



# LIFE INSURANCE

a guide for consumers

# TABLE OF CONTENTS

Click page number to navigate to chapter

- 4** Introduction to Life Insurance
- 5** Traditional Life Insurance
- 7** Variations of Traditional Life Insurance
- 10** Compare Different Kinds of Life Insurance for Yourself
- 11** How Cost is Determined
- 12** Hybrid and Combination Products Explained
- 14** Credit Insurance
- 16** How to Select an Insurance Agent
- 16** How to Select an Insurance Company
- 17** Life Insurance Consumer Tips
- 19** Your Life Insurance Rights and Responsibilities
- 20** Insurance Discrimination Against Victims of Abuse
- 20** Protecting Your Privacy
- 21** Medical Privacy and the Medical Information Bureau
- 21** Insurance Fraud Costs Us All!
- 22** Frequently Used Terms

NOTE: Most insurance rates and forms in Florida are regulated by the Office of Insurance Regulation (OIR). Other financial services are regulated by the Office of Financial Regulation (OFR). Although both work closely with the Department of Financial Services (DFS), they are separate entities that are a part of the Financial Services Commission. Because DFS handles consumer-related matters, consumers should remember that DFS is their point of contact for all problems and questions.

DFS distributes this guide for educational purposes only; it does not constitute an endorsement for any service, company or person offering any product or service.

## INTRODUCTION TO LIFE INSURANCE

If you are planning to purchase or make changes to your existing life insurance policy, reviewing this guide is a great step in empowering yourself with the ability to make the best financial decision for your family's financial planning goals.

When considering purchasing coverage, first consider your needs and understand the different types of insurance products available. These types of insurance policies are not one size fits all. There are many types to choose from. This guide was developed to help consumers make educated decisions and to help understand the benefits and risks involved in financial planning.

A life insurance policy allows you to set aside money to provide a measure of financial security for your family upon your death. It can help your family meet the financial needs previously covered by your income.

If you decide to buy a life insurance policy, you should define your needs by deciding how much protection you need and can afford, and what kind of insurance policy to buy. The main purpose of a life insurance policy is to provide survivor benefits for beneficiaries.

### Defining Your Needs

- Determine the amount of your income and how it is used to support your family. Your new policy should come as close to making up the difference as you can afford.
- There are several jobs you may perform for your family that are just as important as the salary you provide. Determine how much money it would cost to replace those jobs in addition to your salary. For example, do you stay at home and take care of your children? How much would a full-time nanny or day care cost if you weren't there to care for your children? Are you the primary person in charge of maintaining your home? How much would it cost to replace lawn care and someone to handle household repairs?
- There are many other factors to consider as well. Factors such as your marital status, number of dependents, future education costs, current and anticipated family income, and your current assets and debt obligations all play a role in determining the amount of life insurance that is right for you.



What follows are brief descriptions of different kinds of life insurance to help you understand the variety of plans that are offered.



## TRADITIONAL LIFE INSURANCE

You have a choice of two traditional types of life insurance: **Term** or **Whole Life**.

### TERM INSURANCE

A “term policy” involves coverage purchased for a specific time period and pays a death benefit only if the policyholder dies during the time for which the policy is written, and premiums are paid. If a person has a child when they are twenty and wants coverage until their child reaches the age of 20, they could choose a 20-year term policy.

#### Key Characteristics:

- The premium is more affordable during your early years.
- Pays benefits only if the insured dies during the coverage period.
- Does not usually accumulate cash value.
- Is suitable for large amounts of coverage for specific periods (i.e., one, five, 10 or 20 years, etc.) or to age 60 or 65.

#### Useful for:

- Parents of young children
- People with large financial obligations and home buyers

With term insurance, coverage ends after the specified term in your policy is reached, unless it includes a provision allowing you to renew your policy without providing evidence of insurability, such as passing a physical exam. However, your premiums will increase as you age.

A term insurance policy may be convertible. This means you could exchange the policy for a whole life policy without providing evidence of good health. Although the premium for the whole life policy will be higher than the original term policy, the premium will not change again for the rest of your life.

## WHOLE LIFE

Whole life insurance, also known as “permanent insurance” involves coverage effective for the entire life of the policyholder. A whole life policy pays a death benefit when the policyholder dies, regardless of his or her age.

### Key Characteristics:

- Provides a fixed amount of life insurance coverage and a fixed premium amount.
- Benefits are payable upon the death of the insured or on the maturity date- often the policyholder’s 100th birthday.
- Coverage can increase only with the purchase of an additional policy, or, if available, through additional riders or dividends.
- Policy coverage is provided for life.
- Premiums are paid at a fixed rate throughout your lifetime, if the policy remains active.
- The cash value accumulates from premiums paid and increases over the years.
- The earnings (for tax purposes) include only the amount accumulated in excess of the premiums paid. You may owe taxes on such earnings if you surrender the policy. In most cases, you will not owe taxes on the earnings if you do not surrender the policy. Check with your tax professional.
- Policies with cash values include provisions that allow you to take out loans on your policy for up to the amount of the cash value. The loans accumulate with interest, but repayment is not required prior to death. If you die and the loan has not been repaid, the insurance company deducts the owed amount, plus interest, from the death proceeds paid to your beneficiary.

### Useful for:

- Death or burial expenses – Be wary of policies sold specifically as burial expense policies, as you may end up paying more in premiums than the policy is worth.
- Estate or probate taxes.
- Cash – The owner can give up the policy and receive the accrued cash value.

### Other Common Characteristics (check with your company or agent):

- If you miss a premium payment, the company can draw from the cash value to keep the policy in force, but only if such a provision is included in the policy or the insured has given prior authorization.
- You may elect to stop paying premiums and use the cash value to continue the policy at a reduced level of protection, or the contract may let you continue the policy as extended term insurance for a specified time.
- You can use the cash value to buy an annuity that provides a guaranteed monthly income for a specified time. (For more information, refer to [Annuities - a guide for consumers](#).)
- You may use the policy as collateral to borrow from the insurance company or bank.
- You may assign the accumulated cash value to the lender.

Some whole life policies are called “participating “ or “par” policies, which means they earn dividends. Policy dividends can be taken in cash, used to pay premiums or used to buy more insurance. They are refunds of excess premiums, so they are usually not taxable.

