

TO: Mary Mealer, Missouri Department of Insurance, Chair, Life Insurance Buyer's Guide Working Group

FROM: Brenda Cude, NAIC Consumer Representative; Birny Birnbaum, Center for Economic Justice, NAIC Consumer Representative; Karrol Kitt, NAIC Consumer Representative

RE: Draft Life Insurance Buyer's Guide

DATE: July 19, 2017

Thank you for the clarification you provided in our recent conference call about the target market for the draft life insurance buyer's guide. With that in mind, we started by making a list of basic information about life insurance that first-time buyers probably don't know. We based this not only on Brenda and Karrol's years of experience teaching college students (who probably know as little as anyone about life insurance) but also on a search of the Internet. We didn't find any scholarly research on the topic but did find references to a number of industry-sponsored surveys.

Brenda made the list that follows.

What People Who Have Never Had Life Insurance Likely Don't Know

- What life insurance is
- How much life insurance costs
- The basics – term versus whole life
- Is life insurance an investment?
- How you pay for life insurance
- How you apply for life insurance
- If you have to see a doctor to apply for life insurance
- How the underwriting process is changing
- That estimating how much life insurance you need doesn't have to be complicated
- What a beneficiary is
- That you can change your beneficiary
- That you may not need life insurance if you don't have children or your children are adults – but you might
- That many employers provide a life insurance policy but the face amount often is limited and you can't take the policy with you if you leave that employer
- That there's a free look period in case you change your mind
- What happens if the life insurance company goes bankrupt
- That there are no state or federal income taxes imposed on life insurance death benefits

Next we drafted a new version of the buyer's guide based on one important principle of designing information for use by adults. We **know** that adults read to find answers to their questions. So, a question and answer format facilitates use, regardless of whether the

document is hard copy or online. We didn't write an introduction – frankly, we don't think most people would read it – but we could add that later along with a section of contact information.

This is intended to be a draft on which we would work to improve the content. It is about the same length as the original proposed draft. The reading level is about eight grade.

We look forward to the group's reaction.

NAIC Life Insurance Buyer's Guide BCude, KKitt, BBirnbaum 7/17/2017

What is life insurance?

Life insurance is a policy that pays a death benefit when the person the policy insures dies. You choose the amount of the death benefit when you buy the policy.

How much does life insurance cost?

How much life insurance costs depends on a number of things, including the death benefit you choose when you buy the policy. It also depends on your age when you apply for a policy, how healthy you are at the time, whether or not you're a smoker, your job, and the type of life insurance policy you buy. Usually, younger, healthier, non-smoker, low-risk workers pay lower premiums. An individual 25-35 years old who doesn't smoke and is in good health could buy a 20-year, \$250,000 level term policy for <about> <less than> \$xxx a year.

Comment [KK1]: In my case study, students found this kind of policy 15-year guaranteed for \$250/year, give or take a few dollars online.

What are the basic types of life insurance?

The two basic types of life insurance are term and whole life.

Term life insurance covers you for a term – a period of time – 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 if you die during the term. Term policies cost less than whole life for the same death benefit. Term policies don't have cash values (savings) so you won't get anything back from the policy if you cancel it or when the term ends. You can renew a term policy but the premiums will be higher because you are older. You might not be able to renew at the end of the term if you aren't healthy.

Whole life insurance covers you for your entire life – as long as you pay the premiums. The premiums usually are the same (a level premium policy) for as long as you keep the policy. Whole life policies build a cash value (savings). The policy spells out how much that cash value is. If you cancel a whole life policy, you can get the cash value. Or, if you don't want to cancel the policy, you can borrow most of the cash value. If you don't pay the loan back (with interest), the unpaid loan and interest are subtracted from the death benefit when you die.

Two types of cash value life insurance are universal and variable life. In a universal life (UL) policy, the premiums go into a side account that earns interest. Each month, money is taken from that account to pay a "cost of insurance" charge. You also could have your premiums taken from the account – if there's enough there to cover premiums. In a variable life policy, the cash value is invested in subaccounts similar to mutual funds. There's no guaranteed return. If you want to guarantee that the death benefit will be a certain amount, you'll pay more in premiums.

Is life insurance an investment?

The basic purpose of life insurance is simple – to replace income for others who are dependent on your income. 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, 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.

When do I pay for life insurance?

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.

How do I apply for life insurance?

A life insurance agent or an insurance broker can give you the application for a life insurance policy. Or, if you buy the insurance policy online, you'll find the application there. In addition to basic information, such as your name, address, employer, job title, and date of birth, you'll 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. Review the application before you sign it.

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

Many life insurers today still require an in-person medical exam but they 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 immediate family's medical history. The life insurer could ask for other tests and access and review your medical records. The insurer pays this cost. .

Are there companies that don't require a medical exam? What do they do instead?

Write about how this is changing.

How do I know how much life insurance to buy?

There are at least three ways to estimate your life insurance needs:

- Have a life insurance agent or broker help you
- Use an online calculator to estimate your beneficiaries' financial needs after you die

- Use a rule of thumb such as a multiple of annual earnings; you'll find several online)

The first two methods will be more accurate. You'll need to think about why you're buying life insurance, what expenses you expect a life insurance death benefit to cover and for how long, and what other resources (if any) your beneficiaries would have to pay those expenses and for how long.

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 benefit. You also should name one or more *secondary* beneficiaries. The secondary beneficiary would receive the death benefit if the primary beneficiary wasn't living at the time of your death. You'll need to know the Social Security numbers for all beneficiaries. Experts advise you **not** to name a minor child (younger than age 18 or 21, depending on the state) as a beneficiary because insurance companies won't pay proceeds to anyone considered a minor. You should tell the individuals you name as beneficiaries – the insurance company won't do that for you.

What if I change my mind about my beneficiaries?

You can change your beneficiaries for no cost at the time stated in your policy by contacting your insurance company. In fact, you should update your beneficiaries every few years and after major life events, such as marriage and having children.

I don't have any children younger than 18. Do I still need life insurance?

Whether you "need" life insurance is an individual decision. The traditional reason to buy life insurance is to provide financially for your child(ren) and spouse/partner if you die. But people also buy life insurance to cover debts they would leave behind, such as a mortgage or a private student loan, to pay for their child's or their spouse's education, to pay funeral expenses, or to fund family businesses.

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 your life insurance policy with you.

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, you get all of your money back. Once the free-look period ends, you can still cancel the policy but you likely won't get back any of the money you've already paid.

Are there tax advantages to buying a life insurance policy?

There are tax advantages for the beneficiaries of a life insurance policy. They won't pay any state or federal income tax on the death benefits. The death benefit could be subject to estate taxes though.

What happens if a life insurance company goes bankrupt?

State guaranty associations and state insurance regulators make sure policy holders are still covered if an insurance company goes bankrupt. Insurance companies fund guaranty associations. All insurance companies (with limited exceptions) licensed to sell insurance in a state must join the state's insurance guaranty association. If a company goes bankrupt, the guaranty association takes over its policies and pays claims following state laws.