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Report to the Chairman, Subcommittee on Antitrust, Monoplies and Business Rights, Committee on the Judiciary, U.S. Senate

March 1992

INSURER FAILURES

Life/Health Insurer Insolvencies and Limitations of State Guaranty Funds

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The Honorable Howard M. Metzenbaum
Chairman, Subcommittee on Antitrust,
Monopolies and Business Rights
Committee on the Judiciary
United States Senate

Dear Mr. Chairman:

This report responds to your request that GAO review failures of life/health insurance companies and the protection available to policyholders when a failure occurs.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to interested parties and make copies available to others upon request.

Major contributors to this report are listed in appendix VII. Please contact me on (202) 275-8678 if you or your staff have any questions concerning this report.

Sincerely yours,

Craig A. Simmons

Craig A. Simmons
Director, Financial Institutions
and Markets Issues

Executive Summary

Purpose

The increasing number of failures of life/health insurance companies has raised concerns and questions about the failures' costs and causes and the adequacy of protections for policyholders whose insurance companies fail. The Chairman, Senate Subcommittee on Antitrust, Monopolies and Business, Committee on the Judiciary, asked that GAO provide information on

- the incidence and costs of life/health insurance company failures,
- the characteristics of failed insurers, and
- the extent to which policyholders are protected from financial loss should their insurers fail.

Background

The insurance industry, unlike other financial sectors, is regulated primarily by the states. Each state licenses companies to sell insurance, examines the financial health of licensed companies, and—as necessary—liquidates failed insurers.

To protect policyholders and beneficiaries against losses that might otherwise occur after an insurer fails, each state has established a life/health guaranty association (hereinafter referred to as fund) to provide limited continuation of coverage and pay benefits. In 1983, the funds formed the National Organization of Life and Health Guaranty Associations to help coordinate their activities in multistate insolvencies.

Life/health guaranty funds are established under state law and administered and financed, at least initially, by assessments to insurance companies licensed within the state ("member companies" of the state fund associations). As insolvencies occur, the funds estimate how much will be needed to pay claims and benefits. Next, the funds assess member companies a small percentage of their premium income from the line of business (life or health, for example) for which the fund is making assessments. Each fund is limited by law (usually to 1 or 2 percent of a company's premium income) in the amount it can collect annually from any insurer. In most states, insurers can recover their assessments through tax offsets or rate increases that transfer part of the cost of failures to taxpayers and policyholders.

Results in Brief

Failures of life/health insurers are increasing, as are the costs of such failures to guaranty funds, policyholders, and taxpayers. From 1975 through 1990, about 176 life/health insurance companies were declared insolvent. Fifty-six percent of these insolvencies have occurred since 1987. Assessments made by life/health guaranty funds to pay the costs of failures totaled about $515 million from 1975 through 1989.

Analysis of selected data on 67 of 112 companies that failed in the 5-year period from 1986 through 1990 indicates that most were relatively small both in size and scope of operations. The rate of failures has increased, however, and some industry analysts expect that this trend will continue.

The state life/health guarantee funds are not uniform in the protection they provide. Most importantly, they differ in who is protected, what policies are covered, and how much the funds will pay in benefits and policy claims. In an insolvency of a multistate insurer, these differences can result in unequal treatment of policyholders of the same failed insurer; some may have no protection at all.

There is concern within the industry as to whether the funds have sufficient capacity to handle one or more failures of the large insurers that were seized by regulators in 1991.

GAO's Analysis

Life/Health Failures

The number of insolvencies in the life/health industry averaged about five per year from 1975 through 1982. Since that time, the average number more than tripled to almost 18 per year, with 47 insolvencies occurring in 1989 and 27 in 1990. Assessments made by guaranty funds to pay the costs of failures and impairments rose from a total of about $50 million for the period 1975 through 1982 to about $465 million from 1983 through 1989. (See pp. 9-10.)

GAO's analysis of the characteristics of 67 of 112 companies that failed during 1986 through 1990 showed that most had assets and premiums of less than $50 million and were licensed in 10 or fewer states. Health insurance was the predominant line of business for most of these companies. However, some companies taken over in 1991 by insurance regulators do not follow previous patterns of insolvencies. Rather, these are sizable companies that marketed a substantial amount of interest-sensitive, low-profit products, while making investments that exposed them to high risks of loss. (See pp. 15-23.)

Life/Health Guaranty Funds

The coverage of state life/health funds ranges from coverage for state residents only for those companies licensed in that state, to coverage for all policyholders (including those who live outside the state) for companies headquartered in the guaranty fund state. Some "residents-only" states will cover residents of other states under limited circumstances, but some others do not. GAO has found that some policyholders of multistate insurers may have no protection at all should their insurer fail. (See pp. 24-25.)

The funds generally cover most life and health policies and annuities, but virtually every state fund makes exceptions in its coverage. While a few funds cover insurance provided by health maintenance organizations (4) and Blue Cross/Blue Shield plans (14), other funds exclude them. Also, state funds vary significantly in their coverage of certain types of annuities (called unallocated annuities) that are not issued to or owned by individuals. These annuities are usually substantial in amount and are purchased by employers or pension fund managers to fund pension plans. As of September 1, 1991, 15 guaranty funds provided limited coverage for these annuities, 14 specifically excluded them; the remainder were silent about coverage. (See pp. 25-26.)

All funds except Maryland's set limits on the amounts they will pay in claims and benefits. The individual limits on benefits for life, health, and annuities vary, ranging from $100,000 to $500,000 per policy. Limits on unallocated annuities range from $1 million in four states to $5 million in nine states per owner regardless of the number of these annuities owned. New Jersey will pay up to $2 million for each unallocated annuity. (See pp. 27-28.)

There are concerns within the industry, the public, and Congress as to whether the funds' limited assessment capacity is adequate to handle an increasing number of failures or a failure of one or more of the large insurers seized by regulators in early and mid-1991. (See p. 29.)

There is, however, no agreement on this issue. Although the National Organization of Life and Health Guaranty Associations has estimated that the funds, in aggregate, can assess about $3 billion in a year, the amounts that individual funds can collect in any single year varies by state. (See p. 29.)

Recommendations

GAO is making no recommendations.

Industry Comments

GAO provided a draft of this report to the National Organization of Life and Health Insurance Guaranty Associations for review and informal comment. The organization's major concern, as expressed in its comments, was that it believed the report placed too much emphasis on areas of differences among the funds. With respect to this concern, GAO believes it is important to identify and describe how the existing differences in coverage affect the protection available to policyholders and other claimants. Although there are many areas in which the funds are uniform, there are still some significant variations in the circumstances under which funds provide coverage, the types of policies they protect, and the limits they place on claims and benefits payments. As a result, policyholders and claimants of the same failed company may be treated differently, and some may have no protection at all. The organization also made suggestions for clarification; GAO incorporated these where appropriate. Their comments are evaluated on p. 31 and reprinted on p. 48.

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Abbreviations

NAIC	National Association of Insurance Commissioners
NOLHGA	National Organization of Life and Health Insurance Guaranty Associations

Introduction

In recent years, Congress, consumers, and the insurance industry itself have been increasingly concerned about the financial stability of the insurance industry. Much of the concern has focused on the growing number and size of failures of property/casualty insurance companies since the late 1970s. A significant number of life/health companies also have failed since the mid-1980s, and this trend appears to be continuing. These increasing failures have raised a variety of concerns about the regulation of the insurance industry, including specific concerns about the protections available to policyholders when their insurance companies fail.

The Insurance Industry Is Regulated by the States

The states have primary responsibility for regulation of the insurance industry and control over insurer insolvencies. The states license companies to sell insurance, examine the financial health of licensed companies, and administer—as necessary—the liquidation of insolvent insurers. To encourage uniformity in state approaches to regulation, the state insurance regulators established a central structure to help coordinate their activities. The National Association of Insurance Commissioners (NAIC) consists of the heads of the insurance departments of the 50 states, the District of Columbia, and 4 U.S. territories. NAIC develops and adopts model laws and regulations that state insurance commissioners collectively believe are needed to regulate the insurance business. However, NAIC has no authority to require individual states to adopt these models, and not all states have done so. Substantial differences exist today in the regulatory approaches taken by the various state insurance departments.

To improve solvency monitoring and provide a more uniform regulatory system, NAIC adopted minimum financial regulatory standards for state insurance departments in June 1989. These standards specify the laws and regulations, regulatory practices and procedures, and organizational and personnel practices to regulate insurer solvency.

NAIC also established an accreditation program to encourage states' compliance with the standards. According to NAIC, this program, in effect, will establish a consistent national system of solvency regulation. The full implementation of this program is expected to take several years and relies on each state's initial adoption and implementation of the standards, as well as the continuing adaptation to new, more rigorous standards to be established in the future.

Insolvency Protections

To protect policyholders of insolvent life/health insurers, all states (but not the District of Columbia) have established life/health guaranty funds. The funds are established under state law and administered generally by the insurance industry in each of the states. The basic purpose of the funds is to pay benefits and provide a limited level of continued insurance coverage.

The state guaranty funds have generally based their structure and operations on a model developed by NAIC, which it first recommended to the states in 1970. However, the states were slow to establish funds. Only 16 life/health funds were established by the end of 1975. In contrast, 33 states had established property/casualty funds by mid-1971 (NAIC recommended those funds in 1969). From 1975 to 1982, an additional 17 states adopted life/health fund laws. The remaining funds were established after 1982, and 10 of those were set up since 1989. As of October 1991, only the District of Columbia had not established a life/health guaranty fund.

The funds cover most life and health insurance policies and annuities, but the states are not uniform in the protection they provide. State funds differ in who they protect, what policies they cover, and how much the funds will pay. (These differences and their effects on policyholders are discussed in ch. 3.)

All insurers licensed in a state having a guaranty fund are required to be members of that state's guaranty fund association. As insolvencies occur, the funds estimate how much will be needed to pay claims and benefits; then make those payments from assessments on member companies. The companies are assessed a small percentage (usually limited to 1 to 2 percent annually) of their premium income from the same type or types of business (life or health, for example) for which the fund is making assessments. If the total amount needed cannot be collected because of assessment limits, the process can be repeated in subsequent years, thus possibly delaying full payment of claims and benefits. The guaranty funds may also temporarily use alternative sources of funding, such as bank loans, to pay the outstanding obligations of a failed or impaired insurer. In most states, the assessments paid by insurers may be offset by a reduction in state tax liabilities or through premium rate increases. In effect, these provisions pass much of the costs of insolvencies indirectly to taxpayers through lost tax revenues or to policyholders.

