Virginia
LIFE INSURANCE
Consumer's Guide

Prepared by
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE
www.scc.virginia.gov/boi

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Prepared by

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A MESSAGE FROM THE COMMISSIONER

Jacqueline K. Cunningham
Commissioner of Insurance

The purpose of the State Corporation Commission's Bureau of Insurance is to serve the people of Virginia in all matters relating to insurance. One of our major concerns is consumer protection. We strive to make every effort to provide the information you need to make informed decisions when buying insurance so that your interests can be safeguarded.

We have designed this Consumer's Guide to give you some basic facts about **life insurance**. Just as with our auto, homeowners, and health insurance consumer's guides, this Guide offers information to help you become aware of the kinds of life insurance coverage available and how life insurance coverage may be compatible with your individual needs. Use this Guide to help you understand how life insurance can be used in your best interest and in the interest of your loved ones. By making wise decisions, an educated consumer becomes a protected consumer.

If your insurance questions or problems go beyond the scope of this Guide, my office will provide you with more detailed assistance. To reach the appropriate section within the Bureau of Insurance, refer to the next page in this Guide.

We are here to help you with concerns or problems you have with any type of insurance. Please let us know if we may be of service.

Jacqueline K. Cunningham

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TABLE OF CONTENTS


LIFE INSURANCE POLICY

If your financial resources do not meet the needs of your dependents in the event of your death, perhaps you should consider a life insurance policy.

1.

1.

WHAT YOU NEED TO KNOW ABOUT LIFE INSURANCE

When a death occurs in a family, those who are left may suffer financial loss – and even hardship. Life insurance is designed to help ease those difficulties. Its primary purpose is to protect the surviving members of a family or any other dependent against the loss of an individual's income or services.

Essentially, life insurance is a means of spreading financial risk among a large number of people who pay premiums. In this way, the cost is minimized for those who suffer a loss. A life insurance contract or policy is a legal agreement between a policyowner and an insurance company that provides for the payment of a death benefit upon the death of the insured provided both parties to the contract meet their contractual obligations.

Think about **your** family situation if **you** died tomorrow. Would there be enough money available for medical and funeral costs? What about additional income while the children are growing up – has their continued education been considered? Does your spouse have a separate income that could manage costs for food, clothes, and household bills? Do you have debts that would be difficult or impossible for your family to repay? Are you responsible for your parents' care?

If your financial resources do not meet the needs of your dependents in the event of your death, perhaps you should consider a life insurance policy.

This Guide focuses primarily on individual life insurance. It is not intended to be a substitute for seeking out a qualified agent. The Guide explains what life insurance is all about; what it can and cannot do for you; what you have to do to benefit from it; and what you need to know before you purchase life insurance. Even if you already have a life insurance policy, this Guide can be a valuable resource. Changes in lifestyles and the frequent introduction of new insurance products may affect your insurance needs.

Your decision to purchase life insurance is an important and long-term consideration. Use this Guide as a handy reference to help you understand what questions to ask so that you can be confident that the insurance you have suits your specific needs.

Whether you are reading an ad, talking with your agent, corresponding with a company or examining your policy, knowledge of key terms is important to recognizing and comprehending what is being communicated.

2.

2.

UNDERSTANDING KEY INSURANCE TERMS

Life insurance has its own language and can be a complex subject. Becoming familiar with key terms will help you shop intelligently. A quick review of the following terms and an occasional reference to them while reading the guide will familiarize you with the technical life insurance terms most often used. Whether you are reading an ad, talking with your agent, corresponding with a company or examining your policy, knowledge of key terms is important to recognizing and comprehending what is being communicated.

A. **Applicant -** The person who applies for the insurance policy

B. **Beneficiary -** Person or persons named by the policyowner to receive the policy benefits at the death of the insured. See Section 6, pages 35-36 for additional information.

1. **Primary Beneficiary -** Person or persons named by the policyowner to have first rights to receive the proceeds of the policy when the proceeds become payable.
2. **Contingent (Secondary) Beneficiary -** Person or persons named by the policyowner to receive the proceeds of the policy should the primary or first beneficiary die before the insured, or should the primary or first beneficiary not be available to receive the proceeds.

C. **Cash Value -** The amount the insurance company will pay the policyowner if a permanent life insurance policy is surrendered or otherwise terminated. The cash value could be used as a form of collateral when making a loan against the policy from the insurance company. Term insurance usually has no cash value.

D. **Direct Response -** A method of selling insurance directly to consumers, often through the mail or the internet.

E. **Endorsement -** A written agreement attached to a policy that adds or changes policy provisions. Once attached, the endorsement takes precedence over original provisions of the policy.

F. **Evidence of Insurability -** Any statement about the insured's health, finances, or employment which helps the insurance company determine if the insured is an acceptable risk for life insurance.

G. **Group Life Insurance -** The type of insurance which provides coverage for a group of people under one contract, called a master contract. Group life insurance is generally used to cover employees of a common employer, members of a labor union, or members of a profession or trade association, which is not formed solely for the purpose of obtaining insurance.

1. **Certificate of Insurance -** A document which is required by state law to be given to each insured member of a group insurance plan. The certificate briefly outlines the plan's coverage and the member's rights. The certificate is evidence of the insured member's coverage.
2. **Contributory Plan -** A group life insurance plan in which participants (or insured members) pay a portion of the cost.
3. **Noncontributory Plan -** A group life insurance plan in which participants (or insured members) are not required to pay a portion of the cost of the plan.

H. **Insurability -** Conditions relating to the insured's age, occupation, medical history, lifestyle, and physical condition which must be met for a person to be considered an acceptable risk by an insurance company.

1. **Rating -** The basis for the premium charged due to the insured's type of risk classification.
2. **Standard Risk -** The classification of a person being insured who meets the physical, occupational and other standards on which that insurance company's normal premium rates are based.
3. **Substandard Risk -** The classification of a person being insured who does not meet the requirements set for the standard risk. An additional premium is charged for substandard risks to provide for the probability that such a person may have a shorter life span than a standard risk.
4. **Preferred Risk -** The classification of a person being insured as an above-average risk due to physical condition, health history, occupation and lifestyle exceeding the requirements set for the standard risk, indicating the probability of a longer life span than a standard risk.

I. **Insured -** The person whose life is insured under the policy. This may be the same person as the policyowner.

J. **Insurer -** Company issuing the insurance policy.

K. **Permanent Insurance -** The type of insurance that stays in force for the length of the insured's lifetime, as long as the premiums are paid when due. Most of these policies provide cash values that increase every year. General types of permanent life insurance are: whole life, adjustable life and variable life. See section 4, pages 14-20 for additional information.

L. **Policy -** A contract between the insurance company and the policyowner. It sets forth the premiums to be paid, cash values and nonforfeiture values, and the terms and conditions for paying policy proceeds.

1. **Face Amount -** The amount stated within the policy that is payable at the insured's death or at maturity of the policy. The Face Amount is also called the "amount of insurance" or "death benefit."
2. **Effective Date -** The date on which an insurance policy goes into effect and from which protection is furnished.
3. **Issue Date -** The date on which an insurance policy is issued.
4. **Lapse** - Termination of a policy for failure to pay a premium before the end of a grace period.
5. **Policy Proceeds -** The amount actually paid when the insured dies, the policy matures, or the policy is surrendered. It includes any dividends left on deposit and the value of any additional insurance purchased with dividends, less any loans not repaid plus unpaid interest on those loans.
6. **Surrender Charge -** A fee charged to a policyowner when a life insurance policy or annuity is surrendered for its cash value. The fee is stated in the policy and subtracted from the cash value.
7. **Premium -** Amount the policyowner pays to the insurance company for the policy. Depending on the terms of the policy, the premium may be paid in one payment or a series of regular payments (e.g., annually, semi-annually, quarterly, or monthly).

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M. **Policyowner -** The applicant or someone designated by the applicant after the application for the policy is approved by the insurance company.

N. **Provisions -** Conditions listed in the policy that set out the legal rights and obligations of the insurer and the policyowner.

1. **Entire Contract Provision -** A feature of the policy stating that the policy itself, along with the application for insurance, if attached, will constitute the whole agreement between the insurance company and the policyowner.
2. **Grace Period -** The length of time following the premium due date, usually 31 days, during which the policyowner may pay an overdue premium without penalty. The policy remains in force, and if the premium is paid during the grace period, the company will accept it as being paid "on time."
3. **Incontestable Clause -** A provision stating that, except for failure to pay premiums, the company cannot contest or void the policy after it has been in effect for a specified period of time, usually two years, during the lifetime of the insured. Certain provisions relating to disability benefits or accidental death insurance may be exempt in an incontestable clause.
4. **Misstatement of Age -** A provision stating that if the age of the insured is misstated and this misstatement has resulted in an incorrect premium amount for the amount of insurance purchased, then the face amount of the policy will be adjusted to the amount of insurance the actual premium paid would have purchased if the insured's age had been stated correctly.
5. **Nonforfeiture Benefits -** Cash or insurance benefits available to the policyowner of a cash value policy that the policyowner does not lose if the policy lapses or is surrendered. This includes Extended Term Insurance, Reduced Paid-up, Loan Value, as well as Cash Surrender Value. See Section 5 for additional information.
6. **Reinstatement Provision -** A provision stating the process by which a policyowner may apply to restore a policy which had lapsed due to nonpayment of premiums after the grace period has expired. Most policies provide for reinstatement within three years from the date of lapse.

