



Illinois Insurance Facts

Illinois Department of Insurance

Buying Life Insurance

Updated
January 2010

Note: This information was developed to provide consumers with general information and guidance about insurance coverages and laws. It is not intended to provide a formal, definitive description or interpretation of Department policy. For specific Department policy on any issue, regulated entities (insurance industry) and interested parties should contact the Department.

The goal of life insurance is to provide a measure of financial security for your family after you die. A life insurance policy will help them meet the financial needs that your income would have normally covered. Life insurance can be purchased on an individual or group basis. Most group life insurance is purchased through an employer group and is usually term coverage that is renewed yearly. This Fact Sheet discusses the types of life insurance that are generally purchased by an individual.

Assessing Your Needs

Before purchasing a life insurance policy, you should consider your financial situation and the standard of living you want to maintain for your dependents or survivors. For example, who will be responsible for your funeral costs and final medical bills? Would your family have to relocate? Will there be adequate funds for future or ongoing expenses such as daycare, mortgage payments, or college?

You should reevaluate your life insurance policies annually or whenever you experience a major life event such as marriage, divorce, the birth or adoption of a child, or purchase of a major item such as a house or business. Following are examples of factors you may want to consider at various stages of your life:

Single person with no dependents: Funeral expenses; medical bills; debts, such as credit cards or student loans; elderly parents who may be dependent upon you for support.

Note: Buying life insurance at a young age is cheaper. As you get older or possibly incur a serious health condition, it will be more expensive or difficult to buy a policy.

Single person with dependents: Funeral expenses; medical bills; outstanding debts; caretaker expenses for your surviving dependents; education costs for surviving children.

Couple with no children: Funeral expenses; medical bills; outstanding debts, especially mortgage or car payments.

Couple with children: Funeral expenses; medical bills; outstanding debts, especially mortgage payments; child-rearing expenses; education costs.

Note: Even if one partner does not work outside the home, you may want to consider life insurance to help pay for childcare or other services performed by that partner.

Older couple: Funeral expenses; medical bills; impact on spendable income; outstanding debts, such as a new home, second vacation home, or recreational vehicle; impact on assets you may want to leave for children or grandchildren.

Mandatory Provisions

All types of individual life insurance policies sold in Illinois must contain the following provisions:

- **Incontestability Clause** -- An insurance company cannot void an individual life insurance policy after it has been in force for two years, except for nonpayment of premium. If a claim is filed within two years of the effective date, the company will review the application for insurance to make sure it was completed accurately. If you omitted information that would have caused the company to not issue the policy, the company may void the contract, return the premium and deny the claim. For that reason, it is extremely important that you accurately complete the application.
- **Grace period** -- A life insurance company must give you a 30 day grace period for payment of premium.
- **Free Look Period** -- Once a life insurance policy is delivered to you, you have a minimum of ten days to review it and decide if you want to keep it. If not, you can return the policy for a full refund.
- **Allowable general exclusions** -- A life insurance company has the right to deny benefits if:
 - The insured commits suicide within the first two years of the policy.
 - The insured dies as a result of war or act of war while serving in the naval or military service or while serving in any civilian noncombatant unit serving with such forces.
 - The insured's death is related to aviation, except when riding as a fare-paying passenger of a commercial airline flying on regularly scheduled routes between definitely established airports.

Types of Life Insurance Policies

There are two basic types of life insurance policies: term life insurance and whole life insurance (sometimes called permanent life insurance).

Term Life Insurance

Term life insurance is coverage you buy for a specific time period, such as 1, 5, 10, or 20 years, or up to age 60 - 65. Term life insurance has five key features:

1. It pays benefits only if you die during the time period (term) covered by the policy.
2. It is generally cheaper than whole life insurance.
3. It may be more practical for people who need large amounts of coverage for a specific period.
4. It ends if you stop paying premiums or at the end of the term. However, some policies have a "renewable" provision that allows you to continue coverage when the term expires.
5. It may have a "convertible" provision which allows you to exchange the term policy for a whole life policy without providing evidence of good health.

