ACLI

Financial Security...for Life.

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Senior Counsel

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Mary Mealer, Missouri Department of Insurance,
Chair of the NAIC Life Insurance Buyer's Guide (A) Working Group
c/o Jennifer Cook, NAIC Staff

Dear Ms. Mealer,

In continuing our mutual efforts working with the NAIC Life Insurance Buyer's Guide (A) Working Group (Working Group), consumer representatives, and interested parties, ACLI wanted to share our members' recommendations to revise and update the Life Insurance Buyer's Guide, in the question and answer format. The ACLI redlined draft is attached with this letter for submission to and consideration by the Working Group and interested parties.

Further, ACLI would also like to object to the recommendations set forth by the American Academy of Actuaries letter, dated October 19th, in which the Academy recommends discussion of non-guaranteed elements (NGEs) to be included in the Buyer's Guide. Additionally, we also object to the recommendations set forth by Life Insurance Settlement Association (LISA), in its letter dated November 6th. In LISA's letter, they recommend inclusion of a section into the Buyer's Guide titled: "What if I can no longer afford my policy – Do I have options?". With respect to both recommendations, ACLI objects on the grounds that inclusion of these proposals is inappropriate for a Buyer's Guide, and would only cause more confusion for consumers.

ACLI submits this revised draft and letter to the Working Group as ACLI's recommendations for the Working Group's ongoing workstreams to simplify the Life Insurance Buyer's Guide, while enhancing its consumer readability and comprehension.

Thank you.

Respectfully submitted,

Emily C. Micale

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NAIC Life Insurance Buyer's Guide – DRAFT 08012017 – ACLI Revisions 11/1~~5~~4/17

1. What is life insurance?

Life insurance is a policy that pays someone, referred to as the *beneficiary*, a sum of money ~~*death benefit*~~ when the insured person ~~insured~~ dies. The sum of money is known as the *death benefit,* and ~~You~~you choose the amount of the death benefit when you buy the policy.

~~**Member Comment:**~~

~~I think it would be helpful to explain what a death benefit is and that the "someone" paid the money is called a beneficiary. If this is interactive, these words could have hovers or link to where they are explained later in the document.~~

~~**Member Comment:**~~

~~**Member Comment:**~~

2. How much does life insurance cost?

Costs ~~are~~ **can be** determined by **such factors as** your age, health status, ~~your~~ gender, ~~your~~ job, whether **or not** you ~~are a~~ smoke~~r or not~~ and other factors when **you apply for the insurance** ~~an application is taken~~. While all life insurance policies provide a death benefit, all policies are not the same. The varieties of life insurance are designed to help meet different needs. Usually, younger, healthier, non-smoker, low-risk individuals pay lower premiums. ~~**An individual 25-35 years old who doesn't smoke and is in excellent health could buy a 20-year, $250,000 level term policy for less than $20 per month or less than $150 a year**~~.

~~**Member Comment:** Since the second and third sentences ("While all life insurance policies provide a death benefit, all policies are not the same. The varieties of life insurance are designed to help meet different needs." are not germane to this question, I recommend deleting them.~~

~~If an example of term rates is provided, one for a perm policy should also be given, lest it appear that term is being promoted. Also, it may be wise to cite a source and date; will these numbers be updated? If this document is to be hard-coded, I think a hypothetical quote in here is odd. May not always hold true~~

~~**Member Comment**: The last sentence of this section puts the industry between a rock and hard place and should be deleted. If we think the stated premium is unreasonably low and offer an alternative amount, we could be accused of conspiracy to fix prices.~~

~~**Member Comment**: We would recommend eliminating the last sentence. The example provided may not be a valid example for some companies. It also places premium figures in someone's mind.~~

3. What are the basic types of life insurance?

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

Term life insurance covers you for a term – **as long as you pay the premiums – for** a certain number of years, ~~–~~ which you choose when you buy the policy. You might buy a 15-year term policy, for example, because you have a 15-year mortgage. The policy ~~**only**~~ pays a death benefit only if you die during the term. ~~Term policies usually offer the most protection [EM1]for your money.~~ ~~[*See member's comment below*]~~

Some **term policies** may ~~**have**~~ **provide** an option to extend, or renew, this coverage each year; depending on the policy and issuing company, these policies could ~~**last into your 80s or 90s**~~ **continue to provide coverage until you are in your 80s. When the policy is issued,** ~~**T**~~**term** insurance premiums are usually lower than those for permanent ~~**life's insurance**~~**, but may exceed whole life premiums as the insured ages, and term policies usually do not have cash value**. ~~**Premiums must be paid when due in order to keep a term policy in force**~~.

