



# U.S. Life & Health Insurance Guaranty System

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# Discussion Topics

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- Overview of the U.S. Life & Health Guaranty System
- Historical and Recent Guaranty System Activity
- Potential Challenges
- Preparing for the Future

# COVID Pandemic and the L&H Guaranty System

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- No material increase in L&H insolvencies
- No material effect on GA coverage costs or policyholder benefits paid
- No effect on guaranty system operations

# Captive Insurers and the L&H Guaranty System

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- Very little interaction to date between GAs and captives, with the exception of two captives formed by the GAs for special reasons particular to two cases (ELNY and Penn Treaty). Captive insurers generally are not GA member companies.
- GAs monitor discussions of captives in the regulatory world because captive reinsurers have some potential applicability to insurer insolvency.

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# **U.S. LIFE & HEALTH GUARANTY SYSTEM**

# The Guaranty System

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- Separate Systems for:
  - Life/Health (Focus of this Presentation)
  - Property/Casualty
- Developed in Late 60s/Early 70s
- Core Mission: Work with Receivers to Provide Consumers with Financial Protection against Insurer Insolvencies
- Not a “Bailout” Mechanism for Failed Insurers

# The Component Parts

- Life/Health Guaranty Associations (GA) in All 50 States, DC and Puerto Rico
- Each GA is a Separate Legal Entity Governed by State Law
- State GA Laws are Based on NAIC Model Act
  - General Consistency Across States
  - Some Differences
- NOLHGA Serves as the Coordinating Body
  - Coordinates Response to Multi-State Insolvencies
  - Supports Quick, Efficient and Cost-Effective Delivery of Policyholder Protection by Affected GAs

# Protecting Consumers

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- When Triggered, GAs Continue Insurance Coverage, Often by Placing Policies with a Healthy Insurance Company
- GAs Honor Commitments Made by Insurer (Subject to Statutory Limitations)
- Protection Generally Provided by GA in Consumer's Residency State
- Amount of Coverage Determined by Governing Law



# Sources of Funding

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- Failed Insurer's Assets (Largest Source of GA Funding)
- Premiums on Premium Paying Policies
- State Statutory Deposits
- Assessments Paid by Other Insurers
  - Made As-Needed, on a Post-Insolvency Basis
  - Subject to an Assessment Cap of 2% of an Insurer's Annual Premium (in Most States)
  - Potential Cost Recovery through Tax Offsets, Premium Increases or Policy Surcharges

