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# Life Insurance: How Much Do We Have?

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If you are killed in a car accident today, what would your family do? Would they know how much life insurance you have and the location of the policies? Too often, only the person who pays the bills could answer these questions. Even then, he or she might have to spend some time looking through records.

First, take a look at your current coverage and review how well your family is protected. Knowing how much life insurance coverage you have can help you plan a life insurance program. Also, a written insurance inventory provides important information that will help your family if you die.

The primary purpose of life insurance is to provide financial security for anyone who depends on your income. Once you have a coverage summary for each family member, you can compare current coverage with the need for additional insurance. Need for protection depends on:

- Number and ages of dependents.
- Level of living wanted for dependents.
- Amount of insurance you can afford.
- Other protection you have, including survivor's Social Security benefits, employer benefits, pension plans, and personal savings.

The aim of good life insurance planning is to buy an adequate amount of protection at a price the family can afford. Take the time to understand the basic types of life insurance and assess your needs before going to an agent. It can pay off in savings on premiums and increased protection for dependents.

This fact sheet contains a worksheet to help you summarize your family's life insurance coverage. An explanation of common terms and provisions of a policy will help you gather the needed information. Tips about beneficiaries and storage of policies are also included in the fact sheet.

## Information Gathering

How many of us really know how much life insurance we have? The worksheet inside this publication can help you make an up-to-date record of your life insurance and its cost.

Begin by gathering any records you have for policies purchased for you or other family members. The policy is the contract between you and the insurance company. It states what the company will pay if you die and what premiums you must pay to continue the contract. You should have a copy of each policy. If you receive cash dividends from the policy, look for records of dividend amounts.

Next, gather information on any group life insurance you may have through an employer. If you do not have a record of group policies, call your employer's benefits office. Employer-provided life insurance is usually term insurance and the amount of coverage may be a multiple of your salary or wage.

Finally, find out if you have insurance to pay off outstanding loans if you die. A mortgage or car loan often includes credit life insurance. This insurance is part of your total insurance coverage. Its value is equal to the amount you still owe on the loan or mortgage.

## Basic Provisions

When you have policies and payment records collected, use them to fill in the worksheet. Reading and understanding a policy may seem difficult.

Most policies follow a standard format. First the policy lists the basic provisions, followed by several clauses and riders. Basic provisions include:

- **Name, age, and sex of insured.** The insured is the person on whose life the policy is issued.

The age stated on the policy is the insured's age on the day the policy was purchased (date of issue).

- **Policy classification (standard, preferred or substandard)** refers to the amount of risk the life insurance company is assuming. Most policies are standard. A preferred risk is someone who is likely to live longer, e.g., a non-smoker. A substandard risk is someone who is less likely to live longer, e.g., someone with a heart condition.
- **Face value** of a policy is the amount the company will pay at the death of the insured.
- **Type of insurance (term, decreasing term, straight or ordinary life, universal, variable)** All types of policies are derived from two basic types: term or whole life. All forms of term insurance provide risk protection for your dependents. Whole, universal, and variable life insurance add a savings component to the policy. In addition to paying a death benefit, part of your premium is invested for you by the insurance company.
- **Beneficiary** is the person (or persons) named in the policy to receive the insurance proceeds at the death of the insured.
- **Premiums** are the amount of payments to keep the policy in force. Reinstatement policies explain what will happen if you do not pay the premiums. Usually, you can start the policy again (reinstate the policy) by paying all overdue premiums.
- **Dividends** are paid by many life insurance companies to policy-holders. Dividends are a return of part of the premiums you paid. You can:
  — choose to take them in cash.
  — apply them to next year's premium.
  — use them to purchase paid-up additions of term life insurance.
  — add them to the cash value of the policy.

## Clauses and Riders

Most policies contain several clauses and riders. By knowing their meaning, you will understand the insurance coverage better. If you need more life insurance coverage, understanding policy provisions can help you choose the best policy for you. Most riders add to the cost of premiums.

