MONTANA

CONSUMER'S GUIDE

TO

LIFE INSURANCE

Prepared By
State of Montana
Department of Insurance

Montana Commissioner of Insurance
Mark O'Keefe

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Gracious acknowledgement to the Commonwealth of Virginia State Corporation Commission Bureau of Insurance for their assistance with the preparation of this Consumer's Guide.

1994

Montana Commissioner of Insurance
P.O. Box 4009
Helena, Montana 59604-4009

From Mark O'Keefe, Commissioner of Insurance

Dear Consumer,

I am pleased to provide you with a copy of the Montana Consumer's Guide to Life Insurance. This guide includes tips on choosing a life insurance policy.

For most consumers, the purchase of a life insurance policy requires a lot of long, hard thought. The policies are difficult to understand because they contain confusing phrases, and they vary widely on benefits and costs. The purchase of a life insurance policy is an important decision for the protection of your family.

We hope to give you the financial facts you need to get around these obstacles in making a good decision for you and your family.

If you have any questions regarding life insurance or any other type of insurance, please call my office. Our toll-free number for outside the Helena area is 1-800-332-6148, and 444-2040 in the Helena area.

Sincerely,

Mark O'Keefe

Mark O'Keefe
State Auditor and
Commissioner of Insurance

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I. INTRODUCTION

WHY YOU NEED TO KNOW ABOUT LIFE INSURANCE

When an unexpected death occurs in a family, those who are left may suffer financial loss -- and even hardship. Life insurance is designed to 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.

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 food, clothes, and household bills? Do you have any debts that would be difficult or impossible for your family to repay? Are you responsible for your parents' care?

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

This guide is not designed to sell you life insurance but instead is an attempt to explain 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 buy. Changing lifestyles and the frequent introduction of new insurance products makes this guide a valuable resource even if you already have a life insurance policy.

Your decision to purchase life insurance is an important and long term consideration. Use this guide to help you understand what questions to ask, so you can be confident that the insurance you have is the kind and amount of coverage you need.

II. UNDERSTANDING INSURANCE TERMS

Life insurance has its own language and can be a complex subject. Being familiar with key terms is helpful in order to shop intelligently. A quick review of the following glossary and occasional reference to it while reading the guide should 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 can help you understand and be understood.

1. **Beneficiary** -- Person named by the policyowner to receive the policy benefits at the death of the insured.

    a. **Primary Beneficiary** -- Person named by the policyowner to have first rights to receive the proceeds of the policy when the proceeds become payable.

    b. **Contingent (Secondary) Beneficiary** -- Person named by the policyowner to receive the proceeds of the policy should the primary or first beneficiary die before the insured.

2. **Cash Value** -- The amount the insurance company will pay the policyowner if a permanent life insurance policy is surrendered or otherwise terminated. Term insurance usually has no cash value.

3. **Direct Response** -- Insurance sold directly to a person by an insurance company through the mail.

4. **Evidence of Insurability** -- Any statement or proof of the insured's health, finances or job, which helps the insurance company decide if the insured is an acceptable risk for life insurance.

5. **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 not formed only for the purpose of obtaining insurance.

    a. **Certificate of Insurance** -- A document which is given to insured members of a group insurance plan and which briefly outlines the plan's coverage and the member's rights.
    b. **Contributory Plan** -- A group life insurance plan which calls for participants to pay a portion of the cost.
    c. **Noncontributory Plan** -- A group life insurance plan for which the insured members are not required to pay any portion of the cost of the plan.

6. **Industrial Life Insurance** -- Insurance that, in Montana, is sold in face amounts of $2,000 or less.

7. **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.

a. **Rating** -- The basis for a charge, in addition to the standard premium, because the person insured is classified as a greater than normal risk; usually due to health conditions or a hazardous hobby or occupation.

b. **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.

c. **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 on substandard risks to provide for the probability that such a person may have a shorter life span than a standard risk.

d. **Preferred Risk** -- The classification of a person being insured as an above-average risk because the person's physical condition, health history, occupation, and lifestyle are better than the requirements set for the standard risk; indicating the probability of a lower-than-usual mortality rate.