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

- ~~**Most**~~ **Some** have premiums that remain the same ("level") for a certain number of years and may allow you to continue the coverage beyond that defined period. These policies **usually** have a two-stage cost structure:
    - The first stage is often called the **level-premium period**; during this period, the premium is **often** guaranteed not to change.
    - The second stage is the **renewal period**; once the level period ends, you can choose to renew the policy, at a higher and**, often,** annually-increasing cost. Since these premiums can be markedly higher than the

initial premiums, you'll want to know, before you buy, what they ~~would~~ may be.

- Some term policies have premiums that are not level; instead, they increase according to a schedule outlined in the policy ~~contract~~.

Permanent (cash value) insurance covers you for your entire life – **Unlike a term policy, which can end after a specified number of years, permanent life insurance will continue to the policy's maturity age so long as premiums are paid. ~~(Note that this isn't exactly accurate for UL, where policies can continue as long as the cash value is sufficient to pay the policy charges. We may want to make that distinction.)as long as you pay the premiums. Permanent life insurance is ideal for needs that may last for your entire life~~**.

~~**Most**~~ **P**ermanent policies have the potential to build cash value **and increase the death benefit over time**. You may be able to access this cash value**, generally on a tax-free basis,** via policy withdrawals or loans. Although this can be helpful in certain situations, you should know that taking cash value from your policy can have ~~**tax**~~ consequences~~**;**~~**. It** **may** reduce the amount your beneficiary receives, and/or cause the policy to lapse~~**;**~~**. It** could ~~**also**~~ mean you'll have to pay additional premiums to keep the policy ~~**on**~~ **in** force. **If you access the cash value through a policy loan, the loan will accrue interest**. If you cancel a ~~**whole**~~ **permanent** life **insurance** policy, **you will get the cash surrender value. If you borrowed against your cash value, the loan would be deducted from it. Some surrender fees may be deducted as well**~~you~~ ~~**can**~~ ~~**will**~~ ~~get the cash~~ ~~**surrender**~~ ~~value~~~~**. SA (Some fees may be taken from it first OR which may be subject to surrender fees or charges)**~~.

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

> **Whole Life:** This is the traditional permanent life insurance that many people think of when they hear "permanent insurance." If you pay your premiums on time, your coverage is guaranteed to stay in force for your entire life, and your policy is guaranteed to build cash value. Premiums for most Whole Life policies remain the same throughout the life of the policy. ~~**Please recall th**~~**Some w**~~**W**~~**hole life policies may** ~~**may pay**~~~~**earn**~~**receive** ~~**at**~~ **dividends, which are not-guaranteed.**~~**, and**~~ **If you** ~~**receive**~~ ~~**earn**~~**receive** ~~**non-guaranteed**~~ **dividends on your policy, you** ~~**can**~~ **could receive them in cash, or, you could use** ~~**those dividends**~~**them to reduce your out-of-pocket premiums, purchase** ~~**paid-**~~

~~up~~additional death benefit coverage, ~~i~~increase your cash value, ~~receive them in cash,~~ or ~~a combination of the foregoing~~combine these options. In addition, many ~~permanent plans~~policies offer the possibility of becoming "paid-up" at a certain age, ~~meaning~~ which means that your death benefit coverage stays in place after your obligation to pay premiums ~~paying obligation ceases~~ends.

