



Life Insurance Buyer's Guide for Consumers 2008

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CHAPTER 1

Life Insurance Basics

What is life insurance?

Life insurance is purchased to ensure that your loved ones are financially secure in the event of your death. Premiums are paid to the insurance company and the company invests the money. When the insured dies, the face amount is paid to the beneficiary or beneficiaries.

Do I need life insurance?

Here are some questions to ask yourself in determining if you need life insurance:

- How much of my family's income do I provide?
- If I were to die early, how would my family members get by?
- Do I have children that I would like to set aside money for in the event of my death to pay for education expenses?
- If I die early will my children need daycare?
- How will my family members pay for my funeral and other final expenses?
- Will my spouse need my income, or a percentage of my income, if I was to die early?
- Would my family be able to live comfortably without my income?
- Would I need to pay any debts so that my family could live comfortably?
- Would there be estate taxes to pay in the event of my death?

Types of life insurance

Term life insurance

Term insurance covers you for a period of one or more years. It will pay a death benefit if you die within the term. Term life insurance offers the largest death benefit for the premium amount. In other words, term insurance is often, if not always, the best value. If you live past the term, the policy cancels and there is no cash value.

Most term life insurance policies will allow you to renew the policy for one or more terms. However, the premium will be much higher than it was originally, so it is best to choose a term that will fit your needs.

Permanent (cash value) life insurance

Permanent life insurance is more expensive than term insurance for the same benefit amount. The portion of the premium that is not used to pay for the life insurance is invested by the insurance company and builds up a cash value that may be used by the insured in a variety of ways.

You may borrow against, or take a loan against, the cash value. If you don't pay the loan back in time, the amount you owe will be deducted from the benefits when you die. You can also use the cash value to increase your retirement income, or to help pay for needs, such as your grandchildren's education without having to cancel the policy. Whole life, universal, and variable life are all types of permanent life insurance.

Whole life insurance

Whole life insurance protects you for as long as you live. With most policies, you pay the same premium each year for your lifetime. The premium will be several times higher than the cost of term life insurance. Whole life premiums, in the long run, end up being less than if you were to keep renewing a term life insurance policy for the rest of your life.

Some policies will let you pay premiums for a specified time period (until age 65 or for 20 years). The premiums are higher because your coverage is paid up much sooner than if you paid your premium for a lifetime.

Whole life policies develop cash value over time. You can use the cash value to buy a reduced benefit or continued coverage for a shorter time period.

You may also borrow against the cash value of the policy. The amount you take in a loan will be deducted from the death benefit if you die, or from the cash value if you stop paying premiums.

Universal life insurance

With a universal life policy, the premiums you pay, minus the expenses, go into an account and earn interest. The insurance continues as long as there is enough money to pay the charges for the policy. The cash value is dependent on how much the money in the account earns. This can vary

depending on market conditions and as outlined in each policy. Flexible premium universal life policies let you adjust the premium, skip premiums, and adjust the death benefit

Variable life insurance

With a variable life policy, the premiums you pay, minus the expenses, go into an account and earn interest based on investments *you* choose (stocks and bond mutual funds). The insurance continues as long as there is enough money to pay the charges for the policy. The cash value is dependent on how much your investments earn. This can vary more than a universal life policy, depending on market conditions. These policies can only be sold by an agent that is securities registered.

Common riders (add-ons)

Waiver of premium

This rider waives the policyholder's obligation to pay the premium in the event of a serious illness or disability.

Accidental death benefit

This rider will pay an additional death benefit (usually double the face amount) in the event of an accidental death.

Child rider

This rider gives your children a death benefit. The benefit is usually small (\$1,000 - \$10,000 per child) and the rider typically covers all of your children.

CHAPTER 2

Buying Life Insurance

How much life insurance should I have?

One common benchmark in determining how much life insurance you will need is between five and ten times your annual income. But there are many other factors to consider.

Here are some questions to ask yourself in determining how much life insurance you need:

- How much of my income would my spouse need to get by or to be comfortable, and for how many years?
- What is the amount of education expenses I would like to pay for my children when they go to college and how much will tuition be when they start school?
- How much would it cost to provide daycare for my children, if they would need it?
- How much would my burial and other final expenses be?
- What debts do I have that I wouldn't want to pass on to my family?
- How will inflation affect living expenses in the future?

When determining how much life insurance to apply for, keep in mind things like social security, pension survivor benefits, savings, investments, and real estate that you own.

A life insurance agent or broker in your area can help you determine the benefit amount that most appropriately fits your situation.

Where to buy life insurance

There are multiple sources for purchasing life insurance:

Agents and brokers

There are differences between agents and brokers.

Agents represent one or more life insurance companies. The agent's job is to sell you the life insurance policy of the company or companies that he or she represents. Often times an agent will represent hundreds of companies, allowing them to find you a competitive price and good coverage.

Brokers represent *you*. Normally you discuss life insurance amounts, premiums and other needs with your broker. The broker brings back options and presents them to you accordingly. Brokers will sometimes charge a fee, and most often receive commissions on the final sale.

The Internet

There are several companies that sell life insurance directly over the Internet. Research the company thoroughly and make sure they are licensed in your state. Check their financial ratings. If you have questions about life insurance companies advertising online, call your local state insurance department.

