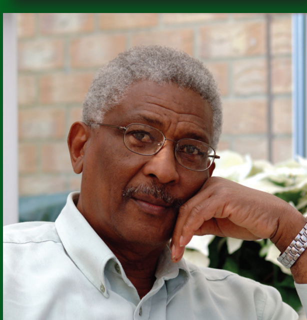
A CONSUMER GUIDE TO

LIFE INSURANCE



Maryland

INSURANCE ADMINISTRATION

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LIFE INSURANCE

Maryland

INSURANCE ADMINISTRATION

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WHO WE ARE

The Maryland Insurance Administration is the state agency that regulates the business of insurance in Maryland. If you are having a problem related to insurance, the MIA will try to help you solve it.

HOW WE HELP CONSUMERS

We provide assistance to consumers, businesses, health care providers (doctors and hospitals) and producers (agents and/or brokers) in all areas of insurance. This includes life, health, disability, automobile, homeowners, and property.

- We can provide you with answers to your general insurance questions and suggest actions or processes that you may follow to address and resolve your insurance questions or problems, as well as questions you should ask when shopping for insurance.
- We can provide you with educational materials (such as homeowners and automobile consumer guides) to help you understand different types of coverages and your policy rights and obligations.
- We can provide you with guides to help you compare rates among insurance companies writing automobile, homeowners, and health coverage for small employers, as well as for Medicare supplement insurance policies.
- We may be able to investigate any circumstance that you bring to our attention, in writing, to ensure that the companies and individuals engaged in the business of insurance comply with Maryland laws and regulations.
- We may be able to investigate written allegations that your insurance carrier, insurance producer (agent) or other entity engaged in the business of insurance:
  - did not pay or authorize payment for medically necessary services
  - has improperly denied or delayed payment of all or some portion of your claim

- has improperly terminated your insurance policy
- has improperly raised your insurance premiums
- has made false statements to you in connection with the sale of insurance or the processing of insurance claims
- overcharged you for services, including premium finance charges.

RESOURCES FOR CONSUMERS

The MIA produces consumer guides, rate comparisons and frequently asked questions related to various types of insurance. The following is a sample list of available publications:

- *Consumer's Guide to Homeowners Insurance*
- *Consumer's Guide to Automobile Insurance*
- *Annual Premiums for Medicare Supplement Policies*
- *An Insurance Preparedness Guide to Natural Disasters.*

You can access this information in several ways:

- Download from our website, *www.insurance.maryland.gov*, on the *Consumer Publications* page.
- Call or write to us and we will mail copies to you.
- Visit our booth at any number of community events around Maryland.
- Find these printed materials at various state and local agencies.

LIFE INSURANCE BASICS

THE NEED FOR LIFE INSURANCE

Your need for life insurance varies with your age and family responsibilities. It is a very important part of financial planning. There are several reasons to purchase life insurance. You may need to replace income that would be lost with the death of a wage earner. You may want to make sure your dependents do not incur significant debt when you die. Life insurance may allow them to protect assets versus selling them to pay outstanding bills or taxes.

Consumers should consider the following factors when purchasing life insurance:

- Medical expenses incurred prior to death, burial costs and estate taxes;
- Support while surviving family members try to secure employment; and
- Monthly bills and expenses, day-care costs, college tuition and retirement.

CHOOSING THE RIGHT AMOUNT

Some insurance experts suggest that you purchase five to eight times your current income. However, it is better to ask yourself these questions to determine a more accurate amount:

- How much of the family income do I provide?
- If I were to die, how would my survivors, especially my children, get by?
- Does anyone else depend on me financially, such as a parent, grandparent, brother or sister?
- Do I have children for whom I would like to set aside money so they can finish their education in the event of my death?
- How will my family pay final expenses and repay debts after my death?
- Do I have family members or organizations to whom I would like to leave money?
- Will there be estate taxes to pay after my death?
- How will inflation affect future needs?

TYPES OF LIFE INSURANCE

All policies are not the same. Some provide coverage for your lifetime and others cover you for a specific number of years. Some build up cash values and others do not. Some policies combine different kinds of insurance, and others let you change from one kind of insurance to another. Some policies may offer other benefits while you are still living. There are two basic types of life insurance: term insurance and permanent insurance.

