PROPOSED AMENDED RULE 49
LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION NOTICES

Table of Contents

Section 1. Authority
Section 2. Purpose and Scope
Section 3. Notices
Section 4. Severability
Section 5. Effective Date
Appendix A
Appendix B

Section 1. Authority

This Rule is issued pursuant to the authority vested in the Commissioner under Ark. Code Ann. §§ 25-15-201, *et seq.*, 23-61-108, 23-96-107(c)(2) and other provisions of the Arkansas Insurance Code.

Section 2. Purpose and Scope

The purpose of this Rule is to implement and provide guidance for compliance with the Arkansas Life and Health Insurance Guaranty Association Act, Ark. Code Ann. §§ 23-96-101, *et seq.* This Rule applies to every member insurer of the Arkansas Life and Health Insurance Guaranty Association as defined in Ark. Code Ann. § 23-96-104(13).

Section 3. Notices

Pursuant to Ark. Code Ann. §§ 23-96-105(a) and 23-96-107(c)(2), the Commissioner hereby promulgates this Rule in order to establish the form and content of the coverage documents to be delivered to policy or contract owners.

Appendix A is to be used by each member insurer and shall be given to each policy or contract owner prior to or at the time of delivery of the policy or contract. At the option of the member insurer, Appendix B may be given to a prospective policy or contract owner at the time of solicitation and sale of a policy or contract.

Section 4. Severability

Any section or provision of this Rule held by a court of competent jurisdiction to be unconstitutional or otherwise invalid will not affect the validity of any other section or provision of this Rule.

Section 5. Effective Date

This Rule shall be effective upon the date of the Commissioner's signature.

_____

ALAN McCLAIN
INSURANCE COMMISSIONER
STATE OF ARKANSAS

_____

DATE

APPENDIX "A"

LIMITATIONS AND EXCLUSIONS UNDER THE ARKANSAS LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION ACT

Residents of this state who purchase life insurance, annuities or health insurance should know that the insurance companies licensed in this state to write these types of insurance are members of the Arkansas Life and Health Insurance Guaranty Association ("Guaranty Association"). The purpose of the Guaranty Association is to assure that policy and contract owners will be protected, within certain limits, in the unlikely event that a member insurer becomes financially unable to meet its obligations. If this should happen, the Guaranty Association will assess its other member insurance companies for the money to pay the claims of policy and contract owners who live in this state and, in some cases, to keep coverage in force. Please note that the valuable extra protection provided by the member insurers through the Guaranty Association is limited. This protection is not a substitute for a consumers' careful consideration in selecting insurance companies that are well managed and financially stable.

DISCLAIMER

The Arkansas Life and Health Insurance Guaranty Association ("Guaranty Association") provides coverage of claims under some types of policies or contracts if the insurer or health maintenance organization becomes impaired or insolvent. COVERAGE MAY NOT BE AVAILABLE FOR YOUR POLICY. Even if coverage is provided, there are significant limits and exclusions. Coverage is always conditioned on residence in the State of Arkansas. Other conditions may also preclude coverage.

The Guaranty Association will respond to any questions you may have which are not answered by this document. Your insurer or health maintenance organization and agent are prohibited by law from using the existence of the association or its coverage to sell you an insurance policy or health maintenance organization coverage.

You should not rely on availability of coverage under the Guaranty Association when selecting an insurer or health maintenance organization.

The Arkansas Life and Health Insurance Guaranty Association
c/o The Liquidation Division
1023 West Capitol Avenue
Little Rock, Arkansas 72201

Arkansas Insurance Department
1 Commerce Way, Suite 102
Little Rock, Arkansas 72202

The state law that provides for this safety net is called the Arkansas Life and Health Insurance Guaranty Association Act ("Act"), which is codified at Ark. Code Ann. §§ 23-96-101, *et seq.* Below is a brief summary of the Act's coverages, exclusions and limits. This summary does not cover all provisions of the Act, nor does it in any way change any person's rights or obligations under the Act or the rights or obligations of the Guaranty Association.

COVERAGE

Generally, individuals will be protected by the Guaranty Association if they live in this state and hold a life, annuity or health insurance contract or policy, or if they are insured under a group insurance contract issued by a member insurer. The beneficiaries, payees or assignees of policy or contract owners are protected as well, even if they live in another state.

EXCLUSIONS FROM COVERAGE

However, persons owning such policies are NOT protected by the Guaranty Association if:

- They are eligible for protection under the laws of another state (this may occur when the insolvent insurer was incorporated in another state whose guaranty association protects insureds who live outside that state);
- The insurer was not authorized to do business in this state; or
- Their policy or contract was issued by a hospital or medical service organization, a fraternal benefit society, a mandatory state pooling plan, a mutual assessment company or similar plan in which the policy or contract owner is subject to future assessments, or by an insurance exchange.

