A Step-by-Step Guide to Simple Answers for Your Complex Questions

Forbes named Questions and Answers on Life Insurance: The Life Insurance Toolbook as 1 of their top 9 great investment books.
Road to Retirement
Life Insurance

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INTRODUCTION

Does the thought of life insurance give you a headache? Have you put off buying life insurance because you don’t know where to start? Do you have trouble understanding the life insurance policies you have, or that your employer chose for you? If you answered yes to any of these questions, the coursework we’ll present today can help.

The life insurance industry in the US is huge, and it’s certainly not bargain-oriented. You might compare it to a casino: there are odds involved, and the insurance companies didn’t get those big, shiny buildings by paying out more than they take in. But unlike gambling, life insurance forms a critical piece of most financial plans. Most people need some help to get the greatest possible benefit from their life insurance dollars.

The overall goal of this course is to help you apply your life insurance dollars for the best advantage, and get the best deal possible. Why pay more than you need to?

In this course we will provide you with a step-by-step process to evaluate your life insurance needs, find a good provider, get the best policy for you, and re-assess your policy quickly and effectively each year. This course will help you take charge of your life insurance situation, understand your policy, and spot any potential issues before it’s too late.

This course was designed to help everyone along the life insurance continuum: those just starting out in the process of looking for life insurance, those who already have a policy, and those who seek to help others make life insurance decisions. If you’re new to life insurance and don’t yet have a policy, Part I will guide you through determining how much and what kind of life insurance you need; Part II will help you find the best provider.

If you already own a policy and have some basic knowledge, Part I will serve as a great opportunity to perform a gap analysis: How well do your current policy and life insurance company meet your needs today? Your needs may have changed, or you might need a more thorough assessment rather than just taking an insurance agent’s or financial adviser’s recommendation. Part III will help you review and evaluate your current policy and options. As with any other financial instrument, it’s critical that you review your life insurance coverage every year, but few people understand how to do the review quickly and effectively. And if you no longer need coverage, this course will help you figure out options for terminating your policy.

Finally, if you’re responsible to help others assess their life insurance needs as part of financial or estate planning, this course will help you get good answers fast.
The bottom line is that a life insurance policy is simply a tool for financial leverage—nothing more, nothing less. This course is not about investing, it’s about using life insurance as life insurance. If you want to invest money to build a retirement fund, we have other courses that can help you. But no matter what you read or hear, life insurance can serve as a supplemental investment only when you have a life insurance need. In and of itself, life insurance is not an investing tool.

Now let’s explore the world of life insurance and how it fits into your overall financial plan.
### COURSE OVERVIEW

#### DECISION CHART

<table>
<thead>
<tr>
<th>PART I</th>
<th>PART II</th>
<th>PART III</th>
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<td>Evaluate Your Needs and Situation</td>
<td>Evaluate Companies and Agents and Purchase a Policy</td>
<td>Understand, Maintain, and Monitor your Policy or Terminate It</td>
</tr>
</tbody>
</table>

**Step 1:**
Determine your current need for life insurance: How much life insurance do you need? Or is your current life insurance enough?

**Step 2:**
Determine what type of life insurance you need: Do you need term or permanent/whole life insurance? Or is your current policy the right type to meet your needs?

**Step 3:**
Assess your medical history and other factors that can affect your life insurance rates.

**Step 4:**
Evaluate life insurance companies and select one with which to work.

**Step 5:**
Choose an agent, adviser, or distributor.

**Step 6:**
Work with your agent to select the appropriate policy components and riders and purchase a policy.

**Step 7:**
Assess your policy to determine if it is living up to your expectations.

**Step 8:**
Determine whether replacing your policy makes sense.

**Step 9:**
If you no longer need your policy or are choosing to purchase a new policy, determine how to terminate/unwind the policy.
Your Bio

- Complete PowerPoint Slide 4 and add your own personal information on the slide.
- Share your personal opinion on why you want to help people learn how to protect themselves with insurance. Be vulnerable and open. Showing that you’re willing to share personal and emotion-based thoughts will open participants up and help them feel safe to reciprocate.
- Give students a brief overview of your own background and why you’re interested in teaching them about insurance. Your bio should include a heartfelt message stating why you’re there, a personal story that highlights how you overcame a financially-challenging situation (if you have one), and your expertise. Show your passion for helping them achieve their goals and dreams.

About Tony Steuer

- Highlight the quality of the presentation they will be receiving by sharing about the qualification of the author.
- Tony Steuer, CLU, LA, CPFFE is a recognized authority on life, disability and long term care insurance literacy and a member of the California Department of Insurance Curriculum Board and the National Financial Educators Council Curriculum Advisory Board.
- He resides in Alameda, CA, with his family. Tony also serves as a member of the Lucille Packard Children's Hospital Foundation's Advisory Council and the St. Joseph Elementary School Advisory Board.
- Tony’s Questions and Answers on Life Insurance and The Questions and Answers on Life Insurance Workbook were winners of the Excellence in Financial Literacy Education™ Award from the Institute for Financial Literacy®.
- Tony's book which you have in front of you - the Questions and Answers on Life Insurance - has been named by Forbes as 1 of 9 great investment books worth reading.
- Tony is a frequent speaker and media contact for print, online & radio and has appeared on New York Times, Washington Post, U.S. News & World Report, Slate.com, Bankrate.com among many others.
PART I: EVALUATE YOUR NEEDS AND SITUATION

STEP 1: CALCULATING YOUR NEED FOR LIFE INSURANCE

Section Goals:

- To guide students to take a close look at their life insurance needs.
- Students will explore the situations that support a need for life insurance.
- Students will determine how much life insurance they really need.

Introduction

- Tell students: “For some people, life insurance is easy to understand. For others—particularly those who don’t know much about it—it might seem highly complex. In reality, it’s neither simple nor complex. The best path is to become a well-educated consumer. And the best place to start is not with a discussion of life insurance options but, instead, with a close look at your own needs. In this section you’ll ask yourself a series of questions, but don’t worry about getting everything absolutely, inflexibly ‘right.’ This exercise isn’t about perfection—no one can know the future for sure anyhow. This is about ball-parking it; taking your best guess. It’s about considering where you are now, where you want to go, and where you want your loved ones to be in case the worst comes to pass. As Master Yoda would say: ‘In motion the future is.’”

Warm-up Activity

- Ask students: “Why do you think people need life insurance?”
- Listen to their answers and discuss.

Exploring Why You Need Life Insurance

- Tell students: “The next section is about exploring the life situations that lead to a need for life insurance.”
- Say: “We’re going to look at some different scenarios. Some are broad in context, and others are more specific. The scenario that best describes your situation will depend on how many assets you expect to have, your stage in life, and your personal family
situation. These aren’t all the reasons why people need life insurance, but they capture the most common motivations for buying a policy.”

- Go over the slide with the situations. Have each student mentally identify the one(s) that best correspond to his or her individual needs.
  - I’m a primary breadwinner for my family. I have young children and my family is absolutely dependent on my income. If I were to die tomorrow, they would be in big trouble.
  - I’ve got debt. I have mortgages, car loans, credit cards, student loans, or some other form of large, significant debt that I couldn’t burden my family or cosigners with if I passed away tomorrow. It would break them.
  - I don’t want to burden my family with the costs of my funeral.
  - I’m saving for my child’s or children’s private school or college education. If I passed away, the kind of education that I’d like to be able to provide my child or children would very well be out of reach.
  - I want to have an emergency fund.
  - I have a special needs child who absolutely depends on my income for his or her care, probably for the rest of his or her life.
  - I’m worried about estate taxes. I want my family to have liquidity upon my death to fund the estate tax liability.
  - I’d like to donate a sizable amount to charity once I pass, but I don’t necessarily want to significantly reduce the amount of my estate donated to heirs.
  - I want to make sure my heirs each get an equal share of my assets when I pass away.
  - I’ve got assets that haven’t been taxed yet (a tax-deferred retirement account, for instance), and I don’t want my family to be burdened with those taxes, or for those taxes to reduce the benefit my family receives upon my death.
  - I’m in a second or third (or beyond) marriage or domestic partnership, and I’d like to provide my new partner with financial security; I want to avoid any conflict that may arise about my estate once I pass.

- Ask students: “Looking at these scenarios, can you think of any needs you have for life insurance that are not covered by this list?”
- Have students share their answers.

Determining How Much Life Insurance You Need

- Ask students: “How should you decide how much life insurance to buy?”
- Listen to their answers and discuss.
• Say: “Every adviser, financial writer, and even your friends and relatives have a formula they think is best to calculate how much life insurance you need. Some formulas are pretty simple. Others might seem like you have to be a Wall Street whiz to understand them. Don’t be discouraged. If your needs are complicated, ask your life insurance agent or financial adviser for help. But a simple formula works just fine for most people.”

