



## **Life Insurance Buyer's Guide**

*Prepared by the National Association of Insurance Commissioners*

### **Buying Life Insurance**

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### **Buying Life Insurance**

When you buy life insurance, you want coverage that fits your needs and doesn't cost too much. First, decide how much you need - and for how long - and what you can afford to pay. Next, find out what kinds of policies are available to meet your needs and pick the one that best suits you. Then, find out what different companies charge for that kind of policy for the amount of insurance you want. You can find important cost differences between life insurance policies by using cost comparison indexes as described in this guide.

It makes good sense to ask a life insurance agent or company to help you. An agent can be particularly useful in reviewing your insurance needs and in giving you information about the kinds of policies that are available. If one kind doesn't seem to fit your needs, ask about others. This guide provides only basic information. You can get more facts from a life insurance agent or company or at your public library.

### **How much do you need?**

To decide how much life insurance you need, figure out what your dependents would have if you were to die now, and what they would actually need. Your new policy should come as close to making up the difference as you can afford.

In figuring what you have, count your present insurance - including any group insurance where you work, social security or veteran's insurance. Add other assets you have - saving, investments, real estate, and personal property.

In figuring what you need, think of income for you dependents - for family living expenses, educational costs and any other future needs. Think also of cash needs - for the expenses of a final illness and for paying taxes, mortgage or other debts.

### **What is the Right Kind?**

All life insurance policies agree to pay an amount of money when you die. But all policies are not the



same. Some provide permanent coverage and others temporary coverage. Some build up cash values and others do not. Some policies combine different kinds of insurance, and 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 is being offered today. Here is a brief description of two basic kinds - term and whole life - and some combinations and variations. You can get detailed information from a life insurance agent or company.

Term insurance covers you for a term of one or more years. It pays a death benefit only if you die in 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 has changed. Each time you renew the policy for a new term, premiums will be higher. Check the premiums at older ages and how long the policy can be continued.

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Many term insurance policies can be traded before the end of a conversion period of a whole life policy- even if you are not in good health. Premiums for the new policy will be higher than you have been paying for the term insurance.

Whole Life Insurance covers you for as long as you live. The common type is called straight life or ordinary life insurance - you pay the same premiums for as long as you live. These premiums can be several times higher than you would pay at first for the same amount of term insurance. But they are smaller than the 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 for ordinary life insurance since the premium payments are squeezed into a shorter period.

Whole life policies develop cash values. If you stop paying 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 amount. (Some term policies that provide coverage for a long period also have cash values).

You may borrow against the cash values by taking a policy loan. Any loan and interest on the loan that you do not pay back will be deducted from the benefits if you die, or from the cash value if you stop paying premiums.

Combinations and Variations. 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 is on your life - but it can also be bought for your spouse or children.

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

Other policies may have special features which allow flexibility as to premiums and coverage. Some let you choose the death benefit you want and the premium amount you can pay. The kind of insurance and coverage period are determined by these choices.

One kind of flexible premium policy, often called universal life, lets you vary your premium payments every year, and even skip a payment if you wish. The premiums you pay (less expense charges) go into a policy account that earns interest and charges for the insurance are deducted from the account. Here, insurance continues as long as there is enough money in the account to pay the insurance charges.

Variable life is a special kind of insurance where the death benefits and cash values depend upon investment performance of one or more separate accounts. Be sure to get 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 policies of this kind.

A simple comparison of the premiums is often not enough. There are other things to consider. For example:

Do premiums or benefits vary from year to year?

How much cash value builds up under the policy?

What part of the premiums or benefits is not guaranteed?

What is the effect of interest on money paid and received at different times on the policy?

### **Finding a Low Cost Policy**

After you have decided 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.

Comparison Index numbers, which you get from your life insurance agents or companies, take these sorts of items into account and can point the way to better buys.

Comparison Indexes. There are two types of comparison index numbers. Both assume you will live and pay premiums for the period of index.



**Yield Comparison Index .** The Life Insurance Yield Comparison Index is a measure of cash value growth over the Index period which takes into account the interest credited, the estimated value of the death protection provided, and the expenses charged. A higher yield index number generally indicates a better buy. Since this index reflects items other than interest earnings, it may differ from the credited interest rate advertised or guaranteed in your policy. For the same reasons, the Yield Index may differ from the return on a pure investment like a savings account. Keep this in mind if you attempt to compare Yield Indexes with investment returns.

The Net Payment Cost Comparison Index helps you compare costs over the Index period assuming you will continue to pay premiums on your policy and do not take its cash value. It is useful if your main concern is the benefits that are to be paid at your death.

**Guaranteed and Illustrated Figures.** Many policies provide benefits on a more favorable basis than the minimum guaranteed basis in the policy. They may do this by paying dividends, or by charging less than the maximum premium specified. Or they may do this in other ways, such as by providing higher cash values or death benefits than the minimums guaranteed in the policy. The "currently illustrated basis" reflects the company's current scale of dividends, premiums or benefits. These scales 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.

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.

**Using Comparison Indexes.** The most important thing to remember is that, when using the Net Payment Cost Comparison Index, a policy with smaller index numbers is generally a better buy than a similar policy with larger index numbers. When using the Life Insurance Yield Comparison Index, the opposite is true: a policy with larger Yield Comparison Index numbers is generally a better buy than one with smaller Yield Comparison Index numbers.

Compare index numbers only for similar policies - those which provide essentially the same benefits, with premiums payable for the same length of time. Where possible the same amount of planned premium should be used. Make sure they are for your age, and for the kind of policy and amount you intend to buy. Remember that no one company offers the lowest cost at all ages for all kinds and amounts of insurance.

Small differences in index number should be disregarded, particularly 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 or differences in the strength of companies. 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 you the whole story. You should consider:



The level and quality of service from the agent or company, the strength and reputation of the company, the history (track record) of how the company treats various classes of policyholders e. g. longtime policyholders versus current purchasers.

The pattern of policy benefits. Some policies have low cash values in the early years that build rapidly later on. Other policies have a more level cash value buildup. A year-by-year display of values and benefits can be very helpful. (The agent or company will give you a Policy Summary that will show benefits and premiums for selected years).

Any special policy features that may be particularly suited to your needs.

The methods by which non guaranteed values are calculated. For example, interest rates are an important factor in determining policy dividends. In some companies dividends reflect the average interest earnings 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 on those policies; in this case, dividends are likely to change more rapidly when interest rates change.

### **Things to Remember**

Review your particular insurance needs and circumstances. Choose the kind of policy with benefits that most closely fit your needs. Ask an agent or company to help you.

Be sure that the premiums are within your ability to pay. Don't look only at the initial premiums, but take account of any later premium increase.

Don't buy life insurance unless you intend to stick with it. It can be very costly if you quit during the early years of the policy.

Read your policy carefully. Ask your agent or company about anything that is not clear to you.

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