Chapter Six: Life Insurance

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Life Insurance: An Overview

WHY LIFE INSURANCE?

People buy life insurance policies to protect their dependents against financial hardship when the policyholder dies. Many life insurance products also allow policyholders to accumulate savings that can be used in times of financial need. Most American families depend on life insurance to provide their economic protection.

KEY THINGS YOU SHOULD KNOW ABOUT LIFE INSURANCE:

- Life insurance proceeds are generally income tax-free.

- The proceeds of many permanent life insurance policies can be used to ease the financial burden of catastrophic illness, terminal illness or long-term care. These "accelerated benefits" may be offered as part of the basic policy or as a rider to an existing policy.

- As the holder of a permanent life insurance policy, you may borrow up to the cash value at an interest rate (fixed or adjustable) stated in the policy. Any unpaid interest is added to the loan. Any unpaid loan, including interest, will be deducted from the death benefit.

- The cash value can be used to pay premiums for a period of time, keeping the stated death benefit, or it can be used to purchase paid-up insurance in a lesser amount with no further premiums due.

- In addition to naming a specific beneficiary to receive the proceeds of your life insurance policy (permanent or term), you should name a secondary or "contingent" beneficiary just in case you outlive the first beneficiary.

- On all of the above policies, riders are available at an additional cost to cover: disability waiver of premium, double indemnity for accidental death, guaranteed purchase options, as well as spouse and child riders. American Council of Life Insurance

LIFE INSURANCE CAN SOLVE YOUR HEIRS' IMMEDIATE AND LONG-TERM NEEDS

Immediate needs would include funeral expenses, unpaid medical bills, debt and taxes, as well as the time to readjust to a new life-style.

Long-term will help provide for the maintenance and care of a disabled child or elderly parent, college expenses and, in general, providing the means to your heirs to live the life to which they are accustomed.

Term Insurance

It provides protection for a specified period of time, typically from one to 30 years. It pays a death benefit only if you die during this term. Some policies can be automatically renewed at the end of the coverage period, and some can be converted to permanent insurance without need for a medical exam.

Permanent Insurance

It provides lifelong protection as long as you continue to pay premiums. The premiums are based on your age at the time of purchase and generally remain level; they do not increase with age.

THERE ARE FOUR BASIC TYPES OF PERMANENT INSURANCE:

1. **Whole Life** (sometimes also called life or ordinary life) has a fixed guaranteed instant rate and develops guaranteed cash values.

2. **Universal Life** has more flexibility. Within certain limits, you can change the death benefit, the amount of premium and payment frequency. Unlike Whole Life, this is an "interest driven" policy, which normally pays a minimum guaranteed interest of 4 percent to 4.5 percent. If the interest rates are continuously low, additional premiums may have to be paid to avoid a lapse of coverage.

3. **Variable Life** has death benefits and cash values that vary with the performance of an underlying portfolio of investments that you select. The death benefit and cash value are not guaranteed. They can go down as well as up, although there may be a guaranteed minimum death benefit.

4. **Variable Universal** combines the premium and death benefit flexibility of universal life with the investment flexibility and risk of variable life.

Life Insurance: An Overview

FREQUENTLY ASKED QUESTIONS

- **Can I have more than one life insurance policy?**
  You could have a permanent policy and add a supplemental term life policy for a short-term need.

- **What happens if you don't make the required premiums?**
  Typically, you will have a 30- or 31- day grace period. If you pay within this time frame, you won't be charge any additional interest. If you fail to pay within this period, then your policy will lapse.

- **What happens if I become disabled and can't pay the premiums on my policy?**
  Provision or "riders" that provide additional benefits can be added to a policy. One such rider is a "waiver of premium for disability." With this rider, if you become totally disabled for a specific period of time, you do not have to pay premiums for the duration of the disability.

- **Are other riders available?**
  Another rider, called an "accidental death benefit," provides for an additional benefit in case of death as a result of an accident.

- **What happens if my policy lapses?**
  If a policy lapses, most companies allow you time frame in which to pay your premium and continue the policy. If you have enough cash value built up in your policy, most companies will use part of the cash values to pay the premium due.

- **Can I buy a policy on someone else?**
  You can, if you have an "insurable interest" in that person. This usually means a relative, a domestic partner or a business partner. There are options such as first-to-die and second-to-die that allow you to insure the life of another.