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

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

   a. **Face Amount** -- Amount stated on the first page of the policy that is payable at the insured's death or at maturity of the policy. Also called "amount of insurance" or "death benefit."

b. **Effective Date** -- The date on which an insurance policy goes into effect and from which protection is furnished.

c. **Issue Date** -- The date on which an insurance policy is issued. The applicant has the right to defer payment of the initial premium until the policy is issued or actually delivered but the contract does not go into effect until the initial premium is paid.

d. **Lapse** -- Termination of a policy for failure to pay a premium before the end of the grace period.

e. **Policy Proceeds** -- The amount actually paid when the insured dies or when the policyowner receives payment at surrender or maturity. It includes any dividends left on deposit and the value of any additional insurance purchased with dividends, and deducts any loans not repaid plus unpaid interest on those loans.

f. **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, monthly, or weekly).

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

a. **Entire Contract Provision** -- A provision stating that the policy itself, along with the application for insurance if attached will constitute the entire contract.

b. **Grace Period** -- Length of time specified in the policy following the premium due date of the policy, usually 30 or 31 days, during which you may still pay premiums 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.

c. Incontestable Clause -- A provision stating that, except for failure to pay premiums or for fraud, the company cannot contest or dispute the legal validity of the policy after it has been in effect for a specified period of time, usually two years.

d. 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. The face amount is increased or reduced to reflect the amount of life insurance the actual premium paid would purchase if the insured's age had been stated correctly.

e. Nonforfeiture Benefits -- Cash or insurance benefits available to the owner of a cash value policy if the policy lapses or is surrendered, that the owner does not forfeit.

f. Reinstatement Provision -- A provision stating the process by which a policyowner may apply to put back into force a policy which had lapsed.

g. Rider -- A special provision added to a policy that becomes part of the contract and that increases or limits benefits otherwise payable. Riders adding benefits may increase the amount of premiums.

h. Suicide Clause -- A provision stating that only the premiums paid to date and not the proceeds of the policy will be paid if the insured commits suicide within a specified period of time (usually two years) after the policy's date of issue.

III. 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 for your dependents.

Most people buy life insurance to replace some 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. Financing a child's college education or providing funds for your own retirement are just two of the many options you have.

Identifying your needs and the needs of those who depend on you is one of the most important steps in helping you make a wise decision when buying life insurance.

Before discussing how to identify your insurance needs, you need to be able to distinguish between an "applicant", a "policyowner", and an "insured". The **applicant** is the person who applies for the insurance policy. The applicant, or someone designated by the applicant, becomes the **policyowner** after the application for the policy is approved by the insurance company, the company issues the policy, and the applicant/policyowner accepts the policy and pays the first premium. The **insured** is the person whose life is insured under the policy. The policyowner and the insured may be and often are the same person. If, for example, 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 he or she is the policyowner. This is an important distinction since the right to make many of the decisions connected with life insurance policies lies with the policyowner, such as changing a revocable beneficiary, taking out 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 mostly concerned about providing financial security for your family after your death, start the examination of your needs by adding all the sources of income and assets your family would have if they were without you right now. This list can include income from checking and savings accounts, stocks and bonds, and benefits from social security. Check to see if you qualify for group insurance. If you do, take advantage of it and add the face amount to your 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 housing, utilities, food, clothes, education, transportation, medical bills, loan payments, insurance premiums, and taxes. These are two important steps. Be sure to take enough time to develop a complete and accurate list of all income and expense items. Many smaller expenses are easy to overlook but can rapidly add up to a large amount.

A general rule of thumb in estimating the life insurance needs of your dependents is to calculate five times your annual income. If you are a homemaker and do not have an easily-calculated income, try to determine the expenses that would occur if you died and 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, your salary may help pay for basics such as food, clothing, and household bills. Could your spouse handle these 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: 1) what your dependents would have if you died today, and 2) what they actually would need.

Decide how long your family would 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 mortgage on the house almost paid? The final question you need to ask is: 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.

One final consideration: what you need to protect you and your family while you are young is different from what you need later in life. If you already have a life insurance policy that you bought years ago, you ought to take another look at the policy as well as your own needs. Perhaps your circumstances have changed dramatically since the policy was purchased. **Review your life insurance policy at least every two years 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 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.