• Go over the infographic on the slide: “Here’s the simplest and most direct formula.”

\[
\text{Income (replacement)} + \text{Expenses} - \text{Assets} = \text{Life Insurance Need}
\]

- Income (replacement): Amount needed to cover any costs (child care, groceries, rent, etc.) for your survivors each year
- Expenses: A factor based on how long your dependents will need financial support
- Assets: Anything from funeral costs or outstanding debt to mortgage or college costs
- Bank accounts, money market accounts, retirement savings, or present life insurance that can be provided to dependents, the value of which doesn’t need to be part of life insurance costs

• Say: “Even if you already have a policy, it’s important to do this calculation. That’s because your needs shift every time you pass a big milestone in your life, like having children, graduating from college, changing careers, or retirement.”

• Explain that this exercise can bring up lots of emotions for some people. The best place to start is having a sound understanding of our own financial health.

• Go over the information students will need to gather before they complete the worksheet:
  - Social Security benefit (www.SSA.gov provides an online benefits estimator)
  - College costs
  - Future income and expenses
  - Life expectancy (www.lifeinsurancetoolbook.com has a mortality table)

• Guide students through completing the worksheet.
LIFE INSURANCE AMOUNT WORKSHEET

Income Replacement

1. Annual income needed. How much annual income would your family need if you died today? Let’s start with your current monthly expenses. If you don’t monitor these numbers closely already, take this opportunity to get to know them.

   Mortgage/rent: $___________
   Car payment(s): $___________
   Groceries: $___________
   Clothing: $___________
   Utility bills: $___________
   Transportation: $___________
   Child care: $___________
   Medical/Dental expenses: $___________
   Travel/Entertainment: $___________
   Everything else: $___________

   **TOTAL: $ x 12 months = $___________**

2. Income that would continue after your death. Include all salaries, dividends, interest, current (or estimated) Social Security benefits, and all other sources of income:

   $___________

3. Subtract line 2 from the total in line 1. This is the minimum amount your life insurance needs to cover for one year if you passed away today:

   $___________

4. Multiply line 3 by the appropriate factor below.\(^1\) For now, let’s assume that you’re insuring your income for a set amount of time. That time period may be based on your

\(^1\) 10 years: x 8.1; 15 years: x 11.1; 20 years: x 13.6; 25 years: x 15.6; 30 years: x 17.3; 35 years: x 18.7; 40 years: x 20.0
life expectancy or on the amount of time that your dependents will actually be dependent (for example, through college). Let’s say you were insuring $65,000 for 10 years because in 8 years, all of your kids will be out of college. You’d multiply $65,000 times 8.1 and get $526,500. Why 8.1? It’s a safe assumption that your family will need only 60 to 80 percent of your income for basic living expenses, and that the need will lessen over time. What, then, are the funds needed to provide income for your required number of years? $__________

Expenses

5. **Funeral expenses.** The average cost of an adult funeral is about $10,000. Use this figure or do research to determine a more accurate number based on your preferences and region: $__________

6. **Administrative expenses.** (Also referred to as an emergency fund or final expenses.) These types of expenses can vary when cleaning up the affairs of the deceased (adviser fees, lawyer fees, and filing taxes, for example). But this number should be approximately 6 months of your annual salary (50 percent of annual income). $__________

7. **Mortgage and other outstanding debts.** Include here any outstanding mortgage principal, credit card debt, car loans, home equity loans, student loans, etc. $__________

8. **Education costs.** If you plan to cover the costs of your child/children’s (or another dependent’s) college or private education, consider those costs here. Multiply the average cost you researched and any current or future costs for private education by the number of children. $__________

9. **Multiply line 8 by the appropriate years before college age.** Like line 4 above, the factors account for a decreasing need. For example, if you planned on sending two children, one age 8 and the other age 13, to public college, you’d multiply $60,582 (the average cost at the time of this writing) by 0.82 and $60,852 by 0.68, and then add the results: $49,899 + $41,379 = $91,278. $__________

10. **TOTAL.** Add lines 4 through 8: $__________

---

2 5 years: x 0.82; 10 years: x 0.68; 15 years: x 0.56; 20 years: x 0.46
Assets
Now for your assets. Keep in mind that the value of your current assets may be considerably different from their value at the time of your death. The respective values of such assets as real estate, a family business, or other big investments may be significantly discounted due to quick, forced sale or liquidation.

11. Bank accounts, money market accounts, CDs, stocks, bonds, mutual funds, real estate: $___________

12. Retirement savings IRAs, 401(k)s, Keoghs, pension and profit-sharing plans: $___________

13. **Present amount of life insurance.** Include existing policies and group life insurance through your employer that you believe will continue: $___________

14. **TOTAL income-producing assets.** Add lines 11, 12, and 13: $___________

Total Life Insurance Needed

15. Subtract line 14 from line 10: $___________
GROUP INSURANCE WITH AN EMPLOYER

If you’ve ever worked for someone else, you’ve probably been offered term life insurance at either a flat amount of coverage or a multiple of your salary as part of your benefits package. And you might have been offered the opportunity to purchase additional coverage for yourself and for your loved ones and dependents.

Here are some issues to consider when you’re offered life insurance from an employer:

- In **group life** term insurance—so called because the particulars of your policy depend upon the company’s pool of policyholders—premiums typically increase either annually or every fifth year (age 30, 35, etc.).

- Coverage is usually not portable. In other words, if you leave the employer, your coverage is discontinued.

If you are in good health, purchasing additional life insurance coverage through your employer (beyond what your employer may offer and pay for) is almost always more expensive over any long period than purchasing an individual policy on your own. Why? Because the underwriting—the process of determining the rate you pay based on the level of risk you pose—is not selective with group-based policies; the group has to cover all employees to a certain extent. While individualized underwriting is generally required if you decide to purchase more than a basic amount of coverage through the group plan, the rates you pay still have to account for the generalized risk the insurance company is taking on by covering the group.
STEP 2: FINDING THE BEST LIFE INSURANCE FOR YOU

Section Goals:

- Students will understand the difference between families of insurance (term vs. permanent) and review the pros and cons of each.
- Students will decide whether term or permanent life insurance is best for them.
- Students will learn the different types of insurance under their chosen family (term or permanent) and select the best option to meet their life insurance needs.

Introduction

- Have students stand up and lead a stretching exercise. Say: “Take a deep breath. Thinking about death is serious and exhausting. It’s also tough to subject your financial situation to an X-ray. But you did it! You can congratulate yourself. Remember, when it comes to life insurance, your needs come first.”
- Tell students: “Now I have good news and bad news. The bad news is that there are more than 1,500 active life insurance companies today, and each company offers several types of products. That adds up to what might seem like an overwhelming array of options.
- “The good news is that there are big similarities between types of life insurance contracts: term insurance usually works about the same from company to company, and so do permanent or cash value policies. The devil’s in the details, so you have to read the fine print.
- “Bottom line: all life insurance policies promise to pay an agreed-upon sum of money if you die while your policy is in force (that is, you’re paying premiums on time and you’re still operating within the contract terms).
- “In Step 2, we’ll cover the pros and cons of the two major families of life insurance, review the options within each family, and help you choose the best policy for you.”

Warm-up Activity

- Ask students: “Does anyone know the difference between term life and permanent life insurance coverage?”
Listen to their answers and discuss.

Families of Life Insurance

- Go over the difference between the two families of life insurance coverage, term and permanent:
  1) **Term life coverage**: provides coverage only for a specified amount of time. That means the face value of your policy will be paid to your beneficiary if you die within the term period, but not afterward—unless the term policy is renewed upon expiration (which usually means higher premiums).
  2) **Permanent life coverage**: the net death benefit of your policy is paid when you die, whether that’s five years from now or fifty. Permanent coverage has potential to build cash value. The premiums you pay
    - Grow with interest;
    - Can, in some cases, be borrowed against;
    - On indexed and variable policies, can be placed within investment accounts.