Each whole life policy contains a table that shows you how much cash value it accumulates. These policies provide larger values the longer you keep them. If you cancel your policy, you can receive its cash value in a lump sum. If you surrender or cash in your policy, you pay taxes only when the sum of the cash value and the policy dividends, if any, exceed the total of the premiums you have paid.

**Note:** Due to surrender charges, if you surrender your policy during its early years (for example, during its first or second year), you might receive much less than, or none of what you paid into the policy, so read your policy thoroughly.

## VARIATIONS OF TRADITIONAL LIFE INSURANCE

Other kinds of life insurance are simply variations of term and whole life policies. Variations of whole life insurance include universal life, excess interest whole life, variable life, limited-payment whole life, single-premium whole life and endowment policies.

### UNIVERSAL LIFE

#### Key Characteristics:

- You can increase or decrease the face amount” of your insurance, within limits stated in the policy, to meet your changing needs. You may have to provide evidence of insurability, such as a physical exam.
- You can decide, within policy guidelines, on the amount of premiums and the schedule of payments. There may be limits on premiums because of tax laws. Check with your tax professional.
- You may select a policy that is interest sensitive or one that has a guaranteed rate.

#### Useful for:

- Meeting various financial obligations that may occur during a lifetime, such as those that involve marriage or raising a family.
- Providing guaranteed death benefits for people who need them but want the opportunity to earn more interest on the policy’s cash value. With an interest sensitive policy, you accept at least part of the investment risk.

**Note:** A combination of low interest rates and the rising cost of insurance could result in the future elimination of your policy’s death benefit and cash value. Make sure you ask your agent about this possibility. Also, be sure you understand which cash values are guaranteed and which are not.

As you get older, the cost of insurance rises. Therefore, if returns do not meet projections, your premium payments may need to increase to keep the policy in force. See the guaranteed section of your policy.



### EXCESS INTEREST WHOLE LIFE

#### Key Characteristics:

- Any interest that exceeds the amount guaranteed is credited to the policy.
- The premiums and death benefits are fixed and the rate of increase on cash value depends on interest credits.
- These policies are interest and/or market sensitive, depending upon investment of premiums.

#### Useful for:

- People who need guaranteed death benefits but want the opportunity to gain more interest on a policy’s cash value. With most universal life and excess interest whole life policies, you will receive annual statements showing the insurance protection accrued, the cash values and the interest rates paid, with interest rates varying annually or more frequently. The statement also shows how much of your premium money goes toward buying the insurance and how much goes toward paying the company’s administrative fees.

## VARIABLE LIFE

### Key Characteristics:

- These policies allow for limited control over the investment of the policy's cash value through allocation of premiums to and transfers between the policy's "subaccounts" with variable rates of return.
- Depending on the policy chosen, premiums can be either fixed or flexible.
- Policies can be interest- and/or market sensitive, depending on how premiums are invested.

### Useful for:

- People comfortable with making investment decisions who want to choose from the limited investment options available through their policies. Under this plan, benefits and cash values fluctuate according to the performance of the investment subaccounts.

**Note:** As a policyholder, you assume both the benefits of high-paying investments and the risks of negative investment performance. Since there are no guarantees, you could lose your investment. Some policies have optional guarantees available for an additional charge. Check your policy for any guarantees that may be available.

There are two kinds of variable life policies:

- Scheduled premium variable life insurance policies have premiums with set payment times and amounts.
- Flexible premium variable life insurance policies have premiums that allow changes in payment time and amount.

In addition to a Florida insurance agent's license, an agent who sells variable life policies must also be registered as a representative of a broker-dealer licensed by the National Association of Securities Dealers and be registered with the U.S. Securities and Exchange Commission. Be sure to request a prospectus that contains extensive information about the company's investments and investment policies.



## LIMITED-PAYMENT WHOLE LIFE

You pay premiums over a shorter period, such as 20 years, but the policy provides protection for life. Due to the shorter payment period, you pay higher premiums than you would for a traditional whole life policy with the same face amount. Think of it like a mortgage on a Life Insurance Policy. For example, the total cost of a \$100,000 policy is X amount of dollars and instead of paying for the policy for life, you chose to pay higher monthly installments so that the cost is paid for in 20 years.

## SINGLE-PREMIUM WHOLE LIFE

You pay the total premium in one lump sum when you submit your application. This normally provides you protection for life. Think of it like paying cash for a house. The total cost of the property is x amount of dollars and instead of paying a monthly payment, you pay one lump sum.