- **Can I name anyone I want as my beneficiary?**
  While most people choose only their spouse, it is possible to name more than one person as a beneficiary. Remember, those individuals must have an "insurable interest" in your policy to qualify. An example would be, if you have a $100,000 individual life insurance policy on your own life, you could name your spouse and three children to share the policy at $25,000 each.

- **What do they look for in the medical exams for life insurance?**
  For individual life purchases, you will be classified based on height, weight, nicotine use and other health factors. Your health status will determine what rate class category you fit in. There is no public list of factors available; however, your agent should explain what criteria determined the class into which you fall.

- **What if my health improves?**
  If you don't qualify for the best rate today, you might be able to improve your rate category if certain health factors improve. For example, a 37-year-old woman buys a life insurance policy. At the time of purchase, she is 70 pounds overweight, has high blood pressure, and is trying to quit smoking. Two years later, her policy is still in force and she has lost 70 pounds, her blood pressure is normal, and she hasn't smoked in nine months. She could talk with her agent about being reevaluated and possibly have her rates reduced.

Indiana Long Term Care Program

THE PROGRAM

What is long-term care?

Long-term care is what people need when they are unable to care for themselves because of prolonged illness, disability or frailty. It can be as simple as in-home help, or as specialized as highly skilled medical attention in a nursing home.

What are the chances I'll need long-term care?

Your likelihood of needing long-term care increases as you get older, if you live alone, or if you're a woman. Statistics may also help show your risks. For instance, half of all women and a third of all men reaching age 65 will enter a nursing home at some point in their lives. Even more will require some kind of in-home care or assistance.

Is there a way to pay for these costs?

Long-term care insurance is specifically designed to pay for these services. This type of insurance helps cover nursing home care, in-home care, and care provided in the community such as adult day care. Long-term care insurance usually pays a set amount per day, pays a specified percentage of actual charges, or pays up to a maximum amount when a person needs the type of coverage by the policy. Coverage can be for a period of years or a maximum dollar amount.

Why not wait as long as possible before buying a long-term care insurance policy?

The premium dollars you'd save by doing this could cost you in the long run. If you wait to buy long-term insurance until you are older or in poor health, you run the risk of either paying much higher premiums or not being able to be insured at all.

What is the Indiana Long Term Care Program?

It is an initiative that gives Hoosiers the opportunity to provide for their own future long-term care needs while protecting their current financial assets.

Who's behind it?

The Indiana Long Term Care Program is a partnership between state government and private insurance companies who voluntarily agree to meet program requirements with new long-term care policies. There are 15 insurance companies approved to participate in the ILTCP.

How does the Program's new asset protection work?

The Indiana Long Term Care Program allows people who purchase and use program-approved policies to obtain Medicaid funding without having to spend all of their life savings. A dollar of assets is protected for each dollar of program policy benefits paid out for Medicaid long-term care services.

Will all of the benefits paid from the policy count toward the asset protection?

Yes, if the benefits are used for Medicaid long-term care services up to the actual cost of care. If the benefits paid are more than what the service costs, only the amount equal to the cost will be protected.

Average Annual Cost of Nursing Home Care

Alabama	$51,283
Alaska	$200,754
Arizona	$68,750
Arkansas	$43,701
California	$79,895
Colorado	$66,711
Connecticut	$108,725
Delaware	$67,562
District of Columbia	$72,606
Florida	$68,376
Georgia	$53,626
Hawaii	$93,597
Idaho	$56,659
Illinois	$56,079
Indiana	**$59,015**
Iowa	$48,928
Kansas	$43,920
Kentucky	$66,171
Louisiana	$44,614
Maine	$78,362
Maryland	$66,523
Massachusetts	$102,049
Michigan	$68,283
Minnesota	$59,926
Mississippi	$51,472
Missouri	$48,019
Montana	$50,965
Nebraska	$48,822
Nevada	$65,595
New Hampshire	$83,267
New Jersey	$92,822
New Mexico	$54,257
New York	$106,189
North Carolina	$59,087
North Dakota	$43,815
Ohio	$64,043
Oklahoma	$42,431
Oregon	$62,196
Pennsylvania	$79,563
Rhode Island	$84,333
South Carolina	$52,089
South Dakota	$48,081
Tennessee	$58,280
Texas	$54,831
Utah	$55,097
Vermont	$74,387
Virginia	$56,593
Washington	$77,314
West Virginia	$60,667
Wisconsin	$66,536
Wyoming	$56,750

Source: Genworth Financial Cost of Care Survey, 2005

Choosing a Life Insurance Agent

STARTING OUT
One of the first steps in obtaining life insurance coverage should be to contact a life insurance agent in your area. Collect the names of several agents through recommendations from friends, family, business associates and other sources. A list of agents can also be found in the local phone book, on the Internet or by contacting the Indiana Department of Insurance.