Pros and Cons of Term and Permanent Life Insurance

- Discuss the pros and cons of term and permanent life insurance presented on the slides:

<table>
<thead>
<tr>
<th>TERM LIFE INSURANCE PROS AND CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pros</strong></td>
</tr>
<tr>
<td>Premiums are lower than for permanent insurance. If you’re young, that means you can buy more coverage when the need for protection is usually greatest.</td>
</tr>
<tr>
<td>It insures specific needs that will disappear over time, such as mortgages or loans.</td>
</tr>
<tr>
<td>Many term insurance policies can be exchanged for or converted to a permanent policy during the term period. This conversion privilege could prove to be very important, especially if your health deteriorates and you are unable to qualify for a new permanent policy. Be sure to check the conversion eligibility period as you review the coverage before applying for a policy.</td>
</tr>
</tbody>
</table>
### PERMANENT LIFE INSURANCE PROS AND CONS

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>As long as the necessary premiums are paid, protection can be guaranteed for life.</td>
<td>Higher premium payments, compared to term life insurance, may make it hard to buy enough protection.</td>
</tr>
<tr>
<td>Premium payments can be fixed or flexible to meet personal financial needs.</td>
<td>It may be more costly than term insurance if you don’t keep it long enough. Premiums are higher than term in the early years of the contract. Policies typically have a high surrender charge in the first few years.</td>
</tr>
<tr>
<td>The policy can accumulate a cash value that can typically be borrowed against.</td>
<td>Policy loans must be paid back with interest or else the beneficiary will receive a reduced death benefit. In rough times especially, policy loans can initiate a race to keep enough cash in the bucket and endanger the policy of lapsing.</td>
</tr>
<tr>
<td>The policy’s cash value may be surrendered partially or wholly for the cash value, or it may be converted to an annuity. (An annuity is an insurance product that provides an income for a person’s lifetime or for a specific period of time.)</td>
<td>The cash value accumulates on a tax-deferred basis in most cases, but this is based on current tax law, which could change over time.</td>
</tr>
<tr>
<td>A “rider” (additional feature) can be added to a policy, giving you the option to purchase additional insurance without taking a medical exam or having to furnish evidence of insurability.</td>
<td></td>
</tr>
<tr>
<td>It pre-funds rising insurance costs.</td>
<td></td>
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</tbody>
</table>

- Explain: “Most people have a finite, relatively short-term need for life insurance. For those people term insurance is the best choice.”
- “The two main reasons to purchase permanent life insurance are:
  1) If you have a dependent, like a special-needs child, who relies almost solely on your income to live and will need it in perpetuity after you pass;
  2) If you have few or no assets and don’t actively plan to have any that would cover your death expenses and/or provide any inheritance for your family.

### Kinds of Term Life Insurance Policies

- Tell students: “Each family of life insurance coverage has various types of policies. There are four basic types of term life insurance.” Go over the types:
  - **Annual Renewable Term.** (Also called Yearly Renewable Term.) Has a premium that increases annually and a level death benefit.
Level Premium Term. Features a level premium for a specified number of years (the premium may or may not be guaranteed). At the end of the term, either the policy terminates or the premium starts increasing every year (usually at a very high rate). Some policies allow you to renew at a favorable rate if you meet the company’s underwriting criteria—that is, your health is good. This is the most popular type of term insurance.

Decreasing Term. People often get this to cancel a mortgage in the event of premature death. Decreasing term insurance has a level premium and a decreasing death benefit. Since coverage goes down over the years, the premiums are lower than for Level Premium Term.

Return of Premium Term. You receive the sum of the premiums paid (sometimes with interest) after a certain number of years, usually the end of the level premium period.

Kinds of Permanent Life Insurance Policies

- Explain that there are different categories of permanent life insurance too.
- Go over the slides:
  - Whole Life. The insurance company promises to pay a certain death benefit when you die, up to a certain agreed-upon age. The age you agree on is based on life expectancy, expense projections, and assumptions about dividend scale. Your premium payments are made at a fixed rate and the policy can’t be cancelled as long as you pay premiums on time. The cash value of a whole life policy increases consistently to equal the face value at the age of expiration. Loans against the cash value may be available. Whole life insurance is relatively inflexible. There are two sub-categories:
    - Current Assumption Whole Life: uses a current dividend scale to set the cash value and the dividend scale is not fixed—it changes and usually is declared annually by the insurance company.
    - Participating Whole Life: all whole life policies are either participating or non-participating. A participating policy charges a higher premium and pays regular dividends. The dividends are not guaranteed, and can be received in several forms (i.e., cash, reduction of premiums).
  - Universal Life. Offers more flexibility as to amount and timing of premiums. The face amount of the coverage also can be changed. Universal life splits up the different components of coverage (interest earnings, mortality costs, and company expenses) and prices them each separately. This can get complicated because the company may change pricing elements according to limits set forth...
in the contract. If a UL policy is handled incorrectly, it can become more expensive as you get older, the cash value can erode, or the policy might lapse. You should order an in-force illustration (a report of current values and assumptions compared with guaranteed minimum values) every 2-3 years.

- **Guaranteed Universal Life:** these policies guarantee the death benefit as long as all scheduled premiums are paid in full when due. They may or may not accumulate cash value. They’re designed to provide coverage past age 95/100 and up to age 120. Most will mature and cash out at age 95 or 100 and leave the person to self-insure.

- **Equity-indexed Universal Life:** a fairly new, very complex form of UL insurance that includes elements of variable life. The major difference is how excess interest is credited. The interest may be fixed annually, or tied to stock market returns based on equity indexes like the S&P 500, Dow Jones Industrial Average, or Lehman Brothers Bond Index (although the policy is not exposed to stock market losses).

  These policies usually have a cap or limit on how much interest can be credited to the policy, so you need to be careful. The companies can adjust the “participation rate,” so you get a lesser percentage of the total return. You should learn which indexing methods are used to measure market return before signing the policy.

- **Variable Life and Variable Universal Life.** Like Universal Life, Variable Life and Variable Universal Life policies provide death benefits and cash values to beneficiaries. But there’s a crucial difference. While premiums paid into most Universal Life policies earn interest within the company’s General Account, Variable Life policies earn interest on a portfolio of investments that you choose from a selection the company offers. The policy can be surrendered for its cash value at any time, or exchanged for an annuity contract. You bear the risk, so VL policies are best for the financially savvy who know how to select a good portfolio.
STEP 3: IDENTIFYING THE HEALTH FACTORS THAT AFFECT INSURANCE RATES

Section Goals:

➢ Students will understand the factors that go into determining a person’s life insurance premium rates.
➢ Students will know about the Medical Information Bureau and how to obtain one’s personal record from the MIB database.
➢ Students will understand why honesty is the best policy when disclosing information to a life insurance company.

Introduction

• Say: “Whether you decide to get term or permanent life insurance, the company will review both your physical and your financial health to decide how high a premium you will pay. Several factors go into the decision.”

Warm-up Activity

• Ask students: “Why do you think life insurance companies want to know about your health?”
• Listen to their answers and discuss.
• Ask students: “Which physical health factors do you think life insurance companies might look at to decide your rates?”
• Write a few answers on the board to discuss later.
• Tell students: “Life insurance rates are figured during the underwriting process, where the company evaluates your health and assigns you a score, which is a lot like a credit score. If your score is good, you’ll get preferred or standard rates. A lower score results in a rated premium which factors in the higher level of risk the company believes it’s taking to insure you.”

Health Evaluation

• Tell students that life insurance companies are likely to ask them about several aspects of their physical health and medical history.
• Go over and discuss the slide:
  o Tobacco Use
  o Family Health History
  o Driving History
  o Blood Pressure
  o Cholesterol
  o Cholesterol/HDL Ratio
  o Alcohol/Substance Use
  o Height/Weight Ratio (BMI)

YOUR FINANCIAL HEALTH

If you are considering large amounts of coverage or if the insurance you are requesting is tied to a business, insurance companies will likely ask you questions about your financial life. This is called financial underwriting. What the company will be looking for is an insurable interest, meaning that there is a specific need or financial logic for the coverage. If someone who makes $45,000 a year requested coverage of $10 million, the insurance company would question the insurable interest. Why would this person need so much life insurance, and would he or she have the financial wherewithal to continue to pay the premiums over time? Insurance companies are specifically looking for fraud.

You, as an individual applicant, may have to justify to the insurance company the amount of coverage applied for. Life insurance companies are sensitive to the over-insurance problem—where someone is insured for more than an insurable interest. When someone applies for a large amount of life insurance, there is a reason why. Financial underwriting seeks to find out why, and to ensure that the amount of coverage can be justified. Therefore, the amount of coverage bears a definite relationship to the applicant’s net worth and income. The underwriter needs to know the purpose of the coverage applied for. This helps the underwriter determine if the beneficiary’s economic loss—in the event of the insured person’s death—is in line with the total amount of insurance in-force.

What is the Medical Information Bureau?

• Go over the handout on the next page with students.
WHAT IS THE MEDICAL INFORMATION BUREAU?

If you have ever applied for life, health, or disability insurance, you are probably in the Medical Information Bureau (MIB) database. MIB is a valuable asset both to the life insurance industry and to the public. The MIB helps to detect insurance fraud, which runs up claim costs, in turn affecting everyone who pays life insurance premiums.

MIB is an information clearinghouse that stores information about processing and underwriting cases from more than 600 insurers. Member companies can send an inquiry to MIB and receive a short, coded report with data about the applicant’s medical history and other relevant information that helps the company assess the applicant’s risk. MIB carefully guards the privacy of information in its database. Only member companies may access it. All member companies must agree to a strict set of standards for using the data.

MIB is a taxpaying organization supported by dues from member insurance companies based on their total insurance in-force and business written in the previous year. More than 90% of individual life insurance policies and 80% of health and disability policies issued in the US and Canada are estimated to be subject to the MIB system.