IV. WHAT IS AVAILABLE

There are only a few basic types of life insurance, but there are many variations and options that can be used to tailor a policy to meet your individual specifications. Use the information provided here to identify the type of policy in which you might have an interest so when you are ready to buy, you will know which ones to examine more closely.

A. TERM INSURANCE

Term Insurance is protection for a set period of time. For example, a five-year term policy provides 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 expires; it 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 policy, it will pay that amount if you die at any point during the term. On the other hand, **decreasing term insurance** has a face amount that keeps getting smaller as time goes by. This type of insurance is frequently used to cover the balance on a home mortgage as it declines. 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, check the cost 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 cost 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** meaning 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 great 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.

Term insurance also is useful if you are involved in a new business where you and your partner are vital to the total operation. You might not be certain how well the business or your relationship with your partner is going to work, so rather than buying permanent insurance at the start, you may purchase convertible term insurance that could be changed once the business is established.

Credit life insurance is a type of decreasing term insurance designed to pay the balance due on a loan should the borrower die. The policy benefit is always paid directly to the creditor if the insured borrower dies during the policy's term. The amount of the policy's death benefit is usually equal to the amount of the debt.

B. PERMANENT INSURANCE

Whereas term life insurance provides protection for a certain period and pays no benefits after that time ends, permanent insurance will be in force for your entire lifetime as long as the premiums are paid when due. There are three basic types of permanent insurance: whole life, universal life, and variable life.

(1) WHOLE LIFE INSURANCE

Whole life insurance (sometimes called straight life or ordinary life), is one kind of permanent insurance that will be in force for your whole life. The premium is based on your age at the time you buy the policy but, 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 savings-like 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 usually after the second or third year, the **whole life** policy 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. Although the interest earned on the cash value normally is less than what you could obtain through investments, this type of plan does provide the discipline some people need to save regularly.

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 still continuing for the rest of your life. Since you pay fewer premiums, they are of course higher than ordinary whole life premiums but you are free from that expense in later years when your income may be lower.

Another variation 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 would increase 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 the amount to be paid as a level premium for the rest of the contract is reached. In both types of modified premium payment plans, the face amount of insurance remains level the whole time. The major advantage of these variations is that you may purchase a higher amount of whole life insurance than would otherwise be affordable based on your current income level.

(2) UNIVERSAL LIFE INSURANCE

Universal life insurance policies are a fairly recent entry into the insurance marketplace. They 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 and reports them to you in an annual report.

Unlike most whole life policies that offer a fixed amount of protection for a fixed amount of money, universal life policies are designed to provide a great deal of flexibility as your family situation and financial affairs change over time. For instance, the universal 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. The face amount is specified when the policy is issued but, depending on your changing needs, you may increase or decrease that amount later without having to buy a new policy. Just as with traditional types of insurance though, evidence of insurability may be required for increases in amount of coverage.

You may also alter, within certain limits, the amount of premium you pay each year, although a minimum premium is usually required in the first year. You may even discontinue premium payments provided there is enough in the cash value account to keep the policy in force and then resume the payments 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. Universal life then allows current market interest rates to be paid on that cash value account.

The objective of universal life is to take advantage of current high returns on the investment of your cash value, which make these policies competitive with traditional investment and saving vehicles. Sometimes, however, only a portion of the money in the cash value account -- for example, only the amount over $1000 -- is credited with these higher interest rates. Amounts less than the minimum may be credited with an interest rate of only 4 or $4^1/_2$ percent which usually is the minimum rate guaranteed by insurance companies. The interest rate actually paid may vary but will not fall below that minimum rate guaranteed in the policy.

Two options are typically available with universal 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 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.

(3) VARIABLE LIFE INSURANCE

Variable life insurance policies were developed as an alternative to dealing with the problem of inflation. What may have been an adequate amount of insurance coverage ten years ago may no longer be enough. You could just 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 universal life in that the face amount and the cash value can be changed. Unlike universal life, the premiums for most forms of variable life remained level. With universal 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". The money in this separate account is placed by the insurance company in investments such as common stocks. 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 special investments do. With traditional forms of variable life insurance you are assured of a minimum guaranteed face amount but minimum cash values are rarely guaranteed.