NAIC's 1970 model for guaranty funds provided that the fund of the insolvent insurer's state of domicile would pay the claims and benefits of all policyholders regardless of the policyholders' state of residence.[1] However, the 1983 failure of the insurance affiliates of Baldwin-United demonstrated the inadequacy of this approach. The companies were licensed in many states; under the 1970 model, their substantial annuity liabilities would have been the responsibility of a single fund—Indiana's. However, the obligations far exceeded the fund's annual assessment capacity. Except for a workout plan that was arranged with industry participation, the Indiana fund would have needed decades of assessments to settle the insolvency.

NAIC revised the model in 1985 to restrict a fund's coverage to state residents only in order to limit the obligations of individual guaranty funds. The revised model extended protection, under certain circumstances (described in ch. 3), to out-of-state residents. Forty-one states have adopted this "residents-only" coverage. Because a single insolvency may affect policyholders in many or all states, the change to residents-only coverage has complicated the administration of insolvencies and created a need for coordination and cooperation among the funds.

To address the need for coordination and cooperation among the state funds, several guaranty funds formed the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) in 1983. NOLHGA's basic purpose is to help coordinate fund activities and encourage collective action when an insurer licensed in more than one state (a multistate insurer) fails. Also, in a 1989 response to increasing insolvencies among multistate insurers, NOLHGA formed a special committee to act on behalf of its members. According to NOLHGA, the action was taken "to avoid the fragmentation, duplication and delays that can result when many state associations must address their similar obligations to their own residents for contractual obligations arising under blocks of business written over state lines."

Although many state regulators and insurance industry officials believe the existing guaranty fund system is adequate, others believe changes are needed to improve existing policyholder protections. The current state-by-state system has raised questions of fairness. For example, all policyholders of a failed insurer may not be similarly treated, and some may not be eligible for protection because of variations in state rules and criteria for coverage. The state-by-state system also raises questions about

[1] Domicile refers to the state in which an insurance company has its principal legal residence.

the funding capacity of the system. The increased size and frequency of failures, coupled with assessment limits, may result in claims on funds in some states that exceed their payment capacity. Citing the recent increases in and the complexity of insolvencies, in February 1991, NAIC began to examine the life/health and property/casualty guaranty fund system.

Objectives, Scope, and Methodology

The Subcommittee on Antitrust, Monopolies and Business Rights, Senate Committee on the Judiciary, asked us to provide information on life/health companies failures and state life/ health guaranty funds. Our objective was to provide information on (1) the incidence and costs of life/health company failures, (2) the characteristics of failed companies, and (3) the extent to which policyholders are protected from financial loss should their insurers fail.

We obtained data from published material, interviews, liquidation records, and insurance companies' financial statements. We reviewed articles published in periodicals and industry trade journals, reports, and other literature on life/health insolvencies and guaranty funds. We also reviewed records of congressional hearings held in 1990 and 1991 that, among other things, examined the adequacy of life/health guaranty fund protections and the capacity of the funds to handle continued insurer failures or the failures of one or more large insurers. Witnesses included representatives of NAIC, NOLHGA, and insurance regulators from several states including Minnesota, California, New York, and New Jersey.

We interviewed officials of NAIC, NOLHGA, industry trade associations, and the life/health guaranty funds and insurance departments of Florida, Illinois, Indiana, Oregon, and Texas. We also talked with officials of the California Insurance Department. These states were selected primarily because of differences in those states' guaranty fund laws and to provide variation in size and geographic location.

To determine how variations in state guaranty fund rules affect policyholder treatment, we reviewed the insolvencies of six companies (one in each of the above states) that were licensed in other states having differing guaranty fund coverages. We also planned to determine whether claims were paid in full, whether payment was timely, and the extent to which continued insurance coverage was provided. However, our access to the necessary records was not sufficient to fully make these assessments.

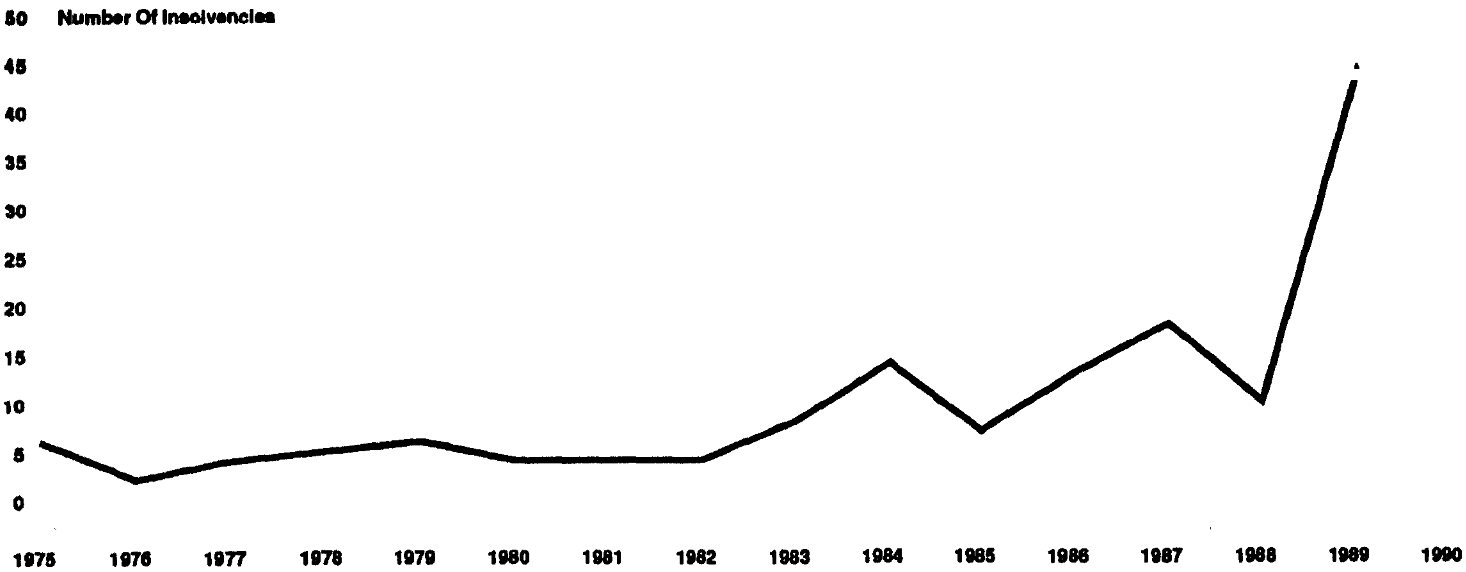
We used information provided by NOLHGA and NAIC to develop data on the incidence and costs of insolvencies and the characteristics of failed companies. We did not independently verify the completeness of these data. Financial and operating data on 67 of 112 companies that were declared insolvent from 1986 through 1990 were extracted from a NAIC database of annual statements. Data for the other 45 companies were either unavailable or incomplete. Since the 67 companies for which data were available do not represent a statistical sample, we cannot say whether their characteristics are representative of the remaining companies.

We provided copies of a draft of this report to NOLHGA for comment. Their comments are evaluated on page 31 and reprinted on page 48. We did our work from July 1990 to May 1991 in accordance with generally accepted government auditing standards.

Life/Health Insurer Insolvencies

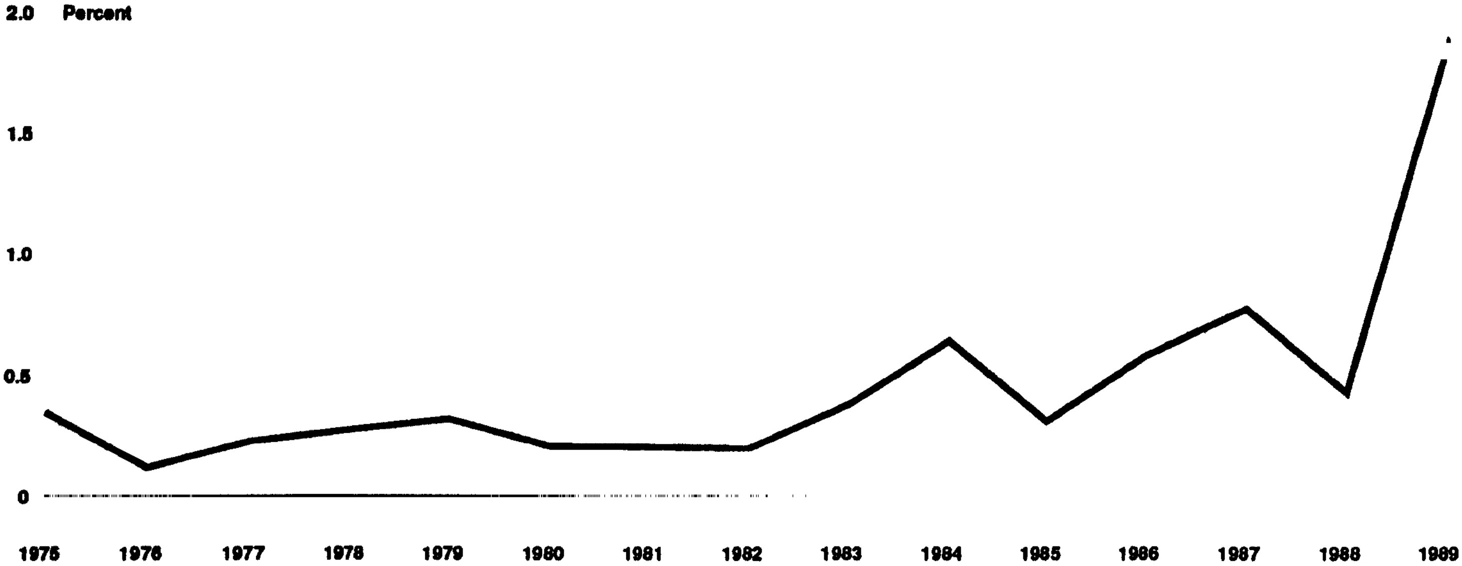
The rate of life insurer insolvencies has increased dramatically since the mid-1980s. Of 176 insolvencies from 1975 through 1990, 80 percent (141) have occurred since 1982, and 56 percent (99) since 1986 (see fig. 2.1). While 39 states experienced insolvencies from 1975 through 1990, 65 percent (115) occurred in 8 states—Texas (47), Indiana (13), Oklahoma (12), Louisiana (10), Arizona (9), Florida (9), Illinois (8), and New Mexico (7) (see app. I). Although the number of insolvencies is small as a percentage of the total number of life/health companies, it has increased significantly in recent years (see fig. 2.2).