You can get a peek at the information the MIB has on you. Request an annual record disclosure without charge by calling the MIB toll-free at 866-692-6901 (866-346-3642 for the hearing impaired). According to the MIB website (www.mib.com), here are a few things to keep in mind when you request a record:

- If you haven’t applied for individually underwritten life, health, or disability insurance within the last seven years, MIB will not have a record on you.
- You’ll need to give personal identification information to help MIB locate your record, which may verify identification information you provide to other consumer reporting agencies.
- You will be asked to certify under penalty of perjury that the information you provide about yourself to request MIB disclosure is accurate and complete and that you are the person requesting disclosure.
- Upon receipt of a) your request for a Record Search and Disclosure and b) proper identification, MIB will initiate the disclosure process and provide you with the nature and substance of information that MIB has in its files pertaining to you; the name(s) of member companies reporting information to MIB about you; and the name(s) of MIB member companies that received a copy of your MIB record during the twelve months preceding your request.

You have the right to correct any inaccurate or incomplete information that may appear in your record.
• Say: “Don’t be discouraged if you’re not in tip-top shape. Different insurance companies have different standards. And there are several reasons why an initial offer from a life insurance company may not be favorable."
• Go over the slide:
  o Poor communication about your health
  o The MIB records aren’t entirely accurate
  o The medical director for the insurance company learns something your personal physician hasn’t told you
  o The insurance carrier doesn’t have the full picture
• Tell students: “That’s why it’s so important to take a comprehensive and proactive approach to understanding your own health and the records about it.
• “If the insurance company offers you a rated premium, it’s critical that you find out why and whether the rating is justified.”
• Say: “Just remember that honesty is the best policy during the underwriting process. If you fib, it can come back to bite you (or your beneficiary) later.”
• Go over the slide:
  o Once you’ve submitted an application and paid your first premium, the insurance company will issue a **conditional receipt**.
  o **Conditional receipt** binds your coverage effective the date of your application, if the underwriting process determines you’re eligible.
  o If you died in an accident the day after submitting the application, your beneficiary would receive the full death benefit...
  o **Unless** the reason you die is in any way related to an undisclosed medical condition. Then your beneficiary would **not** receive the death benefit.
  o Most policies are issued with an **incontestability clause**: unless you don’t pay your premium, the company can’t contest the contract during your lifetime as long as the original policy is in force, no matter how your health changes.
  o But there’s usually a two-year window after the policy goes into force during which the company **can** contest the contract, for example, if they learn that you haven’t disclosed a health condition.
  o Honesty is the best policy! Don’t risk it.
  o Find a **trusted adviser** who represents multiple companies. Your adviser can discuss potential areas of concern with underwriters before you ever fill out an application or take any tests.
PART II: EVALUATE COMPANIES AND AGENCIES AND PURCHASE A POLICY

STEP 4: SELECTING A LIFE INSURANCE COMPANY

Section Goals:

- Students will become familiar with the agencies that rate life insurance companies.
- Students will understand how to evaluate life insurance companies based on ethical standards and client complaints.
- Students will work through a process to select the best life insurance company that offers their desired policy.

Introduction

Tell students: “There are several reasons why people might be shopping for life insurance. Now that you understand how much and what type of insurance you’re looking for, it’s time to find the best insurance company for you.”

Warm-up Activity

- Go over the reasons why students might be looking for life insurance:
  - You’ve never purchased life insurance before
  - You have a term policy that’s near its expiration date, and you’re not completely satisfied with
    - The company
    - The adviser who steered you there
  - You have a new, separate need for life insurance and are considering options
- Ask students: “Which of these scenarios best fits your situation?”
- Listen to their answers and discuss.
Where to Start Researching Insurance Companies

- Tell students that the simple rule of thumb is to identify the top insurance companies that sell the type of policy you want.
- Go over the slide:
  - Hold companies to the following set of benchmarks:
    - Does the company have one of the top-tier ratings (1\textsuperscript{st}, 2\textsuperscript{nd}, 3\textsuperscript{rd}, or 4\textsuperscript{th} highest) from one or more of the independent agencies that rate life insurance providers?
    - Does the insurance company hold itself to a set of ethical standards?
    - How many complaints—and of what nature—are filed against the company?
- Tell students: “Here’s my deal with you. In this step I’ll hook you up with the tools and resources you need to research each of these benchmarks. Your part is to do the legwork. Sound good?”
- Get their commitment.

Agencies that Rate Life Insurance Companies

- Tell students that there are four major agencies that independently rate life insurance providers. A top rating from at least three of the four agencies is a good indication that the company is in great standing.
- Say: “Each agency’s methodology differs somewhat from the others. But they all consider the following factors”: (show slide)
  1. Financial leverage
  2. Management stability
  3. Recent performance
  4. Overall financial health
  5. External factors
     - Competition
     - Diversification
     - Market presence
- Say: “You might think big insurance companies are exempt from economic meltdown, but that’s not the case. For example, Mid-Continent Life, a large Oklahoma firm, was taken over by the state’s insurance department in 1997. The leading factor behind Mid-
Continent’s failure was lack of diversification. They marketed primarily one policy type, and when that product turned out to be underpriced, the whole company was at risk.”

- Ask students: “What might happen to the policyholders in a situation like what happened with Mid-Continent?”
- Listen to their answers and discuss.
- Say: “That’s why it’s so important to do your homework before you buy a policy.”
- Go over the four agencies on the slide.
  1. A. M. Best Company  [www.ambest.com](http://www.ambest.com)  908-439-2200
  2. Fitch  [www.fitchratings.com](http://www.fitchratings.com)  800-753-4824

**Ethical Standards**

- Tell students their next piece of research is to determine whether the life insurance company they’re considering adheres to a set of ethical standards.
- Say: “Each carrier should have its own set of ethical standards and also must comply with the basic guidelines set forth by each state’s insurance department.”
- Students can find a directory of state insurance departments at [www.lifeinsurancetoolbook.com](http://www.lifeinsurancetoolbook.com).
- Tell students that if the company they’re considering doesn’t show up in the state department directory, they should run the other way.

**Complaints against the Company**

- Finally, students should investigate any complaints filed against the companies they’re researching.
- Tell students: “Each state maintains data on the number of complaints filed against an insurance company and any pending class-action lawsuits. Find the state insurance department at [www.lifeinsurancetoolbook.com](http://www.lifeinsurancetoolbook.com), or go to the National Association of Insurance Commissioners (NAIC; [www.naic.org](http://www.naic.org)). Do a search for the name of the insurance company you’re researching. Then run an online search for the company’s name to see if any negative comments have been posted on unofficial websites.”
- Here are some things to look for:
  - Multiple, recent, frequent complaints
- Complaints indicating that the company is uncomfortably aggressive during the initial contestable period
- Complaints that beneficiaries don’t receive death benefits promptly

<table>
<thead>
<tr>
<th>INSURANCE COMPANY RESEARCH WORKSHEET</th>
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<tr>
<td><strong>COMPANY A:</strong></td>
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<td>A.M. Best Rating</td>
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<td>Net Premiums Written</td>
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<td>Net Operating Earnings</td>
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<tr>
<td>NOTES: Complaints, etc.</td>
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STEP 5: CHOOSING AN AGENT OR ADVISER

Section Goals:

- Students will understand the importance of finding a qualified life insurance agent and/or adviser.
- Students will understand where to look for high-quality referrals and how to evaluate an adviser’s credentials and qualifications.

Introduction

Tell students: “I really recommend finding a qualified adviser to help you weed through all the life insurance options available. It’s one of the best ways to get an objective opinion. In this section we’ll go over three trusted places to look for an adviser and what questions to ask in order to make a good selection.”

Warm-up Activity

- Tell students: “The life insurance system has changed with today’s economy. It used to be that life insurance products were sold by people who only sold life insurance. Now insurance salespeople sell multiple products and are called things like ‘financial planner’ or ‘financial adviser.’ And agents are different too: there used to be a lot of captive agents, meaning they only sold one company’s products. Now most agents are brokers for several different companies.”
- Ask: “What qualities do you think you might look for in a life insurance adviser?”
- Listen to their answers and discuss.
Finding an Adviser

- Go over the State Insurance Department Compliance box (below).

**STATE INSURANCE DEPARTMENT COMPLIANCE**

Any person selling life insurance must be licensed. As with an attorney needing to pass the bar in any state in which he/she intends to practice, life insurance salespeople are required to pass an exam administered by each state’s department of insurance, as well as to enroll in continuing education seminars on a regular basis. **The representative you ultimately select must be licensed in the state where you, the insured, either work or live.** You can find a directory of these departments on [www.lifeinsurancetoolbook.com](http://www.lifeinsurancetoolbook.com). The resources and compliance standards within state insurance departments can sometimes be more lax in some states than in others. On most state insurance departments’ websites, you can research whether an insurance representative is licensed.

- Tell students that you’re going to give them three recommendations for places to start looking for an adviser.
- Go over the slide:
  - Society of Financial Services Professionals (SFSP): [www.financialpro.org](http://www.financialpro.org)
  - The Life and Health Insurance Foundation for Education: [www.lifehappens.org](http://www.lifehappens.org)
  - Financial Industry Regulatory Authority (FINRA): [www.finra.org](http://www.finra.org)
- Explain the professional designations (see box below).