## ENDOWMENT POLICIES

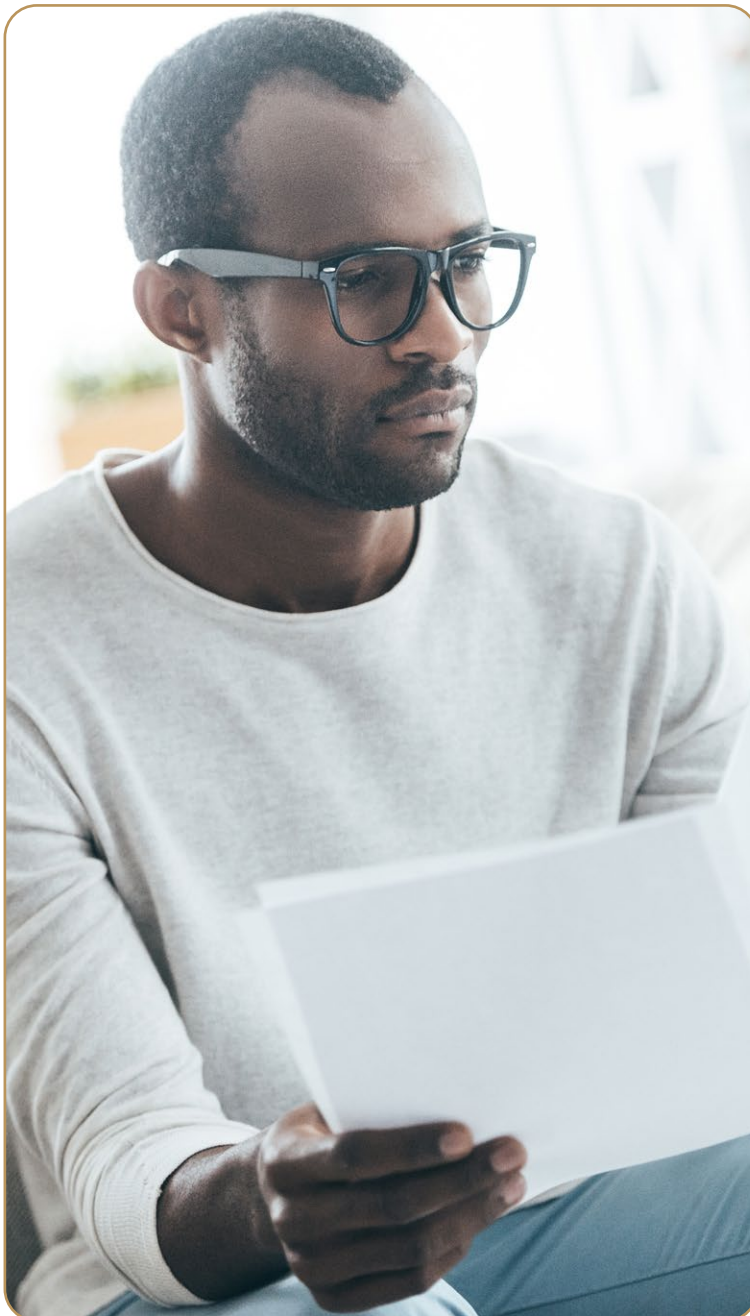
These policies offer insurance protection for a specified period of time, with emphasis placed on the rapid accumulation of money. The policy "endows" if the insured lives to the end of the policy period. When the policy endows, the owner will receive a payment equal to the policy's face amount.

In the past, insurers sold these policies with endowment dates, such as the 10th or 20th anniversary, or with a stated age, such as 65. This made them attractive for use as savings plans for college or retirement. Federal tax changes now require such policies to endow at age 95 or later to qualify as insurance for tax purposes. There will most likely be tax consequences when the policy endows. Therefore, these policies are not often sold. See your tax professional for more information.

## COMBINATION PLANS

These policies combine whole life with term insurance in one contract. You may buy a permanent whole life policy and later decide to increase your coverage for a specified time to meet a specific need (such as a mortgage, business debt, etc.). You could do this by adding a term “rider” to your whole life policy for an additional premium. A rider adds specific coverage and benefits to an existing policy for a specified period of time, usually for a charge.

For example, you may need \$250,000 worth of coverage until your mortgage is paid for, then you will only need \$50,000 to cover final expenses. You would purchase a \$50,000 Whole Life Insurance Policy to cover you until age 100 or until you die, whichever comes first, but you will also add a 30-year \$200,000 term policy to cover you until your mortgage is paid for. You are paying a lower premium on the \$200,000 30-year term rider than you are on the \$50,000 Whole Life Insurance Policy because it will only cover you through that term and will not generate cash value.



### MODIFIED PREMIUM LIFE

You pay a lower premium initially, which increases in the later years of the policy. Such policies may be suitable for people who want whole life insurance but need lower initial premiums.

### MODIFIED DEATH BENEFIT LIFE

You pay a premium that usually remains the same during your lifetime, but the death benefit or face amount changes at a set time. Such policies may be suitable for people whose insurance coverage needs will decrease after retirement.

When buying either a modified premium life or a modified death benefit life policy, either the premiums or the amount of life insurance will change. Make sure you have a clear understanding of these changes before completing an application.

### GRADED DEATH BENEFIT

You pay a level premium that pays the full amount of your death benefit for accidental death, but a much smaller amount for other causes of death in the first few years. After the first few years, this type of policy will behave like a standard whole life policy. The graded death benefit policy is often sold as a guaranteed issue policy through the mail or other media. Make sure you ask your agent or financial adviser about the potential tax consequences of buying any insurance product.

### TERM LIFE

- Low initial premium
- May be renewable and convertible to whole life insurance
- Protection for a specified period
- Premium increase with each new term
- Typically, no cash value

### TRADITIONAL WHOLE LIFE

- Permanent protection
- Fixed premium
- Fixed table of cash values
- Fixed death benefit
- Policy loan availability usually free of current taxation (loans may become retroactively taxable if contract terminates)

### UNIVERSAL LIFE

- Flexible premium
- Flexible death benefit
- Cash value reflects
  - premiums paid
  - current interest after deducting any “mortality charge” (the cost of life insurance based on a mortality table used by the insurer)
  - surrender charge
  - investment fee
- Deferment of taxes on earnings generated by the policy unless you withdraw cash value or interest
- Policy loans usually free of current taxation (excess value may become taxable if the contract terminates)

### EXCESS INTEREST WHOLE LIFE

- Permanent protection
- Fixed premium
- Fixed death benefit
- Cash value growth dependent on current interest credited to the cash value account
- Additional funds “dumped” into the policy allowed (the company credits excess interest to funds allowing fast growth)
- Allowed to defer taxes on earnings generated by the policy until cash or interest withdrawal
- Policy loan availability usually free of current taxation (loans may become retroactively taxable if contract terminates)

### VARIABLE LIFE

- Long-term protection
- Fixed or flexible premiums
- Investment control of cash value, stock, bond, money market or other accounts (the policyholder bears investment risk)
- Varying death benefits and cash values in relation to the performance of funds in separate accounts
- Deferred taxes on earnings generated by the policy until cash value or dividends are withdrawn

## Will Your Premiums Change?

Insurance companies sell many modern term life policies and some whole life policies with indeterminate or nonguaranteed premiums. In the first few years, these policies typically feature a lower premium than a policy having similar benefits with guaranteed or fixed premiums. The company can, and usually will, raise the premiums.

Check your policy for a table of guaranteed maximum premiums. Be sure to find out if the policy you are considering has guaranteed fixed premiums or premium rates that can rise. Make sure you can afford the premiums for as long as you want to keep the policy.

## Disappearing Premiums

Life insurance policies with accumulated cash values frequently offer the policyholder the option of using the policy's cash value or dividends to cover premium payments at a future date. Although the premiums seem to "disappear" or "vanish," charges are still being made, which reduce the policy's cash value.

