

## National Association of Insurance Commissioners (NAIC) Review of Life Insurance

### **Life Insurance: It's more than a death benefit**

In recent years, Americans have experienced economic challenges. While some are maxing out credit cards and cashing in 401 (k)s, many overlook life insurance as a potential source for emergency funds. And, few are aware of the investment features some policies offer.

When thinking about life insurance, you should know there are two main types: term and permanent. A term life insurance policy pays if the insured dies during the "term" of the policy. Permanent life insurance, the type of policy that offers investment features, combines the death benefit coverage of a term policy with an investment component that can build cash value over time. Some permanent policies also include provisions for policyholders to access money immediately for any reason.

### **Permanent Life Insurance Options**

Unlike term insurance, all permanent policies remain in place as long as the premium is paid. They also all have a cash value component that increases over time and allows the owner to borrow against that cash value. There are four types of permanent life insurance:

- **Whole Life Insurance**
  - Offers a fixed premium for the duration of the policy, guaranteed annual cash value growth and a guaranteed death benefit.
  - Does not provide investment flexibility and, once established, you are not allowed to change the policy coverage.
- **Universal Life Insurance**
  - Allows the policyholder to determine the amount and timing of premium payments (within certain limits) and to adjust coverage levels as needs change.
  - Includes guaranteed annual cash value growth but no investment flexibility.
- **Variable Life Insurance**
  - Allows allocation of investment funds across stocks, bonds or money market accounts with different levels of risk and growth potential.
  - A minimum cash value is not guaranteed because of market fluctuation, and coverage amounts cannot be changed.
  - Exposes the policyholder to greater market risk, but has the potential for greater long term returns compared to whole or universal life insurance policies.
- **Variable Universal Life Insurance**
  - Combination of variable and universal life insurance.

- Offers the most flexibility (compared to other permanent life insurance options) with the ability to vary premium payments, investments and coverage amounts.
- Allows investment in a variety of market products chosen by the policyholder, and may allow policyholders to make tax-free transfers among investments.
- Exposes the policyholder to greater market risk than whole or universal life policies.

There is more to think about than the death benefit when selecting life insurance. If you choose permanent life insurance, be sure to consult a licensed investment or tax advisor for guidance on which policy best fits your risk tolerance and investment objectives.

A number of factors may affect life insurance premiums:

- The age you purchase your policy. The older you are, the more expensive the premiums.
- Your overall health. Life insurance companies typically ask you about your medical history, request access to medical records and even obtain blood and urine samples for testing.
- Pre-existing and/or chronic health problems, such as diabetes, heart disease, cancer or sexually transmitted diseases may prevent you from getting life insurance or place you in a high-risk pool at greater cost.
- Poor health habits, such as smoking and excessive drinking. Be aware that insurance companies may look back and consider these behaviors for the past five years.
- Engaging in dangerous hobbies, such as skydiving, skiing or rock climbing
- Your driving record, in terms of accidents, DWI/DUI citations, claims and tickets. The better your driving record, the better rates you'll receive for your life insurance.
- Your geographic area. Life insurance companies have access to regional data that document mortality rates and life expectancy, and they use that data to calculate the rates they offer.

Some of these factors are in your control. Others are a function of your genetics, occupation or location. Either way, it's important for you to be educated on these issues so that you can make the best insurance decisions to fit your life.