

What People Overlook When Shopping for Life Insurance

A few realities that must be acknowledged.

Provided by Bill Mann, AIF®

Shopping for life insurance means paying attention to detail. In scrutinizing these details, however, some fundamental, big-picture truths may be ignored.

If you want to renew or upgrade coverage later in life, the terms could be less than ideal. You may be healthier than most of your peers, you may have the constitution of someone half your age, but insurers base policy premiums and terms of coverage on actuarial norms, not exceptions. Purchase a term life policy at age 50, and your premiums may be considerably more expensive than if you had bought the same coverage at age 30. This is the way of the insurance business.¹

Have you had a serious illness? Have you been diagnosed with a medical condition, such as diabetes, sleep apnea, or high blood pressure? You are looking at higher life insurance premiums, and insurers may limit the amount of life insurance coverage you can buy.²

A guaranteed acceptance life insurance policy may be the answer, but even with one of these policies, you may have to live a certain number of years after buying the coverage for your heirs to receive a death benefit. Many times, if the insured dies within 2-3 years of the policy purchase, the named beneficiaries only receive an amount equivalent to the premiums that have been paid, plus interest.²

Your beneficiaries need to know that you own life insurance. Roughly \$1 billion in life insurance payouts sit unclaimed in America. Why? The beneficiaries are unaware of them. Also, sometimes beneficiary designations are hazy; a “husband” is named as a primary beneficiary on a policy, but the insured has married more than once, so an ex-spouse contests the beneficiary form. Such legal challenges may generate court costs offsetting the financial value of the death benefit.³

While it seems obvious to inform heirs about a life insurance policy, some people never do – and this simple oversight continues to obstruct life insurance payouts.

You need to name a beneficiary in the first place. Some consumers fail to, however, and that can create problems. If you do not designate a beneficiary for your life insurance policy, its death benefit could be included in your estate, exposed to probate and creditors.⁴

You must also recognize that you could live much longer than you expect. Years ago, most life insurance policies were sold with the assumption that the insured party would die by age 100. If the policyholder lived beyond that maturity date, the insurer would simply pay out the cash value of the policy (or something similar) to the insured person at that time.⁵

Today, maturity dates on life insurance policies are often set at age 121, but not all are. There is still a possibility that you could outlive a maturity date and money could be paid out to you instead of your named beneficiaries. This possibility must be acknowledged.⁵

As you shop for life insurance coverage, keep all this in mind. Some policyholders (and their heirs) tend to lose sight of these realities.

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