The Guaranty Association also does NOT provide coverage for:

- Any policy or contract or portion thereof which is not guaranteed by the insurer or for which the owner has assumed the risk, such as non-guaranteed amounts held in a separate account under a variable life or variable annuity contract;
- Any policy of reinsurance (unless an assumption certificate was issued);
- Interest rate yields that exceed an average rate;
- Dividends, voting rights, and experience rating credits;
- Credits given in connection with the administration of a policy by a group contract holder;
- Employer plans to the extent they are self-funded (that is, not insured by an insurance company, even if an insurance company administers them);
- Unallocated annuity contracts (which give rights to group contractholders, not individuals);

- Unallocated annuity contracts issued to or in connection with benefit plans protected under the Federal Pension Benefit Corporation ("FPBC"), regardless of whether the FPBC is yet liable;
- Portions of an unallocated annuity contract not owned by a benefit plan or a government lottery (unless the owner is a resident) or issued to a collective investment trust or similar pooled fund offered by a bank or other financial institution;
- Portions of a policy or contract to the extent assessments required by law for the Guaranty Association are preempted by state or federal law;
- Obligations that do not arise under the policy or contract, including claims based on marketing materials or side letters, riders, or other documents which do not meet filing requirements, claims for policy misrepresentations, and extra-contractual or penalty claims; or
- Contractual agreements establishing the member insurer's obligations to provide book value accounting guarantees for defined contribution benefit plan participants by reference to a portfolio of assets owned by a nonaffiliate benefit plan or its trustee(s).

LIMITS ON AMOUNT OF COVERAGE

The Act also limits the amount the Guaranty Association is obligated to cover. The Guaranty Association cannot pay more than what the insurance company would owe under a policy or contract. Also, for any one insured life, the Guaranty Association will pay a maximum of $300,000 in life insurance death benefits without regard to the number of policies and contracts there were with the same company, even if they provided different types of coverages. The Guaranty Association will pay a maximum of $500,000 in health benefits, provided that coverage for disability insurance benefits and long-term care insurance benefits shall not exceed $300,000. The Guaranty Association will pay $300,000 in present value of annuity benefits, including net cash surrender and net cash withdrawal values. There is a $1,000,000 limit with respect to any contract holder for unallocated annuity benefits. These are limitations under which the Guaranty Association is obligated to operate prior to considering either its subrogation and assignment rights or the extent to which those benefits could be provided from assets of the impaired or insolvent insurer.

APPENDIX "B"

NOTICE OF THE ARKANSAS LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION ACT

The Arkansas Life and Health Insurance Guaranty Association Act (the "Act") provides protection, subject to certain limitations and exclusions, against loss under life and health insurance policies and annuity contracts issued by insolvent insurers licensed in this state.

This notice is provided to you only to make you aware of the existence of the limited protection under the Act. It confers no rights to any policyholder or contract holder not provided under the Act. It does not change or vary any exclusion or limitation contained in the Act. Specific reference must be made to the Act to determine whether any particular policy or contract is covered, the amount of any coverage which may be available, and applicable limitations or exclusions.

Some of the limitations and exclusions are as follows:

1. The Act limits the amount the Guaranty Association is obligated to pay. The Guaranty Association cannot pay more than what the insurance company would owe under a policy, contract, or certificate. Also, for any one insured life, the Guaranty Association will pay a maximum of $300,000 in life insurance death benefits without regard to the number of policies and contracts there were with the same company, even if they provided different types of coverages. The Guaranty Association will pay a maximum of $500,000 in health benefits, provided that coverage for disability insurance benefits and long-term care insurance benefits shall not exceed $300,000. The Guaranty Association will pay $300,000 in present value of annuity benefits, including net cash surrender and net cash withdrawal values. There is a $1,000,000 limit with respect to any contract holder for unallocated annuity benefits. These are limitations under which the Guaranty Association is obligated to operate prior to considering either its subrogation and assignment rights or the extent to which those benefits could be provided from assets of the impaired or insolvent insurer.

2. You are not covered:
   a. If you are not a resident of Arkansas at the time the order of the insurer's insolvency was issued;
   b. Your insurer was not licensed in this state; or,
   c. Your insurer was a self-insured plan, trust or other similar entity or organization excluded under the Act.

3. Obligations not specifically provided in the policy or contract are not covered by the Act. Examples of obligations, which are not covered by the Act, include damages or loss due to misrepresentations of policy benefits, inaccurate solicitation material, unfiled policy documents or endorsements, and extra-contractual damages, penalties and similar damages or claims.

4. Dividends or interest rate yields that do not meet specifications described in the Act are not covered under the Act.

You should not rely upon coverage under the Act when buying a life or health insurance policy, annuity contract, or when selecting an insurer. Neither agents nor insurers should use the existence of the Guaranty Association to induce you to purchase a product from them.

For more information relative to the Act, you may contact:

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c/o The Liquidation Division
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Little Rock, AR 72201

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