Figure 2.1: Life/Health Insurance Company Insolvencies Occurring Annually From 1975 To 1990



Source: National Association of Insurance Commissioners, National Organization of Life and Health Guaranty Association, and individual state guaranty funds.

Figure 2.2: Insolvencies as a Percentage of all Life/Health Insurance Companies from 1975 Through 1989



Source: National Association of Insurance Commissioners, National Organization of Life and Health Guaranty Association and individual state guaranty funds.

As the number of insolvencies have increased, so have guaranty fund assessments. Only $50 million was assessed for insolvencies from 1975 through 1982. However, about $465 million was assessed by the funds in the 1983-89 period; in 1989 alone, $164 million was assessed. More than half of the assessments (about 57 percent) were made to pay health claims; life insurance and annuity costs accounted for approximately 19 and 22 percent, respectively. Administrative expenses added another 2 percent.

It is important to note that the data we analyzed did not include information about several large life/health insurers that regulators have recently taken over, including the Executive Life Insurance Companies of California and New York, First Capital Life, Fidelity Bankers Life, and Mutual Benefit Life. The large size of these insurers and the diminished value of their invested assets have caused great concern as to whether and how policyholders would be protected if these companies fail.

Causes of Failures

Industry and regulatory groups that have studied the causes of life/health insurer insolvencies have generally found that insolvencies and failures are related to more than one factor.

IDS Financial Services, Inc., reviewed 48 insolvencies that occurred from 1985 through August 1989.[1] Its analysis showed that failed insurers were often thinly capitalized, fast-growing, small group accident and health providers with high loss ratios. According to IDS, the major factors underlying most of the insolvencies were rapid growth into unprofitable products; investments in securities of affiliates, mortgages, and real estate; and low capital and surplus in relation to premiums. IDS found too that changes in the industry and the competitive and economic environment were contributing factors. Mismanagement and fraud also played a part.

In a study on insurance solvency concerns done for the American Council of Life Insurance, 68 insolvencies (occurring between January 1985 and September 1989) were examined to determine the causes of failure and the types of business written by the failed companies. The study concluded that the major problems contributing to insolvencies were improper transactions with affiliates, one unprofitable line of business (generally accident and health insurance or single-premium deferred annuities), underpricing of products, and questionable investment policies, such as investments in affiliates and real estate. Similar reasons for insolvencies have been cited by NOLHGA, NAIC, and the independent insurance company rating services of A.M. Best Company and Standard & Poor's.

Characteristics of Failed Companies

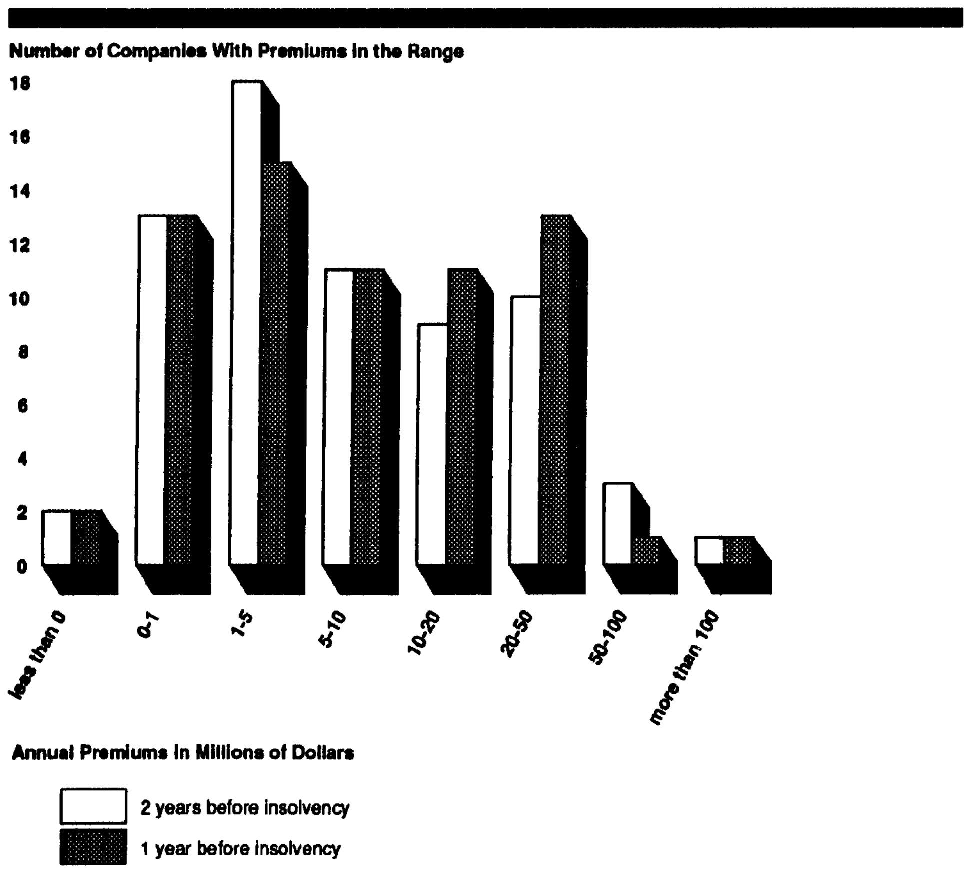
To get a perspective on the size and scope of recent insolvencies, we obtained selected operating and financial data—including size, business lines, and scope of operations—on 67 of the 112 companies that failed during 1986 through 1990. These data are presented in figures 2.3 through 2.9. Data on the remaining companies were either unavailable or incomplete.

In analyzing the data, we found that before the recent takeover of large life insurers, most of the failed insurers were relatively small and were licensed in 10 or fewer states. In addition, the premium income for the majority of the companies was concentrated in accident and health insurance. Following are some of our specific findings:

[1]Will the U.S. Life Insurance Industry Keep Its Promises? Solvency Issues in the 1990s, IDS Financial Services, Inc. (Mar. 1990).

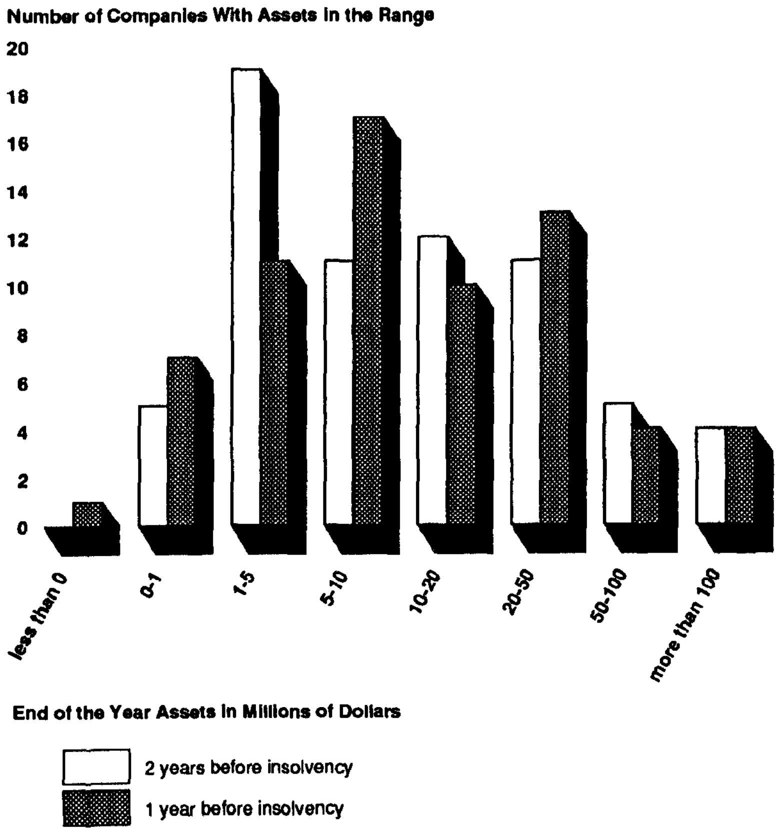
- Most of the failed insurers were small, with premiums and assets of less than $50 million. Only 4 of the 67 companies had premium income above $50 million and assets exceeding $100 million.
- Accident and health insurance was the largest single line of business—that is, the line that produced the highest percentage of the companies' premium income. For 47 of the 67 companies, accident and health insurance accounted for at least 36 percent of premium income 1 year before insolvency.
- We found that 34 of the companies were licensed in 10 or fewer states: 16 of those were licensed in only one state. Eighteen companies operated in more than 20 states.
- Of 57 companies for which data were available, 42 had been in business for more than 20 years. Only 6 were in business for fewer than 10 years.

Figure 2.3: Premiums Collected In the 2 Years Preceding Insolvency



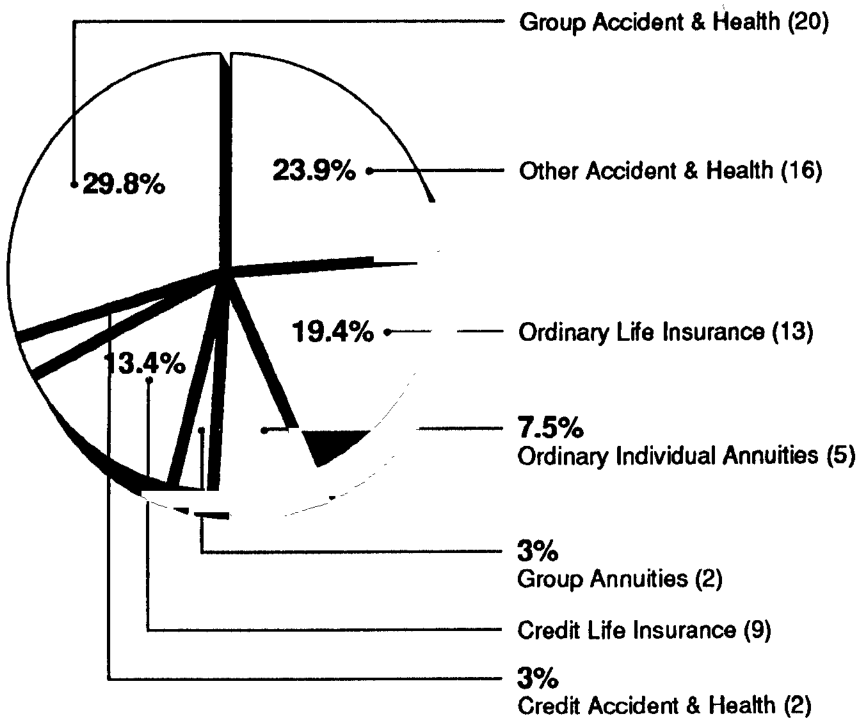
Source: National Association of Insurance Commissioners.