If you choose this option, you should carefully monitor your policy's cash value. Changes in interest rates, cost of insurance, policy expenses and loans can quickly eliminate your policy's ability to pay for itself. Such changes could force you to resume premium payments to keep your policy.



The cost of life insurance can vary from company to company. More than 700 licensed insurance companies sell life insurance in Florida and comparing costs can be very difficult. For example, a company might offer a policy that is competitively priced for 25-year-olds, but not for 40-year-olds. Several factors determine the cost of a policy. They include:

- Type and amount of coverage
- Age, health and habits (such as smoking)
- Family history
- Mortality tables, which identify statistical death probabilities by age
- Administrative expenses (such as policy fees)
- Current interest rates
- Surrender charges (what you pay if you cash in your policy)

## The Cost Index (Provided by your company or agent)

The insurance industry developed a system called the Cost Index to aid in comparison shopping. It is worth your time to understand this system because it can help you find the best buy for your insurance needs. This system compares costs of similar life insurance plans. A policy with a smaller index number is usually a better buy than a comparable policy with a larger index number. Insurance agents and companies must provide you with the Cost Index and a "Buyers' Guide to Life Insurance." These fully explain the use of cost and payment indexes.

## HYBRID AND COMBINATION PRODUCTS EXPLAINED

As people begin to live longer and longer, many life insurance companies have found that traditional long-term care (LTC) policies are not profitable enough. Additionally, many consumers are reluctant to buy long-term care insurance because they fear that their investment will be wasted if they do not use it. So, some insurance companies have attempted to solve this problem by combining life insurance with long-term care insurance. The idea is that policy benefits will always be paid, in one form or another. These products are relatively new, and the features are changing as the product evolves. Simply put, a hybrid long-term care policy combines the benefits of life insurance (or annuity) with long-term care benefits.

The amount of the long-term care benefit is often expressed in terms of a percentage of the life insurance benefit.

There are several life insurance policy options you can use to help pay for long-term care services:

- Combination (Life/Long-Term Care) Products
- Accelerated Death Benefits (ADB)
- Life settlements

The amount of money you receive from these types of policies varies, but typically the accelerated benefit payment amount is capped at 50 percent of the death benefit. Some policies, however, allow you to use the full amount of the death benefit.

For ADB policies that cover long-term care services, the monthly benefit you can use for nursing home care is typically equal to two percent of the life insurance policy's face value. The amount available for home care (if it is included in the policy) is typically half that amount.

For example, if your life insurance policy's face value is \$200,000, then the monthly payout available to you for care in a nursing home would be \$4,000, but only \$2,000 for home care. Some policies may pay the same monthly amount for care, regardless of where you receive the care.

When you receive payments from an ADB policy while you are alive, the amount you receive is subtracted from the amount that will be paid to your beneficiaries when you die.



### HOW A HYBRID POLICY WORKS

A person can buy a hybrid policy by paying a one-time lump sum premium or by paying over a number of years. If it turns out long-term care is not needed, the policy works much like a traditional life insurance policy, with a death benefit paid to a beneficiary when the insured person passes away.

If the insured person does need long-term care, the policy will pay benefits toward those expenses. Like a traditional long-term care policy, the benefits are paid in an amount chosen when the policy is purchased, and expressed as an amount per day, month or year. But here's where a hybrid policy really shines. If long-term care is never needed, the policy's life insurance death benefit is often similar to the amount paid for the policy. On the other hand, if long-term care is needed, the amount of money available can exceed the death benefit, often several times over. In order to take advantage of the long term care benefit that exceeds the death benefit, you must be sure to purchase additional riders that include this additional coverage.

## OTHER BENEFITS OF HYBRID POLICIES:

You can lock in the premium.

- Premiums can be locked in from the initial purchase date and don't increase. Unfortunately, this has not been the case with traditional long-term care policies, causing financial strain for some people as premiums can increase significantly during the policy's life.

There is a substantial return of premium.

- The death benefit protects people who end up not needing long-term care. While data indicate there is a high likelihood long-term care will be needed, a policy owner can rest assured that money spent for long-term care insurance will not be wasted. In most cases, a policy's death benefit will pay back most, if not all, of the premium dollars spent.



There can be downsides to hybrid policies, as well. The cost of combination products can be hefty, putting them out of reach for many consumers. In some cases, the benefit period in years may be shorter for some hybrid policies than for stand-alone long-term-care policies. And from a pricing perspective, these products in some cases can cost more than traditional long-term-care insurance because of the death-benefit component.

## Things to consider:

Not every hybrid is created equal.

- Several insurance companies offer hybrid products with varying features and price points. The selection process depends in part on how much of a death benefit a person needs and how much of a long-term-care benefit a person might need.
- Policies also vary with respect to the kind of care that is covered—home, facility or both—the monthly benefit, the daily benefit and whether inflation protection is included. Inflation protection can be important because policy benefits won't be worth as much in the future as they are today.

Be mindful of whether the policy includes an elimination period.

- If it does not have an elimination period, once a doctor declares the policyholder eligible for care, he or she can receive benefits right away—but some do, so that is something to note. It's also important to consider how many years of care the policy covers, how the benefits get paid out and to whom, and the carrier's rating, a key factor in determining an insurer's strength and reliability.

Cost can vary widely.

- Premiums can vary greatly based on factors such as the insurer, how often and for how long the premium is paid and the specifics of the policy.

You may not leave a death benefit for survivors.

- If you want to leave an inheritance, you should consider whether using your life insurance death benefit to pay for long-term care services is the right option. If you use the ADB feature for long-term care services, there may be little or no death benefit remaining for your survivors.

As with any insurance, there are considerations to be mindful of. Most importantly, the insurance company must have the long-term financial strength to remain in business for decades into the future and pay claims. Additionally, some people may not like the idea of giving up control of funds that were earmarked for long-term care by instead purchasing an insurance policy.

## CREDIT INSURANCE

Financial institutions, such as banks, loan finance companies and credit card companies, offer credit insurance that pays for the credit holder's debt in case of disability or death. Credit insurance can be of two basic types: **credit life** and **credit disability**. Credit life pays if you die and credit disability pays if you become disabled.

