

NAIC Life Insurance Buyer's Guide

Looking to buy life insurance? This guide can help you understand the basic types of insurance and the value each can provide. This information can equip you with the knowledge to ask questions before buying a policy. As you read this brochure, please pay special attention to these things:

1. **Your comfort with life insurance.** If you are not familiar with different life insurance policies, don't be afraid to ask questions to ensure you purchase the right policy for your needs.
2. **Questions on the application.** Whether you complete the application or an agent completes it for you, review the answers to make sure they are accurate and complete. Any inaccurate or incomplete answers may lead to the insurance company declining your application, rescinding the policy after it has been issued, or refusing to pay a claim.
3. **Your beneficiary designation.** Make sure the person listed as your beneficiary is current and accurate and that your beneficiary knows about this policy.
4. **Your right to a "free look."** Once you receive your policy, you'll have what's called a Free Look Period. During this time, you can examine the policy and decide whether to keep it, so be sure to read your policy carefully. If you're not satisfied, you can cancel it during the Free Look period for a refund of the premiums you've paid.

Prepared by the National Association of Insurance Commissioners

The National Association of Insurance Commissioners is an association of state insurance regulatory officials. This association helps the various insurance departments to coordinate insurance laws for the benefit of all consumers.

This guide provides only basic information. You can get more facts from a life insurance agent, life insurance company, financial advisor, or your state Department of Insurance.

This guide does not endorse any company or policy.

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Introduction and Purpose

Life insurance can provide valuable protections for the loved ones left behind when you die. This guide will assist you in determining which product may be best for your needs and your budget. As you read it, consider whether you need coverage for a defined period of time (such as 5, 10, or 20 years) or if you want coverage for longer or even for your entire life.

This guide will also introduce you to terms and products that you may want to learn more about.

(In this guide, we assume that you would be both the person insured by the policy and the policy owner.)

The Basic Types of Life Insurance

Costs are determined by your age, health status, and other factors when an application is taken. While all life insurance policies provide a death benefit, all policies are not the same. The varieties of life insurance are designed to help meet different needs.

Life insurance comes in two basic types: Term and Permanent (also referred to as Cash Value life insurance). Permanent insurance varieties include Whole Life, Universal Life, and Variable Life.

Term: Term policies cover you for a certain number of years. Some may have an option to extend, or renew, this coverage each year; depending on the policy and issuing company, these policies could last to your 80s or 90s. Term insurance premiums are usually lower than permanent life's, and term policies usually do not have cash value. Premiums must be paid when due to keep a term policy in force.

Be sure to know the cost structure of any term policy you're considering:

- Most have premiums that remain the same ("level") for a certain number of years and may allow you to continue the coverage beyond that defined period. These policies have a two-stage cost structure:
 - The first stage is often called the **level-premium period**; during this period, the premium is guaranteed not to change.
 - The second stage is the **renewal period**; once the level period ends, you can choose to renew the policy, at a higher and annually-increasing cost. Since these premiums can be markedly higher than the initial premiums, you'll want to know, before you buy, what they would be.
- Some term policies have premiums that are not level; instead, they increase according to a schedule outlined in the policy contract.

Permanent (Cash Value): Permanent life insurance is ideal for needs that may last for your entire life. Most permanent policies have the potential to build cash value. You may be able to access this cash value via policy withdrawals or loans. Although this can be helpful in certain situations, you should know that taking cash value from your policy can have tax consequences, reduce the amount your beneficiary receives, and/or cause the policy to lapse; it could also mean you'll have to pay additional premiums to keep the policy on force.

The brief descriptions below will give you quick insight into how permanent life insurance policies differ.

Whole Life: This is the traditional permanent life insurance that many people think of when they hear “permanent insurance.” If you pay your premiums on time, your coverage is guaranteed to stay in force for your entire life, and your policy is guaranteed to build cash value. Premiums for most Whole Life policies remain the same throughout the life of the policy.

Universal Life: This type of permanent policy offers some flexibility with premium payments. Most policies of this type build cash value and earn at least a minimum interest rate and may earn non-guaranteed interest.