Variations of Term Life Policies

The most common types of term life insurance are:

- **Level Term** -- The death benefit remains the same over the term of the policy. Premiums remain the same for the term of coverage.
- **Decreasing Term** -- The death benefit decreases each year while the premium remains level. This type of coverage is often purchased in conjunction with a debt, such as a mortgage, which decreases over time.
- **Increasing Term** -- The death benefit starts at one amount and increases at stated intervals by some specified amount or percentage. The premium also increases as coverage increases.

Whole Life Insurance

Whole life insurance is coverage that is meant to be in effect for life. Traditional whole life insurance has four key features:

1. It provides lifetime coverage.
2. It allows you to pay premiums at a fixed rate for as long as the policy is in force. (See the section on "Variations of Whole Life Policies" for exceptions to this rule.)
3. It accumulates cash value over time.
4. It may pay you dividends if your whole life policy is a "participating policy."

Cash Value

A small portion of the premiums you pay for a whole life insurance policy accumulates as cash value. The cash value is the amount of money that will be refunded to you if you cancel the coverage and surrender the policy to the insurance company. The rest of your premium payments go toward the cost of insurance and the administrative fees associated with maintaining the policy. When a death benefit is paid, the cash value is automatically included in the face amount of the policy and is not paid in addition to it.

Whole life insurance policies contain a table showing the policy's cash value after each policy year. You can use cash value in several ways:

- You can let it accumulate within the policy.
- You can borrow against it up to the net cash value of the policy. **Note:** if you die before the loan is repaid, the face amount of the policy will be reduced by the amount of the outstanding loan.
- You can use it to pay premiums.
- You can use it to buy a "paid-up" policy with a smaller death benefit in the event you wish to stop paying premiums for the whole life policy.
- If your policy lapses for nonpayment of premium, you can use the cash value to continue coverage as extended term insurance until the cash value is depleted.
- You can surrender (cancel) the policy and receive payment for the cash value.

Dividends

Dividends are profits the insurance company shares with its policyholders. Dividend payments are not guaranteed and they may change annually. Dividends are not included in the face amount of the policy.

When a death benefit is paid, the dividends or additional paid up insurance purchased with dividends will be added to the face amount of the policy.

You can use dividends in several ways:

- You can leave them with the company to accumulate interest.
- You can use them to offset the premium due on the policy.
- You can use them to buy additional insurance.
- You can ask the company to send them to you.

Variations of Whole Life Policies

There are several variations of traditional whole life insurance. Among the more common types are:

- **Modified Premium Policy** -- The premium for this type of policy starts out lower and then increases at a specified time. This feature allows you to purchase a larger death benefit and pay a lower premium initially and then pay a higher premium at a certain time (usually 5, 10, 15, or 20 years later) when you may be better able to afford it. The face value of the policy remains the same throughout the life of the policy.
- **Modified Coverage Policy** -- The face value of this type of policy decreases by specified amounts either when you reach a certain age or at the end of a specified time period. For example, the policy may start out with a \$500,000 benefit which decreases by \$100,000 every five years until it becomes a \$100,000 policy. This type of policy is designed for a person who needs more coverage early in life when debts are higher and children are younger, but whose need for coverage decreases over the years. The premium remains the same for the life of the policy.
- **Limited Payment Whole Life Policy** -- This type of policy is "paid-up" after a specified number of years or at a specified age such as 60 or 65. Once the policy is "paid-up," the coverage remains in force, but no further premiums are due.
- **Endowment Life Insurance Policy** -- This type of policy has a maturity date on which the benefit will be paid. If the insured is still living, the benefit or endowment is paid to the policyowner. If the insured dies before the maturity date, the benefit is paid to the beneficiary.
- **Joint Whole Life** -- This type of policy is bought by two or more people. The benefit is paid when the first insured dies.
- **Last Survivor Life** -- This type of policy is bought by two or more people. The benefit is paid after the last insured person dies.
- **Family Policy** -- This type of policy can be purchased for a spouse and children in addition to the whole life policy purchased for the insured.
- **Monthly Debit Ordinary** -- This type of policy is marketed by an agent at your home. The agent collects the monthly premium at your home.
- **Single Premium** -- This type of policy requires you to pay the total premium in one lump sum when you buy the insurance. The protection is provided for your lifetime.