Universal Life: **This type of permanent policy offers some flexibility with premium payments. Most policies of this type build cash value and earn at least a minimum interest rate and may earn additional interest on a non-guaranteed basis.**~~This type of permanent policy offers some flexibility with premium payments. Most policies of this type build cash value and earn at least a minimum interest rate and may earn non-guaranteed interest~~[EM2]. ~~**[This may be clearer if we say: "earn interest subject to a guaranteed minimum interest rate and may be eligible for interest greater than the guaranteed minimum.]**~~

Variable Life Insurance: **Variable life policies, which also include variable universal life insurance, have the greatest potential to build cash value compared to other permanent policies. Variable policies have underlying investment options; these are choices that act like mutual funds and that are available only in life insurance policies. You choose the investment options you want, based on your risk tolerance and investment goals. Please note, however, that variable policies involve some risk for you because the cash value can also decline and your investment can be lost if the policy's investment options perform poorly. You will need to monitor their performance. Some variable policies offer a death benefit guarantee that can help offset the investment risk.**

~~**Member Comment:** We do not get into the distinction between Indexed UL and UL. Intentional? From this, I cannot tell the difference between a Variable Life Insurance Policy and a Variable Universal Life Policy. I don't agree with the investment options "performing like stocks and bonds". The sub-accounts are investing in real 1940 Act funds~~

~~**Member Comment: TERM:** This is not always true and I think it should be deleted. If a person lives long enough, a whole life policy may be more cost effective for the consumer. Also, if a person lives past the term period, he/she has no protection at a time when term premiums on a new term policy may be cost prohibitive or coverage~~

~~unavailable.~~

- ~~The statement about the probable cost of term insurance is concerning. It puts the industry between a rock and hard place. If we think the suggested cost is unreasonably low and suggest other numbers, we could be accused of a conspiracy to fix prices.~~

- ~~The piece should be fair and balanced but, instead, is very biased in favor of term insurance and against permanent life.~~

- ~~Missing from the discussion of term insurance:~~

  - ~~Coverage is dependent on continued payment of premiums.~~

  - ~~Term insurance often becomes cost-prohibitive when the insured gets older.~~

  - ~~Does not build cash value—has no "equity".~~

  - ~~The death benefit normally does not increase over time.~~

- ~~Missing from the discussion of permanent life:~~
  - ~~The death benefit often increases over time.~~
  - ~~While WL premiums start out expensive, WL premiums never increase and may become more affordable than term premiums as the insured grows older.~~
  - ~~Cash values grow tax-deferred.~~
  - ~~Cash values can be accessed, via withdrawals or loans, generally tax-free.~~
  - ~~If dividends are paid, you can use those dividends to reduce your premiums, purchase paid-up death benefit coverage, increase you cash value, take them in cash, or a combination of the foregoing.~~
  - ~~WL generally becomes paid-up at a certain age and can be converted to reduced paid-up insurance at even earlier ages.~~
  - ~~UL and VUL policies often offer guaranteed death benefits, which can offset the risks of reduced non-guaranteed credited interest rates and/or poor investment returns.~~

4. ~~Is life insurance an investment~~? ~~What is the value of life insurance?~~Is life insurance an investment?

Life insurance is, first and foremost, a financial product to help you provide economic protection to loved ones and others you leave behind. Life insurance can help replace your income for others who are dependent on it now or would depend on it in the future. It can also help pay for funeral costs, debt payments (like mortgages and student loans), education costs and child care expenses.

~~In addition, one~~One of the advantages of permanent insurance is that, in most cases, the policy can accumulate cash value that can be accessed through withdrawals and loans.

~~**The basic purpose of life insurance is simple: Life insurance is, first and foremost, a financial product to provide protection** – to replace **your** income for others who are dependent on **your income it**. Some people also buy life insurance to pay other expenses, such as **for** funeral costs, debt payments, education and child care. If your goal is investing for the future **and you aren't concerned about providing a death benefit,** there are other options to save that often charge lower fees than a cash value life insurance policy does. Some of these options offer tax advantages and your employer may even match at least part of what you put into savings. **However, one of the advantages of permanent insurance is that, in most cases, the cash value builds up and can be accessed through withdrawals and loans on a tax-free basis**~~.

Member Comment: ~~I believe this answer should begin with a definitive "No."~~

Member Comment: ~~We weren't sure if we were trying to talk about living benefits of life insurance in this section – accessing cash value while you are still alive. We might just want to make the point that life insurance is a long term protection product, and while it does have living benefits, there are other investment products that one may want to use for shorter term goals.~~

5. When do I pay for life insurance?

There are a number of ways to pay for your life insurance, depending on the policy you purchase. Most people pay their life insurance in scheduled premiums (annually, quarterly, or monthly). You can explore other premium payment methods with the insurance company or your financial professional.