7. **Rider -** A written agreement attached to a policy which modifies the clauses and provisions of the policy. The rider becomes part of the entire contract and may include or exclude various benefits otherwise payable. Adding riders that add benefits to the policy may increase the amount of premiums payable.
8. **Suicide Clause -** A provision stating that only a return of premiums will be paid if the insured commits suicide within a specified period of time (usually two years) after the policy's issue date.

O. **Term Insurance -** The type of insurance that provides protection for a set period of time, which is the policy term. Benefits are only paid if the insured dies within the policy term. The policy expires and has no value and pays no benefits after the term expires. See Section 4, pages 13-14 for additional information.

Identifying your needs and the needs of those who depend on you is one of the most important factors when making decisions about buying life insurance.

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IDENTIFYING YOUR NEEDS

When buying a life insurance policy, you select an amount of money that will be payable at the time of your death and you name the person or persons who are to receive that money. You may also have the right to determine whether that money will be paid in a lump sum or in a series of payments. **All of these choices depend on what you want the insurance to do for you and your dependents.**

Some people buy life insurance to replace part or all of the income their families would lose when they die. If this is your reason, the fewer dependents you have, the less life insurance protection you are likely to need. But life insurance does more than protect your dependents after your death. Some policies also contain benefits that you can use during your lifetime. Most permanent insurance policies accrue cash values that can be accessed through policy loans or withdrawals to pay for education, retirement, or emergencies. However, you should remember that the main purpose of life insurance is financial protection. There are other financial products available that can help you meet other goals, such as funding for retirement or college education.

Identifying your needs and the needs of those who depend on you is one of the most important factors when making decisions about buying life insurance.

In order to identify your insurance needs, please review the distinctions among the terms “applicant,” “policyowner,” and “insured” in Section 2 of this Guide If you buy an insurance policy on your own life, you are both the policyowner and the insured. If, however, your spouse buys a policy on your life, you are still the insured, but your spouse is the policyowner. This is an important distinction since the policyowner has the right to make many of the decisions connected with life insurance policies, such as changing a revocable beneficiary see Section 6.A, page 35, requesting policy loans, and surrendering the policy for cash value. _For ease of discussion in this Guide, we will assume that the policyowner and the insured are the same person._

If you are most concerned about providing financial security for your family after your death, you should compile a complete and accurate list of all income and expense items. Be careful not to overlook smaller expenses that can add up rapidly to a large amount.

3.

Start the examination of your needs by adding all the sources of income and assets – your family members would have if they were without you right now. This list can include, but is not limited to, income from checking accounts and savings accounts, stocks and bonds, and benefits from Social Security. Check to see if you already qualify for group insurance. If you do, take advantage of it and add its face amount to your current assets. Do not forget to include the ability of other members of your family to earn a living. Then develop a second list of what your dependents would need. Include expenses for immediate needs at the time of death, such as final illness expenses, burial costs and estate taxes, as well as for ongoing financial needs such as housing, utilities, food, clothing, education, transportation, medical bills, loan payments, insurance premiums, and taxes.

ASK YOURSELF

Do you have your important financial information assembled?

How much do you contribute to your family or household budget?

How much would your family need to keep its present lifestyle? Include anyone else that depends on you – your parents, brothers, or sisters.

Do you want your mortgage to be paid off in the event of your death?

Do you need to provide money for child support obligations or college education?

Do you need to help continue a business, farm, or other organization?

Do you want to help pay taxes on the assets you leave to others?

Would you like to leave money to other family members or charities?

A general rule of thumb in estimating the life insurance needs of your dependents is to calculate five to seven times your annual gross income. If you are a homemaker and do not have an easily calculated income, try to determine the expenses that would occur if you were no longer around to take care of the family. If you died while the children were still young, who would take over your everyday duties? Would your spouse be able to afford to pay someone to keep the household going? If you work outside of the home as well, your salary may help pay for basics such as food, clothing, and household bills. Could your spouse handle these responsibilities alone? If not, add those expenses to your list.

The next step is to compare the total of your income and assets with the total of your dependents' anticipated expenses. At the very least, your life insurance coverage should come as close as you can afford to making up the difference between what your dependents would have if you died today, and what they actually would need.

Decide how long your family will have those needs. Are your children young and many years away from financial security or almost grown and ready to be independent? Is your spouse healthy and looking forward to a potentially long life? Is the balance on the home mortgage almost paid?

The final question you need to ask: how much can you afford to buy? Buying a policy you cannot afford and then losing it because of your inability to pay is good money thrown away.

Another consideration: the amount of insurance coverage you need to protect you and your family while you are young is different from the amount you need later in life. If you already have a life insurance policy that you bought years ago, you may want to consider reviewing the policy as well as your own needs. Perhaps your circumstances have changed dramatically since the policy was purchased. You may need to purchase **additional** insurance or may be able to reduce coverage to meet your current needs. **Review your life insurance policy regularly to make sure it still meets your needs.**

Most people only consider the living benefits of life insurance after assuring the death benefits to their dependents are secure. If you have no dependents or they are provided for, you may wish to identify the needs that could arise while you are living, such as retirement income. After you review your needs, whether for you or your dependents, you can move forward and begin to match those requirements with the different types of policies available.

Though it seems there is a bewildering array of policy types and names, they all boil down to two basic forms of life insurance: term and permanent.

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WHAT DIFFERENT POLICIES WILL DO FOR YOU

Though it seems there is a bewildering array of policy types and names, they all boil down to two basic forms of life insurance: term and permanent.

As a general rule, temporary needs should be covered with term insurance, permanent needs with permanent insurance. Often a combination of policy types does the best job for you. So what is a temporary need? A mortgage, high needs for continuing income when your children are young, some business obligations, etc.

What is a permanent need? Funeral expenses; supplementing a survivor's income; covering capital gains taxes at death, especially if family property is to be passed on to the next generation; children who remain dependent for their lifetimes, often due to a disability, etc.

The following pages will help you to identify the type of policy you may need to provide financial security for your family.

TYPES OF POLICIES

A. **Term Insurance**

Term insurance is protection for a set period of time, called the policy term. For example, a five-year term policy will provide coverage for five years. Benefits will be paid only if you die within that time. If you live past the end of the term, the policy will expire and will then have no value and pay no benefits. Generally term insurance offers the largest amount of pure insurance protection for the lowest premium.

Level term insurance has the same face amount as long as the policy is in effect. For instance, if you buy a $25,000 level term policy, it will pay that amount if you die at any point during the term. On the other hand, **decreasing term** insurance has a specified face amount that keeps getting smaller every month or every year and usually is bought when the amount of money needed to protect dependents will become smaller as time goes by. This type of insurance is frequently used to cover the balance on a home mortgage as it decreases. Also, the face amount of an **increasing term** insurance policy starts at one benefit level and increases at stated intervals by some specified amount or percentage. In anticipation of the rising cost of living or increasing family responsibilities, **increasing term** insurance is popular in making sure a policy's benefits do not become inadequate to meet future needs.

Whether **level, decreasing** or **increasing,** some term insurance policies are guaranteed renewable for one or more additional terms even if your health has changed for the worse. With a **renewable term** policy, the insurance company must renew the coverage at your request when the term period ends. Depending upon the type of policy, the company may or may not be able to charge a higher premium based on your health status. In any event, the company may charge a new premium rate based on your current age at the time of renewal. If you are considering renewable term insurance, be sure to check the premium for higher age groups, and whether and for how long the policy can be continued. In many cases, the renewal provision in the policy will specify that the right to renew will be limited, either by the age of the insured or by the maximum number of renewals permitted. Since the premium keeps going up at each renewal, this type of insurance may become prohibitively expensive as the insured gets older. In fact, some term insurance policies are not available or renewable past the age of 65 or 70.

Some term insurance policies also are **convertible**, which means that before the term ends, you may trade the policy for a permanent policy (as described in the following section) even if you are not in good health. Premiums for the new permanent policy, however, generally will be higher than what you would pay for a term policy with the same face amount.

Term insurance is best when your need for protection is temporary or when you need a large amount of insurance, but cannot afford a large premium. You may, for example, be starting a family and want to make sure that your spouse and young children will be taken care of if you die unexpectedly. You can protect the immediate needs of your dependents with a term policy and then, if you choose, convert later to a permanent policy when your financial resources are stronger.

B. **Permanent Insurance**

While term life insurance provides protection for a certain period and pays no benefits after that time ends, permanent insurance stays in force for your entire lifetime as long as the premiums are paid when due. Another distinction is that most permanent life insurance policies provide cash values, and most term policies do not. This Guide discusses three general types of permanent insurance: whole life, adjustable life and variable life.

1. **Whole Life Insurance**

   Whole life insurance is a kind of permanent insurance that stays in force for your whole life. The premium is based on your age at the time you buy the policy. Unlike term insurance, that amount generally does not go up. The younger you are when you buy whole life insurance, the lower the premiums will be. The premium may be much higher than what you would pay at first for the same face amount of term insurance, but it would be less than what you would pay if you continued to renew a term insurance policy on into your later years.

