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The Life and Health Insurance Guaranty System

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Headnote

How It Works to Protect Consumers-Even in Severe Economic Times

Since the early 1970s, life, annuity, and health insurance consumers have received protection against the financial risk of the insolvency of their insurer from guaranty associations (GAs) in their states of residence.1 Fifty-two GAs - one for each state, as well as Puerto Rico and the District of Columbia - coordinate consumer protection in major insolvencies (that is, those involving multiple states) through their membership in the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA). NOLHGA was founded in 1983 and operates as a not-for-profit corporation. Its members have protected consumers in many life and health company failures, including roughly 75 multistate insolvency cases. This article briefly discusses the mission and development of the guaranty system in the context of U.S. insurer insolvency resolutions, the operations of that system when insurers fail, and the financial capacity of the system.

History of the System

The core mission of NOLHGA and its member GAs is to ensure that consumers receive at least a statutorily prescribed base level of financial protection when a life or health insurance company fails. That protection may be achieved either by transferring to a healthy insurer the failed company's business that is in force at the time of the company's failure or by supporting the "runoff" of that in-force business.

Insurer failures have occasionally occurred throughout the history of the U.S. life insurance industry. Because states have historically regulated insurance rather than the federal government, state insolvency procedures have governed insurance company failures rather than federal bankruptcy law. For reasons discussed below, insurance consumers have often been better shielded from harm in state insurance insolvency proceedings than creditors have been in bankruptcies or other types of receivership proceedings.

Until the early 1970s, no widespread safety net...