Purchasing variable life insurance, despite its minimum face amount guarantees, 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 will provide. However, there is some evidence to support that the death benefit of a variable life policy may keep pace with inflation. Variable life, as well as universal life, may be more appropriate if you are financially knowledgeable and are looking for a policy plan that follows the highs and lows of the current economic market.

Flexible premium variable life, sometimes called variable universal life or universal life II, is a relatively new policy combining characteristics of universal and variable life. As with universal life, the premiums and face amounts can be changed, both subject to limitations. As with variable life, a separate account can be invested in various funds, and the cash value is affected by the performance of that account. Unlike variable life 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 the newer policies, use the information in this guide to help you understand the basic coverage. Then, ask questions until you know just how the new policy is different and whether that difference is worth the cost.

C. ENDOWMENT INSURANCE AND ANNUITIES

Endowment insurance pays a specified sum back to you if you live to a certain age. If you die before that time, the face amount would be paid to your beneficiary just as it would be with term and permanent insurance. And, as with many permanent policies, the endowment builds cash values and the premium stays the same throughout the time you are making payments.

Endowment insurance is frequently used as a savings mechanism. For example, if you purchase a 10-year, $10,000 endowment, 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 insurance are the accumulation of educational funds and the accumulation of retirement funds. Since this type of policy offers the least amount of death benefits for your money when compared to other types of insurance an endowment may not be your first choice if your primary reason for buying insurance is protection for your beneficiaries.

An annuity is a contract to provide periodic payments to you for either a specific period of time or for the rest of your life. In a sense, annuities represent the opposite of life insurance. Where other types of policies protect those who depend on you in the event of your premature death, annuities are designed to provide you, yourself, with a regular income during retirement so that you have a better chance of not outliving your means of support. Although endowment insurance can be used to provide retirement funds, an annuity is specifically designed for this purpose.

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, such as 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. 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) right after the annuity is purchased if it is an immediate annuity, or
2) at some 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.

You can usually choose one of the following ways of receiving your annuity benefit payment:

Annuity certain. Benefit payments of a set amount are paid for a specified period. At the end of that time, the annuity payments will stop, even if you are still alive.

If you die before the end of the period, the unpaid annuity benefits will be paid to a beneficiary named in the annuity contract.

Life annuity. Benefits will be guaranteed payable at least until you die. There are three variations of the life annuity:

1) **Straight life annuity** provides payments to you for as long as you live. When you die, the contract is fulfilled and no more payments are made.
2) **Life income annuity with period certain** guarantees that benefits will be paid until you die and also guarantees that the payments will be made for at least a certain period, even if you die before the end of that period. If you are still alive at the end of the guaranteed period, payments will continue for the rest of your life.
3) **Life income with refund annuity** provides benefits for as long as you live and guarantees that at least the purchase price of the annuity will be paid out in benefits. If you die before the total payments made to you equals the purchase price, a refund will be made to your beneficiary. The refund can be paid in a lump sum or in a series of payments.

Temporary life annuity. Payments will be made until the end of a specified number of years or until your death, whichever occurs first. Once the period expires or you die, the annuity benefits cease.

A variable annuity is a contract that guarantees to pay you an income for your lifetime, but does not guarantee the actual amounts of the payments that will be made. Instead, the payments vary according to the investment earnings of a special fund, called a "separate account". Premium payments are put into separate account funds which are usually placed by the insurance company into investments such as stocks. Benefit payments will then vary according to the market value of those investments. The variable annuity was developed as a means of providing financial security for retirement in inflationary times. Just as with variable life insurance policies, however, this type of annuity involves a risk that is not present in investments that guarantee a specified rate of return.

D. COMBINATION PLANS AND RIDERS

By combining different types of coverage or adding optional provisions to your policy, you can create a plan especially designed to meet your specific needs.

Combination plans simply combine different types of policies into one contract. The three most widely purchased are the **family income plan**, the **family maintenance policy** and the **family policy**.

A family income plan covers an individual person, usually the family's principal wage earner. It combines permanent insurance with decreasing term insurance and is often bought by couples with young children. In addition to the face amount, the policy provides monthly income installments beginning after the death of the insured that are paid from the term portion of the insurance. The term or the number of years that this income will be available begins when the policy is issued. Generally, the term is scheduled to last to a point in time when the family's income needs are assumed to decline.