TERM INSURANCE

Term insurance covers you for a term of one or more years. It pays a death benefit only if you die in that term. Term insurance generally offers the largest insurance protection for your premium dollar, but generally does not build up cash value to use in the future.

Term insurance generally has lower premiums in the early years. You may combine cash value life insurance with term insurance for the stage of life when you most need to replace income with life insurance for your survivors.

You can renew most term insurance policies for one or more terms, even if your health has changed. Each time you renew the policy for a new term, the premium may be higher. Ask what the premiums will be if you continue to renew the policy and whether you will lose the right to renew the policy at a certain age. For a higher premium, some companies offer you the right to keep the policy "in force" for a guaranteed period at the same price each year. At the end of that time, you may need to pass a physical examination to continue coverage and premiums may increase.

You may be able to trade term insurance policy(ies) for a cash-value policy during a conversion period even if you are not in good health. Premiums for the new policy will be higher than you have been paying for the term insurance.

PERMANENT INSURANCE

Permanent insurance (which includes types such as universal life, variable universal life and whole life) provides long-term financial protection. These policies include both a death benefit and, in some cases, cash savings. Because of the savings element, premiums tend to be higher.

TIPS ON BUYING LIFE INSURANCE

- Make sure you feel confident in the insurance agent and company and verify that they are appropriately licensed with the Maryland Insurance Administration.
- Decide how much you need, for how long, and what you can afford to pay.
- Learn what kinds of policies provide the benefits you need and pick the one that is best for you.

- Do not sign an application until you carefully review it to be sure the answers are complete and accurate.
- Avoid buying life insurance unless you intend to stick with your financial plan. It may be very costly if you quit during the early years of the policy.
- When you buy a policy, make the check payable to the company, not the agent.

FREQUENTLY ASKED QUESTIONS

GENERAL LIFE INSURANCE QUESTIONS

WHO CAN TAKE OUT A POLICY ON MY LIFE?

Only someone who has an "insurable interest" can purchase an insurance policy on your life. That means a stranger cannot buy a policy to insure your life. People with an insurable interest generally include members of your immediate family. In some circumstances, your employer or business partner might also have an insurable interest.

Insurable interest also may be proper for institutions or people who become your major creditors.

MUST MY BENEFICIARY HAVE AN INSURABLE INTEREST?

No. If you buy a policy on your own life, you become the owner of the policy. As the owner, you can name anyone as beneficiary – even a stranger!

WHAT ABOUT COMPANIES THAT ADVERTISE "NO PHYSICAL EXAM?"

The insurance may be more expensive than if the company required a physical. Although there is no physical, you will probably have to answer a few, broad health questions on your application.

SOME LIFE INSURANCE ADS CLAIM "YOU CANNOT BE TURNED DOWN." WHAT'S THE CATCH?

Such ads are referring to "guaranteed issue" policies, where the company asks no health history questions. The company knows it is taking a risk because people with bad health could buy their policies. The company balances the risk by charging higher premiums or by limiting the amount of insurance you can buy. The premiums can be almost as much as the insurance. After a few years, you could pay more to the insurance company than it will have to pay to your beneficiary. Such policies may offer only the return of your premiums if you die within the first couple of years after you buy the policy.

TERM LIFE INSURANCE QUESTIONS

WHY IS TERM LIFE INSURANCE OFTEN CALLED "TEMPORARY" INSURANCE?

Insurance agents sometimes refer to term insurance as "temporary," because the term policy lasts only for a specific period. It is probably no more "temporary" than your auto or homeowner insurance. Just like term, those types of policies provide coverage for a specific period of time, and must be renewed when that period ends.

WHY ARE SOME INSURANCE AGENTS RELUCTANT TO SELL TERM INSURANCE?

Some agents believe term coverage is risky because buying a policy in the future could be difficult if your health deteriorates or you cannot afford the higher premiums. Commissions also could be a reason for an agent to discourage a term policy. The agent often makes less money for selling term than for other forms of life insurance.

WHAT DO I GET WHEN I BUY TERM INSURANCE?

You have bought and received the company's guarantee that if you die during the term of the policy, it will pay a death benefit to your beneficiary.

DO I GET ANY BENEFIT IF I DON'T DIE?

