$300,000	-	\$100,000	\$100,000	(208) 334-4250
Illinois	\$300,000	\$300,000	\$100,000	\$100,000	(217) 785-0116
Indiana	\$300,000	-	\$100,000	\$100,000	(317) 232-2385
Iowa	\$300,000	-	\$100,000	\$100,000	(515) 281-5705
Kansas	\$300,000	\$300,000	\$100,000	\$100,000	(785) 296-7081
Kentucky	-	\$300,000	\$100,000	\$100,000	(502) 564-6027
Louisiana	\$300,000	\$300,000	\$100,000	\$100,000	(225) 342-5423
Maine	\$300,000	-	\$100,000	\$100,000	(207) 624-8475
Maryland	\$300,000	\$300,000	\$100,000	\$100,000	(410) 468-2090
Massachusetts	\$300,000	\$300,000	\$100,000	\$100,000	(617) 521-7794
Michigan	\$300,000	\$300,000	\$100,000	\$100,000	(517) 373-9273

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Minnesota	\$300,000	\$300,000	\$100,000	\$100,000	(651) 296-6848
Mississippi	\$300,000	\$300,000	\$100,000	\$100,000	(601) 359-3569
Missouri	\$300,000	\$300,000	\$100,000	\$100,000	(573) 751-4126
Montana	-	\$300,000	-	-	(406) 444-2040
Nebraska	\$300,000	\$300,000	\$100,000	\$100,000	(402) 471-2201
Nevada	\$300,000	\$300,000	\$100,000	\$100,000	(775) 687-4270
New Hampshire	\$300,000	-	\$100,000	\$100,000	(603) 271-2261
New Jersey	\$500,000	\$500,000	\$100,000	\$500,000	(609) 292-5360
New Mexico	\$300,000	-	\$100,000	\$100,000	(505) 827-4601
New York	\$500,000	-	-	-	(212) 480-2289
No. Carolina	\$300,000	-	-	-	(919) 733-7349
North Dakota	\$300,000	\$300,000	\$100,000	\$100,000	(701) 328-2440

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Ohio	\$300,000	\$300,000	\$100,000	\$100,000	(614) 644-2658
Oklahoma	\$300,000	\$300,000	\$100,000	\$300,000	(405) 521-2828
Oregon	\$300,000	\$300,000	\$100,000	\$100,000	(503) 947-7980
Pennsylvania	\$300,000	\$300,000	\$100,000	\$100,000	(717) 783-0442
Puerto Rico	-	\$300,000	-	-	(787) 722-8686
Rhode Island	\$300,000	\$300,000	\$100,000	\$100,000	(401) 222-2223
So. Carolina	\$300,000	-	-	-	(803) 737-6160
South Dakota	\$300,000	\$300,000	\$100,000	\$100,000	(605) 773-3563
Tennessee	\$300,000	\$300,000	\$100,000	\$100,000	(615) 741-2241
Texas	-	\$300,000	\$100,000	\$100,000	(512) 463-6464
Utah	\$300,000	\$300,000	\$100,000	\$100,000	(801) 538-3800
Vermont	\$300,000	\$300,000	\$100,000	\$100,000	(802) 828-3301
Virginia	\$300,000	\$300,000	\$100,000	\$100,000	(804) 371-9741

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State	Max. aggregate benefits for all lines of insurance	Max. death benefit with respect to any one life	Max. liability for cash or withdrawal value of life insurance policy	Max. liability for present value of an annuity contract	Insurance Commissioners' Phone Numbers
Washington	\$500,000	\$500,000	-	\$500,000	(360) 753-7301
West Virginia	\$300,000	\$300,000	\$100,000	\$100,000	(304) 558-3394
Wisconsin	\$300,000	-	-	-	(608) 267-1233
Wyoming	\$300,000	\$300,000	\$100,000	\$100,000	(307) 777-7401

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