The **family maintenance policy** is similar except that the income payments are available for a stated number of years from the date of the insured's death if it occurs within a specified period from the inception of the policy. This type of policy is a combination of permanent insurance and level term insurance.

A **family policy** differs from the family income plan and the family maintenance policy in that it covers all the members of an immediate family under one contract. Usually, the principal wage earner's insurance is whole life, the spouse's insurance is term insurance to age 65 and children are covered by term insurance with any additional children born after the policy is issued covered shortly after they are born, at no extra cost. The children can convert their coverage to whole life without evidence of insurability when the term expires, usually at age 18 or 21.

Generally, you will want to assure that the major breadwinners of your family have adequate life insurance before considering coverage for children.

In addition to the basic plans, the insurance company may offer **riders**, or amendments, to the policy contract for an additional fee. These amendments are optional and help modify the coverage provided by the policy to suit your individual needs.

A **waiver of premium**, for instance, will allow the company to keep your policy in force without further payment of premiums if you become totally disabled, usually before age 60 or 65. Your premium would be waived (you would not have to pay it) for as long as your disability continued and benefits such as cash values would continue just as if you had made the payments. Some policies require that premiums are paid for a few months after disability to have the waiver take place.

With an **accidental death benefit** (also called double or triple indemnity), two or three times the face amount of the policy will be paid to your beneficiaries if you die by accident. Usually the policy will specify that the accidental death must occur before a certain age, such as 65, and within a certain period of time after the accident, such as 90 days.

Guaranteed insurability gives you the option of buying additional coverage at a later time on specified dates up to a certain age no matter what your health. Generally, this rider is available only with permanent policies.

The cost of living rider allows you to buy more insurance each year to help offset increasing insurance needs due to inflation. The amount of additional insurance that can be purchased depends on the increases in the cost of living index and usually takes the form of a one-year term plan.

A level term rider is temporary coverage that can be added to an existing permanent policy, providing extra insurance protection for a fixed period of time. This rider is useful if you need additional insurance for a short while.

Note that riders are extra provisions added to a policy. You may also tailor your life insurance with an endorsement which changes the existing terms of the policy to fit special circumstances. If you have questions about any of these options, ask your agent or a representative of the company to explain their benefits and how they might be used to make your insurance plan more appropriate for your needs. Be sure, however, to find out the specific costs of these options before agreeing to include them in your policy.

E. REVIEWING YOUR OPTIONS

If you are disciplined enough to invest extra money on a regular basis, you may want to consider term insurance and then invest the difference in what you pay in premiums for term versus what you would pay in premiums for a policy with cash value. Depending on your age at the time you buy your policy, the term insurance premium usually starts out as only a small fraction of the cash value policy premium. Although the term policy premium will eventually increase to a point higher than the level cash value premium, the crossover point may not come for as long as thirty years after the purchase.

The difference between the premium that you actually pay for a term policy and what would be the higher cash value policy premium could be placed into a savings account or otherwise invested and left to accrue at compound interest. Savings could be built up in this manner that would quite possibly be larger than the total amount of cash value accumulated in a permanent insurance policy. Investment considerations, however, are secondary to insurance protection for the family. And where insurance needs are great and income is limited, the purchase of term insurance may be the only way to afford adequate protection. The structure of a term policy makes protection easier to afford during the early years when children are in the home and income may be relatively low--precisely the time when life insurance coverage is most needed.

On the other hand, permanent insurance policies offer features unavailable with term policies. For instance, a portion or all of the cash value in a policy can be borrowed if necessary, and often at a favorable rate of interest. Also, some policies have a provision that allows the insurance company to use the cash value to pay the premium on your policy if you forget or are unable to pay it, perhaps because of illness or unemployment. No such option is available to the term policyowner who must apply for reinstatement if a premium is missed; and reinstatement for a term policy may not be possible if there has been a change in your health. A third consideration is that certain riders are normally available only with cash value policies.

The following points may help you as you deliberate:

-- Do you need the long range protection of permanent insurance? If you are insuring primarily for the present or for a relatively short period of time and want the lowest required payment, term insurance might be appropriate.