The policy will not pay any benefits if you do not die within the covered term, but some people think that the peace of mind that comes with buying such a policy is a benefit in and of itself. With term life insurance, if you die during the term, you know the company will pay your beneficiaries.

AN INSURANCE AGENT HAS SUGGESTED THAT I BUY TERM INSTEAD OF WHOLE LIFE. DOES IT MAKE SENSE TO BUY TERM AND INVEST THE DIFFERENCE?

It depends on the circumstances, including your goals, financial resources, the policy terms and conditions. You should consider these factors as well as the following in making your decision:

- As you get older, term premiums increase to keep up with the cost of insurance;
- By investing the difference, you could use your investment to pay the higher cost of insurance in the future;
- Spending the difference may cause you to dip into other savings to pay higher premiums; and
- If your health deteriorates, you may not be able to buy a new policy.
- Whether a permanent life insurance policy better fits your needs.

AN INSURANCE AGENT HAS SUGGESTED I SWITCH TERM COMPANIES EVERY COUPLE OF YEARS TO TAKE ADVANTAGE OF THE COMPANY'S PROMOTIONAL RATES IN THE FIRST COUPLE OF YEARS. IS THERE ANYTHING WRONG WITH THAT?

Although you are free to switch companies, you should be aware that when you switch policies, you start a new two-year contestability period any time you switch. If you die during that two-year period, the insurance company can (and probably will) investigate the statements you made on your application. If you've given inaccurate or incomplete answers, the company may (and probably will) refuse to pay the death benefit.

PERMANENT LIFE INSURANCE QUESTIONS

HOW MUCH CASH VALUE IS IN MY POLICY?

Read your policy. It has a table of cash values that should provide the answer. Call your agent if you are still not sure of the cash value amount.

WHAT HAPPENS TO THE CASH VALUE IN MY POLICY WHEN I DIE?

When you die, the insurance company will pay the death benefit. No matter how much cash value you may have had in the policy the moment before you died, your beneficiaries can collect no more than the stated death benefit. Any loans (including interest) taken out against the policy that you have not repaid will be subtracted from the death benefit.

The result: your beneficiary could wind up with less than the face amount of the policy.

The exception: some whole life policies pay both the death benefit and the cash value when you die.

WHEN I BOUGHT MY LIFE INSURANCE POLICY, THE AGENT SAID IT WOULD BE "PAID UP" AFTER 10 YEARS, BUT IT'S BEEN THAT LONG AND I'M STILL GETTING BILLS. WHY?

Your contract (insurance policy) may provide for guaranteed interest rates and/or dividends the insurance company will pay on your premiums. The company must stand behind items that are guaranteed in the contract. Usually your premiums must make very high earnings before they will "pay up" your policy. Promises of "paid up" life insurance are illegal when based on non-guaranteed values. If you have documentation of the agent's promise, the Maryland Insurance Administration may be able to help. Documentation would include any material in writing containing the promise -- even an informal, handwritten note or a similar notation by the agent.

I UNDERSTAND MY PERMANENT POLICY WOULD BE "FULLY PAID UP" AT AGE 65. WHAT DOES THAT MEAN?

"Fully paid up" means that you have made enough premium payments to cover the cost of insurance for the rest of your life.

WHAT HAPPENS TO THE CASH VALUE AFTER THE POLICY IS FULLY PAID UP?

The company plans to use the cash value to pay premiums until you die. If you take cash value out, there may not be enough to pay premiums. The company could require you to resume paying premiums, or reduce the amount of the death benefit to an amount that the remaining cash value will support.

I HAD A POLICY THAT WAS PAID UP; NOW I'M TOLD I DON'T. WHAT CAN I DO?

You may have signed papers that permitted the cash value of your paid-up policy to be used to pay for another, larger policy. If you're not sure or can't remember, call the insurance company.

WHAT IS A "PARTICIPATING" POLICY?

That is a policy that may pay you dividends. You have a chance to "participate" in the company's earnings. A life insurance dividend is actually a refund of part of your premium. When a company collects more money in premiums than it needs to pay death claims and maintain the insurance pool for future claims, the company may pay dividends at the end of that year.

