

**INSURANCE
DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF INSURANCE**

Life Insurance Solicitation

Proposed Repeals and New Rules: N.J.A.C. 11:4-11

Authorized By: Steven M. Goldman, Commissioner, Department of Banking and Insurance.

Authority: N.J.S.A. 17:1-8.1, 17:1-15(e), 17B:17-5.1 and 17B:30-1 et seq.

Calendar Reference: See Summary below for explanation of exception to calendar requirement.

Proposal Number: PRN 2007-306

Submit comments by November 30, 2007 to:

Robert Melillo, Chief
Legislative & Regulatory Affairs
20 West State Street
PO Box 325
Trenton, NJ 08625-0325
FAX: 609-292-0896
Email: LegsRegs@dobi.state.nj.us

The agency proposal follows:

Summary

The Department of Banking and Insurance (Department) is proposing to repeal its existing outdated life insurance solicitation rules and buyer's guide at N.J.A.C. 11:4-11 and replace those rules with a new subchapter. The Department adopted the current rules in 1976 based on a life insurance disclosure model regulation adopted by the National Association of Insurance Commissioners (NAIC), and subsequently amended the rules from time to time. Substantive changes made to the NAIC model regulation in 2000, and conflicting provisions in the Department's life insurance illustrations rules at N.J.A.C. 11:4-52 adopted in 1998, now require the Department to update its life insurance solicitation rules.

The proposed new rules have eliminated all references to, and provisions addressing, the life insurance cost comparison indices, as they are no longer necessary. This change is consistent with the NAIC's 2000 life insurance disclosure model regulation. The NAIC determined that consumers did not find such indices to be very helpful in deciding whether a particular policy was a good value, and that consumers could use illustrations to make comparisons. Definitions of "equivalent level annual dividend," "equivalent level death benefit of a policy or term life insurance rider," and "life insurance cost indexes" have been removed. Also, the proposed new rules no longer require information regarding those elements to be included in a policy summary delivered to a prospective purchaser. Other provisions currently appearing at N.J.A.C. 11:4-11.5 that address costs and benefits of the policy have been eliminated. At proposed N.J.A.C. 11:4-11.3(b)1iv, the proposed rules have increased from a \$5.00 to a \$10.00 maximum, the fee that insurers may charge for preparing either a policy data statement or an in force illustration requested by the policyowner. The proposed Buyer's Guide has been updated by eliminating references to, and explanations of, cost indexes, and replaced them with more comprehensive information about the various types of life insurance policies and an explanation of the purpose of a life insurance illustration. Information related to the costs and benefits of life insurance, including explanations of guaranteed and non-guaranteed elements of a life insurance policy, is now contained in the Department's life insurance illustrations rules at N.J.A.C. 11:4-52. As mentioned above, any conflicts between the life insurance illustrations rules and the current life insurance solicitation rules will be resolved by adoption of these new rules. All of these changes make life insurance information that is delivered to consumers more readily comprehensible and should enable prospective purchasers to make more educated and appropriate choices.

The proposed new rules and Buyer's Guide are based on the current NAIC Life Insurance Disclosure Model Regulation (Model #580, October 2000), with some differences. Unlike the NAIC model regulation, the Department's proposed rules do not contain provisions addressing disclosures related to life insurance policies that fund prepaid funeral agreements. New Jersey's prepaid funeral agreements and arrangements rules at N.J.A.C. 13:36 and funeral insurance policies rules at N.J.A.C. 11:4-25 contain disclosure requirements that specifically address the relationship between the funeral insurance policy and the prepaid funeral agreement. Nevertheless, life insurance policies intended as funeral insurance policies (that is, a policy intended to provide, or explicitly marketed for the purpose of providing, funds at the time of the insured's death in connection with a prepaid funeral agreement) would be subject to the remaining disclosure requirements contained in these proposed rules. The proposed new rules contain some definitions not included in the NAIC model regulation (for example, "group life insurance," "insurer," "life insurance," "policyowner," "producer," and "variable life insurance"). The Department's proposed new rules contains certain provisions not addressed in the NAIC model requiring that terms used in those provisions be defined. Also, the NAIC model did not include definitions of some terms used in it, which are defined in the new rules. The proposed new rules contain a definition of "Buyer's Guide" that differs from the NAIC model definition because the proposed Buyer's Guide contains information consistent with the Department's life insurance illustrations rules that is not contained in the NAIC model. The Department's definition also contains a reference to information about the Insurance Claims Ombudsman as required by N.J.A.C. 11:25-1.7. The information contained in the proposed Buyer's Guide provision addressing life insurance illustrations differs from the NAIC model for the purpose of conforming with the Department's life insurance illustrations rules. In its Failure to Comply section, the NAIC model uses only the term "insurer" in addressing the insurer's

failure to provide or deliver a Buyer's Guide, in force illustration, policy summary or policy data. The Department's proposed new rules at N.J.A.C. 11:4-11.5 requires insurers and their producers to comply with these requirements, and also includes a reference to the possible imposition of penalties for failure to comply.

These proposed new rules include the following provisions:

N.J.A.C. 11:4-11.1 sets forth the purpose and scope of the rules.

N.J.A.C. 11:4-11.2 contains definitions of terms used throughout the subchapter.

N.J.A.C. 11:4-11.3 sets forth insurers' disclosure requirements in the sale of new life insurance policies and in sales to existing policyholders.

N.J.A.C. 11:4-11.4 contains general rules related to insurer conduct in the sale of life insurance.

N.J.A.C. 11:4-11.5 states that any violation of the requirements contained in this subchapter may result in the imposition of penalties.

N.J.A.C. 11:4-11.6 states that the invalidity of any provision(s) of this subchapter shall not void the remainder of the subchapter.

N.J.A.C. 11:4-11.7 indicates that the new rules shall become operative 90 days following adoption.

Appendix A contains the revised life insurance Buyer's Guide.

As the Department has provided a 60-day comment period on this notice of proposal, this notice is excepted from the rulemaking calendar requirement pursuant to N.J.A.C. 1:30-3.3(a)5.

Social Impact

The rules proposed for repeal and proposed new rules will have a favorable impact on both consumers and insurers. The revised disclosure requirements and Buyer's Guide will help

consumers to make more informed decisions regarding their potential life insurance purchases. Insurers will also benefit in that by fully complying with the requirements of the new rules, they will be in a better position to respond to consumer complaints alleging inadequate insurer disclosure about life insurance products.

Economic Impact

The rules proposed for repeal and proposed new rules and Buyer's Guide will have a positive impact on consumers and insurers. These changes, together with the life insurance illustrations rules adopted in 1998, will enable consumers to more fully comprehend the types, costs and benefits of various life insurance products, and will result in more realistic expectations about the value of their policies. As a result, consumers may more readily purchase life insurance from insurers that provide more comprehensive and understandable information about the various types of available products. Consumers may experience a slight negative impact in that the new rules increase, from \$5.00 to \$10.00, the maximum fee insurers may charge for providing policyowners, at their request, a statement of certain policy data containing numerical values relating to their policies. Insurers will be favorably impacted by this fee increase because they will be better able to recoup their costs when providing this policy data to policyowners. Insurers should not experience any additional costs in complying with the proposed requirement to provide prospective policyholders with a buyer's guide because insurers are currently required to provide this document. Insurers may experience a slight negative impact if they are required to provide either a policy summary or illustrations. However, the cost to insurers for providing illustrations at the time of sale with certain types of policies is not new because insurers have been required to provide those illustrations since the Department promulgated its life insurance illustrations rules at N.J.A.C. 11:4-52 in 1998. **Further, the information insurers will need in**

order to provide an in force illustration or a policy summary should be readily available and insurers' costs for providing those documents would be minimal, if any. Insurers will not incur any new recordkeeping costs because they currently maintain the data needed to comply with the requirements of these new rules.

Federal Standards Statement

A Federal standards analysis is not required because the rules proposed for repeal and proposed new rules are not subject to any Federal standards or requirements.

Jobs Impact

The Department does not anticipate that the rules proposed for repeal and proposed new rules will result in the generation or loss of jobs. The Department anticipates that insurers will utilize existing staff to prepare revised Buyer's Guides, policy summaries and any other documents required by the new rules.

Agriculture Industry Impact

The rules proposed for repeal and proposed new rules will have no agriculture industry impact.

Regulatory Flexibility Analysis

The rules proposed for repeal and proposed new rules are unlikely to directly affect any small business insurers as that term is defined in the Regulatory Flexibility Act at N.J.S.A. 52:14B-16 et seq., but may affect small business producers who are required to comply. The rules proposed for repeal and proposed new rules set forth reporting and recordkeeping

requirements, making a regulatory flexibility analysis necessary. The new rules will require insurers or their producers to deliver a Buyer's Guide, a policy summary or illustration, and possibly other policy data to purchasers of life insurance or existing policyholders. The new rules also require insurers to maintain certain files for a period of three years regarding disclosures made pursuant to this subchapter. These requirements are not new, but may differ from existing delivery and/or record retention requirements. However, the requirements must be met by all insurers and/or producers choosing to engage in the sale of life insurance products to which these rules apply because all potential purchasers of these products are entitled to benefit equally from the protections they afford. Further, compliance with the rules' requirements would not require insurers to hire any additional staff or engage any professional services. The costs of compliance with the proposed new rules are discussed in the Economic Impact statement above. **The new rules have no different requirements based on insurer size. The Department does not believe that any such differentiation would be appropriate or feasible since the purpose of this rule is to provide consumers with certain information that will enable them to make more educated and appropriate choices in their purchase of life insurance policies. Accordingly, no differentiation in compliance requirements is appropriate based on business size.**

Smart Growth Impact

The rules proposed for repeal and proposed new rules will have no impact on the achievement of smart growth and the implementation of the State Development and Redevelopment Plan.

Full text of the rules proposed for repeal may be found in the New Jersey Administrative Code at N.J.A.C. 11:4-11.

Full text of the proposed new rules follows:

SUBCHAPTER 11. LIFE INSURANCE DISCLOSURE

11:4-11.1 Purpose and scope

(a) The purpose of this subchapter is to require insurers to deliver information to purchasers of life insurance that will improve the buyer's ability to select the most appropriate plan of life insurance for the buyer's needs and improve the buyer's understanding of the basic features of the policy that has been purchased or is under consideration for purchase.

(b) This subchapter does not prohibit the use of additional material that is not a violation of this subchapter or any other New Jersey statute or regulation.

(c) Except for the exemptions specified in Subsection (d) below, this subchapter shall apply to any solicitation, negotiation or procurement of life insurance occurring within this State. N.J.A.C. 11:4-11.3(b) shall apply only to an existing nonexempt policy held by a policyowner residing in this State. This subchapter shall apply to any issuer of life insurance contracts, including fraternal benefit societies.

(d) This subchapter shall not apply to:

1. Individual and group annuity contracts;
2. Credit life insurance;
3. Group life insurance;
4. Life insurance policies issued in connection with pension and welfare plans as defined by, and which are subject to, the Federal Employee Retirement Income Security Act of 1974 (ERISA), 29 U.S.C. §§ 1001 et seq., as amended; or
5. Variable life insurance, as defined in this subchapter.

11:4-11.2 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

"Annuity" means a contract not included within the definition of life insurance as set forth at N.J.S.A. 17B:17-3, or health insurance as set forth at N.J.S.A. 17B:17-4, under which an insurer obligates itself to make periodic payments for a specified period of time, such as for a number of years, or until the happening of an event, or for life, or for a period of time determined by any combination thereof. Such a contract, which includes extra benefits of the kinds set forth at N.J.S.A. 17B:17-3 or -4 shall nevertheless be deemed to be an annuity if such extra benefits constitute a subsidiary or incidental part of the entire contract. Subsidiary or incidental death benefits are set forth at N.J.A.C. 11:4-43.3(h).

"Buyer's Guide" means a document that contains, and is limited to, the following: the language included in the appendix to this subchapter and a notice containing information about the Office of the Insurance Claims Ombudsman as specifically set forth at N.J.A.C. 11:25-1.7.

"Commissioner" means the Commissioner of the New Jersey Department of Banking and Insurance.

"Credit life insurance" means insurance on the life of a debtor pursuant to or in connection with a specific loan or other credit transaction as defined at N.J.S.A. 45:7-82.

"Current scale of non-guaranteed elements" means a formula or other mechanism that produces values for an illustration as if there is no change in the basis of those values after the time of illustration.

"Department" means the New Jersey Department of Banking and Insurance.

"Generic name" means a short title that is descriptive of the premium and benefit patterns of a policy or a rider.

"Group life insurance" means a policy or contract of life insurance that covers more than one person as part of a group that satisfies the specifications of N.J.S.A. 17B:27-68 or 69.

"Insurer" includes every person engaged as indemnitor or contractor in the business of life insurance.

"Life insurance" means a policy or contract whereby an insurer is obligated to pay or allow a benefit of pecuniary value with respect to the cessation of human life. Life insurance also includes the granting of endowment benefits and optional modes of settlement of proceeds of life insurance, as well as provisions for:

1. Additional benefits in the event of death by accident or accidental means or in the event of dismemberment or loss of sight; or

2. Safeguarding such insurance against lapse or giving a special surrender value or special benefit or an annuity in the event that the insured shall become totally and permanently disabled, whether such provisions are incorporated in a policy or contract of life insurance or in a policy or contract supplemental thereto. Life insurance does not include worker's compensation coverages.

"Non-guaranteed elements" means the premiums, credited interest rates (including any bonus), benefits, values, non-interest based credits, charges or elements of formulas used to determine any of these, that are subject to company discretion and are not guaranteed at issue. An element is considered non-guaranteed if any of the underlying non-guaranteed elements are used in its calculation.

"Policy data" means a display or schedule of numerical values, both guaranteed and non-guaranteed, for each policy year or a series of designated policy years of the following information: illustrated annual, other periodic, and terminal dividends; premiums; death benefits; cash surrender values; and endowment benefits.

“Policy owner” means the owner named in the policy.

“Policy summary” means a written statement describing the elements of the policy, including, but not limited to:

1. A prominently placed title as follows: “STATEMENT OF POLICY COST AND BENEFIT INFORMATION”;

2. The name and address of the insurance agent or, if no agent is involved, a statement of the procedure to be followed in order to receive responses to inquiries regarding the policy summary;

3. The full name and home office or administrative office address of the company in which the life insurance policy is to be or has been written;

4. The generic name of the basic policy and each rider;

5. The following amounts, where applicable, for the first five policy years and representative policy years thereafter sufficient to clearly illustrate the premium and benefit patterns; including at least one age from 60 through 65 and policy maturity:

i. The annual premium for the basic policy;

ii. The annual premium for each optional rider;

iii. The guaranteed amount payable upon death at the beginning of the policy year regardless of the cause of death, other than suicide or other specifically enumerated exclusions, that is provided by the basic policy and each optional rider; with benefits provided under the basic policy and each rider shown separately;

iv. The total guaranteed cash surrender values at the end of the year with values shown separately for the basic policy and each rider; and

v. Any guaranteed endowment amounts payable under the policy that are not included under cash surrender values above;

6. The effective policy loan annual percentage interest rate, if the policy contains this provision, specifying whether this rate is applied in advance or in arrears. If the policy loan interest rate is adjustable, the policy summary shall also indicate that the annual percentage rate will be determined by the company in accordance with the provisions of the policy and the applicable law; and

7. The date on which the policy summary is prepared.

"Producer" means a person required to be licensed under the laws of this State to sell, solicit or negotiate insurance pursuant to N.J.S.A. 17:22A-26 et seq.

"Variable life insurance" means a separate account life insurance policy or contract providing for the dollar amount of life insurance to vary so as to reflect investment results of one or more separate accounts in which amounts with respect to any such policy or contract have been placed.

11:4-11.3 Duties of insurers

(a) The generally applicable requirements are as follows :

1. The insurer shall provide a Buyer's Guide to all prospective purchasers, prior to accepting the applicant's initial premium or premium deposit. However, if the policy for which application is made contains an unconditional refund provision of at least 10 days, the Buyer's Guide may be delivered with the policy or prior to delivery of the policy; and

2. The insurer shall provide a policy summary to prospective purchasers where the insurer has identified the policy form as one that will not be marketed with an illustration. The policy summary shall show guarantees only. It shall consist of a separate document with all required information set out in a manner that does not minimize or render any portion of the summary obscure. Any amounts that remain level for two or more years of the policy may be

represented by a single number if it is clearly indicated what amounts are applicable for each policy year. Amounts referenced in paragraph 5 of the definition of "policy summary" in N.J.A.C. 11:4-11.2 shall be listed in total, not on a per thousand or per unit basis. If more than one insured is covered under one policy or rider, death benefits shall be displayed separately for each insured or for each class of insureds if death benefits do not differ within the class. Zero amounts shall be displayed as a blank space. Delivery of the policy summary shall be consistent with the time for delivery of the Buyer's Guide as specified in (a)1 above.

(b) The requirements applicable to existing policies are as follows:

1. Upon request by the policyowner, the insurer shall furnish either policy data or an in force illustration as follows:

i. For policies issued prior to July 6, 1998 (the effective date of N.J.A.C. 11:4-52, Life Insurance Illustrations), the insurer shall furnish policy data, or, at its option, an in force illustration meeting the requirements of N.J.A.C. 11:4-52;

ii. For policies issued after July 6, 1998 (the effective date of N.J.A.C. 11:4-52, Life Insurance Illustrations), that were declared not to be used with an illustration, the insurer shall furnish policy data, limited to guaranteed values, if it has chosen not to furnish an in force illustration meeting the requirements of N.J.A.C. 11:4-52;

iii. If the policy was issued after the effective date of N.J.A.C. 11:4-52 and declared to be used with an illustration, an in force illustration shall be provided; or

iv. Unless otherwise requested, the policy data shall be provided for 20 consecutive years beginning with the previous policy anniversary. The statement of policy data shall include non-guaranteed elements according to the current scale, the amount of outstanding policy loans, and the current policy loan interest rate. Policy values shown shall be based on the current application of non-guaranteed elements in effect at the time of the request.

The insurer may charge a reasonable fee, not to exceed \$10.00, for the preparation of the statement;

2. If a life insurer changes its method of determining scales of non-guaranteed elements on existing policies, it shall, no later than when the first payment is made on the new basis, provide notice to each affected policy owner residing in this State of this change and of its implication on affected policies. This notice requirement shall not apply to policies where, as of the date the notice would be required, the amount payable upon death under the basic policy does not exceed \$5,000; and

3. If the insurer makes a material revision in the terms and conditions under which it will limit its right to change any non-guaranteed factor, it shall, no later than the first policy anniversary following the revision, advise each affected policy owner residing in this State.

11:4-11.4 General regulations

(a) Each insurer shall maintain, at its home office or principal office, a complete file containing one copy of each document authorized and used by the insurer pursuant to this subchapter for a period of three years following the date of its last authorized use unless otherwise provided by this subchapter.

(b) An agent shall inform the prospective purchaser, prior to commencing a life insurance sales presentation, that he or she is acting as a life insurance agent and the full name of the insurer the agent is representing. In sales situations in which an agent is not involved, the insurer shall identify its full name.

(c) An insurance producer shall not use terms such as “financial planner,” “investment advisor,” “financial consultant,” or “financial counseling” in such a way as to imply that he or she is primarily engaged in an advisory business in which compensation is unrelated to sales

unless that is actually the case. This provision is not intended to preclude persons who hold some form of formal recognized financial planning or consultant designation from using this designation even when they are only selling insurance. This provision also is not intended to preclude persons who are members of a recognized trade or professional association, and having such terms as part of its name, from citing membership providing that a person citing membership, if authorized only to sell insurance products, shall disclose that fact. This provision does not permit persons to charge an additional fee for services that are customarily associated with the solicitation, negotiation or servicing of policies.

(d) Any reference to non-guaranteed elements shall include a statement that the item is not guaranteed and is based on the company's current scale of non-guaranteed elements (use appropriate special term such as "current dividend" or "current rate" scale). If a non-guaranteed element would be reduced by the existence of a policy loan, a statement to that effect shall be included in any reference to non-guaranteed elements. A presentation or depiction of a policy issued after July 6, 1998 (the effective date of N.J.A.C. 11:4-52, Life Insurance Illustrations) that includes non-guaranteed elements over a period of years shall be governed by that subchapter.

11:4-11.5 Failure to comply/penalties

Failure of an insurer, its producer, or other authorized representative or agent to provide or deliver to a buyer a Buyer's Guide, an in force illustration, a policy summary or policy data, or any other information required by this subchapter to be provided or delivered to buyers shall constitute an omission that misrepresents the benefits, advantages, conditions or terms of an insurance policy and may result in the imposition of penalties as prescribed by the Unfair Trade Practices Act, N.J.S.A. 17B:30-1 et seq., and any other penalties provided by the laws of this State.

11:4-11.6 Separability

If any provisions of this subchapter are held invalid, the remainder shall not be affected.

11:4-11.7 Effective date

This subchapter shall become operative on (90 days after adoption of the new rules.)

APPENDIX A

LIFE INSURANCE BUYER'S GUIDE

[The face page of the Buyer's Guide shall read as follows:]

Life Insurance Buyer's Guide

This guide can help you when you shop for life insurance. It discusses how to:

- Find a Policy That Meets Your Needs and Fits Your Budget
- Decide How Much Insurance You Need
- Make Informed Decisions When You Buy a Policy

This guide does not endorse any company or policy.

Reprinted by (company name)

(month and year of printing)

IMPORTANT THINGS TO CONSIDER

1. Review your own insurance needs and circumstances. Choose the kind of policy that has benefits that most closely fit your needs. Ask an agent or company to help you.
2. Be sure that you can handle premium payments. Can you afford the initial premium? If the premium increases later and you still need insurance, can you still afford it?
3. Don't sign an insurance application until you review it carefully to be sure all the answers are complete and accurate.
4. Don't buy life insurance unless you intend to stick with your plan. It may be very costly if you quit during the early years of the policy.
5. Don't drop one policy and buy another without a thorough study of the new policy and the one you have now. Replacing your insurance may be costly.
6. Read your policy carefully. Ask your agent or company about anything that is not clear to you.
7. Review your life insurance program with your agent or company every few years to keep up with changes in your income and your needs.

Buying Life Insurance

When you buy life insurance, you want coverage that fits your needs.

First, decide how much you need—and for how long—and what you can afford to pay. Keep in mind the major reason you buy life insurance is to cover the financial effects of unexpected or untimely death. Life insurance can also be one of many ways you plan for the future.

Next, learn what kinds of policies will meet your needs and pick the one that best suits you.

Then, choose the combination of policy premium and benefits that emphasizes protection in case of early death, or benefits in case of long life, or a combination of both.

It makes good sense to ask a life insurance agent or company to help you. An agent can help you review your insurance needs and give you information about the available policies. If one kind of policy 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 from your public library.

What About the Policy You Have Now?

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 minimum period to review your new policy and decide if it is what you wanted.
- It may be costly to replace a policy. Much of what you paid in the early years of the policy you have now paid for the company's cost of selling and issuing the policy. 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 for the new policy will often be higher. You will not be able to buy a new policy if you are not insurable.
- You may have valuable rights and benefits in the policy you now have that are not in the new one.
- If the policy you have now no longer meets your needs, you may not have to replace it. You might be able to change your policy or add to it to get the coverage or benefits you now want.
- At least in the beginning, a policy may pay no benefits for some causes of death covered in the policy you have now.

In all cases, if you are thinking of buying a new policy, check with the agent or company that issued you the one you have now. When you bought your old policy, you may have seen an illustration of the benefits of your policy. Before replacing your policy, ask your agent or company for an updated illustration. Check to see how the policy has performed and what you might expect in the future, based on the amounts the company is paying now.

How Much 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? Does anyone else depend on me financially, such as a parent, grandparent, brother or 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?

As you figure out what you have to meet these needs, count the life insurance you have now, including any group insurance where you work or veteran's insurance. Don't forget Social Security and pension plan survivor's benefits. Add other assets you have: savings, investments, real estate and personal property. Which assets would your family sell or cash in to pay expenses after your death?

What Is the Right Kind of Life Insurance?

All policies are not the same. Some give coverage for your lifetime and others cover you for a specific number of years. 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. Some policies may offer other benefits while you are still living. Your choice should be based on your needs and what you can afford.

There are two basic types of life insurance: term insurance and cash value insurance. Term insurance generally has lower premiums in the early years, but does not build up cash values that you can use in the future. You may combine cash value life insurance with term insurance for the period of your greatest need for life insurance to replace income.

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 offers the largest insurance protection for your premium dollar. It generally does not build up cash value.

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 many term insurance policies for a cash value policy during a conversion period—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.

Cash Value Life Insurance is a type of insurance where the premiums charged are higher at the beginning than they would be for the same amount of term insurance. The part of the premium that is not used for the cost of insurance is invested by the company and builds up a cash value that may be used in a variety of ways. You may borrow against a policy's cash value by taking a policy loan. If you don't pay back the loan and the interest on it, the amount you owe will be subtracted from the benefits when you die, or from the cash value if you stop paying premiums and take out the remaining cash value. You can also use your cash value to keep insurance protection for a limited time or to buy a reduced amount without having to pay more premiums. You also can use the cash value to increase your income in retirement or to help pay for needs such as a child's tuition without canceling the policy. However, to build up this cash value, you must pay higher premiums in the earlier years of the policy. Cash value life insurance may be one of several types; whole life, universal life and variable life are all types of cash value insurance.

Whole Life Insurance covers you for as long as you live if your premiums are paid. You generally pay the same amount in premiums for as long as you live. When you first take out the policy, premiums can be several times higher than you would pay initially 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 since the premium payments are made during a shorter period.

Universal Life Insurance is a kind of flexible policy that lets you vary your premium payments. You can also adjust the face amount of your coverage. Increases may require proof that you qualify for the new death benefit. The premiums you pay (less expense charges) go into a policy account that earns interest. Charges are deducted from the account. If your yearly premium payment plus the interest your account earns is less than the charges, your account value will become lower. If it keeps dropping, eventually your coverage will end. To prevent that, you may need to start making premium payments, or increase your premium payments, or lower your death benefits. Even if there is enough in your account to pay the premiums, continuing to pay premiums yourself means that you build up more cash value.

Variable Life Insurance is a kind of insurance where the death benefits and cash values depend on the investment performance of one or more separate accounts, which may be invested in mutual funds or other investments allowed under the policy. Be sure to get the prospectus from the company when buying this kind of policy and STUDY IT CAREFULLY. You will have higher death benefits and cash value if the underlying investments do well. Your benefits and cash value will be lower or may disappear if the investments you chose didn't do as well as you expected. You may pay an extra premium for a guaranteed death benefit.

Life Insurance Illustrations

You may be thinking of buying a policy where cash values, death benefits, dividends or premiums may vary based on events or situations the company does not guarantee (such as interest rates). If so, you may get an illustration from the agent or company that helps explain how the policy works. The illustration will show how the benefits that are not guaranteed will change as interest rates and other factors change. The illustration will show you what the company guarantees. It will also show you what *could* happen in the future. Remember that nobody knows what will happen in the future. You should be ready to adjust your financial plans if the cash value doesn't increase as quickly as shown in the illustration. You will be asked to sign a statement that says that the agent told you that some of the numbers in the illustration are not guaranteed.

Finding a Good Value in Life Insurance

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

- Is the quality and financial stability of the company satisfactory?
- Do premiums or benefits vary from year to year?
- How much do the benefits build up in 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?

Remember that no one company offers the lowest cost at all ages for all kinds and amounts of insurance. You should also consider other factors:

- How quickly does the cash value grow? Some policies have low cash values in the early years that build quickly later on. Other policies have a more level cash value build-up. A year-by-year display of values and benefits can be very helpful. (The agent or company will give you a policy summary or an illustration that will show benefits and premiums for selected years.)
- Are there special policy features that particularly suit your needs?
- How are non-guaranteed values calculated? For example, interest rates are important in determining policy returns. In some companies increases reflect the average interest earnings on all of that company's policies regardless of when issued. In others, the return for policies issued in a recent year, or a group of years, reflects the interest earnings on that group of policies; in this case, amounts paid are likely to change more rapidly when interest rates change.