- **Incontestability clause** sets a time limit during which a company can refuse to pay all or part of a claim. The company can refuse to pay if false statements were made on the application for insurance. After the set time limit (usually two years), the company must pay claims even if mistakes were made on the application.
- **The suicide clause** similarly sets a period during which the company will not pay if the insured commits suicide.
- **Accidental death or "double indemnity"** rider doubles or triples the face value of a policy for accidental death. This unnecessary rider adds to the cost of the policy. Accidental death is very unlikely and does not increase the amount of coverage your family needs.
- **Disability waiver or waiver of premium rider** states that the insurance company will pay premiums on the policy if you become disabled. This is a low-cost rider. When comparing policies, check the policy definition of total disability. Policies also vary in the ability to convert the policy to another type if disability occurs.
- **Guaranteed insurability rider** allows the policy holder to purchase additional insurance at specified times, regardless of health. This rider adds to policy cost. This rider is a good idea if you expect your insurance needs to increase as the family grows.
- **A policy loan** provision allows the policy holder to borrow on the cash or investment value of the policy. This provision does not add to the cost of the policy.

## Important Tips

Take a look at the information summarized on the worksheet.

- Will life insurance proceeds be paid to the proper person if you die? If beneficiaries are no longer living or you have divorced or remarried, you may need to make changes.
- Have you named your estate as beneficiary? This raises the value of your estate because the proceeds become cash. The insurance proceeds not only increase estates taxes, but also become subject to claims against the estate.
- Who is the owner of the policy? This can impact estate plans and divorce settlements.
- The worksheet you completed is a valuable inventory of your life insurance. Let beneficiaries or the person who will handle your affairs

# Our Life Insurance on ____________________
(date)

## Policies on Husband Name: ______________________________

| Company Name and Address | Policy Number | Face Value | Policy Type | Beneficiaries | Premium Amount | Maturity Date/Term | Cash or Loan Value | Outstanding Loans |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |

Total Death Benefit: ____________________
(Sum of face values minus outstanding loans)

Total Savings Component: ____________________
(Total cash value minus outstanding loans)

## Policies on Wife Name: ______________________________

| Company Name and Address | Policy Number | Face Value | Policy Type | Beneficiaries | Premium Amount | Maturity Date/Term | Cash or Loan Value | Outstanding Loans |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |

Total Death Benefit: ____________________
(Sum of face values minus outstanding loans)

Total Savings Component: ____________________
(Total cash value minus outstanding loans)

## Policies on Children

| Company Name and Address | Policy Number | Face Value | Policy Type | Beneficiaries | Premium Amount | Maturity Date/Term | Cash or Loan Value | Child's Name |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| | | | | | | | | |

know where you keep this record.

- Do not keep your life insurance policies in the safe deposit box. It may be sealed at your death, causing delay for your family and beneficiaries.
- Store the policies in a safe place in your home. Beneficiaries will need the original copy of the policies to claim a benefit. Lost life insurance policies can be located by the American Council of Life Insurance, Policy Search, 1001 Pennsylvania Ave., NW, Washington, DC 20004. You will need to furnish the deceased person's name, last address, birth date, and Social Security number. If a policy is found, you will receive a copy, free of charge.

You may wish to obtain the following insurance educational materials from the county Cooperative Extension Service Office.

- *T-4129 Life Insurance: How Much Do We Need?* This publication can help you estimate life insurance needs for each family member.
- *T-4131 Why and How to Buy Insurance* discusses types of policies and how to comparison shop for life insurance.
- *T-4130 Life Insurance: New Types of Policies* explains universal life, variable, and single premium policies.

## Policy Switching

If you already have life insurance, think carefully if someone suggests you replace it. There are disadvantages to switching policies. If you drop one policy to buy another, you will be paying another commission. Commissions and fees are high, especially on whole or universal life policies.

Before you give up coverage under a policy, make sure you are insurable (check medical and other requirements). Also, remember you are now older than when you first purchased your policy. A new policy will cost more because of your age. If you switch policies, you lose your protection against suicide and incontestability for a certain period (usually two years).

There are some situations when it makes sense to switch policies. One case is if you are underinsured with an existing whole life policy and cannot afford larger premiums for additional insurance. Switching to a term policy would increase coverage without increasing premiums.

**If you do decide to switch policies, do not let your old policy lapse until you are sure your application for new coverage is accepted.**

## Paid-Up Policy

In general, it is not wise to leave a paid-up whole life policy with the insurance company. The company will pay only 2 to 3 percent interest on the cash value after deducting their fees. You could earn a greater return by cashing in the policy and investing the proceeds elsewhere. You could use the interest earnings from the reinvested cash value to purchase term insurance.

## Suggestions for Further Reading

Belsky, Gary (1991 July). Don't gamble with your life insurance, *Money* magazine, 116-122.

Brill, Marla (1987 April). The hot air in 'no-load' insurance. *Changing Times*, 89-92.

Insurance you can live without. (1988 November). *Changing Times*, 56-62.



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