A licensed insurance agent can provide information and advice on coverage options and cost-saving measures. Agents should be familiar with insurance companies in your city, especially those that will be able to provide the coverage needed. Agents may represent one company or several companies. All insurance companies and agents are regulated by state insurance departments. Keep in mind that agents who sell variable products must be registered with the National Association of Securities Dealers and have additional state licenses.

WHEN CHOOSING AN AGENT, YOU SHOULD:

- Check whether the agent is a full-time and experienced agent or one who sells insurance as a sideline, and look for an agent with specialized training in life insurance.

- Determine if your agent has any professional designations. Most states also require agents to take continuing education courses to remain licensed in a given state. In addition to the courses required by the state, many agents take a series of courses and are awarded with professional designations.

- Carefully study your agent's recommendation and ask for a point-by-point explanation. Make sure the agent explains items you don't understand. Because your policy is a legal document, it is important that you know what it provides.

IF YOUR AGENT RECOMMENDS A TERM POLICY, ASK:
How long can I keep this policy? If I want the option to renew the policy for a specific number of years or until a certain age, what are the terms of renewal?

When will my premiums increase? Annually? Or after a longer period of time, such as five or ten years?

Can I convert to a permanent policy? Will I need a medical exam when I convert?

IF YOUR AGENT RECOMMENDS A PERMANENT POLICY, ASK:
Are the premiums within my budget?

Can I commit to these premiums over the long term?

How much will I receive if I surrender the policy?

Keep in mind that permanent insurance provides protection for your entire life. If you don't plan to keep the policy for many years, consider another type. Cashing in a permanent policy after only a few years can be a costly way to get short-term insurance protection.
First In Life Insurance, Inc.

How Much Life Insurance Do You Need?

Here are some questions to ask yourself::

How much of the family income do I provide? If I were to die early, how would my survivors, especially my children, get by? Are there any other relatives that depend on my financial assistance, such as a cousin or a sister?

Do I have children for whom I'd like to set aside money to finish their education in the event of my death?

How will my family pay final expenses and repay debts after my death?

Do I have family members or organizations to whom I would like to leave money?

Will there be estate taxes to pay after my death?

How will inflation affect future needs?

Annuities and Survivorship Life Insurance

WHAT IS AN ANNUITY?

With an annuity you simply set aside a sum of your money in order to generate periodic income. There are two phases to an annuity. The accumulation phase is when premium payments accumulate interest earnings. The payout phase is when a sum of money is paid out over a desired benefit period. Both the accumulation phase and the payout phase of an annuity are extremely flexible. For example, the accumulation phase may consist of a single premium payment or a series of periodic premium payments. Also, the accumulation period may be as short as five years, or for the entire lifetime of the annuitant.

WHAT ARE THE TAX ADVANTAGES?

The interest earned on an annuity is tax-deferred. In other words, you do not pay income tax on earnings until you begin the payout phase.

During the payout phase, either all or a portion of each benefit payment will be taxable. For example, if you select an interest only option, the entire periodic payment is considered interest income and therefore is fully taxable. If you select a lifetime income option for your non-qualified annuity, only a part of each payment is reportable as taxable income.

WHAT IS SURVIVORSHIP LIFE INSURANCE?

The Economic Recovery Tax Act of 1981 allowed postponement of estate taxes until after the death of both husband and wife. While this provides couples with increased flexibility during their lifetime, in many cases it places a substantial tax burden on the combined estate when the surviving spouse dies. Survivorship life insurance provides a solution by covering two lives with proceeds payable at the second death. Therefore it is perfectly suited to deal with the estate tax problem discussed above.

ITS ADVANTAGES OVER INDIVIDUAL COVERAGE

- Lower premiums are more cost effective than two individual policies.

- Medical underwriting standards may be eased with respect to one of the insureds, due to second death payouts.