# Facts about the Guaranty System

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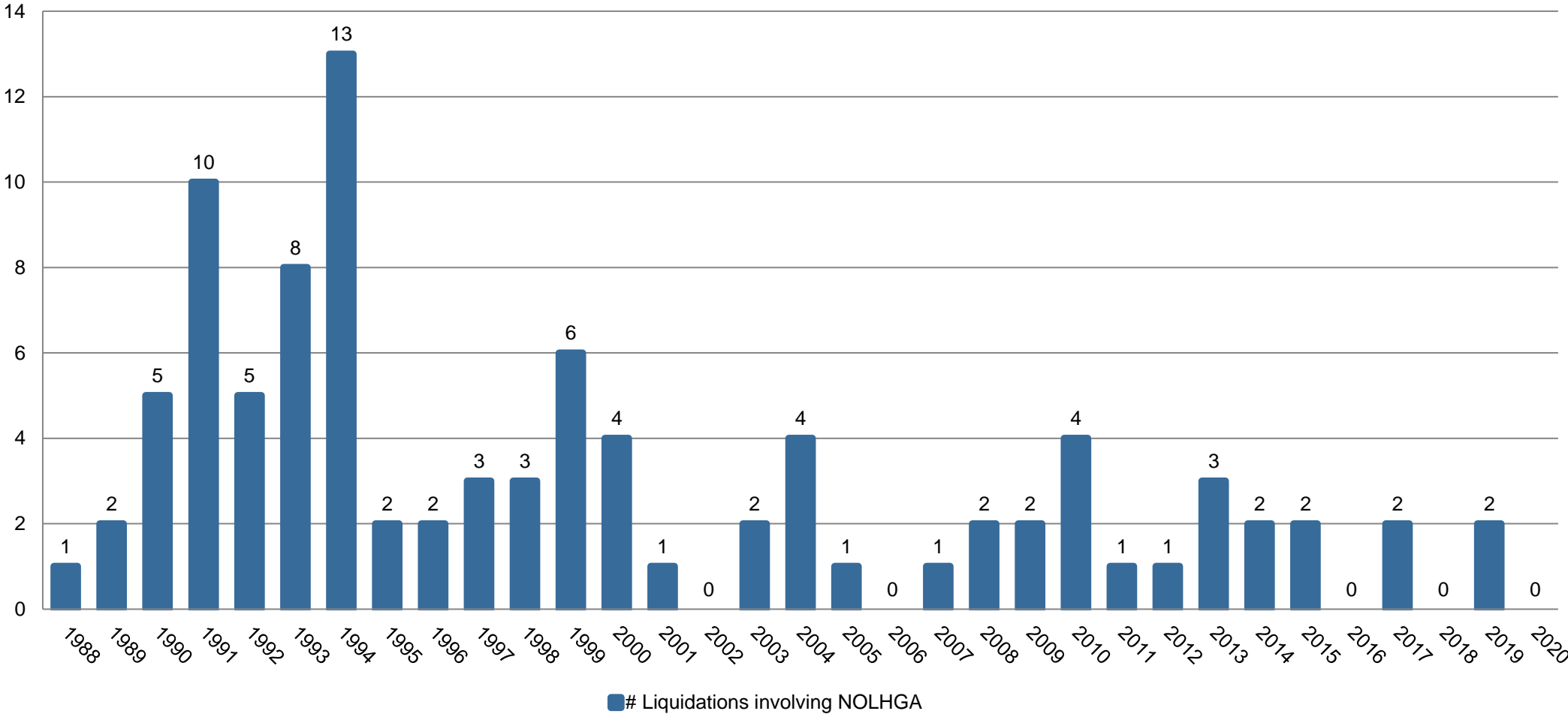
- Major insurer insolvencies are rare.
- The likelihood of “bank run” behavior is extremely low.
- Liabilities often come due years/decades after receivership.
- Assets of the insolvent insurer are a major source of funds to respond to failure.
- Considerable operational resources are available for resolutions.
- Receivership and guaranty system have successfully performed to protect policyholders and stand ready to do so in the future.