**WHAT DO ALL THOSE PROFESSIONAL DESIGNATIONS MEAN?**

Life insurance agents may earn such professional designations as Chartered Life Underwriter (CLU) and Life Underwriter Training Council Fellow (LUTCF). Agents who also are financial planners may carry such credentials as Chartered Financial Consultant (ChFC), Certified Financial Planner (CFP), or Personal Financial Specialist (CPA-PF). These designations indicate that the agent has completed advanced training, passed rigorous exams, and is serious about professional development. But the CLU is the only one that specifically focuses strictly on life insurance and is by far the most comprehensive in the life insurance area. I strongly suggest that the adviser you pick should hold at least this distinction. Find out if an agent has a CLU designation at [www.designationcheck.com](http://www.designationcheck.com).
Before you Meet

- Tell students: “Here’s a list of things to remember before you meet with a potential adviser."
- Go over the slide:
  - A good deal will still be there tomorrow.
  - Bring your personal needs and health situation assessments with you.
  - If it looks too good to be true, it probably is.
  - Practice saying NO.
  - Don’t sign anything until you’ve had adequate time to review the material.
  - Inform the adviser that you need to go over the material with someone else first. If he or she discourages you from doing this or tells you this is a one-time deal and you have to act now, beware.

SPECIAL NOTE FOR SENIORS

The California Department of Insurance has updated the California Insurance Code to establish several conditions for an acceptable Senior Designation. Information on this code section and a list of acceptable and unacceptable designations can be found at the www.lifeinsurance/toolbook.com resources section: consumer/regulatory) or on the California Department of Insurance website at: http://www.insurance.ca.gov/0200-industry/0050-renewlicense/0300-cont-education/Senior-Designations.cfm.
STEP 6: SELECTING POLICY COMPONENTS AND RIDERS

Section Goals:

- Students will learn how to select a beneficiary.
- Students will understand policy riders and identify the riders most appropriate for their needs.
- Students will become prepared for the underwriting process.

Introduction

- Tell students: “Now you’ve put a few insurance companies under the microscope, and you have a better idea of what a qualified adviser looks like. The next steps are to choose a beneficiary, decide which policy riders you want, and get ready for the underwriting process.”

Warm-up Activity

- Ask students: “What is a beneficiary?”
- Listen to their answers and discuss.

Choose your Beneficiary or Beneficiaries

- Tell students: “A beneficiary is someone you designate to receive the funds in your life insurance policy in the event of your death.”
  - Primary beneficiary is the first person to whom the funds go
  - Contingent beneficiary will receive the funds if the primary beneficiary is also deceased
- Say: “You may name multiple primary and/or contingent beneficiaries. The funds would be divided between them in the manner you designate.”
- Tell students that how they choose a beneficiary depends in part on state laws, and they should check with an attorney before making the selection. Go over the following points:
  - Life insurance proceeds typically avoid probate and are distributed straight to your beneficiary.
Life insurance proceeds usually are not subject to income tax.

- Say: “If you have multiple beneficiaries, you need to define how the death benefit will be distributed if a beneficiary passes before you do.” Go over the options:
  - **Per Capita.** The remaining beneficiaries equally divide that share of the proceeds in addition to their own shares, either
    - By head or by individual, or
    - To share equally.
  - **Per Stirpes.** The share of the beneficiary who is deceased passes to that person’s heirs rather than to your remaining beneficiaries. Thus benefits are divided among living members of a class of beneficiaries and the descendants of deceased members.

- Tell students: “Be sure to ensure that all the documents are clear, concise, unambiguous, and error-free. Consult with an estate planning attorney to make sure your wishes are accurately documented.”
- Explain that students also must consider what would happen if they died at the same time as their primary beneficiaries, i.e., in a car crash where it was impossible to tell which of them passed away first. They should understand how their state laws apply to such situations.

**Identify Appropriate Riders**

- Say: “A policy rider is an optional benefit that can be added to a policy for an extra premium. It’s kind of like choosing extra features on a new car. The legal definition is anything that amends the original policy in any way.”
- Go over the checklist.
I would like to have access to my death benefit prior to my death if I am diagnosed with a terminal illness.

*You may be interested in an Accelerated Death Benefit rider, which allows payment of a portion of the face amount before your death if you’re diagnosed with a terminal illness or injury.*

I would prefer that my beneficiaries receive an increased death benefit if I pass away as the result of an accident.

*You may be interested in an Accidental Death Benefit, which provides a benefit in addition to the face amount of a policy, payable if you die as a result of an accident. Sometimes this is referred to as a Double Indemnity rider.*

I have (or will have) a permanent policy and would trade a smaller cash value and smaller premium for added term insurance to cover specific needs.

*You may be interested in an Annual Renewable Term rider. This is term life insurance that is “blended” into the policy, which reduces the premium and will reduce the cash value.*

I have children and am interested in covering their untimely passing.

*You may be interested in a Child rider. This provides insurance coverage for your children.*

I would prefer that my death benefit increase with annual increases in the Consumer Price Index (inflation).

*You may be interested in a Cost-of-Living rider. This allows you to purchase one-year term insurance equal to the percentage change in the consumer price index with no evidence of insurability.*

I would prefer that my beneficiaries have access to some of my death benefit in the instance that I develop a permanent disability.

*You may be interested in a Disability Income rider. This is more common with older policies, but this type of rider typically pays a monthly benefit of 1 percent of the death benefit in the event that you become permanently and totally disabled.*

I would like to purchase additional coverage at certain intervals without providing evidence of insurability (no additional underwriting).

*You may be interested in a Guaranteed Insurability option.*

I would like to be able to collect part of my life insurance benefits prematurely to pay for medical care in the unfortunate event of a catastrophic disease or illness.

*You may want to consider a Living Benefits rider (also known as a Terminal Illness rider).*
I would like to insure an eligible business or other family member.
*You may want to consider an Other Insured rider.*

I would like to insure my spouse or domestic partner.
*You may be interested in a Spousal rider. Check with your local and state regulations, a life insurance adviser, or with an attorney if you’re considering covering a loved one not legally considered a “spouse.”*

I would like to have the cost of insurance waived in the event that I become totally and permanently disabled.
*You may want to consider a Waiver of Cost of Insurance rider. This option is most common in universal life policies.*

I would like to have premiums waived in the event that I become totally and permanently disabled before a specified age.
*You may want to consider a Waiver of Premium rider. These are most common with term and whole life policies.*

Apply for the Policy

- Say: “Now it’s time to get ready for the actual application process.”
- Go over the checklist on the next page.
1. Complete your application and any required forms. Most companies will offer conditional or limited coverage up to a set amount of coverage before the actual policy initiation date if you’ve evidenced insurability.

2. Compile a list of all your physician and medical group names. Be sure to include contact information, dates consulted, and purpose/outcome for each. Also include a list of all prescription and non-prescription medications and their dosages, as this information may be needed for the application, exam, or personal history interview.

3. Submit your application to the life insurance company for underwriting consideration. The process typically will take 4-6 weeks, but it can take months if you’re requesting a large amount of coverage and/or if you have a complex medical history.

4. Prepare for your physical. Most insurance companies require some type of paramedical exam during the application process, usually consisting of height/weight check, blood pressure check, and blood and urine specimens. The exam is often more comprehensive at older ages and for larger amounts of coverage and can include a more thorough exam by an MD.

5. Order your medical records. This can take 3-4 weeks depending on your physician or medical group.

6. Prepare for a personal history interview. This will be a phone interview done by a third party to verify information provided on the application and paramedical exam and additional questions from the underwriter. The company is making sure all questions are answered consistently. Get your ducks in a row!

7. Complete any additional questionnaires. These are often required for specific medical conditions and hazardous work-related activities or hobbies.

8. Make the final decision. After the underwriting steps are completed, either an offer of coverage will be made or coverage will be declined. If your application is rejected, make sure it is crystal clear to you why you were denied. Sometimes miscommunications about your health might hamper your acceptance.
PART III: UNDERSTAND, MAINTAIN, AND MONITOR YOUR POLICY OR TERMINATE IT

STEP 7: ASSESSING AND MONITORING YOUR POLICY

Section Goals:

➢ Students will understand the importance of reviewing life insurance policies regularly and evaluating the need to update coverage.
➢ Students will become familiar with in-force illustrations and understand the language used in those reports.
➢ Students will learn how to work through the options for replacing or terminating a life insurance policy.

Introduction

● Tell students: “Your life insurance needs don’t end the minute you buy a policy. Policies are living things, with many components that affect their performance. For example, permanent policies build cash value over time. If you’ve taken out a policy loan, that has an impact on your cash flow. And some types of life insurance policies, like Universal/Variable/Equity Indexed, require you to pay vigilant attention to premium payments or investment portfolios. You need to stay very aware of how much money it takes to keep your policy in force, and whether you can afford to keep it in force. Term insurance is a little less complicated, but there are still things you need to monitor over time.”