   Whole life insurance also combines life insurance protection with a cash value element. As with term insurance, the insurance protection allows your beneficiary to receive a certain amount of money when you die. The difference with the whole life policy is that it begins to build up a cash value that increases every year. If you decide to surrender your policy, the company will pay you the cash value accumulated up to that point, often after a charge is deducted.

   Limited payment life policies are variations of whole life. Premium payments are required only for a specified number of years or until a certain age at which time the policy becomes fully paid-up with coverage continuing for the rest of your life. Since you pay fewer premiums, the premium you pay is higher than ordinary whole life premiums but you are free from that expense in later years when your income may be less. For example, a 20 payment life insurance policy requires no further premiums after 20 annual premium payments.

   Another variation of whole life is the **modified-premium whole life** policy. Rather than pay a premium that remains level throughout the payment period, this type of whole life policy allows you to pay a lower premium for a specified period, such as five years, after which the premium increases to an amount somewhat higher than what the usual (non-modified, level) premium would have been. This new, increased premium is then payable for the rest of the payment period. Some insurance companies offer **graded-premium** policies in which premium payments are modified even more often. These policies call for three or more levels of premium payment amounts, increasing at specified times (such as every three years) until premiums become

4.

level for the duration of the policy. In both types of modified premium payment plans, the face amount of insurance remains level the entire time. The major advantage of these variations is that you may purchase a whole life insurance policy with a larger face amount than you would otherwise be able to afford based on your current income level.

2. **Adjustable Life Insurance**

   Adjustable life insurance (also called Universal Life or Flexible Premium Life) is designed to allow policyholders to change their policy coverage as their needs change.

   For example, if you want to increase or decrease your coverage, you can either change your premium payments or change the period of coverage. Adjustments that are made affect the future, but have no effect on the past. The adjustable feature of this type of policy is one of its most distinctive differences.

   Adjustable life insurance policies provide an insurance protection element and a cash value element (as do whole life policies), but the insurance company actually separates the pure protection, investment, and expense components of the policy, and reports them to you in an annual report.

   Unlike most whole life policies that offer a fixed amount of protection for a fixed premium, adjustable life policies are designed to provide a great deal of flexibility as your family situation and financial affairs change over time. For instance, the adjustable life policy allows you to change the face amount of your policy so that you can get more protection if you want it, or you can decrease the amount of coverage if your insurance needs have diminished, without having to buy a new policy. Just as with traditional types of insurance, evidence of insurability may be required for an increase in the amount of coverage.

   You may also alter, with certain limits, the amount of premium you pay each year. A minimum premium is usually required in the first year. You may even discontinue premium payments provided the policy's cash value is enough to keep the policy in force. Premium payments may resume at a later date (without having to apply for reinstatement as you might with a whole life policy). The more you pay in premium above the mortality charge for death protection and the amount needed by the insurance company to pay the policy's costs, the more money is credited to the cash value account. Adjustable life then allows the current market interest rates to be paid on that cash value account.

The objective of adjustable life is to allow the policyowner the ability to take advantage of current interest rates. Sometimes, only a portion of the money in the cash value account – for example, only the amount over $1,000 – is credited with these higher interest rates. Any amount less than the minimum may be credited with the minimum rate guaranteed by insurance companies. The interest rate actually paid may vary, but will not fall below the minimum rate guaranteed in the policy.

Two death benefit options are typically available with adjustable life policies. One provides for a level benefit in which the specified amount payable at death includes the cash value. In this case, as the cash value account increases, the amount of pure insurance decreases in corresponding degrees so that the total benefit to be paid at the insured's death stays level. The second option pays the amount in the cash value account in addition to a level benefit amount for insurance protection.

Obviously, the premiums for this second option will be relatively higher to provide for the higher death payment. With either option, you, as the policyowner, may use the contract's flexibility to modify the amount of insurance due to such changes as divorce or additional children.

What are the advantages and disadvantages of term and permanent insurance?

The following points can help you determine which type of insurance best suits your needs.

Term Insurance

Advantages

- Initial premiums generally are lower than those for permanent insurance, allowing you to buy higher levels of coverage at a younger age when the need for protection often is greatest.

- Term insurance is good for covering needs that will disappear in time, such as mortgages or car loans.

Disadvantages

- Premiums increase as you grow older.
- Coverage may terminate at the end of the term or become too expensive to continue.
- A term life insurance policy generally does not offer cash value or paid-up insurance.

Permanent Insurance

Advantages

- As long as the premiums are paid, protection is guaranteed for life.
- Premium costs can be fixed or flexible to meet personal financial needs.
- The policy accumulates a cash value against which you can borrow. (Loans must be paid back with interest or your beneficiaries will receive a reduced death benefit.) You can borrow against the policy's cash value to pay premiums or use the cash value to provide paid-up insurance.
- The policy's cash value can be surrendered – in total or in part – for cash or converted into an annuity. See Section 4, pages 20-25 for more information.
- In many cases, a provision or "rider" can be added to a policy that gives you the option to purchase additional insurance without taking a medical exam or having to furnish evidence of insurability.

Disadvantages

- Required premium levels may make it hard to buy enough protection.
- It may be more costly than term insurance if you do not keep it long enough.

3. **Variable Life Insurance**

   Variable life insurance policies were developed as a way to address the effects of inflation on cash value. What may have been an adequate amount of insurance coverage 10 years ago may no longer be enough. You could buy additional life insurance, but what if you have become uninsurable or insurable only at very high premium rates?

Variable life insurance is similar to adjustable life, in that the face amount and the cash value can be changed. Unlike adjustable life, the premiums for most forms of variable life remain level. With adjustable life, the cash value is credited with current interest rates. The flexibility of the variable life cash value as well as the face amount depends on the investment performance of a special fund, often referred to as a "separate account." You can choose to allocate the money in this separate account into a variety of investments, such as common stock, mutual funds, bonds, or blends of many investment vehicles. The actual face amount that will be paid at your death as well as the actual cash value available for a variable life insurance policy depends on how well those separate accounts do. With traditional forms of variable life insurance, you are assured of a minimum guaranteed face amount, but minimum cash values are rarely guaranteed. You will receive a "policy prospectus" with the purchase of a variable life insurance product. A policy prospectus is a document containing information about the proposed policy, such as expenses charged,investment options and each option's investment objectives. The policy prospectus also describes the past performance of the various investment options, benefit provisions, policyowner rights, and when and how surrender charges will be applied. It should also include the availability of transfer between separate accounts available to an insured.

Purchasing variable life insurance is riskier than purchasing a whole life policy. For example, if the stock market fails to perform well, the variable life insurance policy may not provide as high a death benefit for a given premium as a whole life policy would provide. Variable life insurance as well as adjustable life insurance may be more appropriate if you are looking for a policy that follows the highs and lows of the current economic market.

An agent who sells variable life insurance must be a licensed insurance agent, and a registered representative of a broker-dealer licensed by the Financial Industry Regulatory Authority and registered with the Securities and Exchange Commission. This separate license demonstrates the agent's knowledge of securities.

Variable adjustable life insurance combines the flexibility of an adjustable life insurance policy with the variable investment features of a variable life insurance policy. As with universal life insurance, the premium and face amount can be changed, both subject to limitations. As with variable life insurance, a separate account can be invested in various funds, and the cash value is affected by the performance of that account. Unlike variable life insurance, there is not necessarily a minimum death benefit.

You should be aware that even more interest-sensitive policies are being developed. Although the names may be different, most combine some kind of term insurance with a separate investment account. If you decide to look into one of these policies, use the information in this Guide to help you understand the basic coverage. Then, ask questions to help you understand how the policy is different, and whether that difference is worth the cost.

C. **Annuities**

An annuity is a series of payments made to you at regular intervals while you are alive. Unlike life insurance, in which benefits are paid when the insured dies, the benefit payments under many annuity contracts stop when the insured dies. Many people buy insurance to protect against the financial risks of dying and not leaving enough resources for their beneficiaries. These same people might buy an annuity to protect themselves against the risk of outliving their own resources.

If you are considering an annuity because you want additional income and not the protection of insurance, you should keep in mind that an annuity is not a savings account or savings certificate, and it should not be bought for short-term purposes. Under an annuity contract, you make an up-front payment or a series of payments in return for a stream of income in the future, often after retirement. Your earnings are tax-deferred until you take the money out. Annuities are not for everyone.

Types of Annuities

Annuity contracts can be classified in a number of different ways: by the number of people covered; the method of payment; the time benefit payments begin; and the disposition of proceeds and payout of benefits. This Guide discusses some of the more common annuities available in the marketplace. These include **straight life annuities; life annuities with period certain; cash refund annuities; installment refund annuities; joint and survivorship annuities; joint life annuities;** and **variable annuities.** This Guide also addresses common forms of annuities often used to fund retirement or other long-term financial plans, such as individual retirement annuities, equity indexed annuities and market value adjusted annuities.

1. **Straight Life Annuity**

   This type of annuity will pay an income to you for the rest of your life, but when you die, the payments end. There is no guaranteed number of payments to beneficiaries or survivors. A straight life annuity usually pays the greatest monthly income for your premium dollar. This choice may be good if you want maximum income and you are single and have no dependents. If you die after receiving only a few payments, however, the rest of your investment in the annuity is lost.

2. **Life Annuity with a Period Certain**

   This type of annuity guarantees you an income for the remainder of your life. It also provides that if you die within a specified period of time, payments will continue to your beneficiary until that specified period of time ends. Typical types of life annuities with a period certain include "5-year-certain or life income," or "10-year-certain or life income," and "15-year-certain or life income."