By mail

Sometimes, life insurance companies will advertise through mailers. The application is normally included, and sometimes you can call in to apply. Check their financial ratings and make sure they are licensed in your state.

Assessing company stability

One way to make sure the insurance company is secure and reliable is by checking its financial ratings. There are many independent companies that rate the financial stability of life insurance companies. Here are three of the most commonly used:

AM Best Co.	908-439-2200	www.ambest.com
Standard and Poor's	800-523-4534	www.standardandpoor.com
Moody's Investor Svc, Inc.	212-553-0377	www.moody.com

CHAPTER 3

Applying for Life Insurance

The application

Most companies will require that you or your agent complete a formal, written application. As of recently, some insurance companies will allow your agent or broker to take your general information over the phone, starting the application process.

The exam

Some life insurance policies are guaranteed, which means they don't evaluate your health history much, if at all. These policies can be very expensive, but have their place in certain situations.

Most life insurance companies require a mini medical exam before your application is approved. The tests that are commonly performed are a blood test, a urine test, a blood pressure test, and a height and weight check. You may be asked to undergo more in-depth tests to answer questions the underwriters may have.

Underwriting

Once your application and exam are complete and the insurance company has received both, your information is submitted to the underwriting department of the company you applied to.

The underwriters decide, according to company guidelines, whether you are eligible for coverage (based mainly on health, build, and occupation). Your rate class is determined and the premium is calculated accordingly for the coverage you applied for.

The underwriting department will often order an APS or an attending physician's statement or other medical records from your doctor, to help determine your eligibility for the policy.

The outcome

Approval

Once your policy is approved, it is then sent to your agent or broker, or directly to you. Most often, you will need to sign a form stating that you received the policy, and possibly forms verifying corrections or setting up payment. Once the

completed forms are returned to the insurance company, your policy becomes effective.

Denial

If a company turns you down, contact your agent or broker, and consider applying to another company. Different companies have different requirements. One company might care about the condition you were denied for, while another company may not.

Consult with your doctor to find out if you can improve your situation. For example if you were turned down because of blood test results, your doctor may have some ideas to bring your readings back into an acceptable range.

If you have an employer that offers group life insurance, check with them and find out if you qualify. Some group life insurance plans do not require medical exams or health histories at all.

CHAPTER 4

Reviewing Your Policy

Review your coverage and beneficiary information

When you get your policy, be sure to read through it carefully. Make sure that the face amount, the term, the beneficiaries, and other details of the policy are what you expected. If you need to make changes, contact your agent, broker, or the insurance company directly.

Be sure to review your policy on an annual or bi-annual basis. As your circumstances change, it may be necessary to adjust your policy details.

The 10 day free look period

Most states will allow you a “10 day free look period” once you receive your policy. The purpose of this free look is to allow you to read through and become familiar with your policy. If you decide to cancel the policy within the 10 day free look period, any premiums paid will be refunded in full.

CHAPTER 5

Conclusion

Life insurance is an important part of a comprehensive financial plan. If your family depends on you financially, the protection life insurance provides is priceless in the event of an early death.

Work with an agent or broker to determine which company, death benefit, and premium may be right for you. Research the financial stability of the company you apply to. Be sure to review your life insurance policy periodically, always taking into account your current financial situation.

Life Insurance Glossary

Beneficiary

The person named in an insurance policy to receive the face amount in the event of the insured's death.

Cash value / cash surrender value

The savings portion of a policy that can be borrowed against or cashed in.

Convertible term insurance

Term insurance that can be exchanged (converted), at the option of the policy owner and without evidence of insurability, for a permanent insurance policy.

Face amount or face value

The amount stated on the face of the policy that will be paid in case of death. It does not include additional amounts payable under accidental death or other special provisions, or acquired through the application of policy dividends.

Insurability

Acceptability to the company of an applicant for insurance.

Insured

The person on whose life the policy is issued.

Loan (policy loan)

A loan made by a life insurance company from its general funds to a policy owner on the security of the cash value of a policy. Generally, loans reduce the policy's death benefit and cash value by the amount of the outstanding loan plus interest.

Paid-up insurance

Insurance that will remain in force with no need to pay additional premiums.

Permanent life insurance

Any form of life insurance except term; generally insurance that builds up a cash value, such as whole life. Coverage can last a lifetime.

Policyowner

The person who owns a life insurance policy. This is usually the insured person, but it may also be a relative of the insured, a trust, partnership or a corporation.

Premiums

The monthly, quarterly, semi-annual or annual that are required to purchase and maintain coverage.

Renewable term insurance

Term insurance that can be renewed at the end of the term, at the option of the policy owner and without evidence of insurability, for a limited number of successive terms. The rates generally increase at each renewal as the age of the insured increases.

Term life insurance

Life insurance that does not build up cash value and where the premium normally increases as the insured gets older.

Universal life insurance

A flexible premium life insurance policy under which the policy owner may change the death benefit from time to time (with satisfactory evidence of insurability for increases) and vary the amount or timing of premium payments. Premiums (less expense charges) are credited to a policy account from which mortality charges are deducted and to which interest is credited at rates, which may change from time to time.

Whole life insurance

A basic type of permanent life insurance which can provide lifetime protection at a level premium. Premiums must generally be paid for as long as the policy is in force.