
It's Time to Raise the State Guaranty Fund Limits

By Paul McGillivray Tue, Jan 6, 2026

State guaranty association coverage limits could also address the question of what is covered when lifetime income riders and enhanced death benefits are a benefit of the in-force annuity. Clarifying this 'rider question' might forestall much unnecessary litigation.

The State Guaranty Annuity Coverage chart in the December issue of Retirement Income Journal highlights a secondary layer of consumer protection for fixed interest and fixed indexed annuities.

Given how much has changed with the use of annuities of all types for individual retirement planning, I believe it is time for state guaranty coverage limits be raised from the common amount of \$250,000 to at least \$1 million. Historically, state annuity regulation seems to address some recent financial catastrophe.

The risk-based capital system followed the junk bond explosion that killed Executive Life and others. The state guaranty association limit was raised from \$100,000 to \$250,000 after the Great Financial Crisis. That was only a near disaster for the fixed and indexed annuity world but the FDIC protection for banks was raised to \$250,000 and so our industry followed.

We should anticipate that one of these years some annuity carrier will have its own financial crisis and guaranty association coverage will be needed. Learning from the past, we should increase the protection for our client annuity buyers before that happens. Annuity industry purchases have doubled in the past five years, as you have well reported. Average size purchases and average household annuity balances must have followed in that direction.

Unlike commercial banks, insurance carriers pay guaranty association assessments after carrier losses and deficits have been determined. While, there have been a couple of small carrier failures who wrote some annuities that resulted in loss assessments, total assessments have been microscopic, relative to total annuity sales. This is a credit to our regulatory system and our insurance carriers. Such losses are only a *de minimis* cost to the annuity industry.

The new regulation needed by individual states to increase their guaranty association coverage limits could also address the question of what is covered when lifetime income riders and enhanced death benefits are a benefit of the in-force annuity.

Some of us assume some kind of present value calculation will be done to incorporate those benefits. Clarifying this “rider question” might forestall much unnecessary litigation. A calculation like that used by carriers annually to determine the qualified annuity fair market value for RMD purposes could work well enough.

It is easy to imagine a fixed indexed annuity with a GLWB income rider being in payout mode for years and the annuity cash value quite small. Clearly the valuation of that annuity is the income rider value and not the cash value. This needs to be defined and coverage clarified.

Lastly, *RIJ* is a leader in the call for examination of the what you have called the “Bermuda Triangle.” As *RIJ* has described it, this is the annuity industry’s use of investment banking ownership and/or affiliation with captive and/or offshore reinsurance to increase the competitiveness and annuity sales of carrier products. I don’t know if this form of organization requires urgent warning and action or if it is something else that is new and important and requires more disclosure, compliance, and experience. I cannot see the future any better than the next person.

I expect new state regulation to move slowly toward a closer view of and stricter compliance by “Bermuda Triangle” annuity carriers. State guaranty association increases would provide greater protection from the consumer side of the regulatory coin. This should be done just in case some annuity carrier implodes in a big way before the industry side of the regulatory coin has moved any further.

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