Warm-up Activity

● Have students review the types of life insurance policies they chose to purchase.
● Tell them, “The policy monitoring processes are different based on whether your policy is term or permanent.”
Term Life Insurance Monitoring

To begin the monitoring process, if you don't have your policy with its data pages and schedules of current and guaranteed premiums, get in touch with your life insurance carrier and request a current premium schedule. Fill in the worksheet below with the information you already know—which should be the majority of it—but edit as necessary once the illustration arrives.

Basic Information

Your name/policy owner: __________________________

Insurance carrier: ________________________________

Ratings (see Step 4 for more information about ratings):

- Current A.M. Best rating: □
  If rating has changed since purchase, is the change □positive or □negative?

- Current Fitch rating: □
  If rating has changed since purchase, is the change □positive or □negative?

- Current Moody's rating: □
  If rating has changed since purchase, is the change □positive or □negative?

- Current Standard & Poor's rating: □
  If rating has changed since purchase, is the change □positive or □negative?

Policy number: ________________________________

Issue date: __________________________ Insurance age: ______

Primary beneficiary: ________________________________

Contingent beneficiary: ________________________________

Face amount/Maximum death benefit: $ ____________________
Changing how often you pay your premium could save you money (it may be a lot!). Almost always, you have a choice of paying premiums monthly, quarterly, semiannually, or annually. Insurance companies typically charge extra when you pay other than annually. The formula used to calculate the extra charges per year is expressed as an annual percentage rate and in dollars. (An online calculator can be found at www.lifeinsurancetoolbook.com in the resources section.)

**Premium Mode:**

- **Monthly**
- **Quarterly**
- **Semiannually**
- **Annually**

**Modal premium:**

**Annualized current premium:**

**Premium (if switched to annually):**

How much could you save if you switched to an annual premium (if not already annual)?

Did less-than-ideal health or fitness prevent you from getting standard (preferred) rates when you purchased the policy?

- **Yes**
- **No**

(If yes, has your health or fitness demonstrably improved since the policy went in force?)

**Yes**

**No**

**Type of Coverage**

Which type of term policy do you have? (Check all that apply.)

- **Annual Renewable Term (ART)/Yearly Renewable Term (YRT)**
- **Level Premium Term** (Complete questions below if checked.)

1. For how many years of the policy will the premium remain level?  
   
2. How many years in the level premium period are remaining?  
   
3. Are the premiums guaranteed level for that period?

   - **Yes**
   - **No**
RE-ENTRY:
If applicable, this is the year when you will need to re-qualify for preferred rates.

Decreasing Premium Term (Complete questions below if checked.)
1. Which kind of debt or financial commitment did you use the insurance to cover?
   - □ Mortgage  □ Student debt  □ Credit card debt
   - □ Other (If “other,” use the space below to explain.)

2. Have you significantly paid off that debt or financial commitment since the policy was activated?
   - □ Yes  □ No
   If “yes,” how necessary do you believe it is to maintain this policy as is?
   - □ Very necessary  □ Not necessary  □ Don’t know

Return of Premium Term
1. After which year does this policy begin to generate a cash value?
2. Has this policy begun to build cash value as laid out in the original pro-forma illustration?
   - □ Yes  □ No
3. How much cash value will it generate in all?
   - $

Answer the following questions regardless of which type of term policy you’ve checked.
1. Is there a re-entry term premium rate available upon policy expiration?
   - □ Yes  □ No
2. What is the maximum re-entry term premium rate?
   - $
3. Does the re-entry premium require full requalification?
   - □ Yes  □ No
CONTESTABLE PERIOD:
This is a period of time (usually the first 2 years of a policy) during which the insurance company can revoke your policy.

LAST CONVERSION DATE:
This is the date by which you must convert your term life insurance to permanent life insurance—if you choose to do so—without evidence of insurability.

RIDERS:
These are optional additions to the primary policy (to insure a child, for example).

4. Does re-entry come with a new contestable period?
   □ Yes  □ No

5. By what date are you required to apply for re-entry, if you choose to do so?
   ___/___/20___

6. Do you consider this re-entry rate affordable?
   □ Yes  □ No

7. Does the policy provide the option to convert to permanent insurance after a certain year?
   □ Yes  □ No

8. By what date are you required to apply for conversion, if you choose to do so (this is known as the last conversion date)?
   ___/___/20___

9. List the riders, if any, you added to your policy, along with how much extra those riders cost in premiums per premium payment and your assessment of whether the rider is still necessary or desired.
   • Rider 1: $__________
       Still necessary? □ Yes  □ No
   • Rider 2: $__________
       Still necessary? □ Yes  □ No
   • Rider 3: $__________
       Still necessary? □ Yes  □ No
   • Rider 4: $__________
       Still necessary? □ Yes  □ No
NOTE: Skip to the next section (Step 8) if you are considering replacing a term policy with a permanent life insurance policy.

Permanent Life Insurance Monitoring

- Tell students: “To begin the monitoring process, you’ll need get in touch with your life insurance carrier and request a current in-force illustration. Here’s a letter template you can use to request the in-force illustration. Note in particular the items in italics. These are the two primary issues you’ll need to address when monitoring a permanent life insurance policy. While you’re waiting for a response from your insurance company, you can fill in the worksheet with the applicable information you already know. Use your original sales illustration and policy as sources, and you can edit them as needed once the in-force illustration arrives.”

Note: There are separate in-force letters for each type of permanent policy (whole life, Universal Life, Equity Indexed, and Variable Life). An in-force illustration is necessary for all permanent/cash value policies. The following are sample request letters for you to adapt and use.

[In-force request letter (whole life)]

Date
Attn: Policy Owner Services
[Carrier Name] and [Address]
Re: [Policy Number], [Insured Name], [Owner Name, if different than insured name]

Dear Sir or Madam:

In reference to the life insurance policy (policies) captioned above for which I am the policy owner, please provide these two in-force proposals [Note: depending on your situation, you may need additional in-force proposals]:

1. Illustrate to maturity with current premiums based on current dividend scale (or interest rate) and mortality assumptions.

2. Illustrate to maturity the minimum premium required to endow the policy at maturity based on current dividend scale (or interest rate) and mortality assumptions.

Please also indicate the current surrender value, loan value, and the cost basis in the policy to date. Please call me if you have any questions, and thank you for your prompt attention to this matter.

Sincerely,

[Your printed name and signature]
[In-force request letter (Universal Life)]

Date
Attn: Policy Owner Services
[Carrier Name] and [Address]
Re: [Policy Number], [Insured Name], [Owner Name, if different than insured name]

Dear Sir or Madam:

In reference to the life insurance policy (policies) captioned above for which I am the policy owner, please provide these two in-force proposals [Note: depending on your situation, you may need additional in-force proposals]:

1. **Illustrate to maturity with current premiums based on current interest rate and mortality assumptions.**

2. **Illustrate to maturity the minimum premium required to endow the policy at maturity based on current interest rate and mortality assumptions.**

Please also indicate the current surrender value, loan value, and the cost basis in the policy to date. Please call me if you have any questions, and thank you for your prompt attention to this matter.

Sincerely,

[Your printed name and signature]

---

[In-force request letter (Equity Indexed/Variable Life)]

Date
Attn: Policy Owner Services
[Carrier Name] and [Address]
Re: [Policy Number], [Insured Name], [Owner Name, if different than insured name]

Dear Sir or Madam:

In reference to the life insurance policy (policies) captioned above for which I am the policy owner, please provide these two in-force proposals [Note: depending on your situation, you may need additional in-force proposals]:

1. **Illustrate to maturity with current premiums based on a gross hypothetical return rate of XX% and current mortality & expense assumptions.**

2. **Illustrate to maturity the minimum premium required to endow the policy at maturity based on a gross hypothetical return rate of XX% and current mortality & expense assumptions.**

Please also indicate the current surrender value, loan value, and the cost basis in the policy to date. Please call me if you have any questions, and thank you for your prompt attention to this matter.

Sincerely,

[Your printed name and signature]
Basic Information

Your name/policy owner: ____________________________

Insurance carrier: ____________________________

Ratings (see Step 4 for more information about ratings):

- Current A.M. Best rating: ______
  If rating has changed since purchase, is the change
  □ positive or □ negative?

- Current Fitch rating: ______
  If rating has changed since purchase, is the change
  □ positive or □ negative?

- Current Moody’s rating: ______
  If rating has changed since purchase, is the change
  □ positive or □ negative?

- Current Standard & Poor’s rating: ______
  If rating has changed since purchase, is the change
  □ positive or □ negative?