FOR 10 YEARS, I PAID THE INSURANCE COMPANY $1,000 EVERY YEAR. THAT'S $10,000! BUT WHEN I CASHED IN THE POLICY, THEY SENT ME ONLY $5,800. WHERE DID THE REST OF MY MONEY GO?

The rest of the money paid for insurance. You were only entitled to the cash surrender value — that is, the amount you had paid to "pre-fund" insurance in your old age. The amount would have been even less if you had borrowed money that had not yet been repaid.

CONSIDERATIONS BEFORE YOU SELL YOUR LIFE INSURANCE POLICY

More and more, consumers are discussing the possibility of selling their life insurance policies. Before you decide to sell your policy, you should consider several factors. Before you sign anything, meet with your financial advisor, accountant, estate planner or tax advisor, so you can find out the tax and investment implications of your decision.

Arrangements to sell insurance policies have a number of different names. They are most frequently referred to as **viatical settlements or life settlements**. In these agreements, the owner of the policy sells the policy to a life settlement company, sometimes referred to as a viatical settlement provider, for cash. The amount paid will be more than the policy's cash surrender value but less than the death benefit.

These arrangements were developed initially for people with life-threatening illnesses; however, they are now also being used when:

- the life insurance policy is no longer needed or wanted;
- the premium payments have become unaffordable;
- the policyholder is considering surrender of the policy;
- the policy is about to lapse;
- there is a change in estate planning needs, financial circumstances or life circumstances, such as divorce or death; or
- the policyholder needs funds to pay for health care or long-term care.

In these transactions, the existing policy is purchased by a life settlement company that either holds the policy to maturity, pays the required premiums and collects the net death benefit or resells the policy – or sells interests in multiple, bundled policies – to hedge funds or other investors.

Maryland law requires that brokers who sell viatical settlements and life settlements have a license to sell life insurance from the Maryland Insurance Administration (MIA) and that they are registered with the MIA. A list of registered brokers and settlement companies is available on the MIA's website at *www.insurance.maryland.gov.* Remember, the broker works for you and has a duty to look out for your best interest.

FREQUENTLY ASKED QUESTIONS

HOW MUCH MONEY WILL I GET IF I ENTER INTO ONE OF THESE ARRANGEMENTS?

The amount of money you receive will depend upon a number of factors, including your age and medical condition, the type of life insurance policy (e.g., universal life, whole life, term), amount of the death benefit, dollar amount of premiums necessary to keep the policy in force, and amount of compensation the life settlement broker receives. You should contact several brokers or companies before selling your policy to obtain the best offer. If you have a life insurance policy with a cash value, the amount you receive should be greater than the cash surrender value of your policy. You should contact your insurance company if you do not know the cash surrender value of your policy.

SHOULD I DO ANYTHING TO PROTECT MY MONEY WHEN I AGREE TO SELL MY POLICY?

You should require the broker to put your settlement proceeds into an independent escrow account to protect your funds during the transfer.

WILL MY PRIVACY BE MAINTAINED?

During the application process, you will be required to sign an authorization releasing your medical and other personal information to potential buyers (i.e. life settlement companies). You also may be asked periodically to update your health status information. Once this information is obtained, it may be shared with other parties, including lenders or third party investors. Be sure to carefully read your application, contract and all other material you receive to determine what procedures the life settlement company uses to maintain and protect the confidentiality of your personal information.

Before you agree to the release of your medical and personal information, you should know who is involved in the transaction and thoroughly check them out. If you negotiate through a life settlement broker, find out the name of the life settlement company involved in the transaction. You should also inquire about the privacy policy of all parties involved in the transaction.

ARE THE PROCEEDS I RECEIVED TAXED?

You may incur tax consequences from the transaction. You should consult a tax advisor and/or financial advisor to review any potential tax consequences from the transaction before you sign anything. The sale of your policy also may impact your ability to receive state or federal public assistance, including Medicaid. Also, you should ask whether any of your creditors could make a claim against your settlement. You should talk with the government agency assisting you to see if the settlement will impact your assistance.

WHAT ARE THE TRANSACTION COSTS?