3. **Cash Refund Annuity or Installment Refund Annuity**

   Cash Refund Annuity

   A cash refund annuity will pay you for the remainder of your life. It will also pay a settlement in a lump sum to your beneficiary if you die before you receive payments that total the amount of money that you paid for the annuity. The amount paid will be the difference between what you receive in payments and the cost of the annuity.

   Installment Refund Annuity

   The installment refund annuity is a variation of the refund annuity. If you die before receiving income at least equal to the premiums paid, your beneficiary receives the difference in installments. If you live after the income paid equals the premiums paid, the insurance company continues to make income payments to you, the annuitant, for life.

4. **Joint and Survivorship and Joint Life Annuities**

   Joint and Survivorship Annuity

   This type of annuity covers the lives of two or more individuals. It is usually used to cover a husband and wife. A life income is guaranteed to both people covered. When one of the individuals dies, payments are usually reduced by a specific amount, such as one-half or two-thirds. This type of annuity is often used to provide retirement income.

4.

When a spouse dies, a number of expenses are reduced, such as clothing and food bills, and a reduced income may be sufficient. But you should keep in mind that some expenses, such as rent or mortgage payments, will not decrease with the death of a spouse.

Joint Life Annuity

This type of annuity also provides for payments that cover two or more people. However, the payments stop when the first person dies. Because of this feature, this type of annuity is not used often because it leaves the surviving individual without income.

5. **Variable Annuity**

   A variable annuity provides annuity payments that vary according to the investment performance of a separate account. The variable annuity owner directs the insurer to place his/her premium payment(s) in investments which have varying returns, such as stocks and mutual funds, all of which comprise the separate account or accounts. The value of variable annuity premium(s) directed to a separate account is expressed in the form of accumulation units. The value of the accumulation units fluctuates with the performance of the investments held in the separate account.

   Accumulation units are used to purchase annuity units when benefits become payable under a variable annuity policy. These annuity units also fluctuate with separate account performance. Thus, the variable annuity provides benefits (both during the accumulation phase and during the benefit payment phase) that vary with investment earnings.

   When considering purchasing a variable annuity, it is important to remember that while earnings under this type of policy can grow if investment performance is favorable, the values can also decline with unfavorable performance. There is a higher risk associated with variable annuities. Therefore, it is important to read the policy and all related materials. Be sure to request a prospectus which contains extensive disclosure information about the company's investments and investment policies. Also, make sure the agent holds a separate license demonstrating the agent's knowledge of securities.

6. **Equity Indexed Annuity (EIA)**

   Equity Index Annuities (EIAs) are fixed annuity products that have potential for greater returns than those provided with guaranteed rate annuities. They combine two features: a guaranteed minimum interest rate and the potential for higher earnings based on the performance of an external index, such as Standard & Poor's 500 Composite Stock Price Index. The EIA has become an attractive option to consumers in different markets because it provides the safety and security via the guarantees and the equity linked crediting of interest. A common characteristic of EIAs is that the contracts are divided into periods of time or terms, and the gain in each term is limited to a percentage of the increase in the index or a specified dollar cap.

7. **Individual Retirement Annuities (IRAs)**

   Annuity contracts sold through an insurance company can be used as a funding vehicle for retirement. Under a **traditional IRA**, you are permitted to contribute a set dollar amount (or 100% of your earned income, whichever is less) and deduct all or part of that contribution from your taxable income, subject to a number of specific rules, requirements and conditions. A **Roth IRA** offers different tax incentives and some more flexible features than traditional IRAs. There are many rules, requirements and limitations specific to these products, and you should always consult with your tax advisor when purchasing an IRA.

8. **Market Value Adjusted Annuities**

   A market value adjusted annuity provides for interest rate guarantee periods, often ranging from 3 to 10 years. During these interest rate guarantee periods, the amount available upon surrender of the contract is altered by a market value adjustment, which reflects changes in interest rate levels from the start of the period through the point of surrender.

Buying Your Annuity

When you buy an annuity, you can make premium payments:

1) once as a single premium;

2) periodically with level premium amounts; or

3) periodically with flexible premium amounts.

Under a periodic level premium annuity, you pay equal premium amounts at regular intervals, monthly or annually, until the date the benefit payments are scheduled to begin. If you die before then, the cash value, or the premiums paid to that point, if greater, will be paid to your beneficiary, and a charge may be deducted. If you buy a periodic flexible premium annuity, you have the option to vary the premium amount you pay each time between set minimum and maximum amounts. By paying more in high-income years and less in low-income years, you can pay enough in premiums over time to fund an annuity sufficient to meet your retirement needs.

Benefit payments can begin:

1) as soon as the annuity is purchased, if it is an immediate annuity, or

2) at a specified future date, if you buy a deferred annuity.

A single premium annuity can be immediate or deferred. A periodic premium annuity, whether level or flexible, is always a deferred annuity since its benefit payments begin at a future date. A single premium deferred annuity will provide larger annuity payments than a single premium immediate annuity that was bought for the same amount because the payment for the deferred annuity will earn interest during the entire deferred period.

Checklist for Annuity Purchasers

Before you purchase your annuity, you should:

- ☐ Contact a number of companies. The company that covers you for life insurance may offer the best annuity for you, or it may not.
- ☐ Generally, annuities should be considered only if you are investing for a long term. Early or premature withdrawals may be subject to tax penalties and other charges.
- ☐ Compare surrender charges and surrender periods. Many annuities have surrender charges in the first seven years or longer. You may want to avoid annuities with surrender charges that apply for extended periods.
- ☐ If buying an annuity paying a fixed rate, look beyond the initial rate. Rates paid after the first few years may be lower. Be sure you know the “minimum” guaranteed rate. Approach unusually high rates with caution.
- ☐ Look for maximum flexibility on getting your money out. Be wary of annuities that do not allow you to withdraw your money in a lump sum or that lower the interest rate if you do.

- ☐ Ask about the current tax treatment of any annuity that you are considering.
- ☐ Before you make your final decision, you should get information about the financial condition of the companies that you believe offer the best contracts. Financial rating publications that summarize an insurance company's financial position should be available at your local public library
- ☐ Where appropriate, make sure the agent holds a separate license demonstrating the agent's knowledge of securities.

D. **Endowment Insurance**

Endowment insurance pays a specified sum back to you, the policyowner, if you live to a certain age, or for a specified period of time (i.e. 20 years). If you die before that time, the face amount is paid to your beneficiary just as it would be with term and permanent insurance. As with many permanent policies, endowment insurance builds cash value and the premium does not change.

Endowment insurance is frequently used as a mechanism to meet a cash need at a specific period of time. For example, if you purchase a 10-year, $10,000 endowment policy, at the end of the 10 years the company will pay you $10,000, either in one lump sum or in periodic payments. Because of this emphasis on building the value of your money and because the full amount is paid whether you live or die, endowment premiums are higher than those for most other types of insurance. Two popular reasons for buying endowment policies are to accumulate funds for education or retirement. Since this type of policy offers the least amount of death benefits for your money when compared to other types of insurance, endowment may not be your first choice if your primary reason for buying insurance is protection for your beneficiaries.

E. **Policy Riders**

Most life insurance policies can be modified with optional provisions called riders. These riders usually increase your premium, but may enable you to create a plan especially designed to meet your specific needs.

Accidental death benefit riders pay your beneficiary(ies) an amount in addition to the face amount of the policy if you die in an accident. Often the accidental death benefit rider has specific conditions attached, and the policy definition of "Accidental Death" should be carefully understood. For instance, the accidental death benefit may not be payable unless death occurs within 90 days of the accident. In addition, in many cases, an accidental death benefit rider will specify that the accidental death must occur before a certain age, such as 65.

Accidental death benefits may also be denied if the death was a result of voluntary participation in some hazardous sport or illegal activity, even though the event which caused the death appeared to be unintentional or accidental. Examples of this may be the insured's death due to a car accident while the insured was driving intoxicated, or death due to a skiing accident.

Accidental Death and Dismemberment riders provide additional benefits related to loss, dismemberment, or death due to an accident.

Waiver of premium riders allow you to stop paying premiums and keep your coverage in force if you become disabled and are no longer able to work, usually before age 60 or 65. Qualifying for a premium waiver may be complicated, depending upon the definition of "disability." Some companies waive premiums if you can no longer perform work duties you have always performed or you can no longer perform the work duties you are "suited to by training or experience." Other companies may require you to be unable to do any work before the company waives premiums. Also, some policies stipulate that you must be disabled for a specified period of time, usually six months, before the premium waiver begins.

Guaranteed insurability riders give you the right to purchase additional coverage at specified dates in the future and up to a certain age without having to provide evidence of insurability.

Policies usually tell you how much additional coverage you can buy and when you can buy it, such as every three years. Some guaranteed insurability riders become inoperative after age 40 or 50, the age when you are more likely to develop health problems that could make you ineligible to buy additional insurance at lower rates.

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Cost of living riders allow you to buy more insurance each year to help offset increasing insurance needs due to inflation without having to prove you are still in good physical condition. Companies limit the amount you can buy each year, sometimes to no more than 10 percent of your policy's face amount. The cost of living rider adds only small amounts of coverage. It is not an answer to the more serious adjustments you may find yourself having to make as your financial situation changes.

