

Disability Rights Legal Center

CLRC

Cancer Legal Resource Center

The CLRC is a joint program of the Disability Rights Legal Center & Loyola Law School Los Angeles

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Life Insurance

What is Life Insurance?

Life insurance is a contract between the policy owner and the insurance company, where the insurance company agrees to pay an amount of money upon an individual's death.

Reasons to Purchase Life Insurance

There are many reasons to purchase life insurance, including:

- Financial planning and assistance for loved ones
- Paying final expenses, such as funeral costs
- Paying off debt
- Tax benefits

Types of Life Insurance

There are two basic types of life insurance: term life insurance and permanent life insurance. There are many differences between these two types of life insurance.

- **Term Life Insurance:** Life insurance that pays only a life insurance benefit. It provides life insurance for a specified period of time (term). If you die during the term period, the insurance company will pay the face value to your named beneficiaries. If you live beyond the term period, the policy will end without any payout. Example: 30 year term life insurance policy
- **Permanent Life Insurance:** Life insurance that provides coverage for your entire lifetime. It pays out a life insurance benefit and can accumulate cash value on a tax-deferred basis.

Term vs. Permanent Life Insurance		
	Term	Permanent
Length of coverage	A specific period of time	Until death, so long as premiums are paid
Premiums	Based on age and health; usually less than permanent premiums	Usually higher than term premiums
Cash Value	None	Accumulates over time on a tax-deferred basis
Advantages	Less expensive way to get a greater amount of coverage	Lifelong protection and tax-deferred savings
Disadvantages	Premium costs can increase upon renewal due to medical underwriting	Higher premiums

There are four types of permanent life insurance policies:

- **Whole life insurance:** provides coverage for your entire lifetime, premium amounts remain fixed for life, and the life insurance benefit and rate of return on your cash value are guaranteed. Whole life insurance is permanent life insurance coverage for as long as you live and continue to make timely premium payments.
- **Variable life insurance:** provides coverage for your entire lifetime while allowing you to allocate a portion of your premium to a separate savings account, which you can invest in an equity fund, a money market fund, a bond fund, or some combination of those funds.
- **Universal life insurance:** provides coverage that allows you to shift money between the insurance and savings components of the policy. You can vary the amount and timing of premiums, and change the life insurance benefit. You can also change the amount of insurance as your insurance needs change.
- **Variable universal life insurance:** provides coverage with potential for long-term growth of the policy's account value through investments. You may increase or decrease premium payments, skip premiums, or make additional premium payments within limits. You may also increase or decrease your coverage without having to purchase a new policy, subject to your insurability.

Table of Life Insurance Options					
	Term	Whole	Universal	Variable	Variable Universal
Premium	Low, increases with age	Level	Flexible	Level	Flexible
Face Amount	Continuously renewable	Level, cannot change	Level, can vary	Level, cannot change	Level, can vary
Cash Value	None	Yes; but no ability to chose investments	Yes, but no ability to chose investments	Yes, with the ability to chose investments	Yes, with the ability to chose investments
Policy Loans	No	Yes	Yes	Yes	Yes

Additional Life Insurance Features and Benefits

In addition to the provisions in your life insurance policy, you may want to consider adding additional features or benefits. These special additions to the policy offering additional benefits are called riders.

There are four common types of riders:

- **Waiver of Premium:** exempts you from making premium payments during a period of disability.
- **Accidental Death Benefit:** provides for an additional amount to be paid to the beneficiary should you die as the result of an accident.
- **Guaranteed Insurability:** allows you to purchase additional coverage at certain times without requiring you to go through medical underwriting.
- **Accelerated Death Benefit:** allows you to collect all or part of your life insurance benefit if you are diagnosed with a terminal illness, require long term care or require permanent nursing home care. The rider specifies exactly how much of the life insurance benefit may be available. Life insurance benefits payable under the policy are reduced by any amounts paid under this rider.

How to Get Life Insurance

- **Individual Insurance:** You can purchase your own individual policy from any insurance company that sells life insurance. It is important to research and determine which company and policy is best suited for you. To find the right insurance company and policy, consider consulting a certified insurance professional, getting referrals from family and friends, and interviewing and comparing companies and policies.
- **Group Insurance:** Most employers offer life insurance under a group plan and sometimes will pay part or all of the premiums. The policyholder is the employer and the policy covers the employee.

Employees can choose the beneficiary for their life insurance policy. Group life insurance is often provided as part of a complete employee benefit package. It is important to review the amount of coverage your employer is providing you under their group life insurance policy, to determine if it is enough to cover your needs.

- Conversion: If are no longer insured under your previous employers group term life insurance, you may be able to convert some or all of the coverage to permanent whole life insurance depending on the terms of the policy and the state in which you live.

