What Happens If Your Long-Term Care Insurance Company Fails?

When you buy long-term care insurance years before you need it, you are taking a gamble that the company will still be around when it is time to pay out. But what happens if the company goes out of business?

Usually insurance companies don't just suddenly shut their doors. Instead, another insurance company buys out or absorbs a company that is having problems, and the new company honors the old company's policies.

If an insurance company does fail, every state has an insurance guaranty association that protects consumers. The purpose of the guaranty association is to take over the policies of an insurance company that is experiencing extreme financial difficulties and ensure that claims are paid. The guaranty association may provide insurance coverage directly to consumers. Alternatively, the association might facilitate the sale of the policies to another insurance company. It is also possible that policyholders will be given the opportunity to cash in their policies.

The downside of the state guaranty association is that it provides coverage only up to a certain limit. Each state caps the maximum amount its guaranty association will pay out, and the figure is typically between $100,000 and $500,000 per policy, with most states offering $300,000.

In a recent blog post, Phyllis Shelton, author of *Protecting Your Family With Long-Term Care Insurance*, called the failure of a long-term care insurer "an extremely rare situation."

If your policy is purchased by another company or taken over by a guaranty association, it is important to continue to pay your premiums. Failure to pay premiums could result in the termination of your policy.

For the Web site of the national guaranty association, click here.

For more information about long-term care insurance, click here.