INSURANCE FACTS
for Pennsylvania Consumers

A Consumer's Guide to Life Insurance

1-877-881-6388
Toll-free Automated *Consumer Line*

www.insurance.state.pa.us
Pennsylvania Insurance Department Website

Buying Life Insurance

When you buy life insurance, you want coverage that fits your needs and your budget.

Decide

Decide how much you need, for how long and what you can afford.

Examine

Examine what kinds of policies are available to meet your needs and pick the one that best suits you.

Compare

Compare what different companies charge for the same kind of policy and amount of insurance you want.

It makes good sense to ask a life insurance agent to help you select a policy that best meets your needs and resources. An agent can review your insurance needs and provide information about the kinds of policies that are available. If one kind doesn't fit your needs, ask about others.

This guide provides basic information. Other resources include a life insurance agent, broker, financial advisor, company or consumer publications, or at your public library.

How much insurance do you need?

Financial resources

To decide how much life insurance you need, determine what **financial resources** your dependents would have if you were to die now, and what your dependents would actually need to maintain their current standard of living. Your new policy should come as close to making up the difference as you can afford.

Current insurance

Your calculations should consider your **current insurance** including any employer group insurance, social security or veteran's insurance. Add other assets you have such as savings, investments, real estate and personal property.

Income

Then consider the **income** your dependents need for family living expenses, educational costs and any other future needs. Also, determine the cash needs for the expenses of a final illness, funeral, taxes, mortgages or other debts.

What is the right kind of insurance?

All life insurance policies stipulate an amount to be paid to your beneficiaries when you die; however, not all policies are the same. Some provide permanent coverage and others temporary coverage. Some build cash values and others do not. Some policies combine different kinds of insurance while others let you change from one kind of insurance to another. Your choice should be based on your needs and what you can afford.

A wide variety of plans are offered today. A brief description of the basic kinds of life insurance follows:

Term Life

Term Life insurance covers you for a set period (term) of one or more years. It pays a death benefit only if you die during that term. Term insurance generally provides the largest immediate death protection for your premium dollar.

Most term insurance policies are renewable for one or more additional terms even if your health status has changed. Each time you renew the policy, premiums will be higher. Check the premiums at older ages and how long the policy can be continued. Many term insurance policies can be converted before the end of a certain period of time for a whole life policy, even if you are not in good health. Premiums for the converted policy will be higher than what you had been paying for the term insurance.

Whole Life

Whole Life insurance protects you for as long as you live. With the most common type, called *straight life* or *ordinary life insurance*, you pay the same premium for as long as you live. The premium may be several times higher than you would pay initially for the same amount of term insurance. But whole life premiums are smaller than the term life premiums you would eventually pay if you were to keep renewing a term policy until your later years.

Some whole life policies let you pay premiums for a shorter period such as 20 years, or until age 65. Premiums for these policies are higher than ordinary life insurance premiums since the premium payments are condensed into a shorter time period.

Whole life policies develop cash values. If you stop paying the premiums, you can take the cash or you can use the cash value to buy continuing insurance protection for a limited time or a reduced benefit. You may borrow against the cash value by taking a policy loan. The loan principle and any unpaid interest on the loan will be deducted from the benefits if you die, or from the cash value if you stop paying premiums.

Combinations

Combinations. You can combine different kinds of insurance. For example, you can buy whole life insurance for lifetime coverage and add term insurance for the period of your greatest insurance need. Usually the term insurance covers your life, but it also can be bought for your spouse or children.

Endowment

Endowment insurance policies pay a sum or income to you if you live to a certain age. If you die before the specified age, the death benefit is paid to the person named as the beneficiary.

Universal Life

Universal Life insurance is a type of policy where the premiums you pay, less expense charges, are deposited into a policy account that earns interest. Charges for the insurance are deducted from the account. Insurance continues as long as there is enough money in the account to pay the charges for the insurance. The cash value depends on the interest earnings which change with market rates. Flexible premium universal life policies let you vary the death benefit and you can vary your premium payments or skip payments if you wish.