The commissions paid to the brokers and other financial professionals involved in the transaction can be as high as 30 percent. You should ask your broker how he is compensated and what his rate is, as well as whether any other parties will be paid a commission and what the commission rates are for those persons. Brokers also are required to disclose to you all offers, counteroffers, acceptances and rejections relating to the sale of your policy within 72 hours of their receipt by the broker. Under Maryland law, brokers are required to explain in writing, within 72 hours before the contract is signed by all parties, the amount of the broker's compensation and how it is calculated. Also, you should be careful when brokers pressure you to use the proceeds from the settlement to purchase another insurance product. In many instances, the broker will be able to earn two commissions from this type of arrangement.

ARE THERE OTHER OPTIONS AVAILABLE BESIDES SELLING MY POLICY?

Maryland law requires that the broker or life settlement company disclose alternatives to the settlement contract including accelerated death benefits, policy loans or the surrender of the policy for its cash value. Before agreeing to sell your policy, you should discuss all of the options with a financial advisor to see which is best for you.

WILL I BE ABLE TO PURCHASE ANOTHER LIFE INSURANCE POLICY IF I SELL MY CURRENT POLICY OR ENTER A STOLI ARRANGEMENT?

If you are considering buying a new policy with the proceeds of the life settlement, you will need to determine whether you will be able to get a new policy with equivalent coverage and at what cost. Although you will not be the owner, your old policy will still be in force and thus, your ability to get additional coverage may be affected. Even if you can get a new policy, you may have to pay higher premiums because of your age or changes in your health status. If your goal is to retain coverage but lower the premiums you pay or otherwise obtain different features, consider options such as reducing your existing amount of policy coverage or making a "1035 Exchange."

The Internal Revenue Service allows you to exchange an insurance policy that you own for a new life insurance policy insuring the same person without paying tax on the investment gains earned on your original contract – which could be a substantial benefit. Because this transaction is governed by Section 1035 of the Internal Revenue Code, it is called a "1035 Exchange." Other factors you should consider when deciding whether to exchange your policy include potential loss of death benefits for your beneficiaries. For more information, consult your financial or tax advisor.

WHAT IF I CHANGE MY MIND?

By law, you have the right to change your mind and rescind the transaction within 15 days of receiving the cash payment. If you change your mind within 15 days, all money must be returned by all parties.

INFORMATION FOR BENEFICIARIES

RETAINED ASSET ACCOUNTS AND OTHER PAYMENT OPTIONS

While life insurance policies provide for a single payment of the death benefit, policies also may offer other payout options intended to fit your needs and those of your family, such as a **Retained Asset Account (RAA)**.

An RAA is a temporary repository of funds. The account's function is to give you, the beneficiary, the time needed to consider all of the financial options available. The payment of the total proceeds will be accomplished by delivery of a "checkbook." While the documents you receive might look like a checkbook, they might be "drafts," which differ from checks in some ways.

The use of an RAA provides you the flexibility to make the right decision regarding your long-term financial needs while earning interest on the life insurance proceeds. You can choose to write one check or draft to access the entire proceeds at any time. However, you may be able to earn a higher rate of interest on the life insurance proceeds if you select a different payout option.

QUESTIONS TO ASK AND ISSUES TO UNDERSTAND

If you are considering the option of an RAA or are provided one to settle a death claim, here are some important issues to consider:

- What interest rate will be paid on the proceeds, how will the interest rate be determined, and how will the interest amount be credited to the account?
- Will the proceeds be held in a bank, which would make the proceeds FDIC- insured up to the limit permitted by law?
- Will the proceeds be held by the insurer, which would make the proceeds subject to coverage by a state guaranty fund should the insurer fail?
- Will the proceeds be held in a bank checking or an insurer draft account and what banking services, if any, will be provided?
- What services will be provided at no charge, and what services will involve a fee?

MARYLAND LAW

Maryland has taken action to require insurers to give you the information you need to decide if an RAA is the right option for you. If an RAA is offered to a beneficiary as a settlement option, there must be at least one other option offered, and the disclosure must describe all options available. In addition, the insurer is required to give the beneficiary important information about the features of the banking services available through the RAA. At the time of the payout, the insurance company must:

a) Recommend that the beneficiary consult with a tax advisor, an investment advisor or a financial advisor about the tax consequences and investment options.
b) Explain the features of the retained asset account, including:
    1) interest rates and any other dividends that may be paid;
    2) the method the insurer uses to determine the interest rates applied to the RAA;
    3) who is the custodian of the funds;
    4) whether the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC);

5) any limitations on withdraws of any funds;
6) any fees that you are responsible for;
7) how often you will receive a statement;
8) a statement that the beneficiary can get the entire amount due at one time;
9) a statement that the insurer may invest the proceeds of the beneficiary and earn money from that investment; and
10) how to obtain additional information, including the telephone number and website.