When you obtain and sign for a loan, the financial institution will likely offer you credit life and/or disability protection. If your transaction takes place primarily by telephone, the insurance company or agent has 30 days to provide you with a written copy of the disclosures. Once you receive the copy, you then have 30 days to change your mind and cancel the policy. Make sure you shop around before purchasing this type of coverage, so you get the best buy.

More and more lending institutions require that you purchase life or disability insurance to obtain a loan from them. If you already have an existing policy, you may be able to assign a portion of your existing life or disability coverage to repay the loan in the event of your death or disability. For example, if you buy a car and finance it, the lender may offer you credit life insurance. If you already have a life insurance policy and the lender requires insurance protection before granting the loan, you don't have to buy it from the lender. You could assign some of your current policy's benefits to cover the value of the loan.

When you receive a disclosure form, read it carefully or take it home with you to review more closely before you sign it. This will give you time to decide if you want to buy the policy.



## DEBIT LIFE INSURANCE

*Beginning July 1, 2021, these types of policies can no longer be sold in Florida.*

These types of policies differ from ordinary life policies in several ways:

- The cost is very expensive for the value.
- Death benefits may not pay funeral expenses.
- Policies build very little cash value.
- Unlicensed agents are allowed to sell and service these policies.
- Companies often don't send a regular statement of your policy benefits.

Debit life policies are primarily marketed and sold to low-income families, minorities and the elderly. Insurance companies originally offered such policies to low-income laborers in industrial areas at the beginning of the 20th century. Agents sold the product through door-to-door visits as a “way to cover burial expenses.”

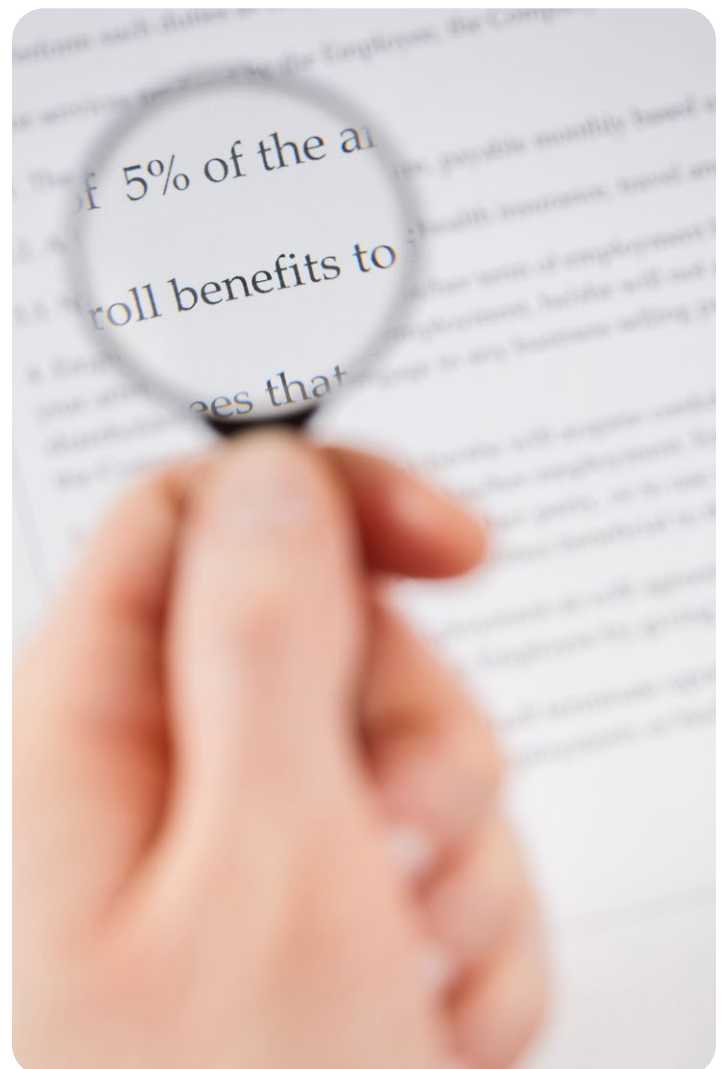
Today, however, the actual coverage for a debit life policy seldom exceeds \$2,000, while funeral expenses often exceed \$5,000, not including the cost of a cemetery plot. Although debit life sales are on the decline, there are nearly three dozen companies that still have policyholders in Florida. If you own a debit life policy or know someone who does, please follow these steps, or encourage him or her to do so, as a precaution:

- Request a written statement from the insurer that includes the policy's date of issue, amount of premiums paid during its entire history, total cash value and dollar amount payable upon death. You should also check with the insurer at least once a year to obtain updated information.
- Once you obtain your statement, ask for help if you don't understand the information or need to make an informed decision. Pay close attention to the cash value of the policy when compared to the amount payable upon death.
- Don't buy any additional insurance until you complete your review. If you need help or have questions, call the **Florida Department of Financial Services Insurance Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236).**

## CONSUMER BEWARE

Debit life, also commonly known as “industrial life,” “street” or “home service” insurance, almost always costs more than the benefits are worth. (Industrial life insurance is referred to as “debit life” in this section.)

Do not give cash to a company representative without obtaining a clearly written receipt with date, agent and company identification.



## HOW TO SELECT AN INSURANCE AGENT

When selecting an agent, choose one who is licensed to sell insurance in Florida. Some agents have professional insurance designations such as the following:

<b>CEBS</b>	<b>Certified Employee Benefits Specialist</b>
<b>CFP</b>	<b>Certified Financial Planner</b>
<b>ChFC</b>	<b>Chartered Financial Consultant</b>
<b>CIC</b>	<b>Certified Insurance Counselor</b>
<b>CLU</b>	<b>Chartered Life Underwriter</b>
<b>CPCU</b>	<b>Chartered Property and Casualty Underwriter</b>
<b>LUTCF</b>	<b>Life Underwriting Training Council Fellow</b>
<b>RHU</b>	<b>Registered Health Underwriter</b>



Make sure you select an agent with whom you feel comfortable and who will be available to answer your questions. Remember: An agent may represent more than one company. Agents earn a commission on your business and should do more for you than just sell you a life insurance policy or annuity contract. They should assess your individual needs, answer your insurance questions, and help you establish your goals. To verify whether an agent is licensed, call the **Florida Department of Financial Services Insurance Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236)**. You can also go to **www.MyFloridaCFO.com** and click on the “**Verify Agent’s License**” button to search for licensing information.