Variable Life

Variable Life insurance is a kind of insurance where the death benefits and cash values depend upon the performance of the investments, such as stocks and bonds, underlying the policy. These policies are so investment dependent, they only can be sold by an agent registered as a securities dealer. Be sure to request the prospectus provided by the company when buying this kind of policy. The method of cost comparison outlined in this guide does not apply to variable life policies.

Finding a Low Cost Policy

After you decide which kind of life insurance is best for you, compare similar policies from different companies to find which one is likely to give you the best value for your money. A simple comparison of the premiums is not enough. You also should ask:

Do premiums or benefits vary from year to year?
How much cash value builds under the policy?
Are premiums, benefits or interest rates guaranteed or subject to change by the company?
What is the effect of interest on money paid and received at different times on the policy?

You can find important cost differences between life insurance policies by using cost comparison indexes. Surrender comparison index numbers in most cases are automatically provided at the time of policy delivery, unless you request an earlier delivery. A surrender comparison index helps you compare costs over a 10- or 20-year period, assuming you surrender your policy and take its cash value at the end of the period. Other comparison numbers may be available from life insurance agents or companies.

Use Cost Comparison Indexes

Compare index numbers only for similar policies, those which provide essentially the same benefits, with premiums payable for the same length of time. Make sure all are calculated for your age and the kind of policy and amount you intend to buy. Remember, no one company offers the lowest cost at all ages for all kinds and amounts of insurance. Also, keep in mind that a policy with smaller index numbers generally is a better buy than a similar policy with larger index numbers.

Differences in Index Numbers

Small differences in index numbers should be disregarded, especially where there are dividends or non-guaranteed premiums or benefits. Also, small differences could easily be offset by other policy features or differences in the quality of service from the agent or company. When you find small differences in the indexes, your choice should be based on something other than cost. Finally, keep in mind that index numbers cannot tell the whole story. You also should consider:

- **The pattern of policy benefits**. Some policies have low cash values in the early years that build rapidly later. Other policies have a more consistent cash value build-up. The agent or company will give you a disclosure statement that will show cash values for selected years in the future.
- **Special policy features that may specifically meet your needs.**
- **The methods by which non-guaranteed elements are calculated.** For example, interest rates are an important factor in determining policy dividends. In some companies, dividends reflect the average interest earning on all policies whenever issued. In others, the dividends for policies issued in a recent year, or a group of years, reflect the interest earnings only on those policies. In these cases, dividends are likely to change more rapidly when interest rates change.

Guaranteed or Fixed Cost Basis

Some policies are sold only on a guaranteed or fixed cost basis. These policies do not pay dividends; the premiums and benefits are fixed at the time you buy the policy and will not change.

Currently Illustrated Basis Cost Comparison Indexes

Many policies provide benefits on a more favorable basis than the minimum guaranteed basis in the policy by paying dividends, or by charging less than the maximum premium specified. Or, they may do this in other ways such as providing higher cash values or death benefits than the minimums guaranteed in the policy. For these types of policies, the policy performance may be shown by using both guaranteed and current performance — called *currently illustrated basis cost comparison indexes*.

Currently Illustrated Basis

The currently illustrated basis shows the company's current scale of dividends, premiums or benefits. This scale can be changed after the policy is issued, so that the actual dividends, premiums or benefits over the years can be higher or lower than those assumed in the indexes on the currently illustrated basis.

Changing Policies

Before you change policies, you should realize that replacements are not always beneficial. You should assess your needs and financial goals. If you determine that your current policy does not fit your needs, then you should carefully compare the benefits and costs of your current insurance policy with other options. Before replacing your policy, check to see if your existing policy can be altered to meet your needs. Ask your insurance agent to provide you with a written list of advantages and disadvantages of replacing your policy.

In most cases, an agent will show you illustrations (charts) outlining the attractive growth potential of the new policy. Be sure that you understand how many years it will take to reach the earnings potential in the illustration. Remember, since illustrations are often based on non-guaranteed assumptions, such as fluctuating interest rates, you should focus on the guaranteed cash or account values of the new policy and compare them with the values of your current policy.

Your old policy may have some provisions and benefits not found in the new insurance policy. Make sure that you are aware of all the benefits of both policies and review the premiums.