Accelerated benefit riders allow you to tap into your death benefit before you die if you are terminally ill or have a medical condition which drastically limits your lifespan, such as some type of chronic illness. Many people suffering from a lengthy illness, such as AIDS or cancer, find themselves financially strapped and unable to cover the growing expense of care, especially if they do not have disability insurance.

With most policies, the accelerated benefit becomes available when death is imminent, generally within 12 to 24 months. Most insurers require that both your personal physician and the company's physician certify that death is imminent.

The amount of the accelerated death benefit will vary, depending upon individual circumstances, but will usually be less than the death benefit. The remaining benefit, if any, is payable to the beneficiary upon the death of the insured. Some companies allow you to use the accelerated benefit if you have been confined to a nursing facility for at least six months and are not expected to go home. In that case, the amount of the death benefit can be substantially reduced or eliminated.

Spousal or family riders allow you the option of buying life insurance on your spouse or children. The amount of insurance you can buy varies subject to company underwriting limitations.

Life insurance serves a wide range of needs, and many life insurance benefits are paid to living policyowners.

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LIVING BENEFITS

Although life insurance is primarily protection against economic loss due to a death, some policies contain benefits that you can use during your lifetime. Life insurance serves a wide range of needs, and many life insurance benefits are paid to living policyowners.

A. **Cash Value**

As you pay your premiums, permanent insurance policies build a cash value – an amount of money to which you are entitled while you are living if you decide to borrow from or surrender (cash in) the policy. For many plans, that value increases every year the policy is in force. (Some variations of term policies also generate cash value.)

You may use the cash value as collateral and borrow money from the life insurance company at a specified rate of interest without having to qualify (credit check or justification) as you would for a normal loan from a bank. When you die, however, the face amount of the policy is reduced by any outstanding loans and interest due. A loan against your policy can be helpful in a financially tight spot, but, if the lowered face amount could cause hardship for your beneficiary, you should make every effort to pay the loan back. Furthermore, if the amount borrowed ever exceeds the total cash value because of interest accrued on the loan, the policy will lapse. An exception to this is the partial surrender feature of a universal life policy that allows you to withdraw a certain amount of the cash value without the obligation of paying it back or paying interest on it.

If you miss a premium payment, most life insurance companies allow for a 31-day grace period within which the premium may be paid without penalty and the policy still remains in effect. If you die during the grace period, the insurance company will pay the face amount, but, usually, will deduct the amount of the unpaid premium. For many policies, once that grace period is over, the policy lapses and you are no longer covered. Some policies have an automatic premium loan provision which requires the insurance company to pay automatically an overdue premium for the policyowner by making a loan against the policy's cash value. The use of the automatic premium loan provision keeps the policy in force for the full amount of coverage, including any riders or additional benefits.

5.

B. **Nonforfeiture Benefits**

The cash value of a policy may also serve other useful purposes in case the policy lapses due to nonpayment of renewal premiums. By law, a life insurance company is required to make several nonforfeiture benefits available for you to use if you stop making premium payments and the policy enters the grace period. If this happens, you can either take the cash value in cash; continue the policy in force as reduced paid-up insurance with a smaller face amount and with no further premium payments required; or continue the policy in force as extended term insurance. If you do not choose one of these options within a specified period of time, usually within 60 days from the date of lapse, an automatic option selected by the insurance company will go into effect.

If you choose the cash value option, remember that the amount of cash value actually available may not be the exact amount listed in the policy. Dividend additions, advanced premium payments, policy loans, and interest due on policy loans will result in additions to and subtractions from the listed cash value.

Under the reduced paid-up insurance option, the policy's cash value is used to buy paid-up life insurance of the same plan as the original policy. The amount of insurance which can be purchased in this manner is less than the face value of the original policy, but coverage will have the same duration. Also, the reduced paid-up coverage under this option will still allow you the right to surrender the policy for any cash value that accrues and the right to receive dividends if the original policy was on a participating basis. Generally, riders are not continued under this option.

The extended term insurance option uses the available cash value of the policy to purchase term insurance for the same face amount as the original policy. The term insurance, however, will be in effect for a shorter length of time than that provided by the original policy. Most policies specify that when the extended term option is chosen, the policy owner cannot take out loans or service dividends on the policy. Some policies may allow you to cancel the extended term insurance and surrender the policy for its remaining cash value. Generally, riders are not continued under this option.

C. **Participating and NonParticipating Policies**

Some life insurance policies are designed so that you share in the insurance company's profits, if there are any, in the form of dividends. This type of policy is called a participating policy. Policies that do not offer dividends are called nonparticipating policies.

When, during any given year, fewer claims than the company anticipated are paid, or the company's management expenses are less than anticipated, or interest earnings are greater than anticipated, these gains the company experiences give rise to dividends. Since these factors vary, however, whether a dividend, is paid or how much money you get back each year in the form of a dividend, cannot be guaranteed. Dividend payments usually begin after the policy has been in effect for two or three years and are not taxable because they represent a "return of excess premium."

A participating policy offering dividends usually has a higher premium than a nonparticipating policy. The difference in the premiums between the two types of policies, however, could be made up by the amount of dividends returned. The premium for a nonparticipating policy is lower because it is estimated as closely as possible to the company's expected cost of benefit payments, stockholder dividends, reserves, and operating costs. You can usually choose one of the following ways of receiving a dividend:

Cash Payment	The dividend is paid directly to you in cash.
Premium Reduction	The dividend is used to pay part of your premium instead of being paid directly to you. You will receive a notice from the company showing the amount of the dividend and how much premium you have left to pay if any.
Interest Option (Dividend Accumulations)	You may leave your dividends with the company to earn interest. All or part of the total amount left to accumulate may be withdrawn by you at any time. Dividends left under the interest option earn interest which is taxable.
Paid-up Addition	You may use the dividend to purchase additional life insurance on a paid-up basis on the same plan as your regular policy. This is an inexpensive way to buy additional permanent insurance without evidence of insurability.
One-year Term Insurance	Some companies allow you to use the dividend to buy one-year term insurance. Any portion of the dividend remaining may be left with the company to earn interest. Under this option, substantial additional insurance can be purchased at low rates but, like all term insurance, the coverage is temporary and gets more expensive as you get older.

Dividends may be used in many combinations, and you must determine which dividend option will serve your needs best. As circumstances change, you may change the individual option to one that better meets current needs. However, if you do not choose an option, an automatic option selected by the insurance company will go into effect.

Make sure you and your beneficiary understand and agree with the settlement options for the specific plan you are considering.

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DEATH BENEFITS

When you purchase life insurance to protect your dependents, you will be required to name a beneficiary. Many people do not give the process much thought and name a spouse and/or children. Choosing your beneficiary and keeping that choice up to date, however, is important.

A. **Choosing Your Beneficiaries**

Make sure you have designated your beneficiaries properly. For example, if you have adopted children or have children from another marriage, be sure to make your intentions clear. List beneficiaries by individual names and not by family member type, i.e. "my children." Remember to update the list as your family grows. Also, it may not be advisable to name "my estate" as the beneficiary because your surviving family may have to go through the legal process of having someone qualify before the court as a representative of your estate just to obtain the insurance benefits. One major advantage of having money coming directly from the insurance policy is that your beneficiaries do not have to wait until the estate is settled before the payment is received, and there is no federal income tax on proceeds paid to beneficiaries.

If you have a **revocable beneficiary**, you may change your choice of beneficiary at any time by complying with the policy requirements for making such a change. An **irrevocable beneficiary**, however, cannot be changed without the beneficiary's consent. Make sure you know which kind you want when you buy your policy.

It is important to note that, under Virginia law, a *revocable beneficiary designation* in a policy owned by one spouse that names the other spouse as the beneficiary will become void upon entry of a decree of annulment or divorce. As a result, the death benefit prevented from passing to a former spouse will be paid as if the former spouse had predeceased the decedent unless specific actions are taken prior to the entry of the decree of annulment or divorce. Any *irrevocable beneficiary designation will not become void* by entry of an annulment or divorce decree and will remain in full force and effect unless the beneficiary consents to a change.

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If the beneficiary you name is not living at the time of your death, the money will be paid to your estate and distributed according to your will (or according to state laws if a will has not been made). You should consider naming a **contingent** or **secondary** beneficiary – someone who will receive the policy proceeds should your primary beneficiary die before you do or be unable to receive the proceeds. Company practices vary on the number of contingent beneficiaries you can name. Check on the specific limitations when you apply for your policy.

You also may want to check for a **"uniform simultaneous death clause"** in the policy. Problems could arise if both you and your primary beneficiary die in a common disaster, such as an automobile accident. This clause allows the benefits of your policy to be paid as though your primary beneficiary died before you. The intention of this clause is to assure that the proceeds from your policy are received by someone of your choosing rather than going to your beneficiary's beneficiary.

Review your policies immediately if major changes have taken place in your life, such as the death of a beneficiary, the birth of a child, a marriage, or a divorce. Even if such events do not occur, you should review your policies at least every two years. **You must notify the insurance company if you want to change your choice of beneficiaries.** Failure to do so could result in a lengthy lawsuit between your heirs or policy proceeds not being paid to the people you want as your beneficiaries.

B. **Filing a Claim**

Keep the policy in a safe place and make sure your beneficiary knows where it is.

