



## TEXAS LIFE & HEALTH INSURANCE GUARANTY ASSOCIATION

The following information is intended to answer common questions about the Texas Life & Health Insurance Guaranty Association (the “Texas Guaranty Association”) and the coverage it provides to policyholders of insolvent insurance companies. For a definitive statement of the rules governing the Texas Guaranty Association, please refer to the Texas Guaranty Association law (Chapter 463 of the Texas Insurance Code). You can obtain a copy of the law by clicking on this link: [Texas Insurance Code Chapter 463 \(2012\) \[http://www.txlifega.org/wp-content/uploads/2011/03/Texas-Insurance-Code-Chapter-463-2012.pdf\]](http://www.txlifega.org/wp-content/uploads/2011/03/Texas-Insurance-Code-Chapter-463-2012.pdf). or by writing the Texas Guaranty Association at the address listed at the end of these questions and answers.

**This information is based on the Texas Guaranty Association law as of September 1, 2011, and applies to insolvencies occurring on or after September 1, 2011. For questions regarding Texas Guaranty Association coverage for insolvencies that began prior to September 1, 2011, please contact the Texas Guaranty Association directly.**

**This information is subject to change if the Texas Legislature changes the Texas Guaranty Association law. If there is any inconsistency between the information in these Frequently Asked Questions and any applicable law, then the law will control.**

### **1. What is the Texas Guaranty Association?**

The Texas Guaranty Association is a non-profit entity created by the Texas Legislature in 1973 to provide insurance coverage to Texas residents when an insurance company fails (found to be insolvent and ordered liquidated). The coverage is subject to certain limits outlined in the Texas Guaranty Association law, and only covers life, health, and annuity policies. The Texas Guaranty Association keeps the coverage under the insurance policies in force and pays claims. Policyholders must make any required premium payments for coverage to be provided. All 50 states, the District of Columbia, and Puerto Rico have similar life and health insurance guaranty associations for their residents.

### **2. What kinds of insurance policies are covered by the Texas Guaranty Association?**

The Texas Guaranty Association covers direct individual and group life insurance, health insurance, disability insurance, long term care insurance, and annuity contracts written by insurance companies licensed in Texas. All coverage is subject to certain terms, conditions, and limitations of the Texas Guaranty Association law, Chapter 463 of the Texas Insurance Code as described in the chart shown with Question #4.

### **3. What is excluded from coverage?**

- Insurance policies with insurance companies not licensed to do business in Texas;
- Benefits of an insurance policy that are not guaranteed by the insurance company (such as the non-guaranteed portion of variable life insurance or annuity policies) or those benefits for which the policyholder bears the risk (such as certain portions of variable or indexed annuities);
- Interest rate yields that exceed the average rate set by the Texas Guaranty Association law;
- Self-insured employer plans;

- Health Maintenance Organization (HMO) contracts;
- Coverage with a mandatory state pooling plan (such as the Texas Health Insurance Risk Pool);
- Coverage with an insurance exchange;
- Fraternal benefit society insurance certificates;
- Certain charitable gift annuities;
- Property and casualty insurance policies (such as auto, homeowner’s, workers compensation, etc.) and;
- Certain other insurance policies and arrangements listed in Texas Insurance Code Chapter 463.052 and 463.203

**4. Are all policies fully covered?**

No, not all types of policies are covered (see question 3), and some policy benefits are only partially covered because there are dollar limits and coverage restrictions in the Texas Guaranty Association law. Also, the benefits are determined based on each life or each contract owner rather than by each insurance policy or contract. Quite often, this statutory approach requires the benefits of policies or contracts with the insolvent insurance company to be added together before applying the limits in the law. If your insurance company fails, the maximum amount of coverage provided by the Texas Guaranty Association by type of policy or policy benefits is as follows, no matter how many policies of a that type you own with the insurance company:

Life insurance death benefit	\$300,000 per insured life
Life insurance cash surrender	\$100,000 per insured life
Multiple non-group life	\$5 million to one owner of multiple non-group life policies (and subject to the per insured life limits above)
Health insurance benefits	\$500,000 for basic hospital, medical-surgical, & major medical coverages \$300,000 for long term disability and long term care coverages \$200,000 for other supplemental types of health insurance coverage (all of these are applied on a per individual basis)
Annuity benefits (present value)	\$250,000 per life
Structured settlement annuity benefits	\$250,000 per Texas resident payee (irrespective of the owner’s residency)
Allocated Group Annuity benefits	\$250,000 per life
Unallocated Group Annuity benefits	\$5,000,000 per contract owner or \$250,000 per plan participant under a 401, 403(b) or 457 governmental retirement plan covered by an unallocated annuity
Overall Benefit Limit (usually applicable when a policyholder has policies of different types with the same insolvent insurance company)	\$300,000 with respect to a single life (except for benefits covered under the \$500,000 health insurance limit and the \$5 million non-group life insurance limit)

## **5. Are there other limits on coverage?**

Yes. In addition to the dollar amount coverage limits described in question 4 there are further limitations on coverage listed in Texas Insurance Code 463.203. For example, there is no coverage for policy benefits the insurance company does not guarantee, policy benefits for which the policyholder bears the risk (such as the non-guaranteed portion of a variable life insurance or annuity contract), interest earnings that exceed an average interest rate dictated by state law, and separate account annuity values.

