

# Consumer Counselor

## Insurance Information for Michigan Consumers

### Understanding Life Insurance

### Should You Purchase, Change, or Cancel a Policy?

#### What is life insurance?

Life insurance is protection against economic loss when a person loses the ability to earn an income. It is an important part of financial planning. Certain qualifications have to be met prior to approval. Once approved, the insured agrees to pay a premium in exchange for the insurance company paying a stated amount to a beneficiary upon death.

#### There are two basic types of life insurance:

1. **Term Insurance:** An insurance policy that provides coverage for a specific number of years and pays a death benefit.
2. **Permanent Insurance:** Commonly refers to Whole Life insurance. An insurance policy that provides coverage and builds a cash value over your lifetime while and pays a death benefit.

#### Who needs life insurance?

People carry life insurance for several reasons and the need for life insurance varies with your age and responsibilities. If you were to die, a life insurance policy replaces income while your survivors or dependents try to secure employment, and pay the following expenses, among other things: outstanding monthly bills, burial expenses, medical expenses, and estate taxes.

#### Tips on Buying Life Insurance:

- ✓ Choose an insurance agent and company you feel confident in to meet your personal insurance needs.
- ✓ Determine how much life insurance you need, the duration, and how much you can afford.

- ✓ Pick the type of policy that is best for you by educating yourself on life insurance and asking your agent questions.
- ✓ Review the insurance application for accuracy before you sign it.
- ✓ Make an informed decision and only purchase life insurance if you intend to commit to the duration of the policy. Early termination can be very costly.
- ✓ Make the check payable to the insurance company, not the agent.
- ✓ Ask your insurance agent about returning a policy and the *free look period* as required by Michigan law.

#### What you need to know *before* you cancel your old policy:

Unlike home and auto insurance, life insurance can involve waiting periods, surrender fees, tax implications on cash value policies, and other complexities. As a consumer, you will need to make informed decisions when changing or replacing your current life insurance policy.

It can be to your disadvantage to cancel or change your existing life insurance as you may incur *additional expenses* in the early years of the new policy which will significantly lower its cash value.

The expenses may include any costs associated with the issuing of a new policy such as the agent's commission, the administrative cost of producing and delivering the policy and the cost of setting up the new account on the company's computer system. Make sure any money you may save on a new policy exceeds any potential upfront costs associated with a new policy.



Also, you may *lose benefits* during the first two years with a new policy. A company can deny a claim during the first two years if it can be shown that you withheld information from your application which was important to the decision whether to insure you. This is called the *contestable period*. If you change policies, you must go through the two-year contestable period again.

Additionally, you may pay *higher rates* on the new policy because you are older than you were when you purchased your original policy and life insurance rates are based on your current age. Or, if your health has worsened, premiums on your new policy may be significantly higher or you may even be denied coverage.

**Life insurance replacement tips:**

Do not cancel your current policy if you decide to apply for a new policy. It is important to make sure you are approved for the new policy and want to accept all the terms of coverage before cancelling your current policy.

Take the time to review the new policy, once it is approved and in effect, to make sure it meets your needs before you cancel your old policy.

Amending the terms of your existing insurance coverage may save you time and money. This option may be more favorable to you than a new policy from another company.

Verify the coverage level of the new policy you are considering to make sure it is appropriate for your needs.

Ask your insurance agent for an *illustration*, if you are undecided about replacing your old policy, which will show you current policy performance and future projected benefits.

**Do you have insurance policy questions?**

If you have questions about your life insurance policy, first contact your insurance agent or company. If you have any questions that your agent cannot answer, contact the Department of Insurance and Financial Services (DIFS) for assistance at the address below. DIFS is the state government that regulates insurance in Michigan.