When the beneficiary files a claim, he or she will need a certified copy of the death certificate or some other lawful evidence of death. Some insurance companies also require that the policy be returned with the death claim. Beneficiaries must make sure that all claim forms are completed entirely and correctly. If the policy, claim forms, and copy of the death certificate are to be sent directly to the company, the beneficiary may wish to send them by certified or registered mail so that a delivery receipt is returned. If a life insurance agent is handling the paperwork, a receipt for all of the materials should be obtained. Copies should be made of all the information sent to the company.

Before a claim is paid, the company will review the file to determine:

1) whether the policy is still in force (has not lapsed); 2) whether the beneficiary is entitled to the proceeds; 3) whether the premium amount was correct in relation to the age of the person insured; 4) whether a loan against the policy is still outstanding; and 5) the cause of death, particularly if death occurs during the first two years of the policy.

While your savings and your property may be tied up legally for some time after you die, this is not the case with insurance. If everything is in order, the beneficiary usually can get the money soon after notifying the company and furnishing proof of death.

If death occurs during the first two years of a policy or within two years of a reinstatement of the policy, the company may also investigate to determine if full and complete information was given on the application.

C. **Settlement Options**

When the benefits from an insurance policy are paid, the money does not have to be taken in one lump sum. Whether the benefits are going to your beneficiary after your death, or are coming to you upon the maturity of an endowment policy, or the surrender of a policy, the method of settlement is an important matter and should be considered carefully.

The following settlement options are usually available and may be chosen at the time of the original purchase of the policy, or you may defer making a choice and leave the decision to your beneficiary. Usually, if you decide on a settlement option when you purchase the policy, you may change your choice during the term of the policy.

Interest Income	The company holds the benefits and pays interest during the lifetime of the payee (either to you, in the case of a matured endowment or a surrender for cash value, or to your beneficiary) or for some period agreed upon with your company. Interest payments are made at a rate stated by the company in your policy. The person receiving the benefits may be given the right to withdraw any or all of the money held by the company at any time.
Fixed Amount	The company holds the money and pays equal installments of an amount chosen by you or your beneficiary until all the money has been paid out. Interest is added to the unpaid balance by the company at a guaranteed rate. You or your beneficiary may be given the right to withdraw any or all of the money held by the company. This option is used when the amount of income paid each year is the most important consideration.
Fixed Period	This is similar to the fixed amount option, but the money is to be paid in equal installments over a selected period of time. This is useful when the financial need will last for a known period of time.
Life Income	The money is paid in equal installments during the lifetime of the payee, and may include a guaranteed payment period such as ten or twenty years. The amount of each installment depends on the age and sex of the person being paid.
Retained Asset Account	The beneficiary is given a “checkbook” in order to draw down on life insurance proceeds. Interest is earned on the proceeds in the account. Other payout options may earn a higher rate of interest on the proceeds. The beneficiary can draw down the entire proceeds of the account at any time. This settlement option is usually an option to the beneficiary, but some group policies might indicate this as the only payout option. In that case, the beneficiary can transfer the remaining funds by check or draft to suit his or her preference or needs. If you choose this option, you should preserve other payout options until you withdraw the entire balance or the balance falls below a certain amount. Before you consider this option, or if you are given this type of payout, you should make sure you ask questions about the interest rate and how it will be credited to the account; whether the proceeds will be held in a bank (FDIC insured), by the insurer (backed up by state guaranty fund), or elsewhere; and what banking services will be provided and at what charge.

You may wish to choose the interest income option when the policy is purchased and reserve the right for the beneficiary to elect an alternative settlement option later. Different companies and different policies will vary in their settlement practices. Make sure you and your beneficiary understand and agree with the settlement options for the specific plan you are considering.

...the state in which the master group policy was issued generally has regulatory authority over all matters relating to the insurance contract, even with respect to any insured members of the group residing in Virginia.

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OTHER TYPES OF COVERAGE

A. **Group Life Insurance**

If you are employed, you probably have this form of life insurance through your employer or union. Usually, it is term insurance (available to age 65) under which a master contract is issued to a group policyholder. As a member of the group, you receive a certificate as evidence of your coverage. For large groups, group life insurance is often issued without a medical examination or other evidence of insurability.

Your group insurance is a vital element in your total insurance coverage. But the coverage usually terminates if you cease to be a member of the group. Check to see if the plan allows you to convert to an individual policy if you leave the group or if the coverage terminates for other reasons.

Since group insurance through the workplace may not be available, do not overlook your membership in professional associations, clubs, alumni groups, unions or lodges. Find out if you can obtain life, health and disability insurance through an association that covers members. Such plans can be a cost efficient way of obtaining coverage. But be aware that group plans can also be changed or discontinued by the sponsoring group.

NOTE: Group insurance can be issued to a group policyholder located outside of the Commonwealth of Virginia. When this happens, the state in which the master group policy was issued generally has regulatory authority over all matters relating to the insurance contract, even with respect to any insured members of the group residing in Virginia. If you are covered under a group contract issued outside of Virginia and you experience problems or have questions about coverage, you will likely be referred to the Insurance Department of the state in which the group master policy was issued.

B. **Business Needs/Key Employee Insurance**

A key employee is an individual who possesses a unique ability essential to the continued success of a business firm. The death or disability of this key individual could severely handicap the company. Self-employed individuals have a need to protect their stake in the businesses for themselves and their key people. In these situations, life insurance can be used as a safeguard against financial loss to the firm caused by the death of the owner, a partner or a key employee, and may be used for other financial purposes as well.

C. **Credit Life Insurance**

This type of insurance is issued to a creditor (lender) to cover the life of the debtor (borrower) for an outstanding loan. Many people are not aware that their car loan or other loans associated with major purchases could become fully payable upon death. Credit insurance offered through lending institutions, stores, and car dealers repays the loan in the event of the debtor's death. At the time of a major credit purchase, you may be advised of this option. Please note the option to purchase credit insurance is voluntary and is ***not required to obtain a loan***.

Before you sign, be aware of any restrictions or exclusions. Some policies may not pay a benefit if it is related to a pre-existing condition or suicide. There may be age limits. Also, check to see if your existing insurance is sufficient to pay off your debts or can be increased to do so.

D. **Guaranteed Issue Insurance for Older People**

There may be times when older people see a special need for extra life insurance. If you are in good health, you can obtain life insurance at premiums that reflect your present age. However, someone in poor health that is not insurable might obtain coverage through a life insurance company that offers a guaranteed issue plan. These policies are issued with no medical questions asked. Be aware that restrictions often apply if death occurs within the first two or three years after issuance of the policy.

E. **Viatical Settlements**

A viatical settlement is a transaction where the owner of an individual life insurance policy or the certificate holder under a group insurance policy sells his/her ownership rights in the policy to a viatical settlement company. When this occurs, the owner of the policy or certificate being viaticated becomes a viator. The owner of a life insurance policy insuring an individual who is terminally or chronically ill may choose to viaticate the policy in order to access a cash settlement to pay for the insured's living and medical expenses. These transactions are not limited only to individuals with a chronic or life-threatening disease. When life insurance on a healthy insured is viaticated, the transaction is generally referred to as a life settlement.

The viatical settlement company pays the viator a percentage of the face value of the policy or certificate being viaticated, and then continues to pay the premiums on the policy. In return, the viatical settlement company becomes the sole beneficiary of the life insurance policy, and upon the death of the insured, will collect the entire amount of the policy.

Before considering a viatical settlement, a policy or certificate holder seeking to viaticate due to a terminal illness or chronic illness should check with his insurance company or agent to find out if the policy qualifies for an accelerated death benefit. See section 4, pages 25-27 for additional information. This feature provides life insurance benefits to insureds with terminal or chronic illnesses.

Buying life insurance is an important financial decision. Before you buy, you must consider the reputation and services offered by the company. Shop carefully because policies and plans differ in cost, coverage, and claims service.

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BUYING A POLICY

Buying life insurance is an important financial decision. Before you buy, you must consider the reputation and services offered by the company. Shop carefully because policies and plans differ in cost, coverage, and claims service.

A. **Finding a Company and Agent**

- Some companies employ agents or sales representatives who sell their policies. If you use an agent, make sure the agent is licensed. Ask friends or relatives if they would recommend their agent. Sometimes the agent who sold your automobile or homeowner's insurance to you can assist you with questions. Talk with the agent yourself. You must be able to communicate with your agent and get answers to your questions in language you easily can understand.
- **An agent cannot change the provisions of a policy; only the insurance company can do that.**
- Instead of using agents, some companies sell insurance directly to you. These companies often advertise their policies in newspapers, on radio and television, and by direct mail. This approach to sales is called direct response and is a method of marketing, not a type of insurance. You still are buying a life insurance policy. The major difference is that with direct response, you receive little or no personal contact, which could result in lower costs for your insurance. On the other hand, direct response companies cannot provide the counseling or other valuable services offered by a good agent. How you decide between a direct response insurance company or use of an agent representing a company may depend on how much you know about insurance and the insurance market. You are encouraged to be aware of any particular restrictions on coverage. For instance, some policies sold through direct response marketing may limit the face amount payable if death occurs within the first few years of coverage. If you know precisely what you need and what coverage you will get, and what the policy will actually provide to meet those needs, insurance bought directly from the company could save you money.