-- If you want the same amount of coverage throughout the rest of your life and don't want premium increases later on, whole life may be the best option.

-- If you want whole life, but can't afford it right now, consider either modified-premium whole life or renewable and convertible term insurance.

Remember, though, that when the premium increases for the modified-premium whole life policy, it goes to an amount somewhat higher than what the non-modified premium would have been. Also, the converted term policy will have a higher premium and the maximum death benefit is limited to the value of the term protection at the time you convert the policy.

-- Endowment insurance may be appropriate if you are concerned about an income for your later years or a fund for a child's college education. An annuity can provide you with regular income when you retire. Term insurance does not offer savings and investment is of secondary importance in other permanent insurance policies.

-- If your protection need is long term and you want to invest money in a relatively safe place, one of the interest sensitive policies may offer the options you seek. You have to be willing to run the risk of a low return if economic conditions take a downward swing.

Any additional benefit is purchased at an added cost. Be sure you understand each benefit in your policy, what it will do for you and how much you are paying for it. With careful planning, you can tailor an insurance plan for your specific needs.

V. BUYING A POLICY

A. FINDING A COMPANY AND AGENT

Life insurance policies are available from many insurance companies. Shop carefully because policies and plans differ in cost, coverage, and claims service.

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 you your automobile or homeowner's insurance can help you. Talk with the agent yourself. You must be able to communicate with your agent and get answers to your questions in language you 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 partly because there is no expense for that middle person. On the other hand, direct mail companies cannot provide the counseling or other valuable services you may receive from a good agent. Whether this is a deciding factor for you depends on how much you know about insurance and the insurance market. You must especially be aware of any restrictions on coverage. For instance, some policies sold through direct response marketing limit the face amount payable if death occurs in the first few policy years. If you know precisely what you need and what you will get, insurance bought directly from the company could save you money.

At the other end of the marketing continuum is the home service system which relies on agents to sell specified products and provide other policyowner service functions right in your home. The home service agent also collects premiums, sometimes as often as weekly. The advantages of the home service system include ease of purchase, home premium collection, and frequent service visits. Due to the expense of home collection, however, premium rates are usually slightly higher than premium rates for the same amount of insurance bought from an ordinary agent or directly from the company.

No matter which way you buy your policy, the Montana Insurance Commissioner recommends that you buy from a company licensed in Montana so that we can be of assistance if a problem arises. The Commissioner has only limited authority over unlicensed companies. The Commissioner can tell you if a company or agent is licensed in Montana. (See the Insurance Commissioner's Office toll free phone number on page 45.)

B. APPLYING FOR INSURANCE

When you buy an insurance policy, you must fill out an application form and you may be asked to take a medical exam. 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. The completed application becomes a permanent part of the legal contract between you and your insurance company. From that application, the company will decide if it will insure you and at what premium. An application that 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 your premiums 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 and 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 form 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 an insurable interest is also assumed in the case of the proposed insured's spouse, parent, child, grandparent, grandchild, brother, and 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 and your age. The plan of insurance is your choice. However, the degree to which your physical condition and age affect how you are classified as an insurance 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 standards vary between companies. If you have a medical problem and cannot find a company that will insure you, talk with your doctor. Treatments may improve your condition enough to meet company standards, or at least to qualify you as a "special risk". There are some companies that will take all risks; in other words, they will insure you regardless of your health condition. Usually, however, they will only pay back 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 but at least you should be able to find some coverage. On the other hand, some companies offer discounts to people who do not smoke or who have regular medical check-ups and participate in such physical fitness programs as jogging or other aerobic exercise. If you fall into this preferred 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 weekly. Most companies have minimum premium payment requirements so that you may have to pay at least quarterly or even semi-annually. Usually, the more frequently you pay 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. Some companies offer automatic payment techniques such as the preauthorized check (PAC) method. The PAC method allows the policyowner to authorize the company to generate checks against the policyowner's account. The company then sends those checks directly to the policyowner's bank for payment when premiums are due. This method of payment can result in reduced administrative expenses for the company on monthly and quarterly premium payment modes and fewer instances of a policyowner forgetting to pay the premium. You should ask your agent or company for the cost of making more frequent payments and the methods of payment that are available so that you may decide which payment plan is best for you.