Figure 2.4: End of Year Assets for the 2 Years Preceding Insolvency



Source: National Association of Insurance Commissisoners.

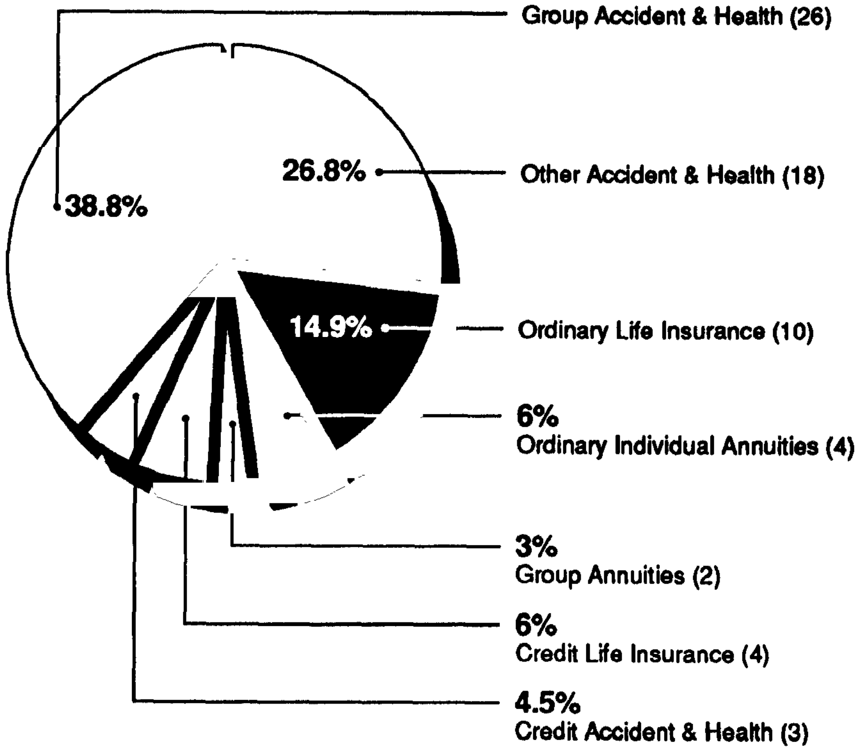
Figure 2.5: Distribution of the Largest Line of Business for the 2 Years Preceding Insolvency



Note: This chart reflects the number of companies and not the size of their businesses.

Source: National Association of Insurance Commissioners.

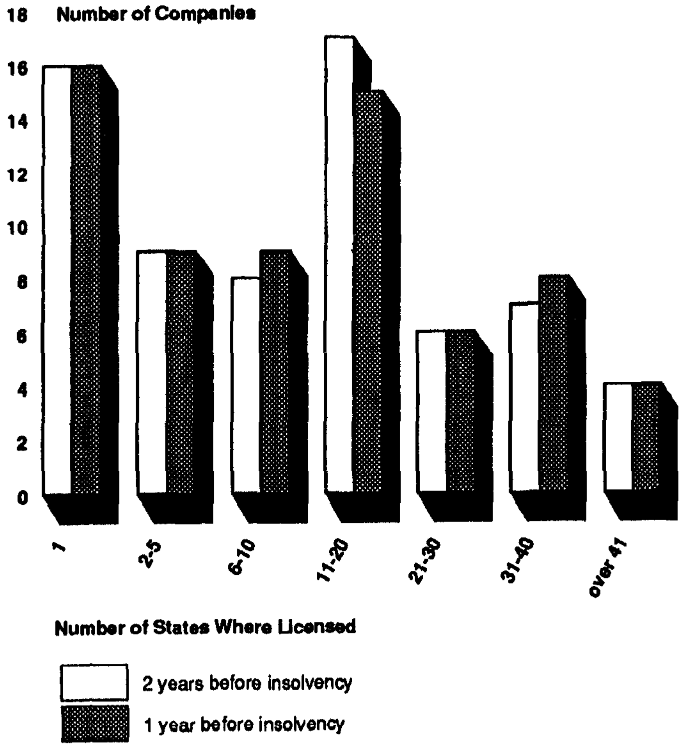
Figure 2.6: Distribution of the Largest Line of Business 1 Year Preceding Insolvency



Note: This chart reflects the number of companies and not the size of their businesses.

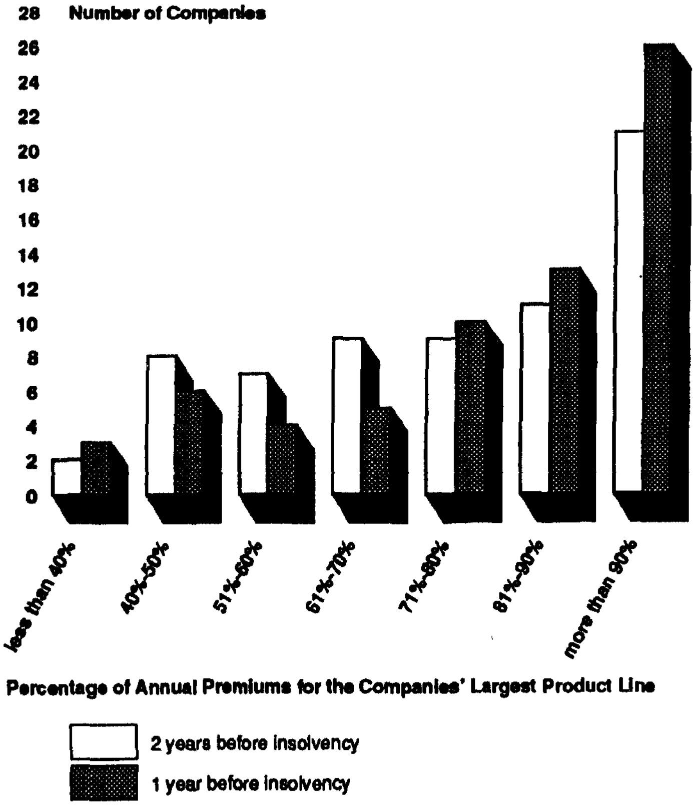
Source: National Association of Insurance Commissioners.

Figure 2.7: Number of States In Which Insurers Were Licensed In the 2 Years Preceding Insolvency



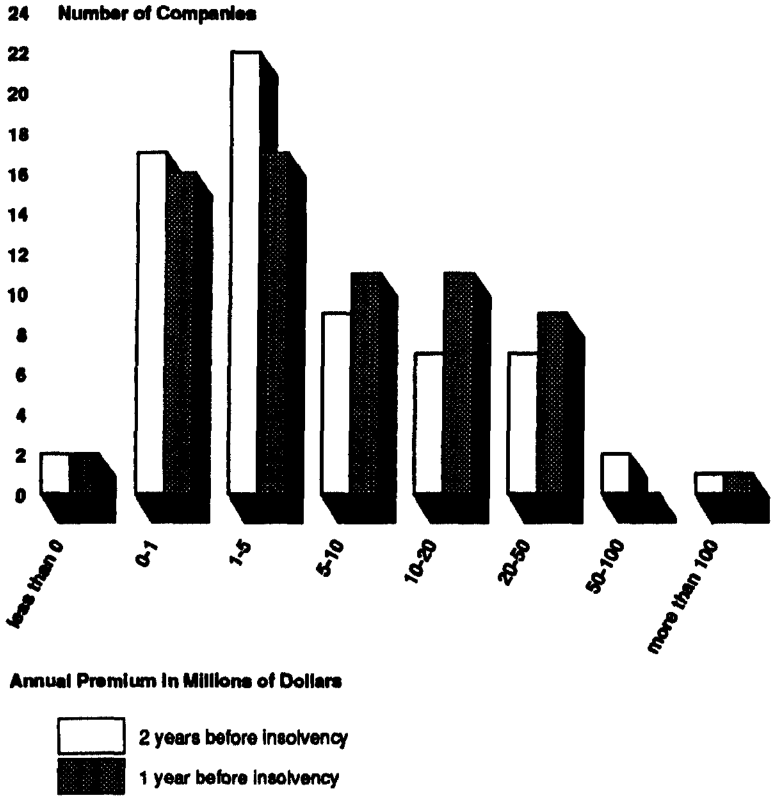
Source: National Association of Insurance Commissioners.

Figure 2.8: Percentage of Premiums From the Largest Product Line For the 2 Years Preceding Insolvency



Source: National Association of Insurance Commissioners.

Figure 2.9: Premiums From The Largest Product Line for the 2 Years Preceding Insolvency



Source: National Association of Insurance Commissioners.

Although most of the companies for which data were available were relatively small, the rate of insolvencies has increased significantly; some industry analysts expect that this trend will continue.

Throughout the 1980s and early 1990s, the life/health insurance industry competed aggressively with banks, mutual fund investment firms, and other financial institutions for the accounts of investment-oriented customers. To both retain customers and attract new business, the insurance industry developed new interest-sensitive products that yielded narrower profit margins for insurers. To support these products, insurers tended to rely upon investments that were higher yielding and more risky than those they had made earlier. According to A.M. Best Company, annuity liabilities increased from 35 percent of total life insurance liabilities in 1979 to 65 percent in 1989.[2]

The recent takeovers of the Executive Life Companies, Mutual Benefit Life, and several other large insurers do not follow previous patterns of insolvencies. Rather, these are sizable companies that marketed a substantial amount of interest-sensitive, low-profit products while making investments that exposed them to high risks of loss. Significant losses in investments such as junk bonds, commercial real estate, and mortgage loans led directly to the financial decline of the large insurers. If these recent takeovers represent the beginning of a new trend in life insurer failures, guaranty funds could be subject to major new strains in the future.

[2] An annuity is a contract sold by an insurance company that pays a monthly (or quarterly, semiannual, or annual) income benefit for the life of a person, for the lives of two or more persons, or for a specified period of time.