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- The convenience of shopping from the comfort of your home via the internet extends into the insurance industry. Many insurance companies' websites display a wide range of information, from marketing materials to descriptions of products to online quotes or rates. However, the basics of shopping for insurance do not change because you are on the internet. In fact, you should take extra precautions to protect your personal information:
  - **If you are using the internet, confirm that you are transmitting across a secure site. If you cannot confirm the security of the internet transaction, contact the company or agent and submit your paperwork via fax or mail.**
  - **Take extra precautions when paying with a credit card. Some credit cards may be equipped with anti-theft protections. Review your credit card agreement for anti-theft provisions.**
  - **Do not disclose private information routinely. Keep your address, telephone number, social security number, e-mail address, credit card number and medical information private unless you know who is collecting it, how it will be used and how disclosure benefits you.**
  - **Look for an online privacy policy. Many companies post privacy policies on their web sites, including how any information collected will be used and protected from improper disclosure.**
  - **Keep passwords private. Avoid using common combinations of information, like your birth date, telephone number or address.**
  - **Keep records. Print out copies of orders or any forms you fill out online or received in the mail. Make copies of any documents related to a policy, including the policy, correspondence, copies of advertisements, premium payment receipts, notes of conversations and any claims documentation.**

No matter what method is used to buy your insurance policy, the Bureau of Insurance recommends that you buy from a company licensed in Virginia, and that the policy you purchase is one that has been approved by the Bureau of Insurance. The Bureau can tell you if a company or agent is licensed in Virginia.

B. Applying for Insurance

When you buy an insurance policy, you must fill out an application and you may be asked to take a medical examination. The insurance company may check the statements you make on the application to be sure that all of the information you have given is accurate. From that application, the company will decide if it will insure you and at what premium. The completed application becomes a permanent part of the legal contract between you and your insurance company. An application which contains misstatements or leaves information out that, if you had told the truth, would have caused the company to deny you coverage or charge a higher premium, might leave you or your beneficiary with just a refund of the premiums you paid rather than the expected face amount of the policy. So, pay careful attention to your answers on the application.

If an agent fills out the application for you, reread the form carefully. Make sure that any incorrect or incomplete answers are changed before signing. You will be held responsible for the truth of the answers whether or not you actually filled them in on the application you sign.

Insurance companies will also evaluate each application for insurance to make sure that the person applying for the policy and the person who is named as the beneficiary have an insurable interest – financial or emotional – in the life of the insured. Generally, for an insurable interest to exist, the applicant and the beneficiary should be able to show that they have more to gain if the proposed insured continues to live than if the proposed insured dies. You obviously have an insurable interest in your own life and in the lives of your spouse, parent, child, grandparent, grandchild, brother or sister. However, an insurable interest must be shown when the applicant or beneficiary is more distantly related or not related at all by blood or marriage.

C. What Affects How Much You Pay

The actual amount of premium for insurance coverage depends largely on the plan you choose, your health status, your age, and often your sex. The plan of insurance is your choice. However, the degree to which your physical condition and age affect how you are classified as an insurable risk is determined by the insurance company.

Different companies use different guidelines in rating a person, so you will want to shop around and compare how much the plan you choose will cost. If you are listed as substandard or even uninsurable by one company, you should try another, because underwriting standards vary between companies. If you have a medical problem and cannot find a company that will insure you, talk with your doctor to find out whether treatments may improve your conditions enough to meet insurance company standards, or at least to qualify you as a “special risk.”

There are some insurance companies that will take all risks; in other words, they will insure you regardless of your health condition. Usually, however, they will only pay the total premium paid, rather than the policy’s face amount, if you die within the first year or two after the policy is issued. Your premiums will be higher because of your health.

On the other hand, some companies offer discounts to people who do not smoke or who have regular medical check-ups and participate in physical fitness programs, such as jogging or other aerobic exercises. If you fall into this risk category, ask if the company offers a preferred rate.

An additional factor affecting how much your insurance will cost is the frequency of your premium payments. When you buy a life insurance policy, you usually have a choice of how often to pay the premium – annually, semi-annually, quarterly, monthly, or sometimes, even weekly payments. Most companies have minimum premium payment requirements and may accept only quarterly or even semi-annually premium payments. Usually, the more frequent the payments, the greater the cost. For example, three monthly premiums would cost more than one quarterly premium. In part, this additional cost is caused by the company’s extra expenses for additional paperwork as a result of an increased number of payments.

Some companies offer an automatic payment option such as the preauthorized check (PAC) method. The PAC option allows the policyowner to authorize the company to generate checks against the policyowner’s bank account for payment when premiums are due. This method of payment may result in reduced administrative expenses for the company on monthly and quarterly premium payment modes. Instances of a policyowner forgetting to pay the premium would also be reduced. You should ask your agent or company for a description of all premium payment options available so that you may decide which premium payment option is best for you.

D. **Comparing Policies**

Assuming that your health is good and that you will be classified as standard or even preferred by most insurance companies, you are in control to choose the policy and company you prefer. If you have identified your needs and the type of insurance plan that would match them, you now are ready to shop around for the best buy.

Remember three points when comparing the cost of policies:

- **make cost comparisons only among similar policies that offer the same basic benefits and require premium payments for the same length of time;**
- **examine the costs only for the kind of policy, for your age group, and for the amount you intend to buy. No one company can offer the lowest cost for all types of insurance, at all ages, and for all amounts; and**
- **base your choice on something besides cost if you find only small differences between policies; consider factors such as unique policy features, quality of company service and quality of agent service.**

Cost is a consideration, but should not be the only factor when you are choosing a policy. Are all of the options you want available? If you buy term insurance and your need is expected to last beyond the term period, make sure the policy is renewable or convertible to a permanent policy. There is more to a good insurance buy than the amount of premium alone. Carefully examine the policy that "sounds too good to be true." If a plan does not have what you need or has more than what you need, continue shopping!

E. **Free 10-Day Look**

Virginia law requires that individual life insurance policies provide at least a 10-day period to examine your life insurance policy after you receive it. Many individual annuity products offer this feature as well. During this "free look" period, read the policy carefully. If you decide you do not want to keep it, you can return it for a refund of the premium you already paid, and the policy will be considered void from the beginning. If the policy is not satisfactory to you, return it at once and get a dated receipt from the agent to whom you returned it, or a postal receipt if you mailed it directly to the insurance company.

If you were buying a new car, you would expect to spend several weekends deciding what kind of car you wanted and where you could get the most for your money. As a smart shopper, of course, you want the policy that gives you the best buy.

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SHOPPING TIPS

When you are ready to buy insurance, consider the following shopping tips:

- Decide how much insurance you need and the length of time the protection is needed. Then decide what type or combination of types of insurance plans best serve your needs. (see Sections 3, 4, and 5)
- Look for a policy with a premium you can afford. Buying a policy that you let lapse within the first few years of your purchase is expensive. If you do not expect to need insurance for more than a few years, term insurance may be the most economical. (see Sections 4 and 8)
- Shop around. Comparing the costs of similar policies from different companies is extremely important. Beware of promises of large financial awards or other sales gimmicks used to obtain your business. You should shop for life insurance the way you shop for anything else that costs a considerable amount of money and is important to your family's welfare. This will take time. If you were buying a new car, you would expect to spend several weekends deciding what kind of car you wanted and where you could get the most for your money. As a smart shopper, of course, you want the policy that gives you the best buy. (see Section 8)
- Examine the benefits built into your policy. If your policy has conversion or renewal options, disability waivers or accidental death benefits, be sure you know how these benefits work and how much they cost. Remember that a life insurance policy is a legal contract, and the only conditions under which claims can be paid are those which are written into the contract. (see Sections 4 and 5)
- Since life insurance death benefits will not be paid to you, the settlement options should be explained to the beneficiary. Make sure your beneficiary knows the proper procedure for filing a claim and where the policy is kept. (see Section 6)
- Select a sound company. Although buying through an agent is optional, the advantages are that an agent would make suggestions about how much insurance you need; what policy is best for you; and what the legal language of policy options means for you. On the other hand, if you know exactly what you want, you may save money by dealing with a direct-response insurer. (see Section 8)

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- Check with the Bureau of Insurance to see if the insurance company and the agent are licensed to do business in Virginia. (see Section 8)
- Examine the policy carefully. Be sure it provides you with benefits you want, need, and can afford. (see Sections 3, 4, and 8)
- Carefully review the copy of your application contained in your policy. You should report any errors or omissions to your company or agent. (see Section 8)
- Do not pay cash for any policy. Make your payments by check, money order, or bank draft payable to the insurance company, not the agent or anyone else. Be sure to get the name, address, and telephone number of the agent and company. Obtain a local or toll-free number (if the company has one) so you can contact the company. (see Section 8)
- **Use the "free-look" provision.** Individual life insurance policies issued in Virginia must contain a provision that allows you to return the policy to the company in at least the first 10 days after you receive your policy. If you decide you do not want the policy after you purchase it, you can cancel the policy and get your money back if you notify the company within a certain number of days after the policy is delivered. If the possibility exists for the policy to be cancelled, keep the envelope the policy was mailed in or insist your agent give you a signed receipt when he or she hands you the policy. If you decide to return the policy, send it to the insurance company along with a brief letter asking for a refund. Send both the policy and letter by certified mail and get a mailing receipt. Keep a copy of all correspondence. Contact the Bureau of Insurance if you have a problem getting a refund. (see Section 8)
- Decide how you want to pay premiums. If you pay monthly, quarterly, or semi-annually, rather than annually, there will be additional charges, in part because of the insurance company's added time to administer the paperwork, unless you use an automatic payment option. Many companies also make arrangements for having the premiums automatically deducted from your checking account or, if your employer agrees, from your salary, so that you do not have to worry about forgetting a payment. (see Section 8)
- Reassess your life insurance needs frequently. Remember that your needs will change as the number of dependents and income change. Check periodically to see whether the beneficiary named in your policy is still your choice. (see Section 3)
- Contact your original agent or company before making any decisions on whether to replace an existing policy with a new policy. Surrendering your current policy in order to purchase a new one could be very costly.

