



## **Protecting Your Disability Benefits During Uncertain Financial Times**

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With the current climate of economic uncertainty, many clients of ours are asking questions pertaining to the financial health of their disability policy. Specifically, they have been asking whether they are protected against calamity striking again, this time by the insurance company that is paying them disability benefits becoming insolvent.

There is no “insurance” for disability insurance per se. But if an insurance company becomes insolvent, and files for bankruptcy, there are several alternatives. First, we have the “New Jersey life and health insurance association act”. The purpose of this act is to protect those persons from hardship because of the impairment or insolvency of any member insurer that issued the life and health insurance policies. The members of the association are assessed fees which provide funds to carry out the purpose of the act. I spoke with Jim Lenaghan, the Executive Director of the association, and he could not give me an advisory opinion as to whether the act applies to disability insurance companies that issued policies in our state.<sup>1</sup> But I am sure that any insurance company

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<sup>1</sup> The website for the association contains FAQ’s which include “**What contracts are covered?**” *The following answer is provided:* Generally, direct individual or direct group life and health insurance policies as well as individual annuity contracts issued by the guaranty association's member insurers are covered by the association. Such coverage is limited by the terms of the New Jersey Life & Health Insurance Guaranty Association Act .

who has been required to pay into the fund will expect its policyholders are protected by the act.

Second, once an insurance company files for bankruptcy, its assets are frozen and a trustee is appointed to manage the distribution of funds.

AIG has made it known that there is a risk that unless the government steps in and extends them a helping hand to cover their investments in the mortgage industry, they face risks that their assets will not be sufficient to stay afloat. Based on that backdrop, it is logical and not farfetched for individuals who have insurance issued by some of AIG's subsidiaries, such as US Life Insurance and others, to have concerns. AIG issued a statement last week, informing its policyholders that they stand behind their insurance policies and promise that they are not in any way at risk.

Insurance companies are regulated and required to maintain a certain minimum reserve on claims made on the policies they issued. I remain cautiously optimistic regarding the security of insurance companies remaining capable of paying their liability on disability policies.

I hope this information has been helpful. If you have further concerns about your disability policy, please contact us.

A handwritten signature in blue ink, appearing to read "Bonny G. Rafel". The signature is fluid and cursive, with the first name "Bonny" and last name "Rafel" clearly distinguishable.

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