OTHER PAYOUT OPTIONS

One size does not fit all; this is why various payout options are offered. Other payout options may include one or more of the following:

Single Payment, also known as a "Lump Sum" Payout: Through this option, you will receive the entire proceeds in one payment.

Installment Payout for Fixed Amount or Period: Through this option, you may choose to receive either: a fixed monthly, quarterly, or annual payment amount selected by you until the proceeds are depleted; or a fixed monthly, quarterly, or annual payment amount determined by your insurer for a fixed period of time that you select.

Installment Payout for Lifetime: Through this option, you will receive fixed monthly, quarterly, or annual payments determined by your insurer for the remainder of your life.

Interest-Only Payout: Through this option, proceeds are left with the insurance company, and you will receive interest payments that the insurer will pay you on a monthly, quarterly, or annual basis. If you choose this option, be sure you understand whether the interest rate is fixed or variable, and if there are any guaranteed minimums or maximum limits. Proceeds are passed on to your beneficiaries upon your death.

TIPS REGARDING LIFE INSURANCE PAYOUTS

- If you are the beneficiary of a life insurance policy, contact the insurance company in a timely manner after the death of the insured. Be prepared to provide a death certificate to initiate the claims process.
- Always obtain the necessary contact information for your insurance company, such as a phone number and address, so you can receive information and answers to your questions.
- Make sure you read and understand all information the insurance company sends to you.
- Assess your financial needs and the tax implications of whichever option you choose.
- Take your time in determining the right payout option for you. You should not be pressured to act quickly.
- If you need help, consult a trusted financial or tax advisor.

IDENTIFYING MISSING OR OLD LIFE INSURANCE POLICIES

A common question is: "How can I find out if a deceased family member has any life insurance if a policy cannot be located?"

Look through all of the deceased's personal papers including the bank accounts, bills for evidence of existing policies. Don't forget to check safety deposit boxes or their on-line accounts.

You should also contact any insurance professionals, financial advisors and prior employers, professional organizations, unions or other groups to see if they know of any existing polices. You may need to know the deceased's full name (and maiden name, if applicable), Social Security number, and state (or possible states) where the deceased may have purchased the policy.

If you are able to find the name of an insurance company, then you can contact the company to see if the deceased had a policy with them. The MIA can provide you with the phone number and address of the company if you are unable to otherwise find them. Also, if you locate an old policy but the company that issued it is no longer in business, you can find out what insurance company is now responsible for that policy by contacting us.

Also the National Association of Insurance Commissioners (NAIC) can assist consumers in locating life insurance policies and annuity contracts of a deceased family member or close relationship. When a request is received, the NAIC will:

- Ask participating companies to search their records to determine whether they have a life insurance policy or annuity contract in the name of the deceased.
- Ask participating companies that have policy information to respond to the requester if the requester is the designated beneficiary or is authorized to receive information.
- For information on how to complete the request form, please see the *Frequently Asked Questions* at: *https://eapps.naic.org/common_web/life_insurance_policy_locator_faq.pdf.*

SPECIAL CONSIDERATIONS FOR MILITARY PERSONNEL

For military personnel and their families, handling personal matters such as insurance coverage and other financial obligations can be made more difficult because of sudden deployment. Knowing who to trust and which questions to ask can be challenging too.

The Maryland Insurance Administration has created a guide, *Life Insurance for Military Personnel,* to assist you with these efforts. The Guide provides purchasing tips (such as inquiring about any war exclusions found in many commercial insurance policies), contact information, and frequently asked questions about life insurance. The Guide also includes warning signs regarding deceptive and fraudulent sales practices.

You can access this Guide on the agency website for more details.

People with disabilities may request this document in an alternative format. Requests should be submitted in writing to the Director of Communications at the address listed below.

Maryland
INSURANCE ADMINISTRATION

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