

The Instant Insurance Guide: Life



A buyer's
guide to
life insurance
and annuities
in Delaware

From

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A Message From The Delaware Department of Insurance

In its most basic form, life insurance is simply a way to provide some money to your loved ones following your death. However, the various types of life insurance and other products sold by life insurance companies today present many, many options—and risks.

This guide explains some of the basics of life insurance, including the two main kinds of life insurance and how they work. It also includes a discussion of annuities, which are sold as investments by many insurance companies. Please ask questions to make sure that an annuity is right for you before buying.

As always, the Delaware Department of Insurance stands ready to answer questions you may have — or to step in if you believe you have been mistreated or misled by an agent or company.

The Basics

Life insurance is a way of planning to take care of your family and loved ones at the time of your death. It is considered an important part of a financial plan, and can be used to:

- **Replace income** you would have earned for your family after you are gone;
- **Take care of debts** that your family could face or be left with;
- **Pay any estate taxes** your heirs might face; or
- **Achieve other financial goals**, including paying for a child's education, donating to charity after your death or even supplementing your retirement income while you are alive.

How much life insurance you need depends on your stage in life and will change over the course of your life. See “How Much” on the next page.

Also, you will need to decide who is the **beneficiary** of your life insurance policy. It can be one person, more than one person, a charity or your estate. You should be as specific as possible in naming beneficiaries in order to avoid confusion and possible conflicts after your death. You should name one or more “contingent” beneficiaries, in case your primary beneficiary dies before you do or cannot be found.

You will need to decide whether you want a **term life insurance** policy, a **permanent life insurance** policy, or a combination. Descriptions of the two types are in this guide.

Finally, do not sign an application for a life insurance policy until you review it very carefully to make sure it is **accurate and complete**. Any inaccurate or incomplete answers may be grounds for a company not to pay out the death benefit should you die.

How Much?

Depending on what your goals are, you and an insurance agent or financial professional should determine how much it would take to:

- **Provide income** for your family, including any parents, grandparents, or others outside your immediate family for whom you are or may eventually be responsible
- **Pay off outstanding debts**, such as a mortgage, auto loans, student loans, etc.
- Set aside money to pay for a **child's education**
- Pay the expensive costs for **funeral and burial**
- Leave **money to charity** organizations
- Pay off **estate taxes**
- Account for **inflation** in future years

After adding up your family's needs should you die, you can subtract any financial resources they will have access to, including their income, savings, investments and any life insurance policies you already have. The difference between your family's need after your death and what their resources would be will show how much life insurance coverage you may require.

Some insurance agents suggest that you purchase five to eight times your current income. However, it is better to go through the above exercise to figure a more accurate amount.



Term Insurance

Term life insurance covers you for a specific period of time – generally one to 30 years – and pays a death benefit only if you die in that term. For that reason, it is most suited to providing financial protection should you die while you have specific and limited obligations, such as raising children, paying for their education or paying off a mortgage. Because of its limited nature, the premiums for term insurance are smaller than permanent insurance, meaning you get more insurance protection for your premium dollar. But unlike permanent insurance, it generally does not build up cash savings.

You can renew most term insurance policies for one or more terms, even if your health has changed. Each time you renew the policy for a new term, premiums may be higher. Ask what the premiums will be if you continue to renew the policy. Also ask if you will lose the right to renew the policy at some age. For a higher premium, some companies will give you the right to keep the policy in force for a guaranteed period at the same price each year. At the end of that time, you may need to pass a physical examination to continue coverage, and premiums may increase. You may be able to trade a term insurance policy for a permanent policy during a conversion period, even if you are not in good health. Premiums for the new policy will be higher than you've been paying for the term insurance.