Life/Health Guaranty Funds: Protections Vary Among the States

State life and health guaranty funds were established to fulfill the obligations of insolvent life/health companies to policyholders and their beneficiaries.[1] According to NOLHGA, the state funds offer protection to most policyholders. However, the state funds are not integrated well enough to prevent gaps in coverage that can cause unequal treatment of policyholders—even policyholders of the same failed company.

When a multistate insurer fails, some policyholders in some states are likely to be unprotected because of differences in the state guarantee funds' rules of coverage. For example, state funds may differ in the circumstances under which they provide coverage, the types of policies they protect, and the limits they place on claims and benefits payments. Protections provided by state guarantee funds also could vary depending upon the financial health of the funds. The takeovers of Executive Life, First Capital Life, and Mutual Benefit have raised questions about the capacity of some funds to handle more and larger failures.

Some Policyholders Are Not Protected

Under the existing state guaranty fund programs, which vary from state to state, some policyholders may be without protection if their insurers should fail. Until recently, many policyholders were unprotected because their state of residency had no guaranty fund. California, Colorado, Louisiana, and New Jersey established funds as late as 1991. As of December 1991, only the District of Columbia was without a guaranty fund. Despite the fact that all states now have guaranty funds, a policyholder may lack protection because of variations in state eligibility rules and criteria for coverage. Residents of the District of Columbia would have no protection if a company domiciled there failed.

The existing state guaranty funds are generally based on one of two NAIC models—that is, the initial one adopted in 1970 or the revised model adopted in 1985. Under the first model, a fund covers all policyholders (regardless of where they live) of failed insurers domiciled in the fund's state. States with this model also cover their own residents when a licensed insurer domiciled in another state becomes insolvent unless that other state provides coverage.

[1] Specific references in this chapter to provisions of the various state guaranty fund laws are based on NOLHGA's analyses of these laws. We did not independently verify this information. Appendix IV shows the major provisions of the state guaranty funds.

Under the revised model, coverage is limited to state residents for companies licensed to do business in the state, regardless of whether the company was domiciled in the state. However, under this approach, a state fund would also cover certain nonresidents if all of the following four conditions are met:

- the failed insurer was domiciled in the state,
- the failed insurer never held a license or certificate of authority in the state in which the policyholder lives,
- the policyholder lives in a state that has a similar guaranty fund, and
- the policyholder is not eligible for coverage by the guaranty fund of the state in which the policyholder lives.

As of October 1991, six states continue to cover all policyholders, and the remaining funds have adopted some variation of residents-only coverage. That is, according to NAIC, not all states that provide residents-only coverage have adopted the provision for nonresident coverage; also, of the states that do provide nonresident coverage, many have different eligibility criteria. For those holding a policy or contract with a failed company neither domiciled nor licensed in their state of residence, guaranty fund protection will depend solely on the laws of the state in which the company was domiciled. For example, New York requires a fifth condition for coverage of nonresidents: that individual policyholders must have purchased the policy or contract while a resident of New York.

In four insolvencies we reviewed, some policyholders were denied protection because of the differences in the state funds' rules of coverage. Some were not covered because they were not eligible for coverage in their state of residence and the state where their failed insurer was domiciled either did not provide for nonresident coverage or they did not meet that state's criteria for coverage.

Types of Policies

Generally, guaranty funds cover claims and benefits for most—but not all—types of life and health policies and annuities. Most funds exclude policies or coverage provided by entities such as health maintenance organizations, Blue Cross/Blue Shield plans, fraternal benefit societies, and self-insured employer-sponsored benefit plans.

While funds are generally similar in their coverage for most products, they vary substantially in their coverage for so-called unallocated annuities.[2] Unallocated annuities are investment contracts typically purchased by businesses and state and local governments to fund portions of their retirement plans. According to the American Council of Life Insurance, these contracts are generally marketed by insurers in competition with investment products sold by other financial institutions. We were unable to determine the total amount of unallocated annuity contracts in force nationally. However, according to NOLHGA, Executive Life Insurance Company of California, for example, sold over $3 billion in guaranteed investment contracts, many of which are unallocated. In addition, a GAO study of 174 large pension plans found that 28 percent of defined contribution plan assets were held in guaranteed investment contracts with insurance companies.[3]

Defined contribution plans, which are not guaranteed by the Pension Benefit Guaranty Corporation, do not promise a specified benefit to individual participants. Instead, investment risk is borne by employees, and retirement benefits are based on the accumulation of contributions made and the employee's proportionate share of the plans' investment gains or losses. Employees participating in plans with guaranteed investment contracts of failed insurers will see proportionate losses in the value of their retirement savings if those contracts are not covered by guaranty funds or limited by the maximum coverage provided by some funds. For example, New York holders of guaranteed investment contracts (unallocated) from Executive Life of California would not have guaranty fund protection from either the New York fund (although it covers unallocated annuities) or the California fund. In New York, coverage is unavailable because Executive Life was not licensed in that state. California coverage is unavailable because the fund does not cover those contracts. However, a Washington-based pension fund holding this same type of contract with Executive Life would receive up to $5 million from that state's guaranty fund, which covers unallocated annuities.

As of October 1, 1991, 17 of the state guaranty funds provide limited coverage for these obligations, and 16 specifically exclude them from

[2]NAIC defines an unallocated annuity contract as "any annuity contract or group annuity certificate which is not issued to or owned by an individual, except to the extent of any annuity benefits guaranteed to an individual by an insurer under such contract or certificate."

[3]Pension Plans: Effect of the 1987 Stock Market Decline on Selected Large Plans (GAO/HRD-88-128BR, Sept. 26, 1988).

coverage. In two states, Indiana and Minnesota, coverage was required by court decision. The remaining 16 states do not explicitly include or exclude them, so coverage by these states is uncertain. The question of coverage in these states may have to be resolved through litigation or revisions to the guaranty laws.

Policy Benefits Are Limited

All states except Maryland limit the amount of benefit and claim obligations of their guaranty funds. These limits, as with other aspects of the guaranty funds, vary by state. The current NAIC model recommends maximum benefits per individual of $100,000 in cash values of life, health, and annuity benefits; $300,000 in death benefits; $100,000 in health insurance benefits; and a $300,000 maximum for all benefits regardless of the number of policies or contracts an individual holds. Fifteen states currently limit their payments to these amounts. Most of the remaining funds still have the older model provision (as revised in 1975), which simply limits all cash value payments to $100,000 and the total for all benefits, including cash values, to $300,000 per individual.

Several states offer differing levels of protection. New York and Washington limit total benefits for covered policies to $500,000. In Kansas an individual may receive $100,000 on a life policy, $100,000 in health benefits, and $100,000 in annuity benefits, but total benefits for any one individual may not exceed $200,000. California, which has one fund for life insurance and annuities and another for health insurance, guarantees 80 percent of benefits but limits them to not more than $250,000 in life insurance death benefits and $100,000 cash values, but no more than $250,000 for total benefits. The California health insurance fund covers health benefits to a maximum of $200,000.[4] Utah charges a $500 deductible on health benefit claims. As previously mentioned, Maryland does not limit its obligations on covered policies.

Because benefit limitations vary from state to state, two policyholders in different states with the same insurance policy or contract may receive different payments. For example, a New York resident holding an annuity (purchased from a California company not licensed in New York) with a cash value of $200,000 would only receive $100,000 from the California guaranty fund. (The New York policyholder must file with the California fund because the company was never licensed in New York and the

[4]California's law provides that this maximum may be increased or decreased based on the health care cost component of the consumer price index.

policyholder was not eligible for coverage there.) However, a resident of the state of Washington with an annuity from the same company and with the same cash value is entitled to the $200,000 cash value amount from the Washington guaranty fund.

In one of the six insolvencies we reviewed, annuity values exceeding the guaranty fund limits totaled more than $6.8 million. The holders of these annuities, as well as others whose claims or benefits may exceed fund limits or who have no fund coverage at all, may seek payment through a claim on the failed insurer's estate, which is handled by a liquidator. The liquidation process is generally time consuming, however, and ultimate payments by the estate of the failed company on claims and benefits may be limited to a fraction of their value.

Limits on coverage for unallocated annuities also vary among the states that provide such coverage. Eleven states cover up to $5 million and five up to $1 million per contract holder, regardless of the number of contracts held or the number of individuals that may be covered by them. New Jersey will cover up to $2 million per contract, consequently; if a company or pension plan held five separate contracts with a failed insurer, coverage would extend to a maximum of $10 million.

Limitations on Continued Coverage

Just as the amounts the guaranty funds will pay in benefits and claims are limited so too is the extent to which the funds provide continued life and health insurance coverage. For group life and health policies, NAIC's current model recommends that existing benefits be continued (at the same premium rate) until the earlier of the next policy renewal date or 45 days, but not less than 30 days after a fund is obligated to provide benefits. Benefits for individual policies must be extended until the earlier of the next policy renewal date or 1 year, but, again, not less than 30 days from the date the fund became obligated for such policies.

Guaranty fund officials told us that life and health policies that cannot be placed with another insurer are usually cancelled. Under these conditions, a significant number of individuals may have their policies terminated and some may be unable to obtain new health or life insurance, or may, at least, lose coverage for previous health conditions.

Substitute coverage must be offered, however, to individuals who were formerly under group policies and who are not eligible for replacement coverage and for individual policies, if the individuals had a right under law or the terminated policy to convert coverage or to continue a policy until a specified age or time. The premium and benefits of the substitute coverage may be different from those that were offered by the insolvent insurer, but the alternative policies must at least contain the minimum prescribed by state statutes. This minimum also varies by state.

Guaranty funds may take several of different approaches in providing continued life and health coverage. A fund can provide the coverage itself, through third-party administrators, or through other insurance companies. In multistate insurer insolvencies, NOLHGA, through a committee of member funds, tries to place or reinsure all or part of the failed company's remaining business with another insurer. Although individual funds may decline to participate in these arrangements and handle their obligations differently, NOLHGA officials said that such declines have been very rare since the committee was established in January 1990.

Capacity of the Guaranty Funds

Although to date few insolvencies have caused state guaranty funds to exceed their assessment limitation, the recent takeover of several large life insurance companies has raised concerns about the funds' ability to handle one or more large company failures. There is disagreement within the industry as to whether the guaranty funds could handle losses of a major failure, such as would be posed by a failure of Executive Life or Mutual Benefit Life. According to NOLHGA officials, the total nationwide assessment capacity for 1990 was approximately $3 billion ($1.1 billion for accident and life insurance, $784 million for annuities, and $1.2 billion for health insurance). However, the maximum amounts that can be assessed in a single year varies among the states. Individual state funds may not have sufficient capacity to handle an increasing number of insolvencies or the insolvency of one or more large insurers. (App. V shows the amounts the individual states could assess as of 1990.) Although a fund may repeat assessments in subsequent years if its limits are reached, this can result in partial or delayed payments of policyholder claims and benefits.