~~**Most people pay their life insurance premiums each year (annually, quarterly, or monthly). Some policies are "single premium" meaning you pay once when you buy the policy. In addition, many permanent life insurance policies become fully paid-up at a certain age and offer the ability to be paid-up with a reduced death benefit at even younger ages.**~~

Member Comment: ~~**Do we want to include a note here that, usually, paying**~~

~~**premiums more often than annually may result in higher aggregate costs because of fees?**~~

Member Comment~~**: We do not mention model premium here. We wonder if the NAIC overlooked that. No objection from us if they want to add it in.**~~

6. How do I apply for life insurance?

A life insurance agent or ~~an~~ insurance broker can give you ~~the~~ **an** application for a life insurance policy **and help you complete it**. Or, if you buy ~~the~~ **an** insurance policy online, you'll find the application there. **You also may fill out an application you receive in the mail.** In addition to basic information, such as your name, address, employer, job title, and date of birth, you'll **likely** be asked for more personal information. This might include:

- Your height and weight.
- Your lifestyle habits (do you smoke, drink, exercise, engage in high-risk hobbies?).
- Your financial information, including your annual income, assets, and debt.

It's important that you tell the truth on your application. ~~Your answers will be checked.~~ ~~**In addition, you can lose your coverage, or your beneficiary may be denied payment of a death benefit, if it is later determined you gave false answers on your application.**~~ **You could lose your coverage, or your beneficiary may be denied payment of a death benefit, if it is later determined you gave false answers on your application**. Review the application before you sign it.

Member Comment~~**:** Since an agent or broker will often fill out the application with someone, not just hand it to them, do we want to mention this or revise to include that?~~

7. Do I have to see a doctor to apply for life insurance?

Not always, but many life insurers today still require an in-person medical exam. ~~**but they**~~ **The insurer** may send a professional to your home or office. The professional likely will ask you about your medical history and lifestyle habits, listen to your heart and lungs, take blood and urine samples, and ask about **your** immediate family's medical history. The life insurer could ask for other tests ~~and~~ **and/or ask for your permission to** access and review your medical records. The insurer pays this cost.

8. Are there policies that don't require a medical exam? What do they do instead?

There are policies ~~that are~~ available without medical a ~~underwriting~~ exam. However, these policies tend to cost more than policies requiring a medical exam.

- ~~**Simplified issue policies do not require a medical exam but tend to cost more Simplified issue policies do not require a medical exam but tend to cost more than those requiring a medical exam.**~~ "No exam" life insurance is often called "simplified issue" life insurance. The company will ask several health questions on the application. Companies may also use information from **other sources such as your** motor vehicle report, prescription history, ~~and~~ medical history **and previous life insurance applications** in lieu of a medical exam.
- ~~"Accelerated underwriting" **is when an insurer speeds up the process** by asking health questions on the application but also **getting** your driving record, prescription history and information from previous life insurance applications. You may also have to answer questions over the phone. Again, this **tends to costs** more than buying life insurance that requires a medical exam~~.
- "Guaranteed issue" life insurance, also called "guaranteed acceptance" policies, are generally small, whole life policies for middle aged to senior adults whose health prevents them from **getting** other life insurance. It ~~is usually~~**can be** sold as a means to pay funeral costs and other final expenses. Typically, there are no health questions and **the** cost ~~is~~ ~~**tends to**~~**may be** higher than a policy that requires a medical exam.
- ~~**Some carriers may use points assigned to your lifestyle; points for maintaining healthy blood pressure, keeping your cholesterol in check, and getting your preventive screenings and tests**~~.
- ~~**Group insurance, purchased through your employer's plan, often does not require that you answer questions or take a medical exam. The rates for the employer group are set for the group has a whole.**~~

~~**Member Comment:** I've made some edits for clarity, added a heading for group insurance, and bolded each bullet's topic. I do not think that the section I've deleted applies to policies that do not require a medical exam, as I pertains to discounts on premiums.~~

- ~~**Member Comment:** We removed the first sentence in the first bullet because the lead in sentence already captured it. We removed the last sentence in the second bullet because simplified issue is only one form of Accelerated Underwriting. Given the advances in predictive analytics, not all products that go through Accelerated Underwriting will be more expensive than medically underwritten products.~~

9. How do I know how much life insurance to buy?

You'll need to think about why you're buying life insurance~~,~~ **and** what expenses you expect a life insurance death benefit to cover~~:~~ (debt and final expenses; mortgage; education) and how long your family would need your income replaced. You will also need to consider what other resources (if any) your beneficiaries would have to pay these expenses and for how long.