D. COMPARING POLICIES

Assuming that your health is good and that you would be classified as standard or even preferred by most companies, you are in control to pick and 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 between 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 single 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 company service and quality 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 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. A FREE 10-DAY LOOK

Montana law requires that you have at least a 10-day period to examine your policy after you receive it. Be wary of policies that do not allow you a free look! During this 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. If the policy is not satisfactory to you, return it at once and get a dated receipt from the agent to whom you return it, or a postal receipt if you mail it directly to the company.

VI. 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. The fact is that life insurance serves a wide range of needs and well over half of all benefits are paid to living policyowners.

A. CASH VALUE

Generally, term insurance is the only type of policy where you must die for the benefits to become payable. As you pay your premiums, permanent insurance policies build **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 guaranteed rate of interest and 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 30 or 31 day grace period within which the premium may be paid without penalty and the policy still remains effective. 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 automatically pay 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 original policy in force for the full amount of coverage including any riders or additional benefits.

If your insurance needs decrease over the years, you may want to surrender or reduce some of your policies and **use the cash value for retirement income.** When you retire you may not have as much money coming in and you will probably not have the same kind of financial responsibilities. Children are grown and on their own. The house finally is paid for, and you are ready to stop working. So, you draw out the cash value of your policy as income, or all in one lump sum. Many people keep some of their death protection, though -- a lot or a little depending on their circumstances but usually at least enough to cover final expenses.

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. If this happens, you can either take the cash value in cash, continue the policy in force with a smaller face amount and with no further premium payments required, or continue the policy in force as extended term insurance.

If you choose the cash 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 policyowner cannot take out loans or receive dividends on the policy. Some policies may, however, 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 NON-PARTICIPATING 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 non-participating 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, the company experiences gains that yield dividends. Since these factors vary, however, whether and 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 non-participating policy. The difference in premiums between the two types of policies, however, could be made up by the amount of dividends returned. The premium for a non-participating 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. While you do not share in the company's profits, you also do not share in its losses.

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 (Left on Deposit) -- You may leave your dividends with the company to earn interest. All or any part of the total amount left on deposit 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 equal to the cash value of your policy. 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 dividend option to one that better meets current needs.

VII. DEATH BENEFITS

A. CHOOSING YOUR BENEFICIARIES

When you purchase life insurance to protect your dependents, a key decision you will make is who will receive the proceeds of your policy at your death. Make sure you have designated your beneficiaries properly. For example, if you have adopted children or children by another marriage be sure to make your intentions clear. Do not list "my children" as beneficiaries -- use specific names, but remember to update the list as your family grows. Along those same lines, it may not be advisable to make "my estate" 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 life insurance policy is that your beneficiaries do not have to pay estate taxes or wait until the estate is settled before the payment is received.

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.

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 would receive the policy proceeds should your **primary beneficiary** die before you do. 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, but even if such events don't 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, at the very least, policy proceeds not being paid to the people you want to receive them.

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 your death certificate or other lawful evidence of death. Beneficiaries must make sure that all claim forms are filled in completely and correctly. If the policy, claim forms, and copy of the death certificate are to be sent directly to the company, your beneficiary may wish to send them by certified or registered mail so that there will be a receipt. If a life insurance agent is handling the paperwork, a receipt for all of the materials should be obtained. Remember to make copies of all the information that is sent to the company.

Before a claim is paid, the company will review the information 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 satisfactory proof of claim. If death occurs during the first two years 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 cash value 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. Even if you do decide at the beginning, you may change that 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 fixed amounts but the money is to be paid completely 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 of the person being paid.

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 option later, thus leaving the decision as to what form the payment will take to your beneficiary.

Different companies and different policies will vary in their settlement practices. Make sure you and your beneficiary understand and agree with the payment procedures for the specific plan you are considering.

VIII. SHOPPING TIPS

WHEN YOU GET READY TO BUY INSURANCE, CONSIDER THE FOLLOWING TIPS:

1. Decide first how much insurance you need and the length of time the protection should last. Then decide what type or combination of types of insurance plans best serves your needs. (Review: Chapters 3, 4, 6)

2. 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. (Review: Chapters 4, 5)

3. 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, but 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. (Review: Chapter 5)

4. **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. (Review: Chapters 4, 6).