Policy number: ____________________________

Issue date: ____________________________ Insurance age: ______

Primary beneficiary: ____________________________

Contingent beneficiary: ____________________________

Face amount/Maximum death benefit: $ __________

Premium mode:
  □ Monthly □ Quarterly □ Semiannually □ Annually

Modal premium: $ __________

Annualized current premium: $ __________
Premium (if switched to annually): $ ____________

How much could you save if you switched to an annual premium (if not already annual)?: $ ____________

Did less-than-ideal health or fitness prevent you from getting standard (preferred) rates when you purchased the policy? □ Yes □ No

(If yes, has your health or fitness demonstrably improved since the policy went in-force?) □ Yes □ No

Modal premium: $ ____________

Annualized current premium: $ ____________

Type of Coverage
Which type of permanent policy do you have? (Check all that apply.)

☐ Whole Life
☐ Universal Life
☐ Equity Indexed
☐ Variable Life or Variable Universal Life

List the riders, if any, you added to your policy, along with how much extra those riders cost in premiums per premium payment and your assessment of whether each rider is still necessary or desired.

Rider 1: $ ____________
Still necessary? □ Yes □ No

Rider 2: $ ____________
Still necessary? □ Yes □ No

Rider 3: $ ____________
Still necessary? □ Yes □ No

Rider 4: $ ____________
Still necessary? □ Yes □ No

Cash Value Health and Performance
What is the current accumulated cash value? $ ____________
What is the interest rate? _______ %
What is the annual rate of return? _______ %

This number is a standard calculation of the rate of return, or you can calculate an internal rate of return calculation. What is the policy's maximum available value? $ ____________
POLICY LOANS:
These are loans taken out against the account.

LOAN DEBT:
This is the dollar amount borrowed against the policy’s accumulated value: it is the sum total of policy loans outstanding.

INTEREST CREDITED OR CHARGED TO THE LOAN ACCOUNT:
This is the net interest credited/charged on any loan debt for the specified period.

NET CASH SURRENDER VALUE:
This is the current cash value of the account, minus any outstanding policy loans or withdrawals against the policy.

WITHDRAWALS:
This is cash taken permanently from the policy, and it cannot be repaid. Typically, the death benefit is reduced on a dollar-by-dollar basis in the amount of the withdrawal.

SURRENDER CHARGE:
This is the charge for early surrender of the policy. This is the difference between the accumulation (or account) value and the net cash surrender value. The surrender charge typically decreases each year and disappears after a certain number of years.

Have policy loans been taken against the account? □ Yes □ No
If “yes,” what is the cumulative value of the loan debt taken out against the account? $ __________
What is the loan interest rate? ________%
What is the interest credited on the borrowed (loaned) funds? $ __________
(Note: the insurance company pays a lower rate than its regular dividend/interest rate on borrowed funds; this translates into a net rate on borrowed funds.)

Have all of those policy loans been paid back with interest?
□ Yes □ No
If “no,” what balance remains to be paid, including interest? $ __________

And what, then, is the net cash value of the policy? $ __________

Have you made any withdrawals from this net cash value?
□ Yes □ No
If “yes,” how much? $ __________
What is the current surrender charge? $ __________

Is the policy □ participating or □ non-participating?
If “participating,” what is your dividend option? (Check one.)

- Cash
- Purchase of fully paid-up life insurance in small increments with each dividend
- Reduction of the next premium payment
- Retention by the company at interest
- Purchase of one-year term insurance in an amount equal to the then cash value
Is Your Permanent Policy Performing as Expected?

Now for the big questions regarding your policy. Upon reviewing your in-force illustration, answer the following questions:

Is the policy fully funded? □ Yes □ No

In other words, will it continue to maturity (maximum age) with current premiums based on current assumptions?

- If “Yes,” relax and review it again in 2 to 3 years. It looks like everything’s going as planned.
- If “No,” continue to the next question.

Will the policy lapse prior to the contract maturity date? □ Yes □ No

- If “No,” skip to the last question below.
- If “Yes,” what premium are you required to pay to fund the policy to maturity, based on current assumptions? $__________________

Now answer the next question.

Can you afford to pay this premium? □ Yes □ No

- If “Yes,” great. But you may want to pay back any policy loans or withdrawals outstanding or catch up on premium payments if you’d like to get your premiums back to normal.
- If “No,” answer the next question.

Is the policy’s expected lapse date acceptable? For example, is the date well past your life expectancy? □ Yes □ No

- If “No,” your policy is in serious danger of lapsing and leaving you short of your goals.

Is the policy overfunded? (That is, have you paid more into it than required?) □ Yes □ No

(This is usually more common with older policies with a long history of premium payments.)

- If “No,” you’re still in fine shape, as long as the policy is not in danger of lapsing.
- If “Yes,” you may want to ask your life insurance company if premiums still need to be paid at all, or if your premium payment can be reduced. This can sometimes be accomplished through a phone call or by an additional in-force illustration request letter.)
• Explain to students: “As part of your annual policy review, especially if you own permanent life insurance policies, you should use financial analytics to take a look at the internal rate of return calculation on the cash value buildup. You also need to understand how the various factors are applied to the policy every month.”
  o First, the premium paid is added to the cash value from the end of the prior period.
  o Second, mortality costs and other expense charges are subtracted.
  o Third, interest is credited to this value (after costs).
  o Therefore, the interest credited to the policy is not the actual internal rate of return.
  o The internal rate of return, an important financial yardstick, is almost always less than the current interest crediting rate.
• Say: “By understanding, maintaining, and monitoring your policy, you can avoid any unpleasant surprises and be sure that your policy’s there when you need it. Based on your review, however, you might decide to replace a policy. In the next section, we’ll talk about how to make the best possible informed decision.”
STEP 8: REPLACING A POLICY

Section Goals:

- Students will learn how to evaluate the facts and circumstances in their policy review that may alter their life insurance needs.
- Students will understand when replacing a life insurance policy may be in their best interests.

Introduction

- Tell students: “OK, now you know it’s a good idea to review your life insurance policy regularly to make sure you’re getting the value you expected for your premium dollars. But we also know that, in the real world, things change. What you’re getting out of your policy could be affected by policy performance or fluctuations in the company’s financial status, or new products may show up in the marketplace. And we’ve already talked about how your needs might change over time.

  “Based on your review, you may decide that your policy needs to be replaced. A replacement could be internal (with the same company) or external (switching to a new provider).

  “Replacement could be a good idea or a very bad one. The rule of thumb is that replacing an existing life insurance policy with a new one usually is not in your best interests. In this section we’ll go over a good process to help you make that decision.”

Warm-up Activity

- Ask students: “Can you think of some things that might warrant replacing your life insurance policy?”
- Listen to their answers and discuss.
Basic Facts

- Explain that state law determines the legal meaning of replacement in terms of life insurance, and definitions vary a lot from state to state. Students should start by finding out how their state defines the term.
- Have students go to the National Association of Insurance Commissioners’ website (www.naic.org) and look for the link to their state’s insurance department.
- If they don’t find their state’s insurance code and replacement regulations there, they should contact the state insurance department directly and request the information.
- Tell students: “Whether you need replacement also depends on what type of policy you have, so you should know whether your policy is term or permanent. We’re going to go over the decision-making process for each type.”

Term Life Insurance Policy Replacement

- Tell students: “Term life insurance policies are fairly simple. If you die while the policy is in force, your beneficiary receives 100% of the death benefit. If you die after the policy expires, your beneficiary gets nothing. Because these policies are so simple, there are few wise reasons to replace them.”
- Say: “In order to decide whether your term policy needs replacing, ask yourself these questions:
  - What do you want a new policy to do that your current policy doesn’t?
  - Have you contacted your life insurance company to find out whether your current policy can be modified to meet your new objectives?
- Tell students: “If you answered “no” to the second question, do that first. You may be able to accomplish your goals with a simple modification.
- “If you have contacted your insurance company and your policy can’t be modified to meet your new needs, go on to compare your old policy with a desired replacement policy. Look at the following:
  - The ratings you recorded in Step 6
  - Any disadvantages in the replacement policy
  - Any new fees
- “Now that you’ve looked at the policies side-by-side, is the replacement worth it? Does it provide the same value—or more—for more or less money?
- Say: “If you decide to replace, be sure to meet with a qualified, ethical insurance adviser before you make the final decision.”
Permanent Life Insurance Policy Replacement

- Tell students: “Permanent life insurance policies are much more complex due to the cash-value element. That means it’s harder to analyze permanent policies for replacement. It will be especially important for you to meet with a qualified, ethical adviser to discuss permanent policy replacement.
- “State insurance regulations require that both the proposed replacing company and your existing company give you current illustrations to consider during a replacement decision.
- “Here are some important points to keep in front of you while you compare.”
- Go over the slide:
  - The illustrations will show the effects of the surrender charge on both policies.
  - The terms ledger and illustration mean the same thing.
  - Reduced-scale illustrations (showing lower interest-rate-crediting assumptions) should be provided on both policies to demonstrate how volatility would affect performance under different circumstances.
  - The reduced-scale illustrations should be consistent with NAIC regulations.
  - For Variable Life policies, also look at the sub-accounts (with the help of an investment analyst).
- Say: “Don’t rely on the illustrations alone to make a decision. You need more information.
- “Try to find out the underlying assumptions for the in-force illustration on the current policy, and on the sales illustration for the proposed replacement.
- “The companies might be using different assumptions, so you’re not making a direct comparison. Compare apples to apples.”
- “In order to decide whether your permanent policy needs replacing, ask yourself these questions:
  - What do you want a new policy to do that your current policy doesn’t?
  - Have you contacted your life insurance company to find out whether your current policy can be modified to meet your new objectives?
- Tell students: “If you answered “no” to the second question, do that first. You may be able to accomplish your goals with a simple modification.
- “If you have contacted your insurance company and your policy can’t be modified to meet your new needs, go on to compare your old policy with a desired replacement policy. Look at the following:
  - The ratings you recorded in Step 6
  - Any disadvantages in the replacement policy
Any new fees

- “Now that you’ve looked at the policies side-by-side, is the replacement worth it? Does it provide the same value—or more—for more or less money?
- Say: “If you decide to replace, be sure to meet with a qualified, ethical insurance adviser before you make the final decision.”