Whole Life Policies with Investment Features

Since the 1970s and 1980s, newer variations of whole life policies have emerged. Among the types of whole life policies with investment features are:

- **Universal Life Insurance** -- This type of life insurance is characterized by flexible premiums, face amounts and death benefits. This product is similar to term life insurance except it has a cash accumulation feature. Money is subtracted monthly from the cash portion of the policy to pay the cost of the insurance which increases annually. Any premium payments that exceed the cost of insurance are placed in the cash portion of the policy to earn interest. Other key features of a universal life insurance policy are:
 1. Guarantees a minimum interest rate on the policy's accumulated value each year. A higher interest rate is paid when interest rates are high.
 2. Allows flexibility with regard to premium payments. You may elect to pay additional premium, pay a reduced premium or skip a premium completely if there is sufficient cash value in the policy to cover the insurance and administration costs. Note: Targeted premiums may increase if they are not adequate to keep the insurance in force as you get older.
 3. Allows for policy loans and cash withdrawals to the extent cash value is available.
 4. Allows flexibility with regard to the amount of the death benefit. This option may be useful if you want to change the face value to reflect your insurance needs.
 5. Requires your active monitoring and participation. The company provides you annual statements showing policy activity for this purpose. You are responsible for reviewing the statements and making required changes such as paying a premium if the cash value is decreasing.
- **Adjustable Life Insurance Policy** -- This type of policy allows you to increase or decrease the coverage by changing the amount of premium payments or the period of coverage.
- **Indeterminate Premium Life** -- This type of policy is also known as a **nonguaranteed premium life insurance policy** or a **variable-premium life insurance policy**. After an initial guaranteed period, the company can adjust premiums, if warranted, for the entire class of policies. The policy usually has a maximum guaranteed premium rate which the insurer cannot exceed. This feature allows you to purchase a policy at a lower price initially.
- **Interest-Sensitive Whole Life Insurance** -- This type of policy is also called **current assumption whole life insurance**. This product varies the premium rates like indeterminate premium life insurance, but also provides that cash value of the policy can be greater than that guaranteed. The additional cash value can be used to lower the premium or increase the cash value of the policy. If the policy has unfavorable experience, you can lower the face amount of the insurance or pay a higher premium to keep the death benefit level. Once again, there is a maximum guaranteed premium rate which the insurer cannot exceed.
- **Variable Life Insurance** -- This type of policy allows the death benefit and the cash value to fluctuate according to the investment performance of a special investment account, called a separate account. Since you assume the risk for the investment under a variable life insurance policy, it is considered a security by the U. S. Securities and Exchange Commission (SEC) and is subject to their regulation as well as that of the state Department of Insurance. The product must be registered with the SEC and sales agents must be licensed in accordance both with SEC laws and state insurance laws. Other features include:

1. Allows you to control the investment of the policy's cash value.
 2. Benefits and cash value of the variable account fluctuate according to the experience of the investment account you choose. You assume the risk of good or poor investment performance. The variable account contains no guarantees of investment earnings or cash values. Be sure to request a prospectus that contains extensive disclosure information about the company's investments and investment policies.
 3. Requires your active monitoring and participation. It is useful for people who are comfortable making investment decisions and who want to choose among investment options available through their companies and policies.
 4. Premium can be either fixed or flexible, depending on the policy you choose. Scheduled Premium Variable Life has premium payments that are fixed for duration and amount. Flexible Premium Variable Life has premium payments that allow changes in the duration and amount paid.
- **Variable Universal Life Insurance** -- Combines the flexibility of universal life insurance with the investment flexibility and risk of variable life insurance. Allows you to choose the premium amount and face amount of the policy and a separate investment account for the cash value. Like a variable life insurance policy, there is no guarantee of investment earnings or cash values. These policies must also be registered and comply with SEC regulations.

FOR MORE INFORMATION

Call our Consumer Services Section at (312) 814-2427 or
our Consumer Assistance Hotline toll free at (866) 445-5364
or visit us on our website at <http://insurance.illinois.gov>

Related Topics

[Replacing Life Insurance Policies or Annuities](#)