## HOW TO SELECT AN INSURANCE COMPANY

When selecting an insurance company, it is wise to know that company’s rating. Several organizations publish insurance company ratings, available in your local library and on the Internet. These organizations include: AM Best Company, Standard & Poor’s, Weiss Ratings, Moody’s Investors Service and Duff & Phelps. Companies are rated on a number of elements, such as financial data (including assets and liabilities), management operations and the company’s history.

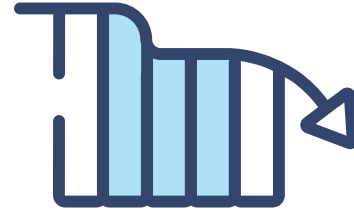
Before buying insurance, verify whether a company is licensed to sell insurance in Florida by calling the **Department of Financial Services Insurance Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236)**. Be sure to have the full, legal name of the insurance company when you call. You can also go to **Florida Office of Insurance Regulation’s website at www.FLOIR.com/CompanySearch** to search for licensing information. There are many life insurance companies that sell life insurance in the US, but many are members of groups of companies and so aren’t really competitors with each other. Having separate companies enables a group to offer its products through separate distribution channels, to more efficiently meet the regulatory requirements of particular states, or to achieve other organizational goals. There are several of these company groups. Not every group has a company licensed to operate in each state. As a general rule, you should buy from a company licensed in your state, because then you can rely on your state insurance department to help if there’s a problem. And if the insurance company becomes insolvent, your state’s life insurance guaranty fund will help only policyholders of companies it has licensed.

## LIFE INSURANCE CONSUMER TIPS

- Shop around. Compare plans from more than one company. Don't feel pressured to make a quick decision. Life insurance is a long-term contract.
  - Make sure the company is licensed to conduct business in Florida. Owners of life insurance policies and annuities issued by companies licensed in Florida are covered against an insurer's default, caused by financial impairment or insolvency, through the Florida Life and Health Insurance Guaranty Association (FLHIGA). The cash surrender value of your policy up to \$100,000, or death and annuity benefits up to \$300,000, are protected by FLHIGA.
  - Ask questions. Your life insurance policy represents a considerable investment in your family's future. Do not buy a policy that you don't understand.
  - Before signing the application, read it carefully because you are responsible for all information contained in it. If there are misstatements on the application your coverage could be jeopardized. Be sure to answer the application questions fully and accurately. Follow along with a blank application while the agent completes the form. The insurance company uses this information to underwrite the policy and determine the premium. Depending on the company's underwriting criteria, a medical examination may be required.
  - Read and understand your contract. Make sure your premium dollars are doing what you want them to do. Be aware of the limitations and conditions of your policy. You should have a 14-day free look period that starts once the policy is in your hands. Obtain the agent's signature and date on the policy once you receive it, to document the delivery date or write the receipt date on the envelope if it was mailed to you. The dated signature or date on the envelope is proof of the beginning of the minimum 14-day free look period.
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- Know what you have purchased. The main purpose of a life insurance policy is to provide coverage for your family upon your death. If you prefer a retirement plan, you should consider other options, such as buying an annuity. Make sure it specifies the premiums, guaranteed interest rate, investment period, payout period and surrender fees. When you receive your new policy, review it carefully with the agent to verify the terms. Question any differences or unclear terms.
  - Be sure that the premiums are within your ability to pay. Don't just look at the initial premium but consider any later premium increases. Your agent should disclose the premiums applicable throughout the life of the policy.
  - Discuss your purchase with your family members, financial or legal advisors or other people you trust.
  - Be aware that a life insurance policy will have the words "life insurance policy" somewhere in the contract.
  - Don't buy life insurance unless you intend to maintain the policy. It can be very costly if you stop paying premiums during the early years of the policy.
  - Understand the cash value. With many policies, the cash value that accumulates is generally very low in the first years the policy is in force. This cash value may be exposed to surrender fees.
  - Know the difference between the "guaranteed" rate and the "projected" rate. The guaranteed rate is the minimum rate at which your cash value will accumulate.

## LIFE INSURANCE CONSUMER TIPS

- In making a sale, an agent may highlight a much higher projected rate based on current and/or anticipated interest rates. The company does not guarantee, however, that the policy will achieve the higher rate of return.
- Ask your agent and tax professional about any potential tax consequences.
- Make sure you receive a copy of all written communications used in the presentation before your meeting with the agent ends and save disclosure statements and comparison indexes you received from your agent. Be sure your agent provides you with a “Cost Index” and a “Buyer’s Guide to Life Insurance” with any contract issued. This information will fully explain the use of cost and payment indexes.
- Beware of high initial interest rates. Although initial interest rates may be high, some companies lower the interest rates on a policy after the first year. Many companies also charge high surrender fees for early withdrawal of funds.
- Ask your agent for the company’s history on crediting its interest rates and check to see how credited interest rates vary between new issues and renewal years.
- Make sure you compare the rates and charges. These include guaranteed interest rates for all years, the surrender charges for the length of years applicable and the severity of the surrender charges.
- Obtain a receipt for any payment you give the agent. Never pay cash and always make your check payable to the insurance company.
- Review your life insurance program with your agent or company every few years to keep abreast of changes in your income and your needs.
- Never be pressured or intimidated by an agent.
- Keep your policy or contract in a safe place.



**NOTE:** This guide is intended to address some of the more common issues faced by consumers when making life insurance decisions. However, it does not address all the issues which may affect someone intending to purchase, replace, or change a life insurance policy.

## YOUR LIFE INSURANCE RIGHTS AND RESPONSIBILITIES



**You have the right** to receive a policy summary that includes a “Cost Index” and a “Buyer’s Guide to Life Insurance” from a company or agent. Both publications fully explain the use of cost and payment indexes. This does not apply to variable life insurance policies.

**You have the right** to receive either a policy summary or a “free look” period of at least 14 days, to decide whether to keep a policy or contract. You may still receive a full refund if you have paid a premium and decide to return the policy during this period. You should return the policy to the company by certified mail (return receipt requested) within the specified period.