Don’t Forget About Taxes

- Go over the box about potential effects of replacement on taxes. Explain: “I am not a tax adviser and this is not tax advice. You should consult with a qualified tax adviser for advice about your specific situation.”

WHEN IT COMES TO REPLACEMENTS, DON’T FORGET ABOUT TAXES

In many cases, you’ll recognize an immediate financial gain when you surrender a life insurance contract, if the value of the policy you receive exceeds your adjusted basis (typically the sum of premiums paid) in the policy you surrender.

Section 1035 of the IRS code allows certain exchanges of life insurance to be made without the immediate recognition of gain. Section 1035 allows the tax that otherwise would be imposed on lump-sum disposition of certain life insurance policies to be postponed. Here are the types of exchanges allowed through Section 1035 that would typically result in no gain (or loss) to be recognized:

- An ordinary life insurance contract for another ordinary life insurance contract (one for which the face amount—death benefit—is not ordinarily payable in full during the insured’s life).
- An ordinary life insurance contract for an endowment contract (one that depends in part on the life expectancy of the insured, but that may be payable in full in a single payment during the insured’s lifetime).
- An ordinary life insurance contract for an annuity (one payable during the life of the annuitant only in installments).
- An endowment contract for another endowment contract that provides for regular payments beginning at a date not later than the date that payments would have begun under the contract exchanged.
- An endowment contract for an annuity contract.
- An annuity contract for an annuity contract.

Generally, a contract received in a 1035 exchange carries over elements of the original contract, in addition to basis. Please note that there are a number of Internal Revenue Service Private Letter Rulings, Revenue Rulings, and modifications. These are the basic rules, however, as previously stated, they may not apply in your specific situation. A qualified life insurance adviser will be able to point you in the right direction, even if that means consulting a tax attorney for expertise.
STEP 9: TERMINATING/UNWINDING A POLICY

Section Goals:

- Students will learn why and how to terminate a life insurance policy.

Introduction

- Tell students: “In some rare cases, you may want to terminate (or unwind) your life insurance policy altogether, with no intention to replace it.
- “With term life, termination is easy. You can cancel the policy simply by not making the next premium, or you can contact the company and request immediate termination. If you do the latter, most companies will give you a partial refund.
- “You should know by now that permanent life is more complex, so this last section will focus on terminating a permanent life insurance policy.
- “With permanent policies you have four options for termination.”
- Go over the slide:
  - Surrender the policy for its cash value
  - Exchange the policy through a Section 1035 exchange to an annuity
  - Gift the policy to a nonprofit
  - Sell the policy in a secondary marketplace (known as viatical or life settlement), if eligible
- Explain that you’re going to go over the details on each of these four options.

Warm-up Activity

- Say: “Before we learn about the options, you should ask yourself why you want to terminate your permanent policy. Here are some possible reasons:
  - You no longer need coverage
  - You need the funds
- Ask students: “What are some other reasons why you would want to terminate your life insurance policy?”
- Listen to their answers and discuss.
Surrender Policy for its Cash Value

- Tell students: “As we discussed in the last section, surrendering a policy can result in a taxable gain. The cash value (including interest and dividends) in a policy generally accrues on a tax-deferred basis.
- “Upon surrender, the gross value (which includes net cash surrender value, policy loans, or other value received during the policy’s life) is either income-tax exempt or partially income-tax exempt, depending on
  - How the policy terminates
  - The circumstances of termination
  - Whether the policy was held in a qualified retirement plan or owned by an employer/third party.
  - Note that this doesn’t cover all the possibilities.”
- Guide students through the worksheet.

What is the net cash surrender value of your policy? $ ______________

Is the sum of the net cash surrender value (and any policy loan and other value received)
☐ smaller than  ☐ equal to  or  ☐ larger than the basis (which is usually the sum of total premiums paid)?

- If smaller than, then there is a “loss” on the surrender. That means there is no gain on the policy. This “loss,” however, is not tax deductible.
- If equal to, then there is neither “gain” nor “loss” on surrender. That means the surrender does not result in a taxable situation.
- If larger than, then there is a “gain” on surrender. That means the gain is generally considered ordinary income in the year you surrender the policy. According to Dr. Joseph Belth, the inside interest—which in this instance exceeds the price of the protection—is income-tax exempt to the extent of the price of the protection and taxable to the extent that the inside interest exceeds the price of the protection.

If you answered smaller than or equal to, now ask:

Considering your (and your beneficiary’s) personal needs and circumstances, is the immediate cash value you’ll receive from the policy upon surrender really worth giving up your coverage?
☐ Yes  ☐ No

If you answered larger than, now ask:
Considering your (and your beneficiary’s) personal needs and circumstances, is the immediate cash value you’ll receive from the policy upon surrender worth both the taxable gain and the loss of coverage?

☐ Yes  ☐ No

Exchange the Policy through a Section 1035 Exchange to an Annuity

- Say: “This option is best if you need a steady income stream and wish to defer taxes. Consider using a 1035 tax-free exchange to a single premium immediate annuity. You can get one that would pay an annual income stream that would give you a guaranteed monthly income for the remainder of your life.
- “Each payout would be taxed based on an exclusion ratio:
  o A portion of each payout reflects a payout of basis (tax-free)
  o A portion is deemed interest subject to ordinary income taxes
- “I am not a tax adviser, so consult a qualified tax adviser before choosing this option.”

Gift the Policy to a Nonprofit or Other Entity

- Tell students: “You can donate your policy to a nonprofit organization. The policy probably would have to be unencumbered (no outstanding policy loans). Most nonprofits have planned giving officers who can walk you through the process. A few organizations don’t accept life insurance donations, so check before you decide.”

Sell the Policy in a Secondary Market

- Tell students: “If you sell your policy, it will be owned by a third party. You would have to be comfortable with that.
- “A life settlement can provide you with greater value than your net cash surrender value if you qualify.
- “Here’s how it works:
  o You (the “settlor”) sell your policy for a certain sum
  o The buyer becomes the new owner and/or beneficiary
  o The buyer pays all future premiums and collects the whole death benefit when you pass away
Guide the students through the worksheet for deciding whether they want to sell their life insurance policies.

**Basic Information**

Typically, in order to qualify for a life settlement, your life expectancy must be 10 years or less.

What is your current life expectancy? □ _____________ years

Is your policy beyond the contestability period? □ Yes □ No

Are there any clauses or waivers within your policy that would prevent it from being sold? □ Yes □ No

Does your life insurance company offer an accelerated death benefit (ADB) that will pay for all or some of your death benefit now? □ Yes □ No

If “yes,” talk with your insurance company. An ADB can help you get the cash you need without selling to a third party.
CONCLUSION

You shouldn’t put off an important decision that will protect you and your family. But make sure you completely understand any policy you’re considering before you buy. You should be completely comfortable with the company, the agent, and the product.

Life insurance may be one of the most important purchases you ever make, so avoiding the pitfalls pays off.

Life insurance is a valuable piece of financial planning, but it’s also a very complex financial instrument. Selecting and maintaining the right policy for you is a challenge. Because the product is complex, a choice based on simple concepts—like lowest price—is probably not the most intelligent one. For most people, consulting with a qualified, objective life insurance specialist is the best bet.

From a consumer perspective, finding an adviser who is truly objective poses another challenge. If advisers make a living on insurance sales, they may promote products that yield the largest commissions. Commissions on permanent policies tend to be much higher than those on term policies, so you might be talked into buying a permanent policy when a term policy would have met your needs effectively at a much lower cost.

This coursework was designed to help you understand life insurance and how to monitor your policies easily and regularly. Review your policy on a regular schedule and any time you have a major life change (like having a child or buying a home).

Remember that when you buy a life insurance policy, you usually have a “free-look” period (between 10 and 30 days) during which you can change your mind. Read the policy carefully during this time.

Remember that knowledge is power. The more informed you are, the better choices you make!