The funds may take alternative actions, such as the use of moratoriums or other restrictions on payments, to stretch their assessment capacity. For example, in a July 1991 hearing before the Subcommittee on Commerce, Consumer Protection, and Competitiveness of the House Committee on Energy and Commerce, the Minnesota insurance regulator testified that he had placed a temporary moratorium on the payment of certain of the Minnesota guaranty fund's outstanding obligations in anticipation of potential liabilities that could arise from additional 1991 failures. The Minnesota Commissioner said this action was taken to enable the fund's limited capacity to be applied where most needed. According to the Commissioner, certain payments, such as annuity payments to retirees, should take precedence over payments to those who may want to cash in policies to reinvest the funds elsewhere, but who have no immediate need for the money.

A guaranty fund may also borrow funds to pay claims until additional assessments can be made. Oregon's guaranty fund borrowed funds to cover the insolvency of First Farwest Life Insurance Company, a small carrier of accident and health insurance. Although such borrowing benefits policyholders by reducing delays in payments of claims and benefits, the financing adds to the ultimate cost of an insolvency. While funds may borrow, they are generally not required to do so. However, beginning in August 1992, the Minnesota life/health guaranty fund will be required to borrow money if its assessment capacity is insufficient to cover the obligations of an insolvent insurer.

Conclusions

The current state guaranty funds do not provide uniform coverage to policyholders of failed insurers. Even though all states (but not the District of Columbia) have funds, variations in state rules and coverage criteria cause gaps in coverage. In addition, policyholders of the same failed company may not be treated equally in an insolvency of a multistate insurer because of differences in the types of policies covered and limitations on benefit payments. Finally, recent regulatory takeovers have caused concern about funds' ability to handle the increased size and frequency of insolvencies.

NAIC is considering these and other issues in its study of the guaranty fund programs and liquidation process. However, it is uncertain whether it will recommend actions to overcome the shortcomings in the existing state-by-state approach. There is also uncertainty about the likelihood of the states accepting any proposals for change, since the states have not uniformly adopted NAIC's earlier recommendations concerning guaranty funds.

Industry Comments

We obtained comments on a draft of this report from NOLHGA. The organization said that its major concern was that it believed the report placed too much emphasis on areas of differences among the funds. We believe that it is important to identify and describe how the existing differences in coverage affect the protection available to policyholders and claimants of failed companies. Although there are many areas in which the funds are uniform, there are still some significant variations in the circumstances under which funds provide coverage, the types of policies they protect, and the limits they place on claims and benefits payments. As a result, policyholders and claimants of the same failed company may be treated differently, and some may have no protection at all. NOLHGA also suggested clarifications and provided updated information that we incorporated where appropriate.

Life/Health Insurance Company Insolvencies, 1975 Through 1990

State	Year
Alabama	
Life Insurance Company of America	1978
National Union Life Insurance Company	1986
Arizona	
Fidelity American Life Association Company	1985
Pioneer Annuity Life Insurance Company	1985
Diamond Benefits Life Insurance Company	1988
Seagate Life Insurance Company, Inc.	1989
Modern Pioneers Life Insurance Company	1989
Arizona Life Reinsurance Company	1989
Navajo Life Insurance Company	1989
Americas Life Insurance Company	1990
Farm and Home Life Insurance Company	1990
Arkansas	
Mt. Hood Pension (A Baldwin-United Company)	1986
National Investor's Life (A Baldwin-United Company)	1986
National Investor's Pension (A Baldwin-United Company)	1986
First Citizens Life Insurance Company	1990
California	
California Life Insurance Company	1986
Colony Charter Life Insurance Company	1987
California Benefit Life Insurance Company	1989
California Pacific Life Insurance Company	1989
Pacific Standard Life Insurance Company of California	1989
George Washington Life Insurance Company of California	1990
Colorado	
Equity Educators Assurance Company	1977
Western Preferred Life Insurance Company	1984
World Service Life Insurance Company of Colorado	1984
World Service Life Insurance Company	1984
Connecticut	
Connecticut Commercial Travelers Mutual	1977
Delaware	
Tara Life Insurance Company	1983

(continued)

State	Year
Florida	
Seaboard Life Insurance Company	1975
Farmers National	1976
Florida General Life Insurance Company	1983
Afro-American Life Insurance Company	1987
Capitol Fidelity Life Insurance Company	1987
L.A. Life Insurance Company	1988
American Sun Life Insurance Company	1989
Patriot Life Insurance Company of Florida	1989
American Security Life Assurance Company of Florida	1990
Hawaii	
Financial Security Insurance Co., Ltd.	1984
Idaho	
Idaho Teachers Mutual Insurance Company	1983
Sierra Life Insurance Company	1987
Illinois	
Modern Life and Accident Insurance Company	1983
Georgetown Life Insurance Company	1983
United Savings Life Insurance Company	1985
Standard Burial Insurance Association	1987
Patriot Life Insurance Company	1989
Associated Life Insurance Company	1989
Amalgamated Labor Life Insurance Company	1989
United Equitable Life Insurance Company	1990
Indiana	
Keystone Life Insurance Company	1978
Pilgrim Life Insurance Company	1979
Kokomo National Life Insurance Company	1982
Churchmember's Life Insurance Company	1984
Franklin National Life Insurance Company	1984
S&H Life Insurance Company (A Baldwin-United Company)	1986
National Equity Life Insurance Company (A Baldwin-United Company)	1986
University Life Insurance Company of America (A Baldwin- United Company)	1986
Gibralter Industrial Life Insurance Company	1987
Lumbermens Life Insurance Company	1988
Life of Indiana Insurance Company	1989
Mutual Security Life Insurance Company	1990
Underwriters National Assurance Company	1990

(continued)

State	Year
Iowa	
Iowa State Travelers Mutual Assurance Company	1983
Kansas	
Farm and Ranch Life Insurance Company	1987
Kentucky	
Continental Trust Life Insurance Company	1987
Louisiana	
National American Life Insurance Company	1978
Business Insurance Life of America	1982
Continental Service Life and Health Insurance Company	1985
First Columbia Life Insurance Company	1988
Savings Life Insurance Company	1988
Louisiana Life Insurance Company	1989
Galaxia Life Insurance Company	1989
National Republic Life Insurance Company	1989
Covenant American Life Insurance Company	1989
Independence Life Insurance Company	1990
Maryland	
American Centennial	1980
Southern Life Insurance Company	1980
Michigan	
Independent Liberty Life Insurance Company	1984
Mid-America Life Assurance Company	1990
Great Lakes American Life Insurance Company	1990
Minnesota	
American Trustee Life Company of Minnesota	1987
Missouri	
Old Security Life Insurance Company	1977
Continental Security Life Insurance Company	1989
Maxicare Life and Health Insurance Company	1989
Missouri National Life Insurance Company	1989
American Independence Life Insurance Company	1990
Montana	
American Plan Life Insurance Company/Life of Montana Insurance Co.	1987
Nebraska	
American Trustee Life Company of Nebraska	1987
New Jersey	
Group Health Insurance of New Jersey	1987
Progressive Life Insurance Company	1988

(continued)

State	Year
New Mexico	
Western American	1975
Financial International Life Insurance Company of New Mexico	1980
Cibola Life Insurance Company	1981
Western Investors Life Insurance Company	1981
New Mexico Investors Life Insurance Company	1984
National Equity Life Insurance Company	1985
Southwest American Insurance Company	1986
New York	
Northeastern Life Insurance Company	1976
North Carolina	
Northwestern Security Life Insurance Company	1989
American Security Life Assurance Company of North Carolina	1990
North Dakota	
Fort Lincoln Life Insurance Company	1983
Oklahoma	
United Equity Life Insurance Company	1984
Liberty Investors Life Insurance Company	1984
Mercury National Life Insurance Company	1984
Southwestern Security Life Insurance Company	1985
Quaker Life Insurance Company	1986
American Trustee Life Corporation	1987
Western Heritage Life Insurance Company	1988
American Standard Life and Accident Insurance Company	1989
Progress Life and Accident Insurance Company	1989
Professional Investors Life Insurance Company	1989
Guardian American Life Insurance Company	1989
Mid-Western Life Insurance Company	1989
Oregon	
First Farwest Life Insurance Company	1989
Farwest American Assurance Company	1990
Pennsylvania	
Mutual Life Insurance Company of America	1979
Puerto Rico	
Carribean Bankers Life Insurance Company	1985

(continued)

State	Year
Rhode Island	
Rumford Life Insurance Company	1990
South Carolina	
Key Life Insurance Company of South Carolina	1984
South Dakota	
Underwriters Life Insurance Company	1990
Tennessee	
Continental Bankers Life Insurance Company of the South	1986
Hermitage Health and Life Insurance Company	1986
Texas	
National Fidelity Mutual Life Insurance Company	1975
American Standard Life	1975
Cardinal Life Insurance Company	1975
Source Life Insurance Company	1975
Phoenix Fidelity Life Insurance Company	1978
American Guaranty Life Insurance Company	1978
Great Security Life Insurance Company	1979
General Protective Life Insurance Company	1979
Fort Worth Life Insurance Company	1979
United Capital Life Insurance Company	1980
First United Life Insurance Company of America	1981
United Bankers Life Insurance Company	1982
Premier National Life Insurance Company	1982
Independent Bankers Life Insurance of Texas	1984
Independent Standard Insurance Company	1984
Texas Fidelity Life Insurance Company	1986
International Fidelity Life Insurance Company	1987
Keystone Life Insurance Company	1987
Eagle Life Insurance Company	1987
Credit Guard Life Insurance Company	1988
Consolidated Savings Life Insurance Company	1988
Southern General Life Insurance Company of Texas	1989
Southern National Life Insurance Company	1989
American Equitable Life Insurance Company	1989
American Underwriters Life Insurance Company	1989
G.I.C. Insurance Company	1989
Security Southwest Life Insurance Company	1989
Regent Life Insurance Company	1989
American Teachers Life Insurance Company	1989
Americana Life Insurance Company	1989

(continued)

State	Year
Knickerbocker Life Insurance Company	1989
Texas Consumer Life Insurance Company	1989
Texas Investors Life Insurance Company	1989
Gibson National Life Insurance Company	1989
Allied Bankers Life Insurance Company	1989
Confidence Life Insurance Company	1989
Consolidated Benefit Health Insurance Company	1989
U.S. Annuity Life Insurance Company	1989
Bankers Protective Life Insurance Company	1990
Ethiopian Mutual Life Insurance Company	1990
International Life Insurance Company	1990
Justice Life Insurance Company	1990
National Benefit Life Insurance Company	1990
Excaliber Life Insurance Company	1990
Legal Protective Life Insurance Company	1990
Great Southwest Life Insurance Company	1990
Commodore Life Insurance Company	1990
Utah	
American Protectors Life Insurance Company	1990
Washington	
Ranier National Life Insurance Company	1977
Protective American Life Insurance Company	1979
Federated American Life Insurance Company	1983
Universal Security Life Insurance Company	1987
Life Insurance Company of America	1987
West Virginia	
George Washington Life Insurance Company	1990
Wisconsin	
Reliable Life & Casualty Company	1981
First Transcontinental Life Insurance Corporation	1988

Source: National Association of Insurance Commissioners, National Organization of Life and Health Insurance Guaranty Associations, and individual state guaranty funds.