## **6. When is coverage of a policy or contract determined?**

Coverage is determined at the time the insurance company is declared insolvent, and it is based on the provisions of the insurance policy and Texas law at that time (not the law when the policy was issued). Only Texas residents on the date of insolvency are eligible for coverage.

## **7. What happens if the benefits under my policy(ies) are greater than the coverage limits?**

If benefits due to you under your insurance policy or policies are greater than the coverage the Texas Guaranty Association can provide because of the limits in the law, the amount not covered by the Texas Guaranty Association can be submitted as a claim to the court-appointed Liquidator of the insolvent insurance company. The Liquidator will provide instructions to submit these claims, and approved claims may be paid in part, in whole, or not at all depending on the funds available, similar to the payment of claims in bankruptcies. The Texas Guaranty Association is not involved with the processing, approval, or payment of claims submitted to the Liquidator.

## **8. Are variable annuities covered?**

Generally speaking, a variable annuity that has general account guarantees, meaning guarantees by the insurance company, will be eligible for coverage, subject to coverage limits and other limits, such as the interest rate limitation. However, coverage of specific annuities will be determined by the Texas Guaranty Association when the insurance company is declared insolvent, based on the terms of the annuity, and the Texas Guaranty Association law at that time. Annuity terms that are relevant to determine coverage include the type of annuity, whether benefits are currently being paid, and details about the contract owner and annuitant.

## **9. What is a Retained Asset Account and is it covered?**

A Retained Asset Account (“RAA”) is a generic name for an account established by a life insurance company to reflect the company’s obligation to pay a death benefit to a beneficiary. An RAA is an alternative to the beneficiary being paid the death benefit in a lump sum. If the RAA option is chosen, the company holds the death benefit funds in its general account and will typically pay interest on the funds while they are in the general account. When the beneficiary requests some or all of the death benefit funds, the company provides checks to the beneficiary. The interest paid on an RAA is paid to the beneficiary. Because an RAA is a death benefit under a life insurance policy, it is covered just like other life insurance policy death benefits are covered.

## **10. Does it matter where I live?**

The Texas Guaranty Association provides coverage to individual policyholders and certificate holders under group policies who are Texas residents when an insurance company fails (found to be insolvent and ordered liquidated). It does not matter where the policyholder lived when the policy was issued because coverage is determined by the policyholder's residency when the insurance company fails.

The Texas Guaranty Association also provides coverage to policyholders residing in other states if all of the following three conditions are met:

1. the insolvent insurance company was domiciled in Texas,
2. the state in which the policyholder resides at the time of the failure has a guaranty association, and
3. The policyholder is not eligible for coverage from the guaranty association in their state because the insurance company is not licensed in that state.

Finally, the Texas Guaranty Association covers the Texas resident payees under structured settlement annuities, no matter where the contract owner resides, but only if coverage is not provided by another state's guaranty association.

## **11. How will I know if my life or health insurance company has failed or is unable to fulfill its obligations to its policyholders?**

You will receive a notification from the court-appointed Liquidator or the Texas Guaranty Association if your insurance company has failed.

## **12. How long will I have to wait to receive the coverage provided by the Texas Guaranty Association?**

The Texas Guaranty Association works hard to pay all claims on time. However, benefit payments may be delayed when a company fails because it takes some time for the Texas Guaranty Association to assume control of the policy and benefit payment administration. This usually takes only 30-45 days. The payment of some policy benefits, such as policy loans and cash surrenders, may be suspended by the court while the status of the company is evaluated.

## **13. How is coverage provided?**

Coverage from the Texas Guaranty Association can be provided in one of the following ways:

1. Paying benefits as they become due while continuing the insurance company's policies or issuing replacement policies,
2. Paying for a financially sound insurance company to take over the insolvent company's insurance policies and assume the responsibility for continuing coverage and paying claims/benefits, or
3. Working with other state guaranty associations and the liquidator of the insolvent company to develop an overall plan to provide coverage to policyholders. The amount of coverage provided, and when you receive it, may depend on the particular arrangement worked out for handling the failed insurer's obligations.

**14. Should I continue to pay my premiums?**

Yes. If you are paying premiums to your insurance company and wish to keep your coverage in place, you must continue to pay your premiums. The premiums will go to the Texas Guaranty Association since it is providing the coverage under your policy. If you stop paying premiums, your coverage likely will be terminated.

**15. Do I have to file additional paperwork or forms with the Texas Guaranty Association to receive coverage?**

No. You file the same paperwork as before, although you may need to send it to a new address, which will be provided to you. The insurance policies covered by the Texas Guaranty Association will continue so long as all premiums due under the policy are paid. You will receive notices from the Liquidator or the Texas Guaranty Association as needed if there are changes that affect you or your policy.