**You have the right** to a 30-day grace period during which you may pay overdue premiums. Your policy remains in force during this grace period.

**You are responsible** for evaluating your needs and making sure the insurance company and policy contract you choose can fit those needs. You are responsible for shopping around and comparing costs and services.

**You are responsible** for reviewing and understanding the surrender charges that may be imposed if the policy is surrendered.

**You are responsible** for finding out the licensure status of an insurance or securities agent and company. To verify a license, call the **Florida Department of Financial Services Insurance Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236)**. You can also go to **www.MyFloridaCFO.com** and click on the “Verify Agent’s License” button to search for licensing information.

**You are responsible** for reading your policy or contract and making sure you understand what it covers.

**You are responsible** for keeping your policies and records at home. Keep copies in a safe deposit box or with a friend or attorney.

**You are responsible** for telling your beneficiaries about the contracts you own and where the policies are located.

**You are responsible** for reviewing your coverage periodically to be sure it meets your needs.

**You are responsible** for filling out your application truthfully and disclosing all pertinent information. An incorrect answer on an application could result in a claim being denied.

## INSURANCE DISCRIMINATION AGAINST VICTIMS OF ABUSE

Florida law prevents insurance companies from discriminating against victims of domestic violence or abuse. If you are denied insurance, if your rates are raised, or if the insurer refuses to pay a claim, demand in writing that the insurer explain in writing why it took this action. If you believe you have been discriminated against, call the **Florida Domestic Violence Hotline at 1-800-500-1119** or the **Battered Women's Justice Project at 1-800-903-0111**. You can also file a complaint through the **Florida Department of Financial Services Insurance Consumer Helpline toll free at 1-877-MY-FL-CFO (1-877-693-5236)**.



### YOUR INSURERS AND FINANCIAL INSTITUTIONS

Under federal law, some banks and insurance companies may have the right to share sensitive and personal information about you with other entities and business interests without your permission. As the policyholder, you must take the lead in protecting your personal information.

Many companies will send you a privacy notice that will give you the opportunity to tell them that you want your personal information kept confidential. Unless you complete and return these forms, your personal financial and medical information may be shared with other companies. You may have to complete these forms on an annual basis.

When you receive a privacy notice form, read it carefully before signing it to avoid unintentionally giving the company permission to share information about you. If you have questions or concerns about these forms, call the **Florida Department of Financial Services Insurance Consumer Helpline toll-free at 1-877-MY-FL-CFO (1-877-693-5236)**.

## MEDICAL PRIVACY AND THE MEDICAL INFORMATION BUREAU

The Medical Information Bureau (MIB) is a data bank of medical and nonmedical information on millions of Americans, collected from the MIB's insurance company members.

The companies send the MIB information you have written on applications, enrollment forms, and requests for upgrading coverage for health, life or disability insurance. The MIB also records information from medical exams, blood and lab tests, and hospital reports, when such information is legally obtainable.

If you have been denied life or disability insurance and wonder why, your file at the MIB may be the answer. You have the right to make sure the information in your MIB file is correct. Call the **MIB at (866) 692-6901** and ask for a copy of your records or visit **www.mib.com** to request your consumer file.

## INSURANCE FRAUD COSTS US ALL!

In 2019, the Coalition Against Insurance Fraud estimated that at least \$80 billion in fraudulent claims are made annually in the United States. This includes all lines of insurance. It's also a conservative figure because much insurance fraud goes undetected and unreported. Insurance companies generally pass the costs of bogus claims – and fighting fraud – onto its policyholders. This includes the money you pay for life, auto, health, homeowners and other types of insurance. You can protect your personal and family pocketbook by learning about the many different types of fraud schemes and scams. Some common examples include:

**Failure to forward premiums** - An insurance agent convinces a consumer to pay each premium by a check written directly to the agent or in cash. The agent then pockets these payments, leaving the consumer without coverage.

**Rogue agent commits churning or twisting** - An agent tricks an unknowing consumer into draining the cash value of one policy to buy a new policy with the same insurer.

**Applicant fraud** - An applicant deliberately provides false information to a life insurance company in hopes of obtaining a lower premium or to prevent the applicant's rejection.

**Understatement of risk or "clean sheeting"** - An agent omits pertinent health information from a consumer's application to make a sale that might not otherwise meet the insurance company's risk-management requirements.

**Deceptive claims** - A financially strapped consumer files false claims on credit disability and health insurance policies after staging an accident and exaggerating a pre-existing injury.

If you suspect insurance fraud, call the **Florida Department of Financial Services' toll-free Fraud Hotline at 1-800-378-0445**.



### **Accelerated Death Benefit**

Allows the owner to receive a percentage of the face amount of a policy if the insured is diagnosed as “terminally ill” or confined to a nursing home and wants to use proceeds of the policy for immediate needs. (Terminally ill usually means that a person is expected to live for a short period of time. Individual policies will have their own definition of “terminally ill.”)

### **Accidental Death Benefit**

Also known as a “double indemnity,” this policy provision pays an additional amount should the insured’s death occur by accident. In some circumstances, policies will pay up to three times the face amount should death occur by a specific type of travel accident, such as a plane crash. Some pay a partial benefit for dismemberment, i.e., loss of an eye or limb.

### **Amendment**

An attachment that modifies certain policy benefits. (see **Endorsement**)

### **Automatic Premium Loan**

An optional provision that allows for the automatic payment of unpaid premiums by a policy loan. You may only obtain such a loan if your life insurance policy has sufficient cash value. This feature acts as a safeguard if you forget or cannot make a particular payment.

### **Beneficiary**

The person or entity who receives the insurance money when the insured dies.

### **Benefit**

The payment made by the insurance company in accordance with your policy.

### **Cash Value (or Cash Surrender Value)**

The money available to borrow as a life insurance policy loan or withdraw upon surrender of the policy before maturity.

### **Certificate**

A document provided to a person insured under a group insurance policy that provides evidence that the coverage exists.

### **Churning**

A fraudulent practice in which insurance agents mislead consumers into giving up the cash value of, or taking loans against, current life policies to buy new coverage with the same company. These schemes usually include the misrepresentation or omission of pertinent information about the consumer’s existing policy and how it will be affected by the use of its value to fund the new policy.

