

Life Insurance: Who's Depending on You?

Life insurance provides a way for you to protect your family or other dependents against the economic loss that occurs if you were to die. Life insurance can provide coverage for many things. For example:

- Replace lost income that your family will not receive as a result of your death
- Fund college education for dependent children
- Pay off a home mortgage and other liabilities
- Provide immediate liquidity for numerous expenses following your death
- Cover funeral expenses, end-of-life care and medical expenses

What to Know

There are four basic types of life insurance: term, whole, universal and variable. Listed below are their general attributes. Actual terms and conditions will vary between insurance companies:

Term Life

- Provides coverage for a specified period of time, e.g., 10 or 20 years
- Annual premium typically remains level for that term
- Benefit is paid only if death occurs within the covered term
- Typically used for income replacement
- The death benefit is not taxed

Whole Life

- Provides lifetime coverage (assuming premiums are paid)
- Combines a death benefit with a cash value element
- Premiums, death benefit and cash values are stated in the policy illustration
- Guarantees are subject to the claims-paying ability of the issuing insurance company
- May allow for tax advantaged cash value withdrawal privileges
- The death benefit is not taxed

Universal Life

- No guarantee that premiums will stay the same
- Provides lifetime coverage (assuming premiums are paid)
- Offers a death benefit with a cash value element
- Part of the premium pays for insurance, and part is invested in a fund managed by the insurance company
- Cash value earns interest at current market rates and the credited rate is determined or reset annually
- Must pay premiums for the cost of insurance or the cash value will be used

Variable Life

- Provides lifetime coverage (assuming premiums are paid)
- Developed to address the effects of inflation on benefits
- Part of the premium pays for insurance, and part is invested into sub-accounts selected by the policy owner

- Death benefits and cash values are “variable” and subject to the performance of the underlying investment options
- Considered both an insurance product and a security (in Michigan it is an insurance product)

What to Do

Identify your coverage needs

Consulting with a licensed agent may be helpful in determining what your coverage needs are and the amount of coverage you need.

Review the group life insurance options offered through your employer (if applicable)

You may be able to meet your coverage needs through group life insurance. In general, group insurance offered through your employer may be less expensive than an individual policy. What you need to know:

- Baseline level of coverage available (typically at no cost to you)
- Options for additional coverage
- Cost for additional coverage (usually at a low group rate)

Note: Group life insurance is controlled by your employer, not you. If you leave your employer, your group coverage is terminated. Many group policies are portable. This means you have the option of converting your coverage to an individual policy or “porting” it to another group policy. You need to know if this option is available to you.

If you are unable to meet your insurance needs through group life, you may want to consider buying individual life insurance to fill your gap in coverage. An individual policy may provide the following benefits:

- Fills the gap in your coverage needs
- Provides coverage during employment transition (if your group policy is not portable)
- Protects you against reductions to group policy coverage
- You control the policy, not your employer

Tips to Protect Yourself

- Confirm that the insurance company and the agent is licensed and registered by calling DIFS toll free at 877-999-6442 or by visiting www.michigan.gov/difs.
- The insurance agent has a regulatory obligation to make sure that you fully understand the policy. If you don't understand the policy or the application, don't buy.
- Review the insurance application for accuracy before you sign.
- Never sign a blank application.
- When you pay your premium, always make the payment to the insurance company, not the agent.
- Know the “free-look” period on your insurance policy. Typically 10 to 30 days in length, this period gives you time to decide whether you want to keep the policy, or cancel it without penalty.
- If the insurance policy you are purchasing is replacing an existing insurance policy, do not cancel your current policy until the new policy has been delivered and you have reviewed it during the “free-look” period.

Additional information regarding life insurance can be viewed at www.michigan.gov/difs under “Publications” and “Guides.”