Life/Health Guaranty Fund Assessments by State, 1975 Through 1990

State	Health	Life	Annuity	Fund expenses	Total
Alabama	$6,300,000	$970,000	$425,000	$420,000	**$8,115,000**
Arkansas	65,000			100,300	**165,300**
Arizona	36,495,844	14,100,603	20,788,287	307,462	**71,692,196**
Connecticut	3,389,559	216,305	0	447,620	**4,053,484**
Delaware	6,773,176	0	0	651,156	**7,424,332**
Florida	53,771,635	8,253,779	7,093,992	550,250	**69,669,656**
Georgia	13,206,000	639,200	1,930,000	117,350	**15,892,550**
Hawaii	0	1,011,836	0	209,250	**1,221,086**
Idaho	1,467,770	(24,800)	95,526	201,020	**1,739,516**
Illinois	17,429,964	5,236,795	8,289,742	822,315	**31,778,816**
Indiana	6,746,060	6,592,940	10,013,295	483,200	**23,835,495**
Iowa	765,260	235,860	189,820	358,150	**1,549,090**
Kansas	3,128,981	1,871,296	398,000	267,507	**5,665,784**
Kentucky	4,647,935	4,435,430	3,954,915	389,810	**13,428,090**
Maine	0	0	0	25,000	**25,000**
Maryland	40,360	2,707,946	159,122	253,300	**3,160,728**
Massachusetts	500,000	0	0	20,000	**520,000**
Michigan	10,572,872	3,145,641	233,486	542,520	**14,494,519**
Minnesota	65,000	4,495,000	3,229,000	237,000	**8,026,000**
Mississippi	3,237,020	908,616	5,001,714	230,200	**9,377,550**
Missouri	2,521,596	3,362,316	5,641,246	430,600	**11,955,758**
Montana	675,863	12,581,833	6,307,342	543,650	**20,108,688**
Nebraska	1,715,000	535,000	560,000	72,170	**2,882,170**
Nevada	1,692,535	43,200	102,261	91,700	**1,929,696**
New Hampshire	359,500	11,700	0	120,000	**491,200**
New Mexico	2,630,015	104,392	1,577,016	616,800	**4,928,223**
New York	0	0	0	90,000	**90,000**
North Carolina	432,751	3,722	6,552,320	274,602	**7,263,395**
North Dakota	92,545	0	41,407	159,400	**293,352**
Ohio	2,516,000	638,000	436,000	297,600	**3,887,600**
Oklahoma	13,865,943	13,369,463	2,041,422	696,220	**29,973,048**
Oregon	17,122,965	12,826,506	861,727	189,200	**31,000,398**
Pennsylvania	8,095,000	0	400,000	237,200	**8,732,200**
Puerto Rico	371,744	218,123	36,631	107,297	**733,795**
Rhode Island	0	0	0	72,200	**72,200**
South Carolina	892,709	380,331	0	324,590	**1,597,630**
Tennessee	500,000	0	0	156,894	**656,894**

(continued)

State	Health	Life	Annuity	Fund expenses	Total
Texas	157,905,953	15,191,064	38,906,283	1,000,000	**213,003,300**
Utah	918,891	131,836	94,450	856,700	**2,001,877**
Vermont	263,000	0	257,605	14,415	**535,020**
Virginia	349,996	0	1,512,656	170,200	**2,032,852**
Washington	3,190,577	13,340,293	17,059,521	346,750	**33,937,141**
West Virginia	1,365,000	495,000	500,000	0	**2,360,000**
Wisconsin	8,352,088	0	630,000	680,000	**9,662,088**
Total	**$394,432,107**	**$128,029,226**	**$145,319,786**	**$14,181,598**	**$681,962,717**

Note: Figures are net of amounts refunded to assessed companies. Generally, refunds are made when a fund determines that all of an assessed amount is not needed to pay its obligations.

Source: National Organization of Life and Health Insurance Guaranty Associations.

Life/Health Guaranty Fund Assessments, 1975 Through 1990

Year	Health	Life	Annuity	Fund expenses	Total
1975	$247,825	$1,324,443	$27,732	$181,100	**$1,781,100**
1976	148,949	6,886,484	0	68,795	**7,104,228**
1977	149,232	2,600,102	0	84,000	**2,833,334**
1978	4,946,816	3,067,309	9,732	147,495	**8,171,352**
1979	3,851,647	5,916,698	0	138,660	**9,907,005**
1980	1,946,454	1,755,379	0	215,365	**3,917,198**
1981	2,703,848	4,460,083	229,020	224,850	**7,617,801**
1982	7,466,580	736,741	12,371	181,990	**8,397,682**
1983	46,269,345	4,314,049	6,164,766	680,410	**57,428,570**
1984	27,357,157	2,064,459	127,526	838,113	**30,387,255**
1985	12,989,874	7,310,031	4,594,646	1,584,239	**26,478,790**
1986	29,392,627	(2,496,056)	3,309,646	1,301,223	**31,507,440**
1987	41,010,303	9,136,222	35,107,849	1,919,675	**87,174,049**
1988	24,655,529	21,113,328	33,602,995	1,053,125	**80,424,977**
1989	105,310,610	24,046,055	31,295,493	3,390,856	**164,043,014**
1990	85,985,311	35,793,899	30,838,010	2,171,702	**154,788,922**
Total	**$394,432,107**	**$128,029,226**	**$145,319,786**	**$14,181,598**	**$681,962,717**

Note: Figures are net of amounts refunded to assessed companies. Generally, refunds are made when a fund determines that all of an assessed amount is not needed to pay its obligations.

Source: National Organization of Life and Health Insurance Guaranty Associations.

Basic Provisions of State Life/health Guaranty Funds

State	Scope of coverage	Unallocated annuities covered?	Blue Cross/ Blue Shield covered?
NAIC model act	Residents only	Yes	No[a]
Alabama	All policyholders	Silent[b]	No
Alaska	Residents only	Yes	No
Arizona	Residents only	Silent[b]	No
Arkansas	Residents only	Yes	Yes[c]
California[d]	Residents only	No	No
Colorado	Residents only	No	No
Connecticut	Residents only	Yes	Yes[c]
Delaware	Residents only	Yes	No
Florida	Residents only	Silent[b]	Yes[c]
Georgia	Residents only	Yes	No
Hawaii	Residents only	No	No
Idaho	Residents only[e]	No	No
Illinois	Residents only	Yes	Yes
Indiana	Residents only[e]	Yes[f]	Yes[c]
Iowa	Residents only	Yes	No
Kansas	Residents only	No	No
Kentucky	Residents only	No	Yes[c]
Louisiana	Residents only	No[g]	No
Maine	Residents only	Silent[b]	No
Maryland	Residents only[e]	Silent[b]	Yes
Massachusetts	Residents only	No	No
Michigan	Residents only	Yes	No
Minnesota	Residents only[e]	Yes[b]	Yes
Mississippi	Residents only	Yes	No
Missouri	Residents only	No	Yes
Montana	Residents only	Silent[b]	No
Nebraska	Residents only[e]	Silent[b]	Yes[c]
Nevada	Residents only	No	No
New Hampshire	All Policyholders	Silent[b]	No
New Jersey	Residents only	Yes	No
New Mexico	All Policyholders	Silent[b]	No
New York	Residents only[e]	Yes	No
North Carolina	Residents only	Yes	No
North Dakota	Residents only	Yes	No
Ohio	Residents only	Yes	Yes[c]
Oklahoma	Residents only	No	No
Oregon	Residents only	No	No
Pennsylvania	All Policyholders	Silent[b]	No

Limits of Guaranty Fund Liability

Life benefits	Health benefits	All annuities	Benefits	Policy cash value	Unallocated annuities
$300,000	$100,000	$100,000	$300,000	$100,000	$5,000,000
Not specified	Not specified	Not specified	300,000	100,000	Not applicable
300,000	100,000	100,000	300,000	100,000	5,000,000
Not specified	Not specified	100,000	300,000	100,000	Not applicable
100,000	100,000	100,000	300,000	100,000	1,000,000
250,000	200,000	100,000	250,000	100,000	Not applicable
300,000	100,000	100,000	300,000	100,000	Not applicable
300,000	300,000	100,000	300,000	100,000	5,000,000
300,000	100,000	100,000	300,000	100,000	1,000,000
Not specified	Not specified	Not specified	300,000	100,000	Not applicable
Not specified	Not specified	Not specified	300,000	100,000	5,000,000
300,000	100,000	100,000	300,000	100,000	Not applicable
Not specified	Not specified	Not specified	300,000	100,000	Not applicable
300,000	300,000	100,000	300,000	100,000	5,000,000
Not specified	Not specified	Not specified	300,000	100,000	100,000
Not specified	Not specified	Not specified	300,000	100,000	1,000,000
100,000	100,000	100,000	200,000	100,000	Not applicable
300,000	100,000	100,000	Not specified	100,000	Not applicable
300,000	100,000	100,000	300,000	100,000	Not applicable
Not specified	Not specified	Not specified	300,000	100,000	Not applicable
No limit	No limit	No limit	No limit	No limit	No limit
300,000	100,000	100,000	300,000	100,000	Not applicable
300,000	100,000	100,000	300,000	100,000	5,000,000
Not specified	Not specified	Not specified	300,000	100,000	100,000
300,000	100,000	100,000	300,000	100,000	5,000,000
300,000	100,000	100,000	300,000	100,000	Not applicable
300,000	Not specified	Not specified	Not specified	Not specified	Not applicable
300,000	Not specified	100,000	300,000	100,000	Not applicable
300,000	100,000	100,000	300,000	100,000	Not applicable
Not specified	Not specified	Not specified	300,000	100,000	Not applicable
500,000	No limit	500,000	500,000	100,000	2,000,000
Not specified	Not specified	Not specified	300,000	100,000	Not applicable
Not specified	Not specified	Not specified	500,000	Not specified	1,000,000
Not specified	Not specified	Not specified	300,000	Not specified	Not specified
300,000	100,000	100,000	300,000	100,000	5,000,000
300,000	100,000	100,000	300,000	100,000	1,000,000
300,000	300,000	300,000	300,000	100,000	Not applicable
300,000	100,000	100,000	300,000	100,000	Not applicable
Not specified	Not specified	Not specified	300,000	100,000	Not applicable

