Are insurance companies insured?

In the United States, guaranty associations are state-regulated, nonprofit organizations that protect policyholders if their insurance company becomes insolvent. They are not federal government agencies, but state law typically requires licensed insurance companies to be members of the guaranty association in every state where they do business.

How guaranty associations work

- **Funding:** Guaranty associations are funded by a "post-insolvency" assessment on all member insurance companies selling the same type of insurance in that state. The assessments are based on each company's share of the total premium volume.
- **Triggering the fund:** When an insurer is declared insolvent by a state court and is ordered to be liquidated, the relevant state guaranty associations are triggered to begin the claims process.
- **Claim payment:** The guaranty association pays covered claims to policyholders and beneficiaries, up to the statutory limits defined by state law. An individual's remaining claim beyond this limit may be filed against the failed company's remaining assets, but additional payments are not guaranteed.
- **Transfer of policies:** In some cases, the guaranty association may transfer the policies of the insolvent company to a financially healthy insurer. This allows for continuous coverage for the policyholders.

Types of guaranty associations

Most states operate at least two separate guaranty associations, each covering specific types of insurance:

- **Life and Health Insurance Guaranty Associations:** These associations cover policies such as life insurance, annuities, and disability and long-term care insurance. The National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) coordinates the activities of these state associations when an insurer operates in multiple states.

- **Property and Casualty Insurance Guaranty Associations:** These cover insurance products like auto, homeowners, and workers' compensation policies. The National Conference of Insurance Guaranty Funds (NCIGF) coordinates these state associations.

Important limitations

- **State-specific limits:** Coverage limits and types of insurance covered vary by state. For example, California only covers 80% of an annuity claim up to $250,000, while many states offer 100% up to that limit.
- **Advertising prohibitions:** Insurance companies and agents are typically prohibited by law from advertising the protection provided by a guaranty association. This is intended to prevent companies from using the fund as a selling point.
- **Not all companies are covered:** Organizations that are not traditional licensed insurers, such as health maintenance organizations (HMOs) or surplus lines carriers, are often not covered by state guaranty associations.

How to check coverage

If you are concerned about your insurance company's financial health, you can contact your state's Department of Insurance, which oversees the guaranty associations. The National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) and the National Conference of Insurance Guaranty Funds (NCIGF) also provide online resources to help you find your state's specific coverage details.

For more information contact: