

AHI
INSURANCE SERVICES INC.
ACCREDITED HOME STUDY INSTITUTE
CONTINUING EDUCATION PROVIDER

APPROVED
INSURANCE
CONTINUING EDUCATION
COURSE

LIFE PLANS

INFORMATION LINE 1-800-894-2495

WWW.AHICE.COM

EMAIL: INSURANCE@AHICE.COM

TABLE OF CONTENTS

THE LIFE INSURANCE POLICY	1
THE USES OF LIFE INSURANCE	1
LIFE INSURANCE AS A PROPERTY	2
THE LIFE INSURANCE APPLICATION	3
DEFINITION OF AN APPLICATION	3
MINOR APPLICATIONS.....	4
CORRECTING APPLICATIONS	4
INCORRECT / INCOMPLETE APPLICATIONS	4
REPRESENTATIONS / WARRANTIES	5
FRAUD.....	5
CONCEALMENT.....	5
CONDITIONAL RECEIPT.....	6
SHOULD THE INSURED DIE IN THE EVENT THE PROPOSED INSURED DIES BEFORE THE POLICY IS ISSUED, ACCORDING TO THE CONDITIONAL RECEIPT, THE FOLLOWING WILL TAKE PLACE:	6
POLICY EFFECTIVE DATE	6
BACKDATING POLICIES	7
HOW MUCH LIFE INSURANCE DO I NEED?	7
USING THE NEEDS APPROACH TO LIFE INSURANCE	7
THE APPLICATION	9
COMPLETING THE APPLICATION	11
CONCEALMENT, REPRESENTATIONS, AND WARRANTIES.....	11
TYPES OF LIFE INSURANCE	12
TERM INSURANCE	12
YEARLY RENEWABLE TERM –	13
FIVE, TEN, FIFTEEN, OR TWENTY YEAR TERM –	13
TERM TO AGE SIXTY-FIVE OR SEVENTY –	13
DECREASING TERM –	13
REENTRY TERM –	14
WHOLE LIFE	14
ORDINARY LIFE INSURANCE –	14
LIMITED-PAYMENT LIFE INSURANCE –	14
ENDOWMENT INSURANCE –	14
UNIVERSAL LIFE -	15
VARIABLE LIFE –	15
ADJUSTABLE LIFE.....	16
MODIFIED LIFE.....	17
FAMILY LIFE.....	17
KINDS OF INSURANCE COMPANIES	18

A STOCK LIFE INSURANCE COMPANY	18
A MUTUAL INSURANCE COMPANY	18
GOVERNMENT INSURANCE PROGRAMS	20
RECIPROCALLS	20
LLOYD'S OF LONDON	20
FINANCIAL STATUS OF INSURERS.....	21
POLICY PROVISIONS OF LIFE INSURANCE POLICIES	22
OWNERSHIP CLAUSE	22
ENTIRE CONTRACT CLAUSE.....	23
INCONTESTABLE CLAUSE	23
SUICIDE CLAUSE	24
GRACE PERIOD	24
REINSTATEMENT CLAUSE	24
MISSTATEMENT OF AGE	25
BENEFICIARY DESIGNATION.....	25
CHANGE OF PLAN PROVISION.....	26
PREMIUMS	27
SINGLE AND PERIODIC PREMIUMS	27
PARTS OF THE PREMIUM.....	28
NET AND GROSS PREMIUM	29
MORTALITY AND INTEREST FACTORS	29
LEVEL PREMIUM CONCEPT RESERVES	30
INSURANCE AGE	31
EXCLUSIONS AND RESTRICTIONS ON LIFE POLICIES	32
PAYMENT OF PREMIUMS.....	32
SETTLEMENT OPTIONS	34
LUMP SUM SETTLEMENT	34
PROCEEDS AND INTEREST.....	35
FIXED YEARS INSTALLMENTS.....	35
LIFE INCOME	35
JOINT LIFE INCOME	36
FIXED AMOUNT INSTALLMENTS.....	36
OTHER MUTUALLY AGREED METHOD	37
NON-FORFEITURE OPTIONS	38
CASH SURRENDER VALUE	38
REDUCED PAID-UP INSURANCE	39
EXTENDED TERM INSURANCE	39
AUTOMATIC PREMIUM PROVISION	40
DIVIDEND ACCUMULATIONS TO AVOID LAPSE	40
DIVIDEND OPTIONS	41

USE OF DIVIDENDS	41
CASH PAYMENT.....	41
REDUCTION OF PREMIUM.....	42
ACCUMULATION OF INTEREST	42
PAID-UP ADDITIONS	42
ONE-YEAR TERM	42
LIFE INSURANCE POLICY RIDERS	43
COMMON LIFE INSURANCE RIDES	43
WAIVER OF PREMIUMS.....	43
ACCIDENTAL DEATH AND DISMEMBERMENT	44
GUARANTEED PURCHASE OPTION	45
LIFE INSURANCE UNDERWRITING	46
UNDERWRITING FACTORS FOR INDIVIDUAL COVERAGE	46
AGE.....	47
SEX	47
HEALTH.....	47
OCCUPATION AND AVOCATION	48
PERSONAL HABITS	48
FOREIGN TRAVEL OR RECENT IMMIGRATION	48
UNDERWRITING ACTIONS.....	48
DELIVERING THE POLICY	49
POLICY EFFECTIVE DATE	49
A POLICY IS CONSIDERED IF.....	50
AGENTS RESPONSIBILITIES	51
DEFINITIONS USED IN LIFE INSURANCE PLANS	52
KEY ISSUES OF LIFE INSURANCE COVERAGE	61
KEY ISSUES OF THE DIFFERENT TYPES OF LIFE INSURANCE	63
KEY ISSUES OF THE DIFFERENT TYPES OF INSURANCE COMPANIES	65
KEY ISSUES OF THE POLICY PROVISIONS OF LIFE INSURANCE POLICIES	66
KEY ISSUES OF PREMIUMS	67
KEY ISSUES OF THE EXCLUSIONS AND RESTRICTIONS ON LIFE POLICIES	68

KEY ISSUES OF SETTLEMENT OPTIONS	69
KEY ISSUES OF NON-FORFEITURE OPTIONS	70
KEY ISSUES OF DIVIDEND OPTIONS	71
KEY ISSUES OF LIFE INSURANCE POLICY RIDERS	72
KEY ISSUES OF LIFE INSURANCE UNDERWRITING	74
KEY ISSUES OF THE DELIVERING THE POLICY	75
PUBLISHER'S NOTE	76

CHAPTER ONE

THE LIFE INSURANCE POLICY

Life insurance is a contract between an individual and an insurance company. In this contract, the insurance company agrees to pay a stated amount of money to a beneficiary, under certain conditions, in exchange for a sum of money called the premium.

It is important that you understand that a life insurance policy is in fact a legal contract. In other words it is an agreement between two parties to do something in exchange for the premium that is paid to the company.

THE USES OF LIFE INSURANCE

Life insurance is primarily used to function in personal and family situations.

As a rule a person's death creates an immediate need for money. The following is a list of some of the needs that might be created from a person's death.

- ❑ Expenses created by final illness.
- ❑ Burial and funeral expenses.
- ❑ Debts that are due at time of death.
- ❑ Costs to administer the estate.
- ❑ Federal and state death taxes.

- ❑ Inheritance taxes.

Money may also be needed to provide for the following:

- ❑ Payoff mortgages or purchases a new home.
- ❑ Provide an education for children.
- ❑ Meet unexpected financial needs.

Life insurance can also provide benefits for business situations.

Here are a few examples:

- ❑ Loss caused by death of a key employee.
- ❑ Collateral for loans.
- ❑ A business insurance fund.
- ❑ Buy-out business interest of a deceased owner.
- ❑ Fringe benefits for employees.
- ❑ Fund qualified retirement plans.

LIFE INSURANCE AS A PROPERTY

Very few people consider the fact that life insurance is a property. Where else could you make a premium payment of \$100.00, and create an immediate estate or property valued at \$250,000.00. That's possible with life insurance.

Here are some advantages of life insurance as property:

- ❑ As an asset it is very secure.
- ❑ There is no managerial care.
- ❑ It can be purchased in any desired amount.
- ❑ It provides a reasonable rate of return.
- ❑ Proceeds are payable immediately.
- ❑ You choose the method of payment for premiums.

THE LIFE INSURANCE APPLICATION

A life insurance application contains three parties:

1. The proposed insured.
2. The applicant.
3. The policyowner.

1. **THE PROPOSED INSURED**

This is the person whose life is being insured by the life insurance policy.

2. **THE APPLICANT**

This is the person that is making application to the insurance company for the life insurance and remember may or may not be the proposed insured.

3. **THE POLICYOWNER**

This is the person that usually pays the premiums and the person who retains all rights to any values or options contained in the policy.

DEFINITION OF AN APPLICATION

In order for a person to purchase life insurance they must make a request to the insurance company of their choice. The form on which this request is made is known as an application.

Most companies now require that the proposed insured be physically present in front of the agent while the questions on the application are being filled out.

The application is crucial in that it provides the data that the underwriters and Insurance Company will use to determine if they will issue a policy.

When the proposed insured signs the application they are then making a formal request to the company that a policy be issued on their life.

In addition to this the signature on the application indicates that the information is true and correct to the best of their knowledge.

MINOR APPLICATIONS

In most states a person is not considered an adult until they are 18 years of age.

As a rule minors are not permitted to enter into contracts. However life insurance is the exception in that a person is a minor only until age 15.

In the event that the proposed insured is younger than age 15 one of the following persons must sign the application on behalf of that child:

1. Their mother or father.
2. A court appointed safeguard for the wellbeing of the minor.
3. Their grandparents.

CORRECTING APPLICATIONS

Should it be necessary to correct a mistake regarding information given on the application, the proposed insured must initial any and all changes on that application.

Mistakes on the application can be costly especially when the company is usually paying an outside reporting service to conduct an inspection.

Any changes that are made on a completed application must have the approval of the proposed insured.

The normal procedure is to return the incorrect application to the agent who in turn will take it to the insured to have the errors initialed.

INCORRECT / INCOMPLETE APPLICATIONS

Should an application contain incorrect or incomplete information it should not be taken lightly.

In the event that the company has already made a decision on a risk based on these inaccuracies it could result in a serious loss.

Should the error be discovered after the issuance of a policy the company can cancel or rescind the entire contract from the date of issue.

Of course this must take place before the incontestability clause of the contract takes effect.

REPRESENTATIONS / WARRANTIES

- ❑ All statements on applications are regarded as representations. When a person makes a statement that person believes to be true they are in effect making a representation of the truth.
- ❑ While it is possible that a representation may be found to be untrue, a person who makes a representation believes it to be true.
- ❑ A warranty on the other hand is a statement made with such absolute certainty that it is guaranteed to be true.
- ❑ No statement on an application is considered a warranty.
- ❑ Misrepresentation - A false representation can be defined as a misrepresentation.

FRAUD

There are three elements necessary to constitute a fraud. They are:

1. A person makes an intentional misrepresentation of what is known to be a material fact.
2. The person has intent to gain advantage.
3. And a person relied upon a second party that suffers a loss.

Remember there can be no fraud unless there was intent.

CONCEALMENT

Concealment is closely akin to misrepresentation when it comes to information included on a policy application.

While misrepresentation as stated earlier is something known to be untrue, concealment is withholding of facts that the applicant should have given to the insurance carrier at the time of application.

CONDITIONAL RECEIPT

It is best to always collect the first full premium from the applicant at the time of application.

The receipt that is located at the bottom of the application is called a conditional receipt.

The word "conditional" is very important because the agent is not guaranteeing that the policy will be issued.

Issuance of the policy is subject to the full approval of the insurance carrier.

The conditional receipt serves two functions:

1. It acknowledges the first full premium.
2. It states in very clear terms that the policy acceptance is subject to the approval of the carrier.

SHOULD THE INSURED DIE

In the event the proposed insured dies before the policy is issued, according to the conditional receipt, the following will take place:

- ❑ If the insurance carrier had issued the policy to the proposed insured had they still been living then the proceeds would be paid to the beneficiary.
- ❑ Should number 1 above not be the case and the claim is denied the premium will be returned to the beneficiary.

POLICY EFFECTIVE DATE

Full protection takes effect as of the policy effective date.

The policy effective date also begins the date on which the contestable period begins to run.

The policy effective date also is the date on which the suicide clause begins to run.

There are three reasons why the policy effective date is important. They are:

1. Insurance begins on this date.
2. The contestable period begins on this date.
3. The suicide begins on this date.

BACKDATING POLICIES

As a rule policies can be backdated a certain number of months. As a rule the maximum is to backdate six months. Most companies allow backdating for sales reasons.

FOR EXAMPLE:

- ❑ Oftentimes backdating can save an age by one year of the proposed insured and this can result in a lower premium for the proposed insured.
- ❑ Backdating is useful to assist the policyowner in coordinating dates to fit their income pattern. Perhaps the backdating may change the policy to closely match payday.
- ❑ Occasionally some policy forms have minimum and maximum age limits and backdating may be able to put the applicant's age into the window of acceptable age limits.

HOW MUCH LIFE INSURANCE DO I NEED?

The majority of families in America are inadequately insured.

In 1994 it was estimated that the average amount of life insurance enforced per family was only enough to keep that family going for 26 months following the death of the major financial supporter.

As a rule it is said that a person should carry life insurance equal to five or six times their annual earnings.

USING THE NEEDS APPROACH TO LIFE INSURANCE

The following are a few of the more popular applications for life insurance to provide for a need that occurs as a result of a death.

1. **ESTATE SETTLEMENT NEEDS**
Cash is needed for burial expenses, installment debt, administration expense, and estate tax and in some cases expense for the last illness.
2. **READJUSTMENT PERIOD**
Following the death of a head of family there is usually a one to two year period in which the family needs to continue to receive the same amount of income it would have received had the head of the family lived.
3. **DEPENDENCY PERIOD**
This period usually follows the readjustment period in that it lasts until the youngest child of the family reaches age 18.
4. **BLACKOUT PERIOD**
This is the period when social security benefits to a surviving spouse are temporarily terminated. This occurs when the youngest child reaches age 16 and will not resume until the surviving spouse reaches age 60.
5. **SPECIAL NEEDS**
Special needs may consist of a fund to pay off the mortgage, education fund for the children's education or an emergency fund for unexpected expenses.
6. **RETIREMENT FUND**
In this instance the head of a family may also wish to provide the surviving spouse with funds for retirement.

CHAPTER TWO

THE APPLICATION

Three terms with which you should become very familiar are Applicant, Insured, and Policyowner. The applicant is the person applying to the company for insurance, either on the applicant's own life or the life of another; the insured is the person whose life is covered by the policy; and the policy owner is the person who has the ownership rights in the insurance policy. The great majority of policies are issued on the application of the person to be insured who is also the owner of the policy.

In the typical situation, the policy owner, the applicant, and the insured will be the same person. There are, however, many policies issued where someone other than the insured applies for and owns the policy. The situation in which someone other than the insured is the policyowner is called "Third party ownership."

This type of arrangement is often found in family situations where, for example, a wife will insure her husband, or vice versa, or a parent will insure children. Third-party ownership is also often found in business situations, where a business insures the life of a key employee, for example. Another common third-party ownership arrangement is where a creditor owns a policy on the life of a debtor.

For a life insurance policy to be issued, an "**insurable interest**" between the insured and the policyowner must be present. In this regard, it is necessary to examine insurable interest from two standpoints. First, we'll look at the situation in which a person applies for insurance on the life of another. Then, we'll look at insurable interest when a person applies for insurance on his or her own life. First, let's examine the conditions that must be present to satisfy the insurable interest requirements in each of these situations.

Again, to purchase life insurance on the life of another, an insurable interest in the life of the proposed insured must exist. What that means is this; The policyowner must benefit, either emotionally or financially, by the insured continuing to live. Generally for an insurable interest to exist, the potential emotional loss must arise from love and affection which grows from a close blood relationship, or marriage. And, of course, where ones,

own life is concerned, each person has an unlimited insurable interest in his or her own life.

Suppose that a life insurance policy could be sold when no insurable interest requirements existed. If a person could apply for insurance on the life of another without this interest, then the policyowner would stand to gain, and suffer no emotional loss, by the insured's death. As such, a life insurance policy would constitute a mere wager which would be clearly against public policy, and therefore illegal.

Remember that an insurable interest arises out of a close blood relationship. While this is basically true, being the relative of a potential policyowner does not automatically establish an insurable interest. For example, under most circumstances, a person would probably find it difficult to establish an insurable interest in an aunt, uncle, or cousin unless the policyowner could show that a significant financial or emotional loss would result upon the death of the relative.

EXAMPLE:

Assume George has loaned a substantial amount of money to his cousin. George wants to purchase a life insurance policy on his cousin's life. George will be the policyowner, and his cousin will be the insured.

There is another important aspect of insurable interest; the relationship between a policy owner and a creditor. This relationship brings about another type of insurable interest.

A creditor can establish an insurable interest with a debtor. For instance, assume a bank loans \$5,000 to an individual. Obviously, the bank will suffer financially if the debtor dies before the loan is repaid. This fact establishes the insurable interest between the bank and the debtor. For this reason, the bank can purchase life insurance on the life of the debtor and receive the death benefit of the life insurance policy, but only in an amount, which reflects the balance of the unpaid loan, should the debtor die prior to repaying the loan.

Insurance purchased by a creditor on the life of a debtor must be in an amount that approximates the size of the debt. So, if a debtor owes a creditor \$1,000, it is unlikely that the creditor could purchase a \$10,000 life insurance policy on the life of the debtor.

For this reason, most credit life insurance purchased on the life of a debtor has a reducing death benefit, which keeps pace with the diminishing loan balance. Therefore, if a debtor owes \$5,000 to be repaid over a period of five years, the death benefit might begin at \$5,000 to match the original amount of the loan. However, this policy would eventually reduce to \$0 at the end of five years when the loan has been repaid.

COMPLETING THE APPLICATION

The application is a life insurance company document containing questions and information, which the company uses in evaluating the insurance risk and in properly preparing the policy if one, is issued. The agent completes the application by asking the applicant the questions.

The information requested on the application generally includes items such as the applicant's full name and address, age, sex, marital status, occupation, medical and family histories, present physical condition, and a description of the type and the amount of insurance applied for. It also includes the name of the person who is the beneficiary of the insurance along with data on other insurance owned and applied for, as well as whether or not the applicant was ever refused life insurance.

In view of the importance of the application, it is essential that the application be completed fully and accurately. If the application is incomplete, the underwriting process and policy issue will be delayed until the necessary information is obtained. And the company depends upon accurate information to make a proper evaluation of the proposed insured.

Finally, Sometimes an agent will need to correct the application. He or she may make a mistake in completing the form, or the applicant may remember some facts that require an addition to or change in the information already recorded. In such a situation, THE APPLICANT **MUST INITIAL** erasures, additions, or alterations of any kind.

CONCEALMENT, REPRESENTATIONS, AND WARRANTIES

As mentioned, the application is intended to reveal facts about the proposed insured that the company feels will be pertinent to making a decision about whether or not to insure the applicant. The insurance company uses the information supplied on the application, in large part, to make the decision about whether or not to issue the policy.

If the information submitted by the applicant is incorrect or incomplete, the insurance company may be forced to void the contract later on the grounds of concealment, material misrepresentation, or warranty violation.

CONCEALMENT occurs when an applicant conceals or fails to disclose known facts. To void a contract in most states, the concealment of facts by the proposed insured must be material to the selection of the risk, and it must be done with the intent to defraud. In other words, if knowledge of the concealed fact would have influenced the company to accept or reject the risk, concealment has occurred and the contract may be voided.

CHAPTER THREE

TYPES OF LIFE INSURANCE

There are many types of life insurance available.

We will discuss the following:

- ❑ Term Insurance.
- ❑ Whole Life.
- ❑ Universal Life.
- ❑ Variable Life.
- ❑ Adjustable Life.
- ❑ Modified Life.
- ❑ Family Life.

TERM INSURANCE

This is the most basic type of life insurance. Some of its characteristics are as follows:

FIRST –

Term Insurance provides only temporary protection from one to 20 years or until the insured reaches a specified age. Should the insured be alive at the end of the term period the protection expires.

SECOND -

Term Insurance has no cash value or savings element. It is strictly pure protection.

THIRD -

Term Insurance can be renewable and convertible. Renewable means that you can continue the coverage for additional periods without proof of insurability. As a rule the premium increases each time the policy is renewed based on the age of the insured at the time of renewal.

Convertible means that the term policy can be exchanged for some type of cash value insurance without proof of insurability.

Term Insurance comes in a variety of policies. They are:

YEARLY RENEWABLE TERM –

This is issued for a one-year period and the policyowner has the right to renew coverage for successive one-year periods.

FIVE, TEN, FIFTEEN, OR TWENTY YEAR TERM –

Term insurance can be purchased for a specific period such as five, ten, fifteen or twenty years, and in some instances even longer periods.

The premium remains level during the policy term and should the policy be renewed at the end of the term the premium will increase.

TERM TO AGE SIXTY-FIVE OR SEVENTY –

In this instance the term insurance is provided to a stated age.

The premium remains level during the policy term and the insurance expires when the stated age is attained. As a rule the insured has the right to convert this term insurance to a cash value policy; however the policy must be converted sometime prior to the expiration date.

DECREASING TERM –

With a decreasing term policy although the premiums remain level during the policy term the face amount of insurance gradually decreases over time.

For example a \$100,000.00 policy issued for a decreasing term of 30 years could decline to \$50,000.00 by the end of the twentieth year and zero by the end of the thirtieth year.

REENTRY TERM –

This is a new type of term insurance that some companies make available. With this policy the premiums are based on a low-rate schedule.

Under the terms of this policy the insured must demonstrate evidence of insurability, usually every one to five years.

WHOLE LIFE

Whole Life Insurance has level premiums and will provide protection until age 100.

Some examples of Whole Life Insurance are:

ORDINARY LIFE INSURANCE –

Ordinary Life Insurance is a form of Whole Life. Lifetime protection is provided until age 100 and the premiums remain level. In the event the insured is still alive at age 100 the full-face amount will be paid without death having to occur.

LIMITED-PAYMENT LIFE INSURANCE –

This is another form of Whole Life Insurance. Although the premiums are level they are only paid for a certain number of years. After that payment period the policy becomes paid up. Limited-Payment policies can be issued for ten, twenty or thirty years.

A policy that is paid up at age sixty-five or seventy is still available. The premiums for Limited-Payment policies are higher than an ordinary life insurance policy but the cash value is also higher.

ENDOWMENT INSURANCE –

This is the third basic type of Whole Life Insurance.

An endowment pays policy proceeds to the named beneficiary if the insured dies within a certain period.

Should the insured survive to the end of the stated period, the policy proceeds are paid to the policyowner.

UNIVERSAL LIFE -

This form of Whole Life Insurance is becoming more and more popular.

Universal policies are sold as investments that combine insurance protection with savings.

Actually, a Universal Life Policy can be defined as a flexible premium deposit fund that is combined with monthly renewable term insurance.

Here's how it works:

FIRST –

An initial specific premium is paid. Then expenses are deducted from the gross premium and the balance is credited to the policy's initial cash value.

SECOND –

A monthly mortality charge is conducted from the cash value to pay for the pure insurance protection.

FINALLY -

The remaining cash value is then credited with interest at a specified rate.

Universal Life has the following basic characteristics:

- ❑ There are two forms available.
- ❑ Protection, savings, and expense components are separated.
- ❑ There is a stated investment return.
- ❑ Considerable flexibility.
- ❑ Cash withdrawals are permitted.

VARIABLE LIFE –

With a Variable Life Insurance policy, the face amount of insurance varies according to the investment experience of a separate account that is maintained by the insurer.

This is the perfect solution to the fact that inflation can quickly erode the real purchasing power of life insurance.

Under the Variable Life Insurance policy the premiums are invested in equities or other investments.

Should the investment experience be favorable the face amount of insurance is increased.

However should the experience be unfavorable the amount of insurance is reduced. In no event can the amount of insurance be reduced below the original face amount.

The Variable Life Insurance policy was designed to maintain the real purchasing power of the death benefit.

ADJUSTABLE LIFE

This type of Whole Life policy permits changes to be made in the following areas:

- ❑ Amount of life insurance.
- ❑ Period of protection.
- ❑ Amount of premium.
- ❑ Duration of premium-paying period.

This type of insurance is frequently called "**Life Cycle**" insurance because policy changes may be made to conform to different periods in the insured's life.

Within certain limits, the policyowner can make the following adjustments as the situations warrants:

- ❑ Reduce or increase the amount of insurance.
- ❑ Shorten or lengthen the period of protection.
- ❑ Increase or decrease the premiums paid.
- ❑ Lengthen or shorten the period for paying of premiums.

A cost of living provision can also be attached to the Adjustable Life Policy and this will in fact maintain the real purchasing power of the insurance.

MODIFIED LIFE

This is a type of Whole Life Policy in which the premiums are reduced for an initial period of three to five years and then the premiums increase thereafter:

The initial or reduced premium as paid in the beginning is slightly higher than Term Insurance rates but substantially lower than the premium paid for an ordinary Life Policy issued at the same age.

There are different types of Modified Life Insurance:

FIRST –

Under one type the Term Insurance is used for the first three to five years and then automatically converts into an ordinary life policy at a premium that will be higher than what would have been paid for a regular ordinary Life Policy issued at the same age.

SECOND –

Under another type, the approach is to redistribute the premiums by charging lower premiums during the early years of the policy but higher premiums thereafter.

Modified Life Insurance can be attractive to folks who expect their incomes to increase in the future.

FAMILY LIFE

This is a Whole Life Policy designed to insure all family members in one policy. This policy is sold in units that state the amount and types of life insurance on the family members.

One unit for example may consist of the following:

- ❑ \$5,000.00 of Ordinary Life on the head of the family.
- ❑ \$2,000.00 of Term to sixty-five on the spouse.
- ❑ \$1,000.00 of Term Insurance on each child up to stated age.

As a rule, Term Insurance under the Family Life Policy can be converted to some form of permanent insurance, typically the children's protection can be converted up to five times the face amount without proof of insurability.

Finally, there is no additional premium if another child is born and newborn children are usually automatically covered after a fifteen-day waiting period.

CHAPTER FOUR

KINDS OF INSURANCE COMPANIES

Life insurance companies can be organized in several ways; however, most are organized either as stock companies or as mutual companies.

A STOCK LIFE INSURANCE COMPANY

... Gets their name from its basic ownership characteristic. Its stockholders people, who have bought stock in the company, own a stock company. The stockholders may or may not also be policyowners. The sole function of the stockholders is to elect a board of directors who in turn will guide the operation of the company. If the company is successful financially, the stockholders will receive dividends, which are paid for each share of stock owned.

A stock life insurance company, like all other corporations, is in business to make a profit for the stockholders.

A MUTUAL INSURANCE COMPANY

... Is also a corporation, and it also derives its name from its basic ownership characteristic. Unlike a stock company, which is owned by its stockholders, a mutual company has no stockholders. Control in a mutual company rests with the policyowners who 'mutually' own the company. The policyowners elect a board of directors, and any "profits" are returned as dividends to the policyowners in the form of reduced costs for insurance.

It should be mentioned here that dividends from a mutual company are not profits in the mercantile or commercial sense but rather the return of an "overcharge", of premium.

FOR EXAMPLE:

A mutual life insurance company might sell life insurance at one specific age for \$20 per \$1,000 of face amount. Once a dividend has been declared, each policyowner might then receive credit on the premium statement in the amount of \$2 per \$1,000. Thus, the resultant cost for the insurance is \$18 per \$1,000 of face amount.

While not true in every case, mutual insurance companies usually issue "participating" life insurance policies. The term participating means that if the company realizes a savings in death claims due to a lower mortality rate, or an increase in the interest earned, or if it realizes some efficiency in its operation which reduces expenses, these savings or "profits" are passed along to the policyowner in the form of policy dividends. Thus, the policyowner in a mutual life insurance participates in any savings or "profits" enjoyed by the company.

You should never imply to a client that a stock company is better from an organizational standpoint than a mutual company, or vice versa, or that participating policies are better than nonparticipating ones. Both types of companies and both policies are good.

Before any life insurance company can sell insurance in any state, it must be licensed to sell insurance or, as it is called, **ADMITTED** to that state. An insurer that is admitted to a state is authorized to do business in that state. If an insurer is not admitted to a state, it is unauthorized to do business in that state.

Another type of insurer with which you should be familiar is the fraternal benefit society, also known as a "fraternal". A fraternal insurer is a social and benevolent organization, which provides, among other services, life insurance benefits for members.

Membership in such an organization is often based on factors such as a person's nationality, religion, or occupation, but whatever the criterion for membership, keep in mind that fraternal have functions other than providing insurance.

Each state defines and provides for the regulation of fraternal benefit societies in its insurance laws. But, although the exact definition of a fraternal may differ from state to state, an organization usually must have certain characteristics to qualify as a fraternal benefit society. First, the organization generally must exist only for the benefit of its members and of their beneficiaries and be non-profit. Second, it must be organized without capital stock.

A third characteristic is that the society usually must be organized on a lodge system. This means that the organization must have local lodges or chapters, which hold regular

meetings to carry on the activities of the society. Ritualistic ceremonies are often a part of those activities.

Finally, the organization must have a representative form of government. There must be a governing body chosen by the members directly or by delegates, in accordance with the organization's bylaws or constitution.

GOVERNMENT INSURANCE PROGRAMS .

... have been established for a variety of reasons throughout history. Social insurance programs have been created to allow the government to make compulsory a program lacking equity in order to cover fundamental risks and to redistribute income. Government insurance programs have been created when private insurers would have been subjected to adverse selection or were incapable of meeting society's needs.

By its administration of various Federal insurance programs, the U.S. government has become the largest insurer in the world. These various programs include Social Security, Medicare, and the Railroad Retirement, Disability, and Unemployment Programs.

RECIPROCAL . . .

. . . are groups of individuals (called "subscribers") who are insured under an arrangement where each subscriber is both an insured and an insurer. In other words, the other members of the group insure each subscriber. However, the liability of each subscriber is limited.

The administrator of the reciprocal is the "attorney-in-fact". He or she is granted this power by the subscribers through a broad power of attorney, and receives a percentage of the gross premiums paid by the subscribers. Other than this payment to the attorney-in-fact and administrative expenses, the cost to the reciprocal is limited to the amount of the losses that occur. Any unused premiums are returned to the subscribers.

LLOYD'S OF LONDON . . .

. . . is a name familiar to many in the insurance industry. However, perhaps the most interesting fact about Lloyd's of London is that it is not an insurer nor does it issue policies. Rather, Lloyd's of London is an association of members who write insurance for their own

accounts. The New York Stock Exchange bears the same relationship to stock purchases as Lloyd's bears to the purchase of insurance.

Like the Stock Exchange, Lloyd's provides quarters for its members as well as procedures for business transactions. Though neither organization engages in trade, both provide facilities and rules that govern how its members will pursue trade. In addition, Lloyd's maintains worldwide underwriting information and a complete record of losses. It also aids in loss settlements and supervises salvage and repairs throughout the world

At Lloyd's, an insurance transaction begins when a proposal is placed before the underwriting members, or their agents, by a licensed broker. The broker prepares the policy and submits it to the Policy Signing Office where the policy is examined. If the policy conforms to agreed-upon rules, it is submitted to the underwriters. Those underwriters who wish to participate in the policy affix their signatures or "underwrite", the risk. American Lloyd's associations operate under the same principles and methods as Lloyd's of London.

FINANCIAL STATUS OF INSURERS

Changing economic conditions and highly publicized failures of financial institutions (from savings and loan companies to insurance companies) have focused much attention on the financial status of private insurers. Independent rating services provide ratings consumers can use to measure the status of a company and compare it to others.

The two most popular rating services are A.M. Best Company and Standard and Poors. A.M. Best Company looks at profitability, leverage, and liquidity and assigns ratings from A++ (Superior) to C and C (Fair) and below. Standard and Poor's focuses on the claims paying ability of an insurer and offers ratings from AAA (Superior) to D (Insurers placed under an order of liquidation).

In most cases, insurance companies pay a fee to be rated by a rating service. Other rating services include Moody's Investors Service (measuring financial strength), and Duff and Phelps (measuring claims paying ability and managerial soundness). In addition to private rating services the National Association of Insurance Commissioners measures company performance and prepares analytical reports as part of the Insurance Regulatory Information System (IRIS). Agents have access to IRIS ratios, which serve as indicators of a company's financial condition in various areas.

CHAPTER FIVE

POLICY PROVISIONS OF LIFE INSURANCE POLICIES

It has been my experience in teaching live classes that ninety-five out of one hundred agents have never read the required policy provisions that are contained in every policy that they sell.

It is important that you realize that policy provisions are in fact contractual provisions and govern what the policyowner can and cannot do with the policy you have sold them.

Here is an overview of the list and then we will discuss them individually.

- ❑ Ownership Clause.
- ❑ Entire Contract Clause.
- ❑ Incontestable Clause.
- ❑ Suicide Clause.
- ❑ Grace Period.
- ❑ Reinstatement Clause.
- ❑ Misstatement of Age.
- ❑ Beneficiary Designation.
- ❑ Change of Plan Provision.

OWNERSHIP CLAUSE

The owner of a Life Insurance Policy can be the applicant, the insured, or the beneficiary. In most cases, the applicant and insured are the same person.

Under the Ownership Clause, the policyowner possesses all contractual rights in the policy while the insured is still alive. These rights include the selection of a settlement

option, naming and changing the beneficiary designation, election of dividend options, and other rights.

These contractual rights typically can be exercised without the beneficiary's consent. In addition, the ownership Clause provides for a change in ownership. The policyowner can designate a new owner by filling out an appropriate form with the company.

The insurer may require that the Life Insurance Policy be endorsed to show the name of the new owner.

ENTIRE CONTRACT CLAUSE

The Entire Contract Clause states that the Life Insurance Policy and attached application constitute the complete contract between the insurer and policyowner.

No statement can be used by the insurer to void the policy unless the statement is a material misrepresentation and is part of the application. In addition, any officer of the company cannot change the terms of the policy unless the policyowner agrees to the change.

INCONTESTABLE CLAUSE

Under the Incontestable Clause, the company cannot contest the policy after the policy has been in force two years during the insured's lifetime.

The insurance company has two years to discover any irregularities in the contract, such as a material misrepresentation or concealment.

If the insured dies after that time, the death claim must be paid. For example, if John conceals a cancer operation when the application is filled out and dies after expiration of the incontestable period, the death claim **WILL** be paid.

The purpose of the incontestable clause is to protect the beneficiary if the insurance company tries to deny payment of the death claim years after the policy is issued.

Since the insured is dead, allegations by the insurer concerning statements made in connection with the application cannot be easily refuted. After the incontestable period has expired, with few exceptions, the company must pay the death claim.

SUICIDE CLAUSE

A typical Suicide Clause states that the face amount of the policy will not be paid if the insured commits suicide within two years after the policy is issued. The only payment is a refund of the premiums.

The purpose of the Suicide Clause is to reduce adverse selection against the insurer by providing the insurer some protection against an individual who purchases a Life Insurance Policy with the intention of committing suicide.

GRACE PERIOD

A Grace Period is another important contractual provision. A typical

Grace Period gives the policyowner thirty-one days to pay an overdue premium.

The life insurance remains in force during the Grace Period. If death occurs during the Grace Period, the overdue premium usually is deducted from the policy proceeds.

REINSTATEMENT CLAUSE

If the premium is not paid during the grace period, a life insurance policy may lapse for nonpayment of premiums.

The Reinstatement Clause allows the policyowner the right to reinstatement of a lapsed policy under certain conditions:

- ❑ The insured must provide evidence of insurability, a condition that insurers often waive for lapses of less than two months.
- ❑ All overdue premiums plus interest must be paid.
- ❑ A policy loan must be repaid or reinstated.
- ❑ The policy has not been surrendered for its cash value.
- ❑ The lapsed policy must be reinstated within five years.

If the policyowner wishes to continue the same type of life insurance coverage, it usually is more economical to reinstate a policy than to buy a new one.

This is because a new policy is likely to have a higher premium, since it will be issued when the insured is older.

MISSTATEMENT OF AGE

The insured's age may be misstated in the application. Under the Misstatement Clause, the amount paid is the amount of life insurance that the premium would have purchased at the insured's correct age.

FOR EXAMPLE:

Assume that Mary's correct age is thirty but is incorrectly recorded in the application as age twenty-nine.

Assume that the premium for an ordinary life application at age twenty-nine is \$20.00 per \$1,000.00 and \$21.00 per \$1,000.00 at age thirty.

If Jane has \$15,000.00 of Ordinary Life Insurance and dies, only 14/15ths of the proceeds will be paid, or \$14,000.00.

BENEFICIARY DESIGNATION

The beneficiary is the person or party named in the policy to receive the policy proceeds.

There are numerous Beneficiary Designations in life insurance.

They include the following:

1. The Primary Beneficiary is the first party who is entitled to receive the proceeds at the insured's death.
2. The Contingent Beneficiary is the beneficiary entitled to the policy proceeds if the primary beneficiary is not alive.
3. A Revocable Beneficiary designation means that the policyowner has the right to change the Beneficiary Designation without the beneficiary's consent.
4. An Irrevocable Beneficiary designation means that the policyowner cannot change the beneficiary without the irrevocable beneficiary's consent.

5. A Specific Beneficiary designation means that the beneficiary is named and can be identified. For example, Martha Smith may be specifically named to receive the policy proceeds if her husband should die.
6. A Class Beneficiary designation means that a specific individual is not named but is a member of a group to whom the proceeds are paid. One example of a class Beneficiary Designation would be "children of the insured".

CHANGE OF PLAN PROVISION

The Change of Plan Provision allows the policyowner to exchange the present policy for a different one.

If the change is to a higher premium plan, such as exchanging an ordinary life policy for an endowment at age sixty-five, the policyowner must pay the difference in cash values between the two contracts plus interest at a stipulated rate.

Since the net amount at risk is reduced, evidence of insurability is not required.

Some insurers also allow the policyowner to change to a lower premium policy, such as exchanging an endowment contract for an ordinary life contract.

The insurer refunds the difference in cash values to the policyowner.

However, evidence of insurability is required since the net amount at risk is increased.

CHAPTER SIX

PREMIUMS

SINGLE AND PERIODIC PREMIUMS

There are two basic ways to purchase a life insurance policy.

THE FIRST –

is by paying the entire cost in one lump-sum payment. This is the "single premium" method.

THE SECOND METHOD –

of purchasing a policy is by the payment of periodic premiums. Rather than making a single payment for the insurance, the policyholder makes annual, semi-annual, or more frequent payments.

A single premium policy is seldom purchased because of the large lump-sum payment that is generally required. The typical policyholder finds the periodic payments much easier to make.

A second reason why single premium policies are seldom purchased concerns the cost of the policy if the insured dies in the early years of the contract. In this situation, the amount paid for the insurance under the periodic method will be less than the single premium amount.

PARTS OF THE PREMIUM

There are three basic factors, which affect the premium charged for a life insurance policy.

- ❑ **THE FIRST** is "mortality". Mortality refers to how many people within a given age group will die each year.
- ❑ **THE SECOND** factor is interest. Interest refers to the earnings the company receives on the premiums dollars it invests.
- ❑ **THE THIRD** factor is expenses. Expenses are, of course, all of the costs the company incurs in selling, issuing, and servicing its policies.

We said earlier that as one grows older, the cost of insurance increases. The reason for this is that as one grows older, the chance of death increases. Insurance companies use mortality tables and other statistics to determine the number of insureds, within each age group, who will die each year. What would happen if more people died in a year than the company had predicted? The company will pay out more for death claims than was anticipated.

Another factor, which influences the cost of insurance, is the interest income that the company earns from its investments.

Insurance companies receive millions of dollars each month in premium dollars. And, while each company has death claims, and other expenses, the costs for these claims and expenses should be less than the total premiums received.

By law, a life insurance company is permitted to invest this extra money to obtain additional revenue in the form of interest. Most life insurance companies invest in stocks, bonds, construction projects, and in a variety of other ventures designed to provide a return on their investment. The principal, as well as the interest earned, on these investments establishes a fund to pay all death claims as they occur and also helps to offset the cost of insurance.

In addition to savings which may result from lower than anticipated mortality, an insurance company may also realize income from investments.

Naturally, the insurance company is not permitted to keep all the money it receives. Expenses, of course, have to be paid. And, in addition to death claims, expenses include such items as:

1. Agent's commissions.
2. Salaries.
3. Advertising.
4. Physical examinations.
5. Legal costs.

6. Policy issue costs.

Here is a very simple formula, which indicates how these factors affect premium costs.

$$\textit{Death claims} + \textit{other expenses} - \textit{interest earned} = \textit{premium to be charged}.$$

Keep in mind that no company determines the premium to be charged by the simple method we have described above. This simplified approach merely describes the important relationship between these factors.

NET AND GROSS PREMIUM

The premium that a company charges for a life insurance policy is called the "gross" premium.

When a company is calculating the premium for a policy, it begins by determining the "net" premium. Once the net premium has been computed, the company then adds the expense factor, or "loading", to this net premium to arrive at the gross premium.

MORTALITY AND INTEREST FACTORS

Let's take a closer look at the two basic factors that go into the calculation of the net premium, beginning with the mortality factor.

An insurance company obviously cannot know when a particular insured will die. However, by using the mathematical concept of probability, the company can predict, with a great deal of accuracy, the number of insureds who will die each year. This prediction of future mortality is made on the basis of past mortality experience and assumes that future experience will parallel past experience. But, if past mortality is to be a reliable basis for prediction, accurate data must be kept on a large group of representative individuals for a sufficiently long period of time.

Information on past mortality is analyzed and arranged in a table, called the "mortality table" which shows probable death or mortality rate at a specific age.

Beginning with a given number of individuals at a given age, the mortality table shows the number of people out of the group who probably will die at each age and the number who will survive.

Remember that even if the mortality rates and the mortality table are accurate, a company, which wants a reliable estimate of future mortality, must apply the rates to a large enough group of individuals for the "law of averages" to operate.

LEVEL PREMIUM CONCEPT RESERVES

Once the net single premium is computed, the company then converts that premium into a "net level premium" since few policies are purchased by the single premium method. Let's now turn to the concept of level premiums.

The early renewable term premium also called "natural or step-rate" premium, increases each year as the insured ages and the risks of mortality increase. The premium rises rather gradually during the younger ages, but increases sharply for the older ages. As a result, the premiums can become prohibitively expensive for most insureds at the older ages.

To overcome the problem of annually increasing premiums, companies develop the level premium plan. With this plan, the premium remains the same during the premium payment period rather than increasing as the probability of death increases. This level premium is higher than the natural or yearly renewable term premium in the early years of the policy but is lower than the natural premium in the later years.

Under the natural premium plan, the net premium charged policyowners each year is just sufficient to pay the expected claims for the year. This is not true for the level premium plan. The net level premium payments made in the early years of the contract are greater than the amount needed to pay the policy claims during those years.

By investing the excess part of the premium in the early years, the company accumulates funds to cover the deficiency, which occurs in the latter years. These funds which the company holds to meet future policy obligations constitute the policy reserve or simply the "reserve".

The reserve is the amount that, together with future premiums and interest earnings, will be sufficient for the company to pay all future policy claims, based on the company's mortality and interest assumptions. Thus, the reserve is a liability - future obligation to the company.

Because a company's ability to fulfill its contract obligations depends upon sufficient policy reserves, the state requires a company to maintain certain minimum reserves.

State laws specify the mortality table and the assumed rate of interest to be used in calculation of the legal minimum reserves.

Because of these state regulations, reserves are often called "legal reserves".

INSURANCE AGE

Premium charged for life insurance depends upon the insured's age. This is true because the mortality factor is one of the three basic elements of the premium and the mortality factor varies with an insured's age.

However, the age used to determine the premium is the insured's insurance age. The insured's insurance age may, or may not, be the same as his or her actual or chronological age.

A Company may use one of two methods of determining an insurance age.

In the first method, an insured's insurance age is his or her age at the insured's nearest birthday. If the insured turned age 30 less than 6 months ago, the insured's age would be 30. However, if the insured's 30th birthday was more than 6 months ago, the insurance age would be 31 since the next birthday would be nearer than the last.

Although the nearest birthday is the more commonly used method, some companies may use the insured's last birthday to determine the insurance age. The insurance age under this method is the same as the insured's actual age, regardless of the number of months since his or her last birthday.

CHAPTER SEVEN

EXCLUSIONS AND RESTRICTIONS ON LIFE POLICIES

Life insurance policies contain very few exclusions and restrictions. The more common ones are as follows:

- A. Certain activities which are considered dangerous such as flying, hang-gliding, auto racing or skydiving may either be excluded or covered if an additional premium has been paid.
- B. A Suicide Clause excludes payment of the face amount in the event of suicide within two years of the issue date.
- C. An Aviation Exclusion may be present in the policy and would exclude death coverage from an aviation accident other than as a passenger on a regularly scheduled airline.
- D. The War Exclusion is designed to control adverse selection during times of war and may be inserted to exclude payment if death occurs as a result of war.

PAYMENT OF PREMIUMS

The policyholder of a life insurance contract has a choice as to how they may pay premiums. Premiums can be paid annually, semiannually, quarterly, monthly direct or monthly bank draft.

The company usually offers a discount for paying the premiums annually. The most popular method of payment is monthly bank draft.

Monthly direct billing quarterly follows the method that causes the most lapses. The method that best suits persistency is monthly bank draft followed by annually.

CHAPTER EIGHT

SETTLEMENT OPTIONS

When benefits are paid following the death of the insured the payments of benefits is referred to as Settlement of the Policy.

The following is an overview of the settlement options and then we will review them one at a time.

They are:

- ❑ Lump Sum Settlement.
- ❑ Proceeds and Interest.
- ❑ Fixed Years Installments.
- ❑ Life Income.
- ❑ Joint Life Income.
- ❑ Fixed Amount Installments.
- ❑ Other Mutually Agreed Methods.

LUMP SUM SETTLEMENT

This is when the beneficiary receives the policy proceeds in a single payment following the death of the insured.

PROCEEDS AND INTEREST

Under this option the insurance company will hold the policy proceeds and make interest payments to the beneficiary.

The minimum interest rate is spelled out in the policy and the company may at its discretion to pay a higher rate.

The beneficiary still has the right to withdraw all or part of the proceeds of the policy at any time.

FIXED YEARS INSTALLMENTS

With this option the insurance company pays the proceeds in equal monthly payments. The recipient of the proceeds chooses the number of years for which payments will be made.

The amount received monthly depends on three factors:

1. Policy proceeds.
2. Number of years payments are to be made.
3. Interest rate paid by the insurance company.

Again under this settlement option the beneficiary still has the right to withdraw all or part of the proceeds at any time.

LIFE INCOME

Under this settlement option the beneficiary will receive equal monthly payments for the life of the beneficiary.

The amount of monthly payments depends on four factors:

1. Policy proceeds.
2. Beneficiary's sex.
3. Beneficiary's age at time payments begin.
4. Period certain for which payments are guaranteed.

Should payments be guaranteed for a period certain, such as ten years, payments will be made for the specified number of years regardless of whether the beneficiary lives to the end of that period.

Should the beneficiary die during the period certain payments will continue to the beneficiary's designated successor.

FOR EXAMPLE:

A beneficiary is going to receive \$500.00 a month for 10 years certain. This means that should the beneficiary live the entire ten years he will receive \$500.00 a month.

After ten years there are no more benefits paid.

However should the beneficiary die in the sixth year the remaining four years of \$500.00 per month will go to his designated successor.

JOINT LIFE INCOME

When this option is chosen equal monthly payments will be made so long as either one or two payees is alive.

This option may be used when a policyowner / insured contributes to the support of his or her parents. In the event of the insured's death, the parents, as beneficiaries, would receive monthly income for the rest of their lives.

The amount of the monthly benefits would depend on two factors, which are:

- ❑ The policy proceeds.
- ❑ Parents' ages at time they begin to receive benefits.

However under this option the beneficiaries typically do not have the right to discontinue the monthly payments and receive the balance in a one-sum settlement.

FIXED AMOUNT INSTALLMENTS

Using this settlement option, the insurance company makes equal payments per month, or at longer intervals, in an amount chosen by the policyowner or beneficiary.

All proceeds held by the insurance company will earn interest. If the monthly payment is greater than the monthly interest earned, the balance of the proceeds held by the

insurance company decreases each month until the total proceeds and interest due are paid out.

Under this option the beneficiary may withdraw the unpaid balance at any time.

If the beneficiary dies before the installment payments are completed, the unpaid balance is paid to the beneficiary's estate.

OTHER MUTUALLY AGREED METHOD

On occasion a life insurance company may allow the policyowner to designate other payments methods if the insurance company agrees them to.

An example of this may be that the proceeds at interest are to be paid to the insured's spouse for the spouse's lifetime and, upon the spouse's death, a one-sum settlement is to be made to the insured's children.

CHAPTER NINE

NON-FORFEITURE OPTIONS

Life insurance policies contain non-forfeiture options.

They are designed to give the insured ways in which he or she may gain continued value from a policy in the event the insured is unable to continue premium payments.

The five non-forfeiture options are as follows:

1. Cash Surrender Value
2. Reduced Paid up Insurance.
3. Extended Term Insurance.
4. Automatic Loan Provision.
5. Dividend Accumulations to Avoid Lapse.

CASH SURRENDER VALUE

A policyowner may surrender their policy and request that the company pays them the cash surrender value of the policy if any.

As a rule most policies have no cash value whatsoever for the first two to three years. The Cash Surrender Value usually consists of the following:

- The policy cash value.
- Cash value of paid up additions.

- Dividends.

The Cash Surrender Value can be reduced by:

- Any policy loans that are outstanding.
- Accrued loan interest on outstanding policy loans.

It is important to know that all coverage ceases when the policy is cash surrendered.

Payment is usually made in one lump sum and in some cases in accordance with one of the other policy settlement options already discussed.

REDUCED PAID-UP INSURANCE

Under this option the policyowner may request that the cash value of the policy be used to keep a reduced amount of paid-up insurance in force under the same policy.

Usually the policy has a table contained in it that shows the amount of reduced insurance in any given year that the cash value that same year would purchase.

Although the policy has had its face reduced the policy will continue to earn cash value and pay dividends if applicable.

EXTENDED TERM INSURANCE

This option allows the same face amount of the policy to remain in effect for a specified number of years and days. Again as with reduced paid-up insurance the policy will contain a table showing how long in years and days the original face amount will remain in force during any given surrender year.

The length of time in years and days is calculated by taking the policy's cash surrender value, the insured's age and sex at the time premiums were discontinued and using that cash surrender value to purchase term insurance for a specified amount of years and days.

Under this option the policy does not continue to earn cash value or pay dividends if applicable.

AUTOMATIC PREMIUM PROVISION

It is possible for the insured to authorize the insurance company to make an automatic loan from the policy's cash value to pay any premium not paid by the grace period.

DIVIDEND ACCUMULATIONS TO AVOID LAPSE

Should the policy pay a dividend, then the dividend accumulations may be applied to any premium not paid by the end of the grace period. In the event the amount of accumulated dividends is not enough to pay the entire premium, coverage will then be extended in proportion with the amount of premium paid by the accumulated dividends. As a result of this a new grace period will start at the end of extension coverage.

CHAPTER TEN

DIVIDEND OPTIONS

If a life insurance contract is a participating policy that means that the policyowner is entitled to an annual dividend paid by the insurance carrier.

Participating policies affords the policyowner the opportunity to participate in the earnings of the insurance company through dividend payments.

The following are the ways in which a policyowner may use his or her dividends:

- Cash Payment.
- Reduction of Premium.
- Accumulation at Interest.
- Paid-up Additions.
- One-year Term.

USE OF DIVIDENDS

CASH PAYMENT

Under this dividend option the insurance company sends the insured a check equal to the amount of the declared dividend payment.

REDUCTION OF PREMIUM

The premium due on the policy for the upcoming year will be reduced by the amount of the current years declared dividend and the balance becomes the new premium due for the upcoming year.

ACCUMULATION OF INTEREST

The dividend may be held by the insurance company to accumulate with interest paid at the rate that is specified in the contract.

The insured has the right to withdraw the accumulated dividends at any time.

Should the accumulated interest and dividend be on deposit with the company at the time of the insured's death, the accumulated interest and dividend will be paid along with the policy proceeds.

PAID-UP ADDITIONS

This option enables the insured to receive additional amounts of life insurance by using the dividend to purchase paid-up additions.

The additional insurance will be the same kind and subject to the same provisions as the original policy.

Again on the insured's death paid-up additions of insurance will be paid up along with the policy proceeds.

ONE-YEAR TERM

Some policies permit dividends to purchase one-year term coverage.

The amount of the one-year term coverage would be added to the face amount of the base policy in the event of the insured's death.

CHAPTER ELEVEN

LIFE INSURANCE POLICY RIDERS

Most of us are familiar with the term “endorsement”. However in life and health insurance the word “rider” is used in lieu of endorsement.

The effect is the same in that riders modify the coverage of the basic policy the same as an endorsement would.

The most commonly used riders in life insurance policies are:

- Waiver of Premium.
- Accidental Death and Dismemberment.
- Guaranteed Purchase Option.

COMMON LIFE INSURANCE RIDES

WAIVER OF PREMIUMS

This rider protects the insured in the event he or she becomes totally disabled.

The waiting period is usually six months and if the insured continues to be disabled after the six-month waiting period the premium payments on the policy will be waived.

Many policies will also refund the premium that was paid by the insured during the six-month waiting period.

The cost for this coverage is a bargain to say the least and no policy should be sold without this rider.

ACCIDENTAL DEATH AND DISMEMBERMENT

The amount paid in the event of accidental death of the insured is usually the same as the policy's regular face amount.

Therefore if death occurs as the result of an accident the beneficiary receives twice the amount of the face value of the policy.

Some agents may better recognize this benefit when it is referred to as "double indemnity".

As a rule the accidental death rider is very carefully worded to define exactly under what circumstances this benefit will be paid.

The most liberal of the definitions is "accidental bodily injury." The less favorable wording would be that death must occur "by accidental means".

For example using "by accidental means" if an insured died from a broken neck after intentionally diving into the shallow end of a swimming pool the policy would not pay the accidental death benefit because the action of diving into this pool wasn't accidental.

However if the insured accidentally fell into the pool and drowned the benefit would be paid. Under the "accidental bodily injury" definition the intentional diving into the pool would have been paid.

Normally the death caused by the accident must consummate itself within ninety to one hundred eighty days of the incident.

Under the dismemberment rider payment is made to the insured rather than the beneficiary.

Benefits typically are paid for:

- Loss of Sight.
- Loss of Hand or Hands.
- Loss of Foot or Feet.

Regarding the loss of hand or foot, the loss typically must involve "complete severance through or above the wrist or ankle joint".

Loss caused by amputation is excluded unless medically necessary and as the result of an accidental injury.

GUARANTEED PURCHASE OPTION

This option is used most frequently with whole life insurance rather than term insurance.

Under this option the company guarantees the insured that he or she may purchase additional amounts of coverage without evidence of insurability.

These additional purchases are usually made at specific time intervals or events that change your family status.

For example some policies permit additional purchases of life insurance under the following circumstances:

- ❑ Every Fourth Policy Anniversary Year.
- ❑ The Insured Purchases a New Home.
- ❑ The Insured gets Married.
- ❑ The Birth of a New Child.

The premium charge for the additional coverage is typically based on:

- ❑ The Type of Insurance Purchased.
- ❑ The Insured's Age at Time of Exercising Option.

CHAPTER TWELVE

LIFE INSURANCE UNDERWRITING

The purpose of life insurance underwriting is to develop a profitable book of business for the insurance company.

In order to accomplish this goal the life insurance underwriter attempts to provide coverage for a diversified group of insureds whose expected death rate is the same or lower than what is expected of the population as a whole.

UNDERWRITING FACTORS FOR INDIVIDUAL COVERAGE

Life insurance is priced on a class basis. Perspective clients of the insurance company are classed on the basis of a number of factors that help to predict expected mortality rates.

The principal rating factors are:

- ❑ Age.
- ❑ Sex.
- ❑ Health
- ❑ Occupation and Avocation.
- ❑ Personal Habits.
- ❑ Foreign Travel or Recent Immigration.

AGE

Mortality rates are measured in terms of deaths per one thousand persons and this of course increases with age.

Thus the older you are the more life insurance costs because you are closer to death than a younger person.

SEX

Women in the United States live seven years longer than men.

Therefore cost for life insurance on a woman is lower than on a man of the same age.

For example a thirty-year old male would pay the same premium as that of a thirty-three-year old female.

HEALTH

The health of an individual as well as the health history of their family helps the underwriter to determine if the applicant presents an average or better than average risk to the insurance company.

In evaluating an insured's health the company will consider whether the applicant or family members have had any of the following illnesses:

- ❑ Cancer.
- ❑ Heart Disease.
- ❑ Hypertension.
- ❑ Diabetes.

As a rule persons whose health history include the above diseases will likely have a higher than normal mortality rate.

Most insurance companies are now offering discounted rates to non-smokers due to the link between smoking and lung and heart disease.

OCCUPATION AND AVOCATION

Since certain occupations pose hazards such as flying and scuba-diving applicants who engage in these hobbies are likely to have a higher than normal mortality rate.

PERSONAL HABITS

If a life policy exceeds \$100,000.00 in coverage the insurance company will more than likely investigate the personal circumstances of the insured's life.

For example areas such as alcohol or drug use, poor driving record or financial problems may be taken into consideration.

FOREIGN TRAVEL OR RECENT IMMIGRATION

People who travel or reside outside the United States may be exposed to diseases not commonly found in this country.

Additionally mortality rates vary from country to country. Therefore if a person is applying for life insurance shortly before leaving the country special medical tests or a postponement of coverage may take place.

UNDERWRITING ACTIONS

Based on the information that the underwriter receives from the applicant one of three actions may be taken.

They are as follows:

- ❑ Rate the Applicant Standard and Charge the Normal Premium.
- ❑ Rate the Applicant Substandard and Charge a Higher Premium.
- ❑ Decline the Coverage.

In addition to the above three actions many insurance companies recognize preferred risks and they will actually reduce premiums.

CHAPTER THIRTEEN

DELIVERING THE POLICY

POLICY EFFECTIVE DATE

The effective date of a life insurance policy is very important since this is the date on which coverage begins.

The policy effective date may also have additional significance with regard to the incontestable and suicide clauses.

The incontestable clause gives the insurer, usually two years, that amount of time to contest the policy on the basis of material misrepresentation, fraud, or concealment in the application.

The suicide clause excludes coverage for death by suicide during the first two years of the policy.

To determine the effective date of the policy, we must examine the principal of contract law known as "offer and acceptance".

If a proposed insured signs the application and submits it with the first premium to the company, an offer to buy insurance has been made by the proposed insured.

If the insurance company issues the policy, as applied for, then the fundamental of offer and acceptance occurs. That is, the proposed insured has made an offer to purchase a life insurance contract, and the insurance company has accepted that offer.

So far, we have assumed that the premium was submitted with the application. However, there are two other possibilities to consider regarding the effective date of the policy.

The first occurs when an application is submitted without the premium. In this case, the applicant has made no offer. The applicant has only extended an invitation to the Company to make an offer.

The insurance company makes the offer when it issues a policy as applied for and delivers it to the applicant. Further, the offer is accepted when the applicant pays the premium, assuming any other conditions have been fulfilled and this date becomes the effective date of the policy.

In situations where the initial premium does not accompany the completed application, most companies state in the application that the proposed insured must be in good health at the time of policy delivery before coverage becomes effective.

So, before accepting the initial premium and leaving the policy, the agent must obtain a signed statement of the prospective insured's continued good health. This statement and the initial premium are then transmitted to the company.

The final possibility occurs when the premium is submitted with the application but no receipt is given. If this is the case, then the policy's effective date is generally the date that the policy is issued and delivered.

Delivery of the policy constitutes the company's acceptance of the applicant's offer - the application and initial premium.

A POLICY IS CONSIDERED IF...

- ❑ The policy is actually handed over in person.
- ❑ Is mailed to the policyholder.
- ❑ Is mailed to the agent for unconditional delivery to the policyholder

Delivery, then, does not usually have to be accomplished by the manual transfer of the policy to the policyholder.

Delivery accomplished by means other than a manual transfer is called "constructive delivery".

If a policy is not, or cannot, be delivered as defined previously, then the policy is not in effect, as policy delivery has not been accomplished.

Two other situations need to be addressed.

FIRST. . .

. . . when the applicant wants to examine the policy for a time before paying the initial premium, and the policy is left with the applicant for inspection, he or she should sign a receipt for the policy referred to as an "inspection receipt". This acknowledges that the policy is in the insured's possession for inspection purposes only and that the initial premium has not been paid and that the insurance is not in effect.

SECOND. . .

. . . is backdating. An applicant may ask the company to give the policy for which they are applying a date earlier than the application date. The reason for backdating is usually to obtain a lower premium. Premium paid for life insurance depends, among other factors, on the insured's age. So, in order to obtain a lower insurance age, and, as a result a lower premium, backdating is used.

AGENTS RESPONSIBILITIES

The agent should deliver the policy to the client as soon as possible after the policy is issued. This is especially important when no premium was submitted with the application because the coverage will not become effective until the policy is delivered and the first premium paid during the continued good health of the proposed insured.

The agent also has a responsibility to explain the policy's provisions, riders, and exclusions.

If the policy is rated, the agent should explain why the policy was issued that way.

CHAPTER FOURTEEN

DEFINITIONS USED IN LIFE INSURANCE PLANS

A

AGE CHANGE –

The point in the 12 months between natural birthdays at which the individual is considered to be of the next higher age for the purpose of insurance rates. Most life insurers consider that point as halfway between birthdays. Health insurers frequently use the age at last birthday until the next birthday is actually reached.

AGE LIMITS –

The ages below or above which an insurer will not issue a given policy.

AGENT –

An individual appointed by an insurer to solicit, negotiate, effect or countersign insurance contracts on its behalf. (See also Producer)

ALIEN COMPANY OR INSURER –

An insurer organized and domiciled in a country other than the United States.

APPLICANT –

The party submitting an application to an insurer for an insurance policy.

ATTAINED AGE –

The age an insured has reached on a given date.

B

BENEFICIARY –

A person, who may become eligible to receive, or is receiving, benefits under an insurance plan, other than as an insured.

BENEFICIARY CHANGE –

A change in the policy which alters the previous beneficiary designation. Must be made by formal application to the insurer. Compare to Beneficiary, Irrevocable.

BENEFICIARY, IRREVOCABLE –

A named beneficiary whose status as beneficiary cannot be changed without his or her permission.

BENEFICIARY, PRIMARY –

The person first designated to receive the proceeds of a policy, as named in the policy.

C

CANCELLATION –

Termination of the insurance contract by voluntary act of the insurer or insured, effected in accordance with provisions in the contract or by mutual agreement.

CARRIER –

The insurance company that “carries” the insurance. The term “insurer” is preferred.

CASH SURRENDER VALUE –

In life insurance, the value in a policy that is the legal property of the policyowner, and which the policyowner may receive if the policy is surrendered for cash. Synonymous with cash value.

CLAIM –

The demand of an insured or his or her representative or beneficiary for benefits as provided by an insurance policy.

COMMISSION –

The portion of the premium stipulated in the agency contract to be retained by the agent as compensation for sales, service, and distribution of insurance policies.

CONCEALMENT –

The withholding, by an applicant for insurance, of facts that materially affect an insurance risk or loss.

CONDITIONAL RECEIPT –

Provides that if the premium accompanies the application, the coverage is in force from the date of the application (whether the policy has yet been issued or not) provided the insurer would have issued the coverage on the basis of facts as revealed by the application and other usual sources of underwriting information.

CONTINGENT BENEFICIARY –

Person or persons named to receive benefits if the primary beneficiary is not alive at the time the insured dies.

D**DEATH BENEFIT –**

The policy proceeds to be paid upon the death of the insured.

DEATH CLAIM –

A formal request for payment of policy benefits occasioned by the death of the insured. Should be made through the agent, but may be made directly to the home office. Requires a copy of the death certificate as proof of death and is made by the beneficiary.

DECLARATION PAGE –

The portion of an insurance policy containing the information regarding the risk.

DECREASING TERM INSURANCE –

Term insurance for which the initial amount gradually decreases until the expiration date of the policy, at which time it reaches zero.

DEFERRED ANNUITY –

An annuity on which payments to the annuitant are delayed until a specified future date.

DOMESTIC COMPANY –

An insurer formed under the laws of the state in which the insurance is written.

DOUBLE INDEMNITY –

Payment of twice the basic benefit in event of loss resulting from specified causes or under specified circumstances

E**EFFECTIVE DATE –**

The date on which an insurance policy goes into effect.

ENDORSEMENT –

Technically, a change made directly on the policy form by writing, printing, stamping or typewriting and approved by an executive officer of the insurer. In general use, also may refer to a change made by means of a form attached to the policy.

ESTATE –

Assets of an individual comprising total worth. Includes any life insurance in force.

EXCLUSIONS –

Stated exceptions to prior provisions in a policy. Common exclusions in health policies include pre-existing conditions, suicide, self-inflicted injuries, and many others. In life policies, common exclusions are death through flying in a private airplane, riot, or state of war.

EXPIRATION -

The date upon which a policy's coverage ceases.

F**FACE AMOUNT -**

The amount indicated on the face of a life policy that will be paid at death or when the policy matures.

FAMILY PLAN POLICY –

An all-family plan, usually with permanent insurance on the father's life, with mother and children automatically covered for lesser amount -usually term -- all paid by a single premium.

FOREIGN COMPANY –

An insurer organized under the laws of a state other than the one where the insurance is written.

FRAUD –

An intentional misrepresentation made by a person with the intent to gain an advantage and relied upon by a second party which suffers a loss as a result.

G**GRACE PERIOD –**

A period of time after the premium due date during which a policy remains in force without penalty even though the premium due has not been paid. Commonly 30 or 31 days in life insurance policies; seven, 10, or 31 days in various health insurance policies.

H

HOME OFFICE –

The place where an insurance company maintains its chief executives and general supervisory departments.

I

INSURABILITY –

The condition of the proposed insured as to age, occupation, physical condition, medical history, moral fitness, financial condition and other factors that makes the individual an acceptable risk to an insurance company.

INSURABLE INTEREST –

In life and health insurance, the interest of one party in the possible death or disability of an insured that would result in a significant emotional or financial loss. Such an interest must exist in order for the party to purchase insurance on the life or health of another. In property-casualty insurance, a financial interest is property.

INSURANCE DEPARTMENT –

A governmental bureau in each state or territory (and federal government in Canada) charged with administration of the insurance laws, including licensing, examination, and regulation of agents and insurers. In some jurisdictions, the department is a division of some other state departments or bureau.

INSURED –

The party to an insurance contract to whom, or on behalf of whom, the insurer agrees to indemnify for losses, provide benefits, or render service.

INSURER –

The party to an insurance contract that undertakes to indemnify for losses provides other pecuniary benefits, or render service. Also called insurance company and sometimes-insurance carrier.

L

LAPSED POLICY –

A policy for which the policyholder has failed to make the premium payment during the grace period, causing the coverage to be terminated.

LICENSE, AGENTS –

A state-conferred license that enables an insurance agent to do business in the conferring state. Renewable annually. Subject to an initial written examination and to suspension or revocation for certain offenses.

LIFE EXPECTANCY –

Average number of years of life remaining for persons at any given age.

LIFE INSURANCE –

Insurance pays a specified amount upon the death of the insured to the insured's estate or to a beneficiary.

LOAN VALUE –

The amount of cash value reposing in a policy which may be borrowed by the insured.

M**MISREPRESENTATION –**

On the part of an insurer or its agent, falsely representing the terms, benefits, or privileges of a policy. On the part of an applicant, falsely representing the health or other condition of the proposed insured.

MORTALITY RATE –

The average number of people who die each year.

N**NON-FORFEITURE OPTION –**

A legal provision whereby the life insurance policyowner may take the accumulated values in a policy as (1) paid-up insurance for a lesser amount (2) extended term insurance; or (3) lump-sum payment of cash value, less any unpaid premiums, or outstanding loans.

NON-PARTICIPATING POLICY –

A policy that does not provide for the policyowner to share in dividends. Also called a nonpar policy.

NON-RESIDENT AGENT –

An agent licensed in a state in which he or she is not a resident.

O**ORDINARY AGENT –**

An agent selling ordinary life insurance.

ORDINARY LIFE INSURANCE –

Life insurance other than group life. Ordinary life may be either permanent or temporary term.

P**PAID-UP INSURANCE –**

A non-forfeiture option in life insurance policies under which insurance exists and no further premium payments are required.

PARTICIPATING POLICY –

A policy in which the policyowner receives a share of policy dividends. Also called par policy.

PERMANENT INSURANCE –

Life insurance with some type of cash value accumulation.

POLICY LOAN –

A loan to the policyholder from the insurer using the insurance cash value as collateral.

PRE-AUTHORIZED CHECK PLAN –

An arrangement under which the policyowner authorizes the insurer to draft his or her bank accounts for the (usually monthly) premium.

PRIMARY BENEFICIARY –

The beneficiary named first to receive proceeds or benefits of a policy that provides death benefits.

PROOF OF DEATH –

A usual requirement before paying a death claim is that a formal proof of death form of some type be submitted to the insurer.

R**REBATE –**

Giving or offering to give something of value other than the benefits of a policy as an inducement to buy insurance, a practice illegal in all states except Florida.

REINSTATEMENT –

(1) Putting a lapsed policy back in force, sometimes requiring the payment of back premiums and evidence of insurability, (2) In some health policies, reinstating or restoring the amount of benefits available when the payment of claims has reduced the principal amount of the policy by the amount of the claims. Provision is usually

made for a method of reinstating the policy to its original amount. This may be done automatically either with or without premium consideration or at the request of the insured. Often found in-group health contracts and may be called restoration of benefits.

RIDER –

An amendment attached to a policy that modifies the conditions of the policy by expanding or decreasing its benefits or excluding certain conditions from coverage.

S

SETTLEMENT OPTION –

A method of receiving life insurance proceeds other than a lump sum.

STANDARD RISK –

A risk that meets the same conditions of health, physical condition and morals as the tabular risks on which the rate is based without extra rating or special restrictions.

SUICIDE CLAUSE –

In a life insurance policy, states that if the insured commits suicide within a specified period of time, the policy will be voided. Paid premiums are usually refunded. The time limit is generally one or two years.

T

TERM INSURANCE –

Life insurance that normally does not have cash accumulations and is issued to remain in force for a specified period of time,, following which it is subject to renewal or termination.

U

UNIFORM POLICY PROVISIONS –

A set of standardized provisions used in health insurance policies, of which 12 are required and 11 are optional. All states use these provisions, although they are permitted to revise the wording as long as it is at least as beneficial to the insured as the original wording.

W

WAIVER OF PREMIUM PROVISION –

When included, provides that premiums are waived and the policy remains in force if the insured becomes totally and permanently disabled.

WHOLE LIFE –

Permanent life insurance on which premiums are paid for the entire life of the insured.

KEY ISSUES OF LIFE INSURANCE COVERAGE

FOCUS #1

- What is life insurance?

Life insurance is a legal agreement between an individual and an insurance company in which the insurance company agrees to pay a confirmed amount of money to a beneficiary under particular terms and conditions. In exchange an individual pays an agreed amount which is called a premium to the insurance company.

FOCUS #2

- How is life insurance used in personal and family circumstances?

When an individual dies there is an immediate need for money for those who are left behind. There are burial and funeral expenses, debts that are due at the time of death, inheritance taxes, cost to administer the estate, and expenses created by final illness. These are just a few situations in which money is need after one dies.

- What are the advantages of life insurance to be used as a property?

Some advantages of life insurance as property are as an asset it very secure, there are no managerial care, it can be purchased in any desired amount, it provides a reasonable rate of return, proceeds are payable immediately, and you choose the method of payment for premiums.

FOCUS #3

- What is an application for life insurance?

When one is going to purchase life insurance they must make a request to the insurance company of their choice. The form on which this request is made is known as the application.

FOCUS #4

- What are parties in which make up the application?

A life insurance application contains three parties: the proposed insured, the applicant, and the policyowner. The proposed insured is the person whose life is being insured by the life insurance policy. The applicant is the person who is making the application to the insurance company for the life insurance, which may or may not be the proposed insured. The policyowner is the person that usually pays the premiums and the person who retains all rights to any values or options contained in the policy.

FOCUS #5

- When can concealment occur?

Concealment occurs when an applicant withholds or fails to disclose known facts. If the knowledge would have influenced the company to accept or reject the risk, concealment has occurred and the contract may be voided.

KEY ISSUES OF THE DIFFERENT TYPES OF LIFE INSURANCE

FOCUS #1

- What is the wide variety of life insurance policies?

There are multitudes of life insurance policies, which can be purchased. They are term, whole, universal, variable, adjustable, modified, and family life insurance.

FOCUS #2

- What characterizes term insurance?

Term insurance is the most simplistic of the life insurance policies. Term insurance offers only temporary protection from one to twenty years or until the insured reaches a specified age. If the insured is still alive at the end of the term period the protection expires. Term insurance has no cash value or savings element. It is precisely for protection. It can be renewable and convertible. Renewable meaning that one can continue the coverage for additional periods without proof of insurability. The premium increases each time the policy is renewed based on the age of the insured at the time of renewal. Convertible meaning that the term policy can be exchanged for some type of cash value insurance without proof of insurability.

FOCUS #3

- What is reentry term life insurance?

Reentry term life insurance is a policy which the premiums are based on a low-rate schedule. Under the term of this policy the insured is liable for demonstrating proof of insurability, usually every one to five years.

FOCUS #4

- What is a whole life policy?

Whole life insurance has level premiums and will provide protection until age 100.

FOCUS #5

- How does universal life insurance work?

Universal policies are sold as investments that combine insurance protection with savings. It is a flexible premium deposit fund that is combined with monthly renewable term insurance. It works as follows: An initial precise premium is paid. Then expenses are deducted from the gross premium and the balance is credited to the policy's initial cash value. Then a monthly mortality charge is conducted from the cash value to pay for the pure insurance protection. The remaining cash value is then credited with interest at a specified rate.

FOCUS #6

- Why is adjustable life insurance called "life cycle"?

It is called "life cycle" because the policy changes may be made to conform to different periods in the insured's life.

FOCUS #7

- Why would modified life insurance be more attractive to some people?

What makes modified life insurance more appealing to some people is that the premiums are lower during the early years of the policy but higher premiums thereafter. Those people who feel their income will increase in the future would desire this policy.

FOCUS #8

- Which policy would be beneficial for the whole family?

Family life insurance is a whole life policy intended to insure all family members in one policy.

KEY ISSUES OF THE DIFFERENT TYPES OF INSURANCE COMPANIES

Focus #1

- What are the two types of insurance companies in which most companies are organized as?

Life insurance companies can be structured in variety of ways. Most are arranged as stock companies or as mutual companies.

FOCUS #2

- Why have government insurance programs been established?

Social insurance programs have been established to allow the government to make compulsory a program lacking equity in order to cover fundamental risks and to redistribute income. Government insurance programs have been created when private insurers would have been subjected to adverse selection or were incapable of meeting society's needs.

FOCUS #3

- What are reciprocals?

Reciprocals are groups of individuals called subscribers who are insured under an arrangement where each subscriber is both an insured and an insurer. The other members of the group insure each subscriber. Nevertheless, the liability of each subscriber is limited.

KEY ISSUES OF THE POLICY PROVISIONS OF LIFE INSURANCE POLICIES

FOCUS #1

- What does the suicide provision state?

Typically the suicide clause states that the face amount of the policy will not be paid if the insured commits suicide within two year after the policy is issued. The purpose of this is to decrease adverse selection against the insurer by providing the insurer some protection against an individual who purchases a life insurance policy with the intention of committing suicide.

FOCUS #2

- What is the change of plan provision?

The change of plan provision state that the policyowner may exchange the present policy for a different one.

KEY ISSUES OF PREMIUMS

FOCUS #1

- What are the two basic ways to purchase a life insurance policy?

The first method is by paying the entire cost in one lump-sum payment, which is also known as “single premium”. The second method is by the payment of periodic premiums.

FOCUS #2

- What are the three basic aspects which influence the premium charged for a life insurance policy.

Mortality, interest, and expenses affect the charges for a life insurance policy. Mortality implies how many people within a given age group will die annually. Interest refers to the earnings the company receives on the premiums dollars it invests. Expenses are all the outlay the company sustains in selling, issuing, and servicing its policies.

FOCUS #3

- What is meant by net and gross premiums?

Gross premium is the premium in which a company charges for a life insurance policy. When a company is calculating the premium for a policy, it starts by determining the net premium. Once the net premium has been computed, the company then adds the expense factor or loading to this net premium to arrive at the gross premium.

KEY ISSUES OF THE EXCLUSIONS AND RESTRICTIONS ON LIFE POLICIES

FOCUS #1

- What are among the most common exclusions and restrictions?

Certain activities which are considered dangerous such as flying, hang-gliding, or skydiving may either be excluded or covered if an additional premium has been paid. A suicide clause excludes payment of the face amount in the event of suicide within two years of the issue date. An aviation exclusion may be present in the policy and would exclude death coverage from an aviation accident other than as a passenger on a regular scheduled airline. Another common exclusion would include the war exclusion which is intended to control adverse selection during times of war and may be inserted to exclude payment if death occurs as a result of war.

KEY ISSUES OF SETTLEMENT OPTIONS

FOCUS #1

- What are the different settlement options?

Lump sum, proceeds and interest, fixed years installments, life income, joint life income, fixed amount installments, and other mutually agreed methods are a variety of settlement options.

FOCUS #2

- Under the life income settlement option what are the factors in which the monthly payments are based on?

Under life income settlement option the amount of monthly payments rely on four aspects which are policy proceeds, beneficiary's sex, beneficiary's age at time payments begin, and the period certain for which payments are guaranteed.

FOCUS #3

- What may joint life income be used for?

This option may be used when a policyowner or insured contributes to the support of his or her parents. In the event of the insured's death, the parents, as beneficiaries, would receive monthly income for the rest of their lives.

FOCUS #4

- What happens to the proceeds in a fixed amount installment?

All proceeds held by the insurance company will earn interest. If the monthly payment is greater than the monthly interest earned, the balance of the proceeds held by the insurance company decreases each month until the total proceeds and interest due are paid out.

KEY ISSUES OF NON-FORFEITURE OPTIONS

FOCUS #1

- What is the non-forfeiture option designed for?

The non-forfeiture option is designed to give the insured ways in which he or she may gain continued value from a policy in the event the insured is unable to continue premium payments.

FOCUS #2

- What are the non-forfeiture options?

The options are as follows: cash surrender value, reduced paid up insurance, extended term insurance, automatic loan provision, and dividend accumulations to avoid lapse.

FOCUS #3

- What is the reduced paid-up insurance?

Under this option the policyowner may request that the cash value of the policy be used to keep a reduced amount of paid-up insurance in force under the same policy.

FOCUS #4

- What is the dividend accumulations to avoid lapse?

Should the policy pay a dividend, then the dividend accumulations may be applied to any premium not paid by the end of the grace period. In the event the amount of accumulated dividends is not enough to pay the entire premium, coverage will then be extended in proportion with the amount of premium paid by the accumulated dividends. As a result of this a new grace period will start at the end of extension coverage.

KEY ISSUES OF DIVIDEND OPTIONS

FOCUS #1

- What does a participating policy mean?

If a life insurance contract is a participating policy that means that the policyowner is entitled to an annual dividend paid by the insurance carrier. Participating policies affords the policyowner the opportunity to participate in the earnings of the insurance company through dividend payments.

FOCUS #2

- What ways are participating policyowners allowed to use their dividends?

The ways in which a policyowner may use his or her dividends are cash payment, reduction of premium, accumulation at interest, paid-up additions, and one-year term.

FOCUS #3

- How is the reduction of premium?

The premium due on the policy for the upcoming year will be reduced by the amount of the current year's declared dividend and the balance becomes the new premium due for the upcoming year.

FOCUS #4

- What are paid-up additions?

This option enables the insured to receive additional amounts of life insurance by using the dividend to purchase paid-up additions. The additional insurance will be the same kind and subject to the same provisions as the original policy. Again on the insured's death paid-up additions of insurance will be paid up along with the policy proceeds.

KEY ISSUES OF LIFE INSURANCE POLICY RIDERS

FOCUS #1

- What are the most commonly used riders?

The most commonly used riders in life insurance policies are waivers of premium, accidental death and dismemberment, and guaranteed purchase option.

FOCUS #2

- What is the waiver of premiums?

This rider protects the insured in the event he or she becomes totally disabled. The waiting period is usually six-months and if the insured continues to be disabled after the six-month waiting period the premium payments on the policy will be waived. Many policies will also refund the premium that was paid by the insured during the six-month waiting period. The cost for this coverage is a bargain to say the least and no policy should be sold without this rider.

FOCUS #3

- What is the amount of money paid in the event of accidental death of the insured?

The amount paid in the event of accidental death of the insured is usually the same as the policy's regular face amount.

FOCUS #4

- Under the dismemberment rider payment is made to the insured rather than the beneficiary. What are benefits typically paid for?

Benefits typically are paid for loss of sight, loss of hand(s), and loss of foot (feet).

FOCUS #5

- What is the premium charge for the additional coverage is typically based on?

The premium charge for the additional coverage is typically based on the type of insurance purchased and the insured's age at time of exercising option.

KEY ISSUES OF LIFE INSURANCE UNDERWRITING

FOCUS #1

- What is the purpose of life insurance underwriting?

The purpose of life insurance underwriting is to develop a profitable book of business for the insurance company.

FOCUS #2

- What are the principal rating factors?

The principal rating factors are age, sex, health, occupation and avocation, personal habits, and foreign travel or recent immigration.

FOCUS #3

- When an individual is being evaluated on his/her health, what illnesses are being looked for?

In evaluating an insured's health the company will consider whether the applicant or family members have had any of the following illnesses: cancer, heart disease, hypertension, and diabetes. Individuals with these illnesses have a higher than normal mortality rate.

FOCUS #4

- What are the actions, which may be taken, based on the information that the underwriter receives from the applicant?

Rate the applicant standard and charge the normal premium, rate the applicant substandard and charge a higher premium, and decline the coverage are the actions which may be taken based on the information the underwriter receives from the applicant.

KEY ISSUES OF THE DELIVERING THE POLICY

FOCUS #1

- What is the effective date?

The effective date is the date on which coverage begins.

FOCUS #2

- What does the incontestable clause do?

The incontestable clause gives the insurer, usually two years, that amount of time to contest the policy on the basis of material misrepresentation, fraud, or concealment in the application.

FOCUS #3

- What does the delivery constitute?

Delivery of the policy constitutes the company's acceptance of the applicant's offer-application and initial premium.

PUBLISHER'S NOTE

IMPORTANT NOTICE

EVERY CARE HAS BEEN TAKEN TO ENSURE THAT THE INFORMATION IN THIS GUIDE IS AS ACCURATE AS POSSIBLE AT THE TIME OF PUBLICATION. PLEASE BE ADVISED THAT LAWS AND PROCEDURES ARE CONSTANTLY CHANGING AND ARE ALSO SUBJECT TO DIFFERING INTERPRETATIONS. HOWEVER, NEITHER THE AUTHORS NOR THE PUBLISHERS ACCEPT ANY RESPONSIBILITY FOR ANY LOSS, INJURY, OR INCONVENIENCE SUSTAINED BY ANYONE USING THIS GUIDE. THIS INFORMATION IS INTENDED TO PROVIDE GENERAL INFORMATION AND BACKGROUND AND IS DISTRIBUTED ON THE BASIS THAT THE AUTHORS ARE NOT ENGAGED IN RENDERING LEGAL, ACCOUNTING, OR ANY OTHER PROFESSIONAL SERVICE OR ADVICE. THIS GUIDE WAS DESIGNED TO GIVE YOU AN OVERVIEW OF THE INFORMATION PRESENTED AND IS NOT A SUBSTITUTE FOR PROFESSIONAL CONSULTATION.

Copyright © 2003
AHI Insurance Services 09/02
Copyright © 2003 AHI Insurance Services

All rights reserved. Printed in the United States of America. No part of this publication may be used or reproduced in any form or by any means, transmitted in any form or by any means, electronic or mechanical, for any purpose, without the express written permission of AHI Insurance Services, Inc. Making copies of this book for any purpose other than your own personal use is a violation of the United States copyright laws.

AHI CE SERVICES
10115 W GRAND AV
FRANKLIN PARK, IL 60131
TOLL FREE: (800) 894-2495
(847) 455-5311
FAX: (847) 455-5339
INTERNET: WWW.AHICE.COM
E-MAIL: INSURANCE@AHICE.COM

