OFFICE OF LEGISLATIVE RESEARCH
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ResearchReport

Connecticut Insurance Guaranty Funds

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Issue

Describe the Connecticut Insurance Guaranty Association (CIGA) and Connecticut Life and Health Insurance Guaranty Association (CLHIGA).

Summary

CIGA and CLHIGA pay certain insurance claims when a Connecticut-licensed insurer becomes insolvent and is no longer able to meet its obligations. When this happens, the guaranty association pays valid claims of policyholders and other claimants up to the dollar limits of the applicable policy, subject to maximums fixed by state law. The associations must generally cover all claims that exist prior to an insurer's insolvency or liquidation. By law, eligible insurers must participate in and pay assessments to CIGA or CLHIGA, as applicable.

Guaranty Associations

CIGA

CIGA covers automobile, homeowners, workers' compensation, and other property and casualty insurance policies written by insurers licensed to do business in Connecticut (CGS § 38a-836 et seq.). It must generally pay up to (1) $500,000 for general claims; (2) the full amount of certain workers' compensation claims, up to the policy limit; and (3) one-half of unearned premiums up to $2,000 (CGS § 38a-841).

CLHIGA

CLHIGA covers direct, non-group life, health, and annuity policies issued by insurers licensed to do business in Connecticut (CGS § 38a-858 et seq.). It excludes several policy types, such as annuities protected by the federal Pension Benefit Guaranty Corporation (PBGC). (PBGC pays certain benefits if an employer can no longer meet the plan's fiduciary obligations.) Generally, CLHIGA pays up to $500,000 per individual and $5 million per plan sponsor for certain unallocated insurance contracts (CGS § 38a-860).

Association Assessments

Both associations are funded by assessments on member insurers. With certain exceptions, all insurers must be members of the applicable guaranty association to the extent that they issue policies the associations must cover.

In general, both associations may assess their members for (1) administrative expenses and (2) costs necessary to carry out the association's powers and duties (e.g., pay out claims from an insolvent insurer). Assessments to pay out claims occur only as necessary (e.g., when an insurer defaults) and are generally capped in any calendar year at 2% of an insurer's average annual premiums for policies covered by the association.

By law, any insurer that pays an assessment may offset 100% of the assessment value against its premium tax liability, spread out over a five-year period (i.e., 20% may be applied towards an insurer's premium tax liability each year for five years) (CGS §§ 38a-841 & 38a-866).

Additional Resource

For more information on Connecticut's insurance guaranty associations, see this guide from the Connecticut Insurance Department.

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