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. (Review: Chapter 7)

6. **Select a sound company and a reliable agent.** Although buying through an agent is optional, the advantages are that an agent can 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. (Review: Chapter 5)

7. **Examine the policy carefully.** Be sure it is what you need, want, and can afford. (Review: Chapters 3, 4, 5)8. **Do not pay cash without a written receipt.** If you pay by check, money order, or bank deposit, make it payable to the insurance company, not the agent or anyone else. (Review: Chapter 5)

9. **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 company's added time to administer the paperwork, unless you use an automatic payment technique. Many companies also make arrangements for having the premiums automatically deducted from your checking account or--if your employer agrees--from your salary so you don't have to worry about forgetting a payment. (Review: Chapter 5)

10. Reassess your life insurance needs frequently. Remember that your needs will change as the number of your dependents and your current income changes. Check periodically to see whether the beneficiary named in your policy is still your choice. (Review: Chapter 3)

MOST OF ALL, DON'T BE AFRAID TO ASK QUESTIONS.

MAKE SURE YOU UNDERSTAND EXACTLY WHAT THE POLICY CAN AND CANNOT DO FOR YOU.

IX. FREQUENTLY ASKED QUESTIONS

Q. **Is a safe deposit box a good place to keep a life insurance policy?**

A. Not really. Safe deposit boxes may be sealed at the time of your death and not opened until your estate is settled. This will prolong the time it will take for your beneficiary to be able to file a claim. If the policy is readily available, the company should be able to act on the claim immediately.

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 a company must pay a death claim even if there were misrepresentations in obtaining coverage unless fraud can be proven. If you are considering a replacement policy, you should ask for a written comparison of the replacement policy with the original. You should also seriously 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 renewal premiums. If you are accepted for reinstatement, you should expect to pay all of the premiums missed, with interest, and furnish evidence that you still are insurable. The time allowed for reinstatement after a policy lapses varies among companies but usually is no less than three years. One advantage to reinstating the original policy rather than applying for a new one is that the premium rate for the original policy is based on your age at the time that policy was purchased. The rates for a new policy will be based on your current age. In addition, the original policy may contain certain 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 only be contestable as to statements made in the reinstatement application, providing the original contestable period has expired.

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 companies charge a penalty, called a surrender charge, if you decide to cancel the annuity in the first few 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. Monthly life insurance benefits do not count as earned income, regardless of how much is paid each month through a policy.

Q. After reading this guidebook, 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 a policy contract until you are comfortable with the plan and how it is to be carried out.

X. 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.) If you apply for insurance and are refused coverage, the insurance company must give specific reasons. There are exceptions to consumer information rights, however, such as when fraud might be involved.

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 their attention.

When contacting your agent or company about a problem, give:

-- Your name
-- Your address
-- Your telephone number
-- Your policy number
-- The type of policy
-- The nature of your complaint.

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) when (date and time) you called, 2) with whom you talked at the company, and 3) what was said during the call.

If you do not receive a prompt and satisfactory response from your agent or company, you can receive help from the Montana Commissioner of Insurance to resolve your problem. Through professional information and complaint services, free to all residents of Montana, the Commissioner's Office will thoroughly investigate your complaint, correct misunderstandings, and make sure you get a clear response to your questions. The Commissioner cannot, however, force a favorable action on your complaint if it is not supported by law or provide legal services sometimes required to settle complicated problems. If the law and facts are on your side, the Commissioner will see that your rights are protected and your complaint is resolved in a satisfactory manner.

Here are ways to take advantage of the services of the Montana Department of Insurance:

TO CALL	IF YOU LIVE IN HELENA	444-2040
	IF YOU LIVE OUTSIDE OF HELENA	1-800-332-6148
TO WRITE	USE THE COMPLAINT FORM CONTAINED IN THIS BOOKLET AND MAIL IT TO:	MONTANA COMMISSIONER OF INSURANCE P.O. BOX 4009 HELENA, MT 59604-4009

2,000 copies of this public document were published at an estimated cost of 58¢ per copy, for a total cost of $1,160.00, which includes $1,160.00 for printing and $.00 for distribution.