### **Cost Index**

A system for comparing the costs of similar life insurance plans. A policy with a smaller index number is usually a better buy than a comparable policy with a larger index number.

### **Death Benefit**

The amount of money your beneficiary receives when you die.

### **Disappearing (or Vanishing) Premiums**

A provision that enables the policyholder to use excess cash deposits to allow for the discontinuance or disappearance of premium payments at some future date. It offers no guarantees, however, as to when you will have enough excess deposits to allow for this occurrence. The rate of return on the policy affects its ability to pay for itself.

### **Dividend**

Money paid annually to a policyholder as a partial return on the paid premium. Many times, you may use the dividends to increase cash values and death benefits.

### **Endorsement**

An addition to a policy that modifies its benefits. (see **Amendment**)

### **Evidence of Insurability**

A signed health questionnaire or a physical examination, depending on a company’s requirement.

### **Excess Interest**

Interest credited beyond the contractual guarantee. Please note that this can change at the company’s discretion.

### **Extended Term Insurance**

A nonforfeiture option where the cash value is used to buy term insurance equal to the face amount of the original policy for as long a period of time as the cash value will provide (see **nonforfeiture options**)

## FREQUENTLY USED TERMS

### **Face Amount (Face Value)**

The dollar amount stated on the specification page of a policy and paid by the company upon policy maturity or death. It does not include dividends or additional amounts payable under special provisions, such as an accidental death.

### **Free Look**

A 14-day or longer period that allows you to decide whether to keep a life insurance policy. You can receive a full refund if you change your mind during this period. Be sure to return the policy by certified mail (return receipt requested) within the free look period to obtain the refund.

### **Grace Period**

A 30-day period in which you may pay an overdue premium while keeping your policy in force.

### **Guaranteed Insurability**

An option that allows you to buy additional life insurance at specified times without evidence of insurability, such as a questionnaire or physical exam.

### **Illustration**

A document used in life insurance sales presentations showing year-by-year numbers indicating how a policy will work. Usually it assumes that amounts being paid today will continue in all future years.

### **Insured**

The person whose life is covered by a life insurance policy; the policyowner; the policyholder.

### **Loan Value**

The amount which can be borrowed by the policyowner from the company using the value of the policy as collateral. Usually the interest rate payable on the loan varies based on an index defined in the policy.

### **Lapsed Policy**

A policy terminated for nonpayment of premium following the grace period.

### **Level Premium Insurance**

A policy with a fixed payment plan over a specified period.

### **Loading**

Administrative fees you pay when buying life insurance.

### **Maturity**

The period when the insurance contract becomes payable to the policyholder.

### **Mode of Premium Payment**

The frequency of premium payments during the policy year. Premium payments can usually be made on an annual, semi-annual, quarterly, or monthly mode.

### **Mortality Charge**

The fee the insurance company charges you to provide you with a lifetime income, and your beneficiaries with a death benefit should you die during the accumulation phase.

### **Mortality Table**

A statistical table showing the death rate (probability of death) for each age.

### **No-Lapse Guarantee**

A feature of flexible premium (universal) life contracts that sets a minimum premium requirement for guaranteed death benefits.

### **Nonforfeiture Options**

A provision in the policy that allows the policyowner to choose how the cash value of the policy will be used if the policy is surrendered or lapses due to nonpayment of premium.

### **Nonparticipating Insurance**

Insurance on which you are paid no dividends.

### **Ownership**

All rights, benefits, and privileges under a policy controlled by the owner, who is usually the insured. Ownership may be transferred or assigned to someone else by written request of the current owner.

### **Paid-Up Insurance**

A life insurance policy where all premiums have already been paid, with no further premium payment due.

### **Participating Insurance**

Insurance that entitles the policyholder to share in the company's surplus earnings.

### **Policy**

The printed document issued to the policyowner by the company stating the terms of the insurance contract.

### **Policy Loan**

The amount that you can borrow against a life insurance policy's cash value.

## FREQUENTLY USED TERMS

### **Policy Year**

A one-year period starting on the day and the month the policy was issued. The first policy year starts on the date of issue and ends on the day before the policy's first anniversary date.

### **Premium**

The amount of money, usually in installments, a policyholder pays for an insurance policy. Payment plans vary depending on the type of policy or annuity.

### **Premium Waiver Provision**

A contract provision that takes effect if the named insured (or in some policies, the person paying the premiums) becomes disabled. The disabled party will not have to pay premiums for the duration of the disability, even for a lifelong one.

### **Prospectus**

A statement about a security (such as most variable insurance plans) disclosing extensive information about a company's investments and investment strategies.



### **Rated Policy**

A policy issued with an additional premium to cover the extra risk involved if an insured has impaired health, a hazardous occupation or hobby, or is a private pilot.

### **Reduced Paid-Up Insurance**

A nonforfeiture option where the cash value is used to buy a reduced amount of insurance with no further premiums while continuing coverage for the same length of time as the original policy. This is required in every cash value policy issued in Florida.

### **Reinstatement**

The restoration of a lapsed policy to its original premium-paying status after you pay past-due premiums and interest.

### **Rider**

An attachment to an insurance policy that adds benefits to the original contract for an additional cost.

### **Settlement Option**

The manner in which the insured or beneficiary may choose to have the policy proceeds paid.



### **Stock Life Insurance Company**

A publicly traded company whose board of directors is elected by its stockholders. A stock company's policies may or may not pay dividends, depending on the terms of the contract.

### **Suicide Clause**

A policy provision which reduces or eliminates the amount to be paid if the insured dies from suicide within the first two policy years.

### **Standard Risk**

The classification of an applicant for a life insurance policy who fulfills the physical, occupational and other requirements on which most of the company's policies are issued. Someone whose characteristics are more favorable may be classified as a "Preferred Risk." When the characteristics are less favorable, the applicant may be characterized as "Rated" or refused coverage altogether.

### **Stock Mutual Life Insurance Company**

A life insurance company owned by its policyholders, who elect a board of directors. Policyholders usually receive dividends from the company's surplus earnings.

### **Surrender**

To voluntarily terminate or cancel a policy or the act of getting out of your annuity for its cash value or other nonforfeiture options. Usually a fee is applied if you surrender your insurance policy or annuity within the first seven or eight years of owning it.