**16. Is my policy automatically terminated or cancelled since my insurance company is insolvent and being liquidated?**

No. The Texas Guaranty Association keeps your insurance policy in place according to the terms of your policy. You must pay any premiums required by a policy to keep the policy in force. Some health insurance policies can be cancelled with advance notice, and if you have such a policy, the Texas Guaranty Association will notify you before it is cancelled.

**17. Where does the Texas Guaranty Association get the money to provide this coverage?**

The Texas Guaranty Association is funded by insurance companies licensed to sell life, health, or annuity policies in Texas. These insurance companies are automatically members of the Texas Guaranty Association as required by law. The Texas Guaranty Association also may receive funds from the Liquidator of an insolvent insurance company by filing a claim for the coverage the Texas Guaranty Association has provided to policyholders.

**18. What types of companies are not members of the Texas Guaranty Association?**

Certain types of companies are not members of the Texas Guaranty Association so the insurance they provide is not covered. These include the following:

- Health maintenance organizations
- Fraternal benefit societies
- Mandatory state pooling plans (such as the Texas Health Insurance Risk Pool)
- Reciprocal or inter-insurance exchanges
- An organization only licensed to issue charitable gift annuities
- Property and casualty insurance companies not licensed in Texas to sell health insurance.

**19. How can I find out if my insurance company is licensed in Texas?**

You may call the Texas Insurance Department at 800-252-3439 or conduct a “Search for a Company Profile” under the “I want to Check Companies” section on the Texas Department of Insurance

website's [<http://www.tdi.texas.gov>] home page. The Texas Department of Insurance maintains complete and current records of all insurance companies licensed to do business in Texas. The company lookup function on their website can be found at TDI-Search Company Profile [[https://apps.tdi.state.tx.us/pcci/pcci\\_search.jsp](https://apps.tdi.state.tx.us/pcci/pcci_search.jsp)].

## **20. What if I move to another state after I buy my insurance policy?**

Generally speaking, you are covered by the guaranty association of the state where you live when your company fails (assuming the insurance company is licensed in that state). Although all 50 states, plus the District of Columbia and Puerto Rico, have guaranty associations, the level of coverage may vary and not all insurance companies are licensed in all states. If you move to another state, you should contact the insurance department or guaranty association in that state to determine whether your insurance company is licensed there and for more information about the limits of guaranty association coverage in that state.

## **21. How can I find out about the financial condition of an insurance company?**

The Texas Guaranty Association does not provide financial advice or comment on the financial condition of any particular insurance company. You may obtain information from an insurance agent or an insurance company rating agency, such as Standard and Poor's, AM Best, Moodys, Fitch Ratings, etc. You may also choose to contact the Texas Insurance Department at 800-252-3439 for information on a particular insurance company.

## **22. Why hasn't my agent or insurance company told me more about the Texas Guaranty Association?**

The Texas Guaranty Association law prohibits using the existence of Texas Guaranty Association coverage as a reason to buy insurance. The Texas Guaranty Association should not be considered a substitute for the prudent selection of a well-managed and financially stable insurance company. **Agents are prohibited by the Texas Guaranty Association law from using coverage or the existence of the Guaranty Association as an inducement to sell insurance.**

## **23. Is the Texas Guaranty Association a state agency?**

No. The Texas Guaranty Association is a non-profit entity, with its membership made up of all insurance companies licensed to sell life and health policies and annuities in Texas. In fact, state law makes membership mandatory for any insurance company licensed in Texas to write the types of insurance policies covered by the Texas Guaranty Association.

## **24. Where can I go to get more information about the coverage provided by the Texas Guaranty Association?**

The purpose of this material is to help you understand the general nature of life, health and annuity policy coverage provided by the Texas Guaranty Association. It is only a summary however, and if you have any questions that are not answered here you should refer to the Texas Guaranty Association law, Chapter 463 of the Texas Insurance Code, or call or write the Texas Guaranty Association at

TLHIGA  
515 Congress Avenue, Suite 1875  
Austin, Texas 78701  
Tel: 512-476-5101  
Fax: 512-472-1470  
Toll Free: 800-982-6362

questions@txlifega.org

**The Texas Guaranty Association does not provide determinations on coverage for insurance policies until a company is insolvent.**

## **25. What is NOLHGA?**

The National Organization of Life and Health Insurance Guaranty Associations (“NOLHGA”) is a voluntary association made up of the life and health insurance guaranty associations of all 50 states, the District of Columbia, and Puerto Rico. NOLHGA was founded in 1983 to help the state guaranty associations coordinate their efforts to provide protection to policyholders when a life or health insurance company insolvency affects people in many states. When an insurer licensed in multiple states is declared insolvent, NOLHGA, on behalf of the affected member state guaranty associations, assembles a task force of guaranty association officials. This task force analyzes the company’s commitments to policyholders; ensures that covered claims are paid; and, where appropriate, arranges for covered policies to be transferred to a healthy insurer.