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# **HISTORICAL AND RECENT GUARANTY SYSTEM ACTIVITY**

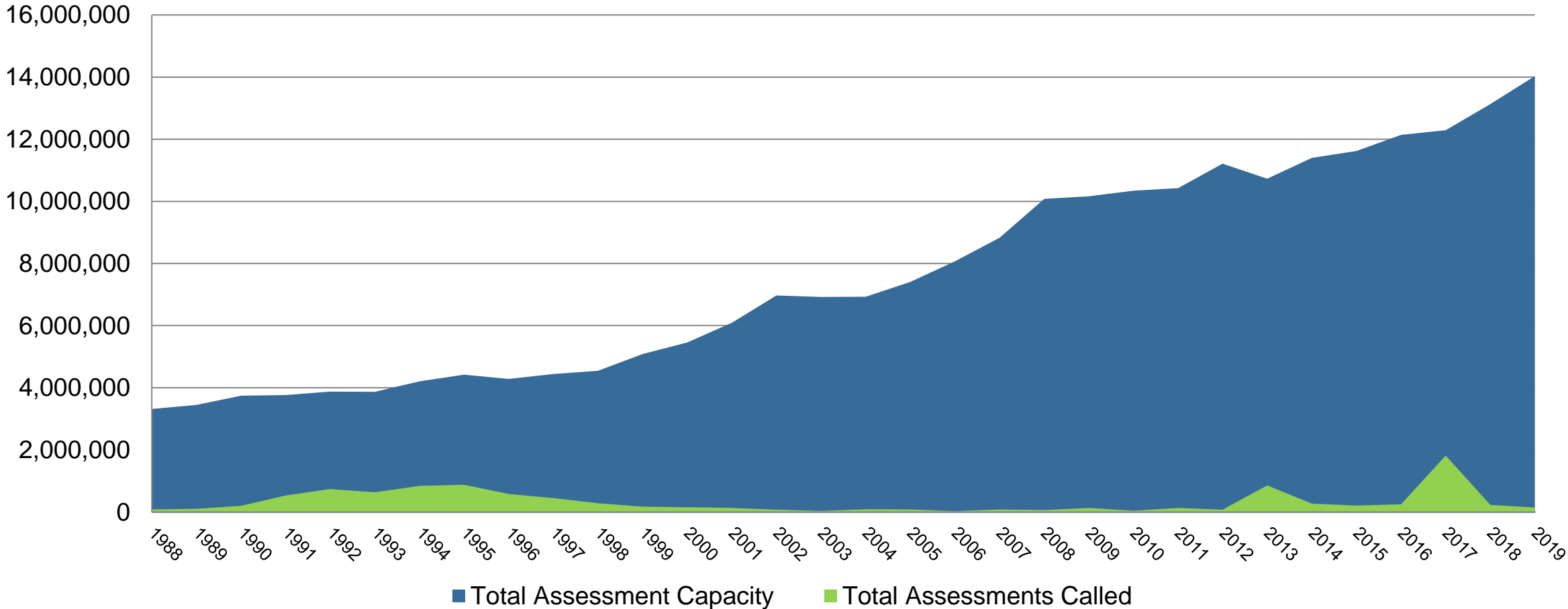
# Number of Liquidations Involving NOLHGA

1988 – 2020



# Total Assessment Capacity vs. Assessments Called

(Amounts are in \$000s)



# Recent Activity

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- **Liquidations**
  - Senior American Ins. Co. (PA, 2019)
  - Northwestern National Ins. Co. (WI, 2019)
  - Penn Treaty/American Network Ins. Co. (PA, 2017)
  - CoOpportunity Health (IA, 2015)
  - SeeChange Health Ins. Co. (CA, 2015)
- **Pending Petition for Liquidation**
  - Southland National Ins. Co. (NC)
- **Rehabilitations**
  - Time Insurance Co. (WI, 2020)
  - Senior Health Ins. Co. of PA (PA, 2020)
  - Eli Global Subsidiaries (NC, 2019)
  - North Carolina Mutual (NC, 2018)

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# POTENTIAL CHALLENGES

# Long Term Care Insurance

- Older Products Developed Before:
  - Advances in Longevity
  - Wide Availability of Assisted Living Facilities
  - Benefit Triggers Clearly Defined
  - Risk Selection and Lapse Rates Understood
  - Decreases in Interest Rates
- Some Blocks Cannot be Rehabilitated:
  - Degree to which Assumptions Were Missed
  - Anachronisms in Older Policies
  - Delays in Recognition of Adverse Experience
  - Lack of Needed Rate Increases



# Recent LTCi Activity

- Receiverships
  - Penn Treaty/ANIC liquidations
  - Senior American liquidation
  - SHIP rehabilitation
  - Time Insurance Company rehabilitation
- NAIC
  - GA Model Act Changes – Assessment Allocation for LTC; Inclusion of HMOs
  - Formation of NAIC LTC (EX) Task Force
  - Focus on LTCi Premium Rate Review
- Federal Interagency Task Force on LTCi
- Some Increase in Reinsurance Activity and Private Equity Interest
- Continued Attention to Legacy Blocks

# Other Potential Challenges

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- Restructuring Mechanisms
  - Insurance Business Transfers
  - Business Divisions
  - Other Mechanisms
- Related Party Transactions

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# PREPARING FOR THE FUTURE

# Preparedness

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- Draw Upon Experience from Involvement in Almost All Significant Insurer Insolvencies Over the Past Four Decades
- Continual Contingency Planning for Large and Complex Receiverships
- Ongoing Coordination with Regulators/Receivers

# Questions

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