- There are at least three ways to estimate your life insurance needs:
    - Have a life insurance agent or broker help you determine estimated needs;
    - Use an online calculator to estimate your beneficiaries' financial needs after you die; or
    - Use a rule of thumb such as a multiple of annual earnings, usually 8 to 10 times your current income (You'll find several online). The first two methods will be more accurate.
    - **Member Comment:** ~~I've edited the first sentence for clarity.~~

10. What is a beneficiary?

A beneficiary is the person(s) or organization(s) you name to receive the death benefit from your life insurance policy. You can name more than **one** ~~person as the~~ *primary* beneficiary. If you do, you'll need to say how you want ~~them to divide~~ the death benefit **divided between them**. You also should name one or more *secondary* beneficiaries~~s(ies)~~. The secondary beneficiary would receive the death benefit only if the primary beneficiary**(ies)** ~~wasn't isn't~~ ~~wasn't~~ **isn't** living at the time of your death.

To help the insurance company locate and pay your beneficiaries when you die, you'll be asked to provide their Social Security numbers or Tax Identification Numbers. Experts advise you not to directly name a minor child as a beneficiary because insurance companies usually can't pay proceeds directly to a minor. Instead, consider naming a trust or custodian until the minor comes of age, at which time you can change the beneficiary to his or her name. Also consider telling your beneficiaries that you have named them; privacy concerns may not allow your insurer to tell them until after you die.

~~**Member Comment:** May want to make question #10 appear as question #2 so this definition is covered up-front instead of toward the end of the guide.~~

11. What if I change my mind about my beneficiaries?

If you are the owner, you can change beneficiaries for no cost at any time by contacting your insurance company. In fact, you should review your beneficiaries ~~**every few years**~~, especially after major life events, such as marriage~~**, and**~~ having children, **or the death of your beneficiary**. ~~**Some companies may let you change beneficiaries online.**~~

~~**Member Comment:** I've added a sentence about making changes online since so many carriers allow or encourage it.~~

12. I don't have dependents: children or partner. Do I still need life insurance?

Whether you "need" life insurance is an individual decision. Besides insuring ~~**your**~~ **a** child's education or supporting a partner, people also buy life insurance **for other reasons such as** to cover debts they would leave behind, such as a mortgage or a private student loan, to pay funeral expenses, or to ~~**fund family businesses**~~ **facilitate the continuation or orderly transfer of family businesses**.

13. I have life insurance through my employer. Isn't that enough?

While many employers offer free or low-cost life insurance to their employees, the death benefit usually is far below what you're likely to need if you need life insurance. Usually it's some multiple of your income. And, if you leave that employer, you ~~**usually can't take**~~ **may not be able to take** your life insurance policy with you.

14. What if I buy a life insurance policy and change my mind?

You have a "free look" period that starts once you receive the policy. The length of the free look period will be stated on the first page of the policy. Free look periods vary by state but usually are at least 10 days. If you cancel the policy during the free look period, all of your money will be returned. Once the free-look period ends, you can still cancel the policy; however, whether any money will be returned to you depends on many factors, including how recently the free-look period ended, how long you've had the policy, and what kind of policy it is.

~~**Member Comment**: I think the last sentence is too broad of a statement. If the free~~

~~look period ends, the amount you get back on the 11th day is far different than the amount you would get back 5 years down the road.~~

15. Are there tax advantages to buying a life insurance policy?

~~**Cash value on a permanent life insurance policy grows on a tax-deferred basis and can generally be accessed by the policy owner, via withdrawals or loans, on a tax-free basis*. In addition, There are tax advantages for***~~ ~~the~~ **Any tax questions or concerns should be addressed by your tax advisor**. However, ~~**beneficiaries**~~ **b**eneficiaries of a life insurance policy~~. **They**~~ **generally** won't pay any state or federal income tax on the death benefits. The death benefit could be subject to estate taxes, though.