The cost for the same coverage on the new policy may be higher since the premium is based on your current age and health. The new policy's cash values and dividends may initially be lower because of the costs of issuing a new policy.

Your agent also should point out any tax implications. When your life insurance policy is "cashed in" or replaced with another policy, your gain may be subject to taxes.

During the first two years of a new policy (the contestable period), a company may contest a claim on a policy because of material misrepresentations. For example, the company could challenge a death claim for possible misstatements in the new policy application. Question your agent about the contestable period.

Steps and Precautions in Replacing a Policy

If you decide to replace an existing policy, the agent is required to give you a *Notice Regarding Replacement of Life Insurance and Annuities* no later than the date the application is taken. This notice is for your protection and you should read it carefully. It will alert you to possible consequences of replacement.

The agent must include, as part of each application, a list of existing life insurance policies and annuities to be replaced. You are best protected when all policies are accurately listed.

When you purchase a new policy with funds from existing life insurance, you should sign the appropriate form permitting the company to transfer money from your old policy to the new one. Failure to do so could result in adverse tax consequences to you.

Important Reminders

- Review your individual needs and circumstances. Choose the kind of policy with benefits that most closely meet your needs. Ask an agent or company representative to help you or obtain information at the local library.

- Shop around and consult with several agents.

- Make sure your life insurance company is licensed to conduct business in Pennsylvania. Owners of life insurance policies and annuities issued by companies licensed in Pennsylvania are covered against an insurer's default, caused by financial impairment or insolvency, through the Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA). The cash surrender value of your policy up to $100,000, or death and annuity benefits up to $300,000, are protected by PLHIGA.

- Be sure to answer the application questions fully and accurately. Follow along with a blank application while the agent completes the form. The insurance company uses this information to underwrite the policy and determine the premium. Depending on the company's underwriting criteria, a medical examination may be required.

- Discuss your purchase with your family members, financial or legal advisors or other people you trust.

- Before signing the application, read it carefully because you are responsible for all information contained in it. If there are misstatements on the application your coverage could be jeopardized. Do not buy a policy that you don't understand.

- Don't buy life insurance unless you intend to maintain the policy. It can be very costly if you stop paying premiums during the early years of the policy.

Important Reminders

- Be sure that the premiums are within your ability to pay. Don't look only at the initial premium, but consider any later premium increases. Your agent should disclose the premiums applicable throughout the life of the policy.

- Make sure you receive a copy of all written communications used in the presentation before your meeting with the agent ends.

- Save disclosure statements and comparison indexes you received from your agent.

- Obtain a receipt for any payment you give the agent. Never pay cash and **always make your check payable to the insurance company**.

- When you receive your new policy, review it carefully with the agent to verify the terms. Question any differences or unclear terms.

- Ask your agent or company about anything that is not clear to you. Keep in mind that you have a "free look" period of at least 10 days after you receive the policy to determine whether or not the policy is truly what you want to buy. The free look period that applies is stated on the face of the policy and usually is referred to as the "Right to Examine."

- Obtain the agent's signature and date on the policy to document the delivery date, or write the receipt date on the envelope if it was mailed to you. The dated signature or date on the envelope is proof of the beginning of the minimum 10-day free look period. If you decide within the free-look period that you do not want the policy, Pennsylvania law requires that you be given a full refund.

- Review your life insurance program with your agent or company every few years to keep abreast of changes in your income and your needs.

Harrisburg Regional Office
Room 1321 Strawberry Square
Third and Walnut Streets
Harrisburg, PA 17120
(717) 787-2317
fax (717) 787-8585
TTY/TDD: (717) 783-3898

Philadelphia Regional Office
Room 1701 State Office Building
1400 Spring Garden Street
Philadelphia, PA 19130
(215) 560-2630
fax (215) 560-2648
TTY/TDD: (215) 560-2471

Pittsburgh Regional Office
Room 304 State Office Building
300 Liberty Avenue
Pittsburgh, PA 15222
(412) 565-5020
fax (412) 565-7648
TTY/TDD: (412) 565-2376

A Consumer's Guide to Life Insurance
July 2003

A consumer service initiative of the
Pennsylvania Insurance Department
1-877-881-6388
www.insurance.state.pa.us