FACTS ABOUT ANNUITIES

Is My Annuity Protected If My Insurance Company Fails?

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Fixed annuities are financial products designed to provide consumers with a reliable way to accumulate and use their retirement savings on a tax-deferred basis with guarantees to help protect them against various risks. Every day, fixed annuities offered by financially solid insurance companies are sold by reputable insurance agents, investment advisors and securities brokers to consumers who will benefit from their annuity purchases.

Yet many people do not know there is a difference between the insurance protection offered to bank deposits by the Federal Deposit Insurance Corporation (FDIC) and the insurance protection to annuity deposits (premiums). The following information helps delineate the difference.

How Fixed Annuities Are Protected

Often people who are considering a fixed annuity are told or read that their annuity money isn't insured by the FDIC. While this is true, consumers can be confident their fixed annuities ARE strongly protected. In fact each annuity already comes insured by the company who issued the annuity. And, if the insurance company fails, it has secondary protection from the state guaranty association up to a maximum amount, as with the FDIC, determined by each state. State guaranty associations and the guaranty funds they manage provide a safety net for policyholders, ensuring that each annuity is protected and that policyholders will continue to receive their annuity benefits.

Because fixed annuities are insurance products, the insurance company who issues them and the insurance producer who sells them are regulated by the company's state Department of Insurance. The Department is responsible for protecting consumers and ensuring the financial health of their state's insurance companies. The insurance industry is a strong part of the state's business and economic climate. Life and annuity companies are the largest single source of bond financing for American business, holding 18 percent of all U.S. corporate bonds.

Nevertheless, at the first signs of financial trouble, the state's Commissioner of Insurance is empowered by law to take appropriate steps to protect the company's policyholders. With this state regulation in place, it is very rare that the guarantee fund is even necessary. In most cases, annuity policyholders will find that their policies, which are insurance contracts, are purchased by another solvent insurance company.

In the infrequent cases where another insurance company doesn't purchase the annuity contracts, the policyholders will be informed how their state guaranty association will handle their claims. In the case of a company placed under state control, one of the state's primary goals is to protect the existing policyholders of that company. To do so, the state may impose limits on allowable transactions for a period of time to assist the company in returning to financial health. For example, annuity policyholders may be restricted from executing a full surrender (withdrawal) transaction on their annuities until the company has been rehabilitated or has been purchased by another solvent insurance company.

About Guaranty Associations

Guaranty associations are non-profit organizations created by statute for the purpose of protecting policyholders from financial losses and delays in claim payment due to the insolvency of an insurance company. They do this by assuming responsibility for the payment of covered claims that would otherwise have been paid by the insurance company, had it not become insolvent.

Insurance companies that sell fixed annuities are required to be members of the state guaranty association as a condition of doing business in the state. Guaranty associations obtain funds for their operations and payment of claims through assessments against the state-licensed insurance companies and from the recovery of amounts paid on claims from an insolvent insurance company.

Although guaranty association laws are generally similar from state to state, differences do exist. For example, all state guaranty associations provide protection for annuity cash values and benefits, but the amount of that protection varies by state.[1] Once an insurance company is placed into liquidation, guaranty associations are responsible for protecting annuity contracts, at least to the lower of either (a) the contract's limit of coverage, or (b) the "cap" set forth in the guaranty association's state enabling statute.[2] Consumers can find individual state's levels of protection by viewing the chart found on the following web page with links to each state's guaranty fund website: http://fixedannuityfacts.com/protection-with-state-guaranty-funds/stateguarantyfundlisting/.

Where to Get More Information About Guaranty Associations

Most states have, as part of their insurance laws, an advertising prohibition, which specifies that insurance companies and insurance agents may not use the existence of the guaranty association for the purpose of sales, solicitation, or inducement to purchase insurance, including annuity contracts. Thus, insurance companies and agents should not discuss the guaranty association during the sales process. When a fixed annuity policy is issued, a state guaranty association notice is included with the annuity contract, and agents explain its existence and operation to consumers at that time.

However, at NAFA we believe it is important that consumers are aware of the extra layer of protection provided through the state guaranty association and understand the differences so they may make decisions that will provide the best protection available. What is the bottom line? Just as bank deposits are protected by the FDIC, the premium in each fixed annuity contract is protected by the state guaranty associations. Consumers are encouraged to review and understand the most current coverage limits of both the FDIC and their respective state guaranty fund.

For additional information on life and health guaranty associations, please visit the website of the National Association of Life and Health Guaranty Associations (NOLHGA) at www.nolhga.com, as well as their "Facts and Figures about Impairments and Insolvencies" page at http://www.nolhga.com/factsandfigures/main.cfm/location/insolvencies.

For additional information about FDIC protection, visit the FDIC website at www.fdic.gov. A list of failed banks can be found at http://www.fdic.gov/bank/individual/failed/banklist.html.

Visit www.NAFA.com or www.FixedAnnuityFacts.org for additional resources regarding the facts about fixed annuities.

1 In most states it is also important to note that neither the benefit base on Guaranteed Lifetime Withdrawal Benefits nor the death benefit base on Guaranteed Minimum Death Benefits is covered by the Guaranty Fund Associations.

2 Peter G. Gallanis, President, NOLGHA, "NOLGHA, the Life and Health Insurance Guaranty System, and the Financial Crisis of 2008-2009," Address delivered at the American Bar Association, Tort Trial & Insurance Practice Session (June 5, 2009). Mr. Gallanis noted that virtually all of the individual state's enabling statutes cover an annuity contract at least to the cap level established in the NAIC Life and Health Insurance Guaranty Association Model Act and that some state legislatures have elected to provide a higher GA cap than those set forth in the Model Act. As of the March 17, 2009 amended version of the Model Act, the coverage cap for annuities is $250,000.