- Check the rating of the company. Ask the reference section of your local public library for publications that summarize an insurance company's claims paying practices, financial rating and strength. These can be helpful as an additional source of information. (see Section 8)
- MOST IMPORTANTLY, DO NOT BE AFRAID TO ASK QUESTIONS. MAKE SURE YOU UNDERSTAND EXACTLY WHAT THE POLICY CAN AND CANNOT DO FOR YOU.

Ask questions! Talk to your agent or company. Do not feel pressured or intimidated to sign an application for a policy until you are comfortable with your decision.

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FREQUENTLY ASKED QUESTIONS

Q. Is it wise to replace an existing policy with a new one?

A. Not always; be cautious about switching policies. If you already have a permanent policy in force, dropping it for another permanent policy may not pay off because the cash value builds up faster as the policy gets older. Also, a life insurance policy becomes incontestable after two years. That means that, by law, an insurance company must pay a death claim even if there may have been mistaken information used to obtain coverage unless fraud can be proven. If you are considering a replacement policy, you want to ask for a written comparison of the replacement policy with the original. Also, you should consider contacting your present agent or insurer before you decide to switch. They may be able to meet or beat the offer of the replacing insurer with new or updated products that they have available now.

Q. How do I reinstate a lapsed policy?

A. Reinstatement of a life insurance policy is the process by which a life insurance company puts back in force a policy which had terminated because of nonpayment of premiums. If you are accepted for reinstatement, you should expect to pay all of the premiums missed, with interest, and furnish evidence that you are still insurable. The time allowed for reinstatement after a policy lapses varies among companies, but it is usually not less than three years. One advantage to reinstating the original policy rather than applying for a new one is the premium rate for the original policy is based on your age at the time that the policy was purchased. The rates for a new policy will be based on your current, older age. In addition, the original policy may contain provisions which are more appealing. For instance, the interest rate for a policy loan on the original policy may be lower than what you could get under a new policy. Also, the reinstated policy will be contestable only as to statements made in the reinstatement application, providing the original contestable period has expired.

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Q. How can I decide whether to buy an annuity?

A. Decide whether your retirement plan will be sufficient to meet your increased needs in later years. If you have a good pension plan or a large savings account, you may not need an additional financial source for retirement. As with all plans of insurance, make sure you really need the annuity and will keep it. Some insurance companies charge a penalty, called a surrender charge, if you decide to cancel the annuity in the early years.

Q. Can my beneficiary still collect Social Security if he or she receives monthly payments from my life insurance policy?

A. Yes, according to law, monthly life insurance payments will not disqualify the beneficiary from receiving full Social Security payments.

Q. After reading this Guide, what if I still do not understand something in my life insurance policy?

A. Ask questions! Talk to your agent or company. Do not feel pressured or intimidated to sign an application for a policy until you are comfortable with your decision.

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If you believe an insurance company has improperly refused to issue or renew your policy, or refused to pay a valid claim, you have the right to question and complain.

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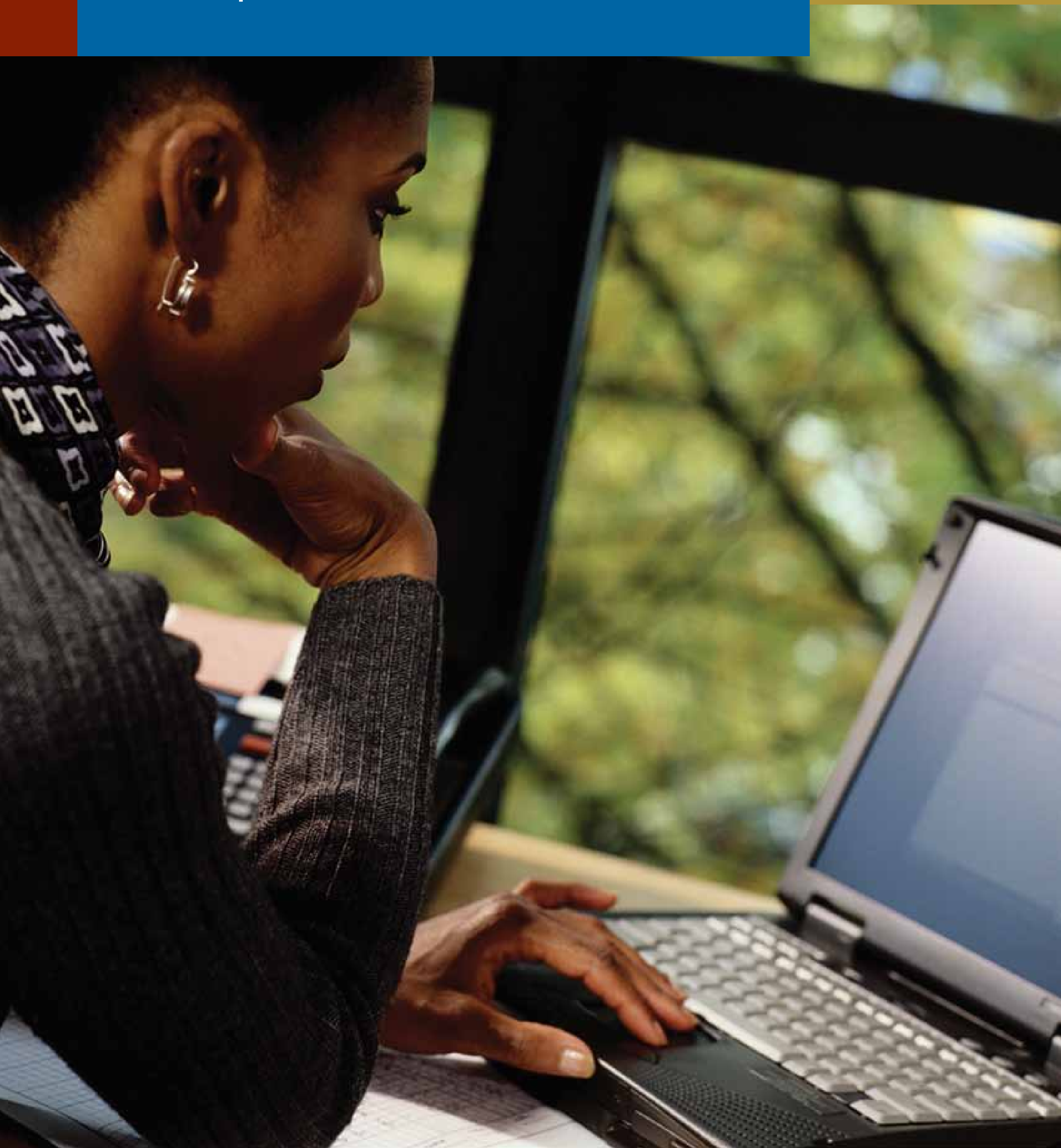

11.

WHEN A PROBLEM OCCURS

Know your rights. There are special laws that regulate insurance company practices so that consumers are protected. For instance, insurance companies are not allowed to discriminate unfairly in the rates they charge. They must pay claims promptly and fairly. They also have to allow you access to certain information they have collected, including information on adverse underwriting decisions. (An adverse underwriting decision is an action taken by a company or agent to: 1) refuse you coverage, 2) terminate your coverage, or 3) offer you the coverage you applied for at a higher premium rate than was quoted to you when you applied.) For example, if you apply for insurance and are refused coverage, the insurance company must give specific reasons.

If a problem does arise, contact your agent or company first. If you believe an insurance company has improperly refused to issue or renew your policy, or refused to pay a valid claim, you have a right to question and complain. Many times, a mistake has been made and just needs to be brought to the company's attention.

When contacting an agent or company about a problem, be prepared to provide:

Your name

Your address

Your telephone number

Your policy number

The type of policy

The nature of your complaint

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A written complaint is best; always keep a photocopy of your letter. If you decide, however, to complain by telephone, always keep a written record of:

1) the date and time you called;
2) who you talked with at the company; and
3) what was said during the course of the call.

If you do not receive a prompt and satisfactory response from your agent or insurance company, you may need help from the Bureau of Insurance to resolve your problem. The Bureau will investigate your complaint, attempt to correct any misunderstandings about your coverage, and make sure you get clear responses to your questions. The Bureau, however, cannot force an insurer to pay a claim or issue a policy, especially where there is a legal or contractual issue involved or where the terms of your policy do not provide for the coverage to which you believe you are entitled. It is also important to understand that the Bureau cannot provide legal advice or services sometimes required to settle complicated problems. If the facts are on your side, the Bureau will make every effort to see that your problem is resolved in a satisfactory manner.

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