Types of term life insurance include:

- **Renewable.** Allows you to renew your policy at the end of the term without submitting medical information. Your premium may go up after you renew, however.
- **Convertible.** Allows you to convert your term policy into a permanent policy without submitting medical or other information. Your premium may be higher after converting, even for the same benefit, but then will remain constant.
- **Level.** Allows you to lock in a fixed premium for the term of the policy, while the death benefit remains the same.
- **Decreasing.** The death benefit decreases over the policy term, while the premium varies.

Permanent Insurance

Permanent life insurance, also known as cash value insurance, provides long-term – in most cases, lifelong – financial protection. Permanent policies include a death benefit and, in many cases, cash savings as well. Because of the cash element, premiums tend to be higher than term insurance. With a permanent policy, you lock in the premiums when you purchase it – they will not change as you get older or as your health changes.

The cash value that builds up as part of a permanent policy can be considered as part of your financial plan. It grows tax-deferred and can possibly be used to pay your premiums, or you might be able to borrow from the savings for a home purchase or college education.

Types of permanent life insurance include:

- **Ordinary or straight.** The simplest type, ordinary life insurance offers a set annual premium that never changes and a set death benefit that will never change.
- **Whole.** The most common type, this offers a death benefit with a cash value portion. The death benefit remains unchanged over the policy and the savings account grows based on dividends from the insurance company. Some whole policies let you pay premiums for a shorter period, such as 20 years, or until age 65. But premiums will be higher since the payments are made over a shorter time.
- **Universal or adjustable.** With this type, you may be able to increase the death benefit well after you have purchased the policy if you pass a medical exam. And the cash value portion of this policy earns interest. If the cash value portion grows enough, it can be used to reduce or pay your premiums. However, if you choose that option and the savings run out, your policy may lapse.
- **Variable.** Offers a death benefit and a cash value portion that is invested in stocks, bonds and mutual funds. Your policy may grow quickly if invested well, but both the cash value and the death benefit may decrease if the investments do not perform well. Some variable life policies do have a minimum level below which the death benefit will not decrease.
- **Variable-universal.** Combines the investment aspect of a variable policy with the ability to adjust premiums and death benefit of a universal policy.

Tips for purchasing a life insurance policy:

- **Shop around.** Consult with multiple insurance agents or use an internet quote service to get a sense of the premium you can expect to pay. While many will be within the same range, premiums can vary dramatically even among well-known companies. Also, determine what rate class you will be in based on your health and history – preferred, standard or non-standard.
- **Look for group insurance.** See whether life insurance is available from your employer or from organizations or clubs you belong to. Often these group policies are less expensive, in part because your employer may pay some of the premium for you as part of your benefit package.
- **Live healthy.** Quitting smoking, losing weight or exercising regularly may put you in a less expensive rate class for your life insurance.
- **Ask for an illustration.** If you are purchasing a policy where the cash values, death benefits, dividends or premiums may vary, ask the agent or company for an “illustration” of what the company guarantees and what could happen in the future as situations change.
- **Take a “free look.”** New life insurance policies have a “free look” period of 10 days after you receive the actual policy forms, a time during which you can cancel the policy and get a full refund with no penalty. If you replace one life insurance policy with another, the free look period is 20 days.
- **If it sounds too good to be true...** Some companies that offer very, very low premiums may not be financially sound. And companies that offer policies with “no medical exam” or that say “you cannot be turned down” may have very, very high premiums – so high, in some cases, that a few years’ worth of premiums will add up to more than the death benefit the policy will pay out.

Change Policies?

If you are thinking about dropping a life insurance policy, here are some things you should consider:

- If you decide to replace your policy, **don't cancel your old policy** until you have received the new one. You then have a period to review your new policy and decide if it's what you need.
- It **may be costly** to replace a policy. Much of what you paid in the early years of the policy covered the company's cost of selling and issuing it. You may pay this type of cost again if you buy a new policy.
- Ask your tax advisor if dropping your policy could **affect your income taxes**.
- If you are older or your health has changed, **premiums will often be higher** for the new policy.
- If your current policy does not meet all your needs, you may be able to **change your current policy or add to it** to get the coverage or benefits you want, rather than canceling.
- In the early years of a new policy, it may **pay no benefits for some causes of death** that are covered in your current policy.