Life Insurance for Cancer Patients and Survivors

The availability of life insurance for cancer patients and survivors depends on many factors. Because life insurance companies take into consideration any pre-existing medical conditions that you may have, your chances for obtaining a policy after a diagnosis depend greatly on when you were diagnosed, the type and stage of your cancer diagnosis, and may even depend on your treatment plan. While it may be a challenging process, it is not impossible to purchase life insurance after a cancer diagnosis. Insurance companies may also add a surcharge to your premium depending on the type of cancer and whether or not you are you still receiving treatment.

Tips on Purchasing Life Insurance

- Shop around! Not every insurance company and policy is the same, it is important to shop around to find the best plan for you.
- Look for a group life insurance policy through a professional, membership, or other organization.
- Consider purchasing a "graded" policy if you cannot get full life insurance benefits. A graded policy is a life insurance policy with limited benefits; it usually has a provision that requires you to wait a certain amount of time for the beneficiary to receive the full life insurance benefit.

How Much Life Insurance to Purchase

Your need for life insurance will vary with your age and your financial circumstances and goals. The best way to determine your life insurance needs is to consult with an insurance professional.

Before purchasing an insurance policy, consider gathering all of your personal financial documents and discussing with your family possible future financial needs. This will help determine how much you can afford to spend on life insurance premiums, how much you will need to pay off any debts and final expenses, and how much financial support your family would need after your death. You should also consider any other resources that may be available to your family, in addition to a life insurance policy.

Various life insurance calculators are available on the internet; however, these should only be used provide general guidance on your life insurance needs.

Naming a Beneficiary

A beneficiary is the person or entity you name in a life insurance policy to receive the life insurance benefit. The beneficiary will receive the proceeds (money) of your policy.

You can name:

- One or more specific people (Example: Daughter, Jennifer Smith and Son, Brian Smith)
- A group of people (Example: My living children)
- The trustee of a trust if you have created a trust
- A charity
- Your estate

Your estate will be paid the life insurance benefit if you fail to name a beneficiary. You can also choose beneficiaries and contingent beneficiaries. The primary beneficiary will receive the benefit; however, if the primary beneficiaries are not found, the contingent beneficiaries will receive the life insurance benefits. If no primary or contingent beneficiaries can be found, the benefit will be paid to your estate.

When choosing your beneficiaries, you should identify them as clearly as possible and avoid ambiguities. A clear list of beneficiaries will make it less likely that disputes will arise. For example, if you write "wife (or

husband) of the insured" without using a specific name, an ex-spouse could claim the benefit. Alternatively, if you have named specific children, any later-born or adopted children will not receive the life insurance benefit.

Smart Buying Tips

- Don't rush into purchasing life insurance - you have a "free look" period of 10 to 30 days after your purchase to modify or cancel the policy
- Verify and check the status of any insurance professional, insurance agent and company
- Ask questions and never sign anything you don't understand
- Always read your policy and review it every few years
- Keep your policy and contract in a safe place

Keeping Life Insurance Current

You should review all of your insurance needs at least once a year. If there is a major life change, you should contact your insurance agent or company representative. Changes in your life may affect your needs for insurance, the amount of the policy, the name beneficiaries, and many other components of your life insurance. Life changes may include:

- Marriage or divorce
- A child or grandchild is born or adopted
- Significant changes in your health or that of your spouse/domestic partner
- Taking on the financial responsibility of an aging parent
- Purchasing a new home
- A loved one who requires long-term care
- Refinancing your home
- Coming into an inheritance

It is also important to keep your life insurance policy in a safe place and to let someone you trust know where the policy can be found when needed. This will allow your beneficiaries to easily receive their benefits.

Sometimes when a loved one passes away, many families do not know where to start looking for a life insurance policy. These are some suggestions for families that are looking for a lost life insurance policy:

- Look for any documentation about life insurance from an employer or private individual policy
- Look at bank records, cancelled checks, and credit card statements for evidence of a premium payment
- Ask any known financial consultants, such as a banker, insurance agent, accountant, or attorney
- Contact previous employers; they may have offered a group life insurance policy
- Check past income tax returns; interest from whole life insurance policies or expenses paid to life insurance companies may be documented on tax returns

Viatical Settlements

Cancer treatment can be extremely expensive and may leave many individuals and families feeling as though they have exhausted all of their financial resources. The sale of your life insurance policy may be one option to help ease the financial burden of cancer care.

Viatical settlements involve selling your life insurance policy to a company in return for cash. The amount offered by the viatical company is a reduced percentage of the face value of the policy. This sale will provide you with an immediate cash settlement. However, the beneficiaries that you had named in the life insurance policy will no longer receive any benefits. As the new owner of the policy, the company will pay all future premiums and will collect the policy's full benefits when the policy matures.

For additional information on life insurance options and rules in your state, contact your state's insurance agency or the Cancer Legal Resource Center at 866.843.2572 or www.CancerLegalResourceCenter.org.

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