- Lower "economic benefit" reportable for income taxes.

OTHER USES FOR SURVIVORSHIP LIFE INSURANCE

- **Key Person Insurance-**
  Where the employer can self insure or absorb the loss of one key individual but not two.

- **Business Buyout-**
  The purchase of a family business from aging parents. Child working in the business owns the policy on the parents.

- **Charitable Gift Replacement-**
  Provides heirs with replacement cash when assets are used to find a Remainder Trust.

Viaticals/Accelerated Benefits

ACCELERATED BENEFITS

To help pay long-term care costs, certain policy features allow the insured to collect life insurance benefits prior to death. Circumstances that can trigger these accelerated benefits include diagnosis of a terminal illness or medical condition that would drastically shorten the policyholder's life span, the need for long-term care, or permanent confinement to a nursing home. Upon the death of the insured, the beneficiaries receive the remainder of the death benefit.

Accelerated benefit provisions may be integrated in the policy or more typically attached to it as a rider. Most individual life insurance requires an additional premium for an accelerated benefit for long-term or permanent confinement.
American Council of Life Insurers

VIATICAL SETTLEMENTS

Viatical settlements are cash sales of life insurance policies to investors for a portion of face value. Many individuals who sell their policies are in the later stages of terminal illness and are often trying to raise cash for much-needed treatment.

When the viatical business first got started, roughly 95 percent of policies were for individuals diagnosed with AIDS. Today roughly 30 to 40 percent of the business is made up of individuals with HIV and AIDS. The majority of the policies now come from a mixture of individuals with cancer, heart disease or other terminal afflictions and senior citizens who may be healthy but are over 70 and trying to obtain cash from life insurance policies they may no longer need.

If a policyholder decides to viaticate or sell a life insurance policy, he or she must locate a viatical broker. A viatical broker is someone who shops the policy to the investor, also known as the viatical provider, who will ultimately buy it. Brokers usually charge a fee ranging from 3 percent to 6 percent of the payout.
American Council of Life Insurers

GENERAL CONSUMER TIPS FOR VIATORS

In order to determine the market value of your policy, you may wish to contact several viatical settlement providers or use a viatical settlement broker to contact several providers for you.

Remember that you are not obligated to accept a particular viatical settlement offer. You can delay a sale or ask for new offers at any time before the settlement is completed.

Prior to accepting an offer, you should ask what will happen to any dividends, additional increases in the face amount of the policy,
accidental death benefits or other benefits under the policy once you have entered into the viatical settlement.

Make sure you are comfortable with the confidentiality provisions offered by each party to the viatical settlement. You will want to note the conditions under which there may be an obligation, both during the settlement process and after the settlement is complete, to release further medical information or to disclose other information about your life insurance policy

Understand the time frame for the completion of your viatical settlement. While each transaction varies, the probable time frame is 2 to 6 weeks from the initial call.
National Association of Insurance Commissioners

Life Insurance in Indiana

INDIANA LIFE INSURANCE FACTS

PRESENCE
616 life insurers are licensed to do business in Indiana and 39 are domiciled in the state.

It is estimated that 6,900 workers in Indiana are employed in the life insurance industry. Life insurers also generate additional jobs by purchasing goods and services from other businesses in the state.

INVESTMENTS IN INDIANA'S ECONOMY
Life insurance companies invest approximately $64 billion of their assets in Indiana's economy.

About $53 billion of this investment is in stocks and bonds that help finance business development, job creation, and services in the state.

Life insurers provide $3 billion in mortgage loans on farm, residential, and commercial properties, and own $372 million in real property in Indiana.

RESIDENTS PROTECTED
Indiana residents have $388 billion in death benefit coverage.

State residents own 4 million individual life insurance policies, with coverage averaging $66,300 per policyholder.

Group life insurance coverage amounts to $138 billion.

Individual life insurance coverage purchased during the year in Indiana totals $28 billion.

BENEFITS PAID
$7 billion was paid to Indiana residents in the form of death benefits, matured endowments, policy dividends, surrender values, and other payments.

Source: ACLI calculations based on National Association of Insurance Commissioners (NAIC) 2005 annual statement data; U.S. Bureau of Economic Analysis, 2005 data; U.S. Census Bureau, 2005 data; and U.S. Bureau of Labor Statistics, 2005 data.