Variable Life Insurance: Variable life policies, which also include variable universal life insurance, have the greatest potential to build cash value compared to other permanent policies. Variable policies have underlying investment options, which you choose and that perform like stocks and bonds. Please note, however, that variable policies involve some risk for you because the cash value can also decline and your investment can be lost if the policy's investment options perform poorly.

How Much Insurance Do I Need?

To help determine which policy can help address your needs and help you meet your goals, consider what your financial goals are. If you have an agent, be sure to discuss them with your agent. These questions can help you start thinking about what type and amount of insurance you need.

- Are your needs short term or long term?
- Do you want life insurance to pay only your final expenses (final medical expenses, burial costs, etc.)?
- Do you need life insurance to replace your income in case of death so that needs like paying the mortgage, college costs and other expenses are covered? If so, how long into the future will these expenses last?
- Will your children be in college in the next 5 years or 10 years?
- Will you have your mortgage paid off in a handful of years or will you be making mortgage payments 25 years from now?

- Do you want life insurance to build up the estate value that heirs will inherit?

As you answer these questions and try to determine how much coverage you need, also consider other assets or sources of income available to your beneficiaries when you die. Include sources such as retirement income, Social Security, home equity, investments, other life insurance policies, and savings. Finally, determine if you can afford to pay for the coverage you want. An agent can help you make a decision about how much coverage you need and can afford—just ask!

Additional Coverage That Can Be Added to Your Policy

Once you decide on the type of policy you want, an agent may explain additional features—often called “riders”—that you may desire to add to or tailor your policy to fit your needs. Some can allow you to use your policy’s death benefit to cover expenses while the insured is still alive. Such riders include terminal illness, long-term care, and accelerated death benefit riders. These riders may allow you to use a portion of the death benefit to pay for expenses related to a critical, chronic, or terminal illness or long-term care. Note that not all companies offer all of these benefits. Using these riders will reduce the death benefit amount your beneficiary receives.

Riders can also increase the amount of insurance by combining types of insurance, such as a Whole Life base policy combined with a term rider.

Other riders address other situations, such as a period of total disability. These “waiver of premium” riders can waive your obligation to pay premiums but will still keep your policy in force if you become disabled and meet the terms of the rider.

You may pay an additional cost for certain riders, either added to your premium or charged at the time you use the benefits of the rider. Ask an agent or the company to fully explain your options.

The Application

Before signing the application, review all information and answers to ensure they are accurate and complete. This is very important as the company relies on you to answer the questions truthfully, especially any questions about your health. If you do not understand any questions or medical conditions shown, ask for clarification before answering. If you provide false, inaccurate or incomplete statements, the company may rescind your policy.

Your Right to Return the Policy for Full Refund: the Free Look Period

Once you receive your policy, the first page of the policy will state that you have a free look period and show how long that period is. This period allows you to read over the policy and, if you’re not satisfied with it, cancel it for a refund of any premiums you’ve paid. Once the Free Look Period has passed, you may no longer be able to cancel it for a full refund.

Selecting and Updating a Beneficiary

When you apply, you will be required to select a beneficiary, someone who will receive the death benefit from the policy. Periodically, you should review whom you have named as your beneficiary or beneficiaries to ensure they remain current. As your life changes, you may want to designate a new person as your beneficiary or remove someone, if, for example, that beneficiary has passed away or if your relationship with that beneficiary has changed.

You may want to consider naming a Contingent Beneficiary. The contingent beneficiary will receive the death benefit if your beneficiary dies before you. Otherwise, the death benefit of your policy may be included in the value of your taxable estate.

Be sure to let your beneficiary or beneficiaries know about the existence of the policy so they can make a claim for death benefits at the appropriate time. Tell your beneficiary the name of the issuing company, the type of policy, and where the policy is physically located.

Resources for Additional Information

This brochure touches upon the basic kinds of life insurance policies available today. There are many variations not mentioned here, such as index universal life, joint life insurance, equity-indexed variable life, decreasing term, increasing term, and more. Some of the more complex products may be tied, at least in part, to the performance of the financial markets or the performance of stock market indices. To help ensure you understand these products and all your options, consult an agent or our department for information.