(continued)

State	Scope of coverage	Unallocated annuities covered?	Blue Cross/ Blue Shield covered?
Rhode Island	Residents only[e]	Silent[b]	No
South Carolina	All Policyholders	Silent[b]	Yes[c]
South Dakota	Residents only	No	No
Tennessee	Residents only	No[g]	No
Texas	Residents only[e]	Yes	Yes
Utah	Residents only	Yes	Yes
Vermont	All Policyholders	Silent[b]	No
Virginia	Residents only	No[h]	Yes[c]
Washington	Residents only[e]	Yes	No
West Virginia	Residents only[e]	Silent[b]	Yes
Wisconsin	Residents only	Silent[b]	No
Wyoming	Residents only	Silent[b]	No
District of Columbia	NO LIFE AND HEALTH GUARANTY FUND		
Puerto Rico	Residents only	Silent[b]	Yes

Limits of Guaranty Fund Liability					
Life benefits	Health benefits	All annuities	Benefits	Policy cash value	Unallocated annuities
300,000	100,000	100,000	300,000	100,000	Not applicable
Not specified	Not specified	Not specified	300,000	Not specified	Not applicable
300,000	100,000	100,000	300,000	100,000	Not applicable
300,000	100,000	100,000	300,000	100,000	Not applicable
300,000	200,000	100,000	300,000	100,000	5,000,000
300,000	100,000	100,000	300,000	100,000	5,000,000
300,000	Not specified	Not specified	Not specified	Not specified	Not applicable
Not specified	Not specified	Not specified	300,000	100,000	Not applicable
500,000	500,000	500,000	500,000	Not specified	5,000,000
300,000	Not specified	Not specified	Not specified	Not specified	Not applicable
Not specified	Not specified	Not specified	300,000	Not specified	Not applicable
300,000	100,000	100,000	300,000	100,000	Not applicable
300,000	Not specified	Not specified	Not specified	Not specified	Not applicable

Notes: Not all states' laws specify separate limits for life, health, annuities, and cash values.

[a]The model act does not provide coverage for non-profit medical service organizations such as Blue Cross/Blue Shield plans.

[b]Guaranty fund law neither includes nor excludes unallocated annuities.

[c]Several states do not treat Blue Cross/Blue Shield as a non-profit organization, but license it as a mutual insurance company. In this situation, it is covered under the state's guaranty fund.

[d]California has two separate funds: one for health insurance, and one for life and annuity policies.

[e]Guaranty fund covers state residents only, but does not conform to the NAIC model act.

[f]Guaranty fund law is silent on coverage of unallocated annuities. Guaranty fund coverage was ordered by court decision.

[g]According to NAIC, unallocated annuities are covered only if qualified under provisions of the Employee Retirement and Income Security Act.

[h]According to NAIC, unallocated annuities are not covered except amounts guaranteed to individuals by insurer.

Source: National Association of Insurance Commissioners and the National Organization of Life and Health Guaranty Associations

Life/Health Guaranty Fund 1990 Assessment Capacity by State

State	Limit	Assessment capacity life premiums	Assessment capacity annuity considerations	Assessment capacity accident and health premiums	Total assessment capacity all lines of business
Alabama	1%	$10,517,655	$2,915,835	$8,580,567	$22,014,057
Alaska	2	2,385,591	1,391,410	3,475,814	7,252,815
Arizona	2	14,479,405	13,679,975	15,560,729	43,720,108
Arkansas	2	8,772,738	4,264,358	13,691,079	26,728,175
California	1	68,493,819	42,743,317	63,342,517	174,579,654
Connecticut	2	21,921,177	14,603,292	32,584,019	69,108,488
Delaware	2	6,999,905	4,629,581	3,029,233	14,658,719
Florida	1	26,931,219	27,126,864	45,434,794	99,492,877
Georgia	2	38,863,200	12,592,581	35,202,819	86,658,600
Hawaii	2	6,838,326	3,735,869	2,365,210	12,939,405
Idaho	2	3,708,032	2,774,744	2,774,397	9,257,173
Illinois	2	59,928,130	91,333,539	62,090,522	213,352,191
Indiana	2	22,854,851	29,581,574	44,467,152	96,903,577
Iowa	2	13,110,670	10,286,074	13,022,212	36,418,955
Kansas	2	14,771,479	6,149,637	9,930,893	30,852,009
Kentucky	2	13,202,619	10,063,984	21,864,937	45,131,541
Maine	2	3,768,981	4,945,962	6,150,462	14,865,405
Maryland	2	26,475,001	15,900,214	19,207,412	61,582,627
Massachusetts	2	33,499,484	27,477,593	22,139,471	83,116,547
Michigan	2	45,199,391	31,638,552	61,146,571	137,984,515
Minnesota	2	21,694,140	21,251,520	15,666,600	58,612,260
Mississippi	2	10,912,314	2,759,402	11,408,738	25,080,455
Missouri	2	27,982,836	16,680,742	37,901,804	82,565,381
Montana	2	3,376,710	2,895,645	6,658,810	12,931,165
Nebraska	2	9,435,242	7,029,339	13,906,487	30,371,068
Nevada	2	4,092,059	2,854,633	5,929,412	12,876,103
New Hampshire	4	8,771,460	9,660,535	9,949,191	28,381,186
New Mexico	2	5,811,485	9,936,540	6,039,974	21,787,999
New York	2	114,678,365	70,978,660	101,300,250	286,957,274
North Carolina	4	72,015,813	32,333,023	97,813,710	202,162,546
North Dakota	2	3,639,863	3,020,392	2,394,773	9,055,027
Ohio	2	59,547,556	30,907,269	90,530,886	180,985,711
Oklahoma	2	13,934,505	8,532,230	13,500,782	35,967,517
Oregon	2	11,806,573	16,074,638	10,184,829	38,066,040
Pennsylvania	2	69,890,457	59,276,046	37,776,909	166,943,412
Puerto Rico	2	4,424,220	677,294	4,117,687	9,219,201
Rhode Island	3	8,444,703	4,897,998	3,190,807	16,533,508
South Carolina	4	35,618,467	11,349,448	36,591,136	83,559,052
South Dakota	2	4,050,740	3,555,679	3,845,094	11,451,513

(continued)

State	Limit	Assessment capacity life premiums	Assessment capacity annuity considerations	Assessment capacity accident and health premiums	Total assessment capacity all lines of business
Tennessee	2	24,599,015	12,182,775	23,178,783	59,960,573
Texas	1	40,474,145	21,956,751	61,301,916	123,732,812
Utah	2	7,219,489	5,237,850	7,175,485	19,632,824
Vermont	2	2,104,005	2,387,369	2,389,927	6,881,301
Virginia	2	34,424,880	17,699,520	41,893,780	94,018,180
Washington	2	19,688,926	24,054,401	11,975,740	55,719,067
West Virginia	2	7,483,740	8,747,580	6,612,900	22,844,220
Wisconsin	2	23,248,893	17,584,660	29,728,760	70,562,313
Wyoming	2	2,334,343	1,422,156	2,206,223	5,962,721
Total		**$1,094,426,614**	**$783,779,050**	**$1,181,232,205**	**$3,059,437,869**

Source: National Organization of Life and Health Insurance Guaranty Associations, which used premium information obtained from the National Association of Insurance Commissioners.

Comments From the National Organization of Life and Health Guaranty Associations

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Eden D. Sarfaty
President

VIA FEDERAL EXPRESS

December 12, 1991

Mr. Richard L. Fogel
Assistant Comptroller General
United States General Accounting Office
441 G. Street, N. W.
Washington, D. C. 20548

Dear Mr. Fogel:

We appreciate the opportunity to submit our comments on GAO's draft report, Insurer Failures: Life/Health Insurer Insolvencies and Limitations of State Guaranty Funds. As you may know, Jack Strauss allowed us an extra week's time to respond due to having received this report just prior to the Thanksgiving holiday.

Our major concern is that the report places too much emphasis on the few areas where guaranty association coverage still differs among the states. As you may know, the guaranty system has continuously evolved to meet the needs of policyholders--within reason, as our economy and financial markets change. Our remarks are attached, organized by page number of the GAO draft. Also included are some updated tables.

It has been a pleasure working with the staff of the GAO. If you have any questions, please call. In appreciation for your attention to our concerns, I am

Yours truly,

Suzanne T. Fulton

Suzanne T. Fulton,
Assistant Manager
Publications

Enclosures
cc: Jack Strauss, GAO

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Private Pensions: Risks to Retirees Posed by Insurance Company Failures (GAO/T-HRD-91-23, Apr. 30, 1991).

Insurance Industry: Operations and Concerns About Solvency Regulation (GAO/T-GGD-91-10, Feb. 27, 1991).

Insurance Regulation: The Insurance Regulatory Information System Needs Improvement (GAO/GGD-91-20, Nov. 21, 1990).

Insurance Regulation: State Reinsurance Oversight Increased, But Problems Remain (GAO/GGD-90-82, May 4, 1990).

Insurance Regulation: Problems in the State Monitoring of Property/Casualty Insurer Solvency (GAO/GGD-89-129, Sept. 29, 1989).

Property/Casualty Insurance: Thrift Failures Provide Valuable Lessons (GAO/T-AFMD-89-7, Apr. 19, 1989).

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