Check the illustration that came with your current policy or ask the agent or company you bought it from for an updated illustration. Then ask for an illustration of the policy you are considering and compare.

Some insurance agents may suggest that you **switch term companies every couple of years** to take advantage of promotional rates. Should you do so, there is a risk that you could be subject to a new contestability period. You start a new, 2-year contestability period anytime you switch. If you die during that 2-year period, the insurance company can investigate the statements you made on your application. If you've given inaccurate or incomplete answers, the company may refuse to pay the death benefit.

Annuities

An **annuity** is a contract in which an insurance company agrees to make a series of income payments in return for premiums that an investor has paid. They are often bought for future retirement income. The most common types of annuities are: **single** or **multiple premiums**, **immediate** or **deferred**, and **fixed** or **variable**.

For a single premium contract, you pay the insurance company only one payment, whereas you make a series of payments for a multiple premium. With an immediate annuity, income payments start no later than one year after you pay the premium. The income payments from a deferred annuity often start many years later.

Deferred annuities have an accumulation period, which is the time between when you start paying premiums and when income payments start. During the accumulation period of a fixed deferred annuity, your money, less any charges, earns interest at rates set by the insurance company or in a way spelled out in the contract. During the payout period, the amount of each income payment to you is generally set when the payments start and will not change.

During the accumulation period of a variable annuity, the insurance company puts your premiums, less any applicable charges, into a separate account. You decide how the company will invest it, depending on how much risk you want to take. During the payout period of a variable annuity, the amount of each income payment to you may be set at the beginning or may change from payout to payout with the value of the investments in the separate account.

Nationally, **variable annuities** have been widely abused by some unscrupulous companies and insurance agents—and much of that abuse has been directed at senior citizens. Many variable annuities charge extremely high commissions, management fees and maintenance fees that are not clearly disclosed to the people purchasing them. Many of them also have extremely high penalties for withdrawing money from the annuity fund early.

For more information and things you should know before purchasing annuities, visit insurance.delaware.gov and click on “Annuities.”

Need Help?

The Delaware Insurance Commissioner's Office is here to help if you have questions about or problems with your insurance coverage or insurance company.

Questions about insurance or complaints about an insurance company or insurance agent can be made to the Commissioner's Consumer Services division by phone, by fax, by letter, by email or with an online complaint form:

**1-800-282-8611 toll-free in Delaware
or (302) 674-7310**

(302) 739-6278 fax

**841 Silver Lake Blvd.
Dover, DE 19904**

Email: consumer@state.de.us

Website: insurance.delaware.gov



More Online

Visit the Delaware Department of Insurance website to find even more information and tips about life insurance:

insurance.delaware.gov

Topics covered online include:

- **Frequently asked questions** about life insurance
- The meaning of **insurable interest**
- Questions to ask yourself and an agent before **purchasing annuities**
- A list of **life insurance companies in Delaware**



Questions To Ask About Life Insurance

- **What are your goals?** Do you want to replace the income you bring in to your family? Pay off debts and taxes? Pay for a child's education? Donate to charity?
- **Term or permanent?** Do you need coverage for just a limited period of years? Or do you want a policy that will be with you the rest of your life? Sometimes a combination of both is the right answer.
- **How much coverage?** What amount of money would your family need after your death to achieve your goals and what sources would they have besides your life insurance?
- **Who is the beneficiary?** Who do you want to receive the payment from my policy? And who is your secondary beneficiary if my primary beneficiary can't be found or has died with or before you?

See inside this guide for more discussion of these questions, as well as information on changing life insurance policies and purchasing annuities.

**Get more tips and information
about life insurance and annuities
from the Delaware Department of Insurance at
Insurance.delaware.gov**