

Quick Guide to Life Insurance

What is Life Insurance?

Life insurance is insurance that individuals can buy to provide a specific amount of money to a person (or persons) of their choosing, in the event of their death. A main purpose of life insurance is that you can pay during your lifetime to ensure that your loved ones are taken care of financially.

Life Insurance as Part of an Estate Plan

Life insurance is just one estate planning tool to consider as you plan your estate. For more information about estate planning, visit <https://TriageCancer.org/EstatePlanning>.

Naming a Beneficiary

A life insurance “beneficiary” is the person(s) who will receive the proceeds from the life insurance policy. For example, if the life insurance policy is worth \$50,000, then the beneficiary will receive \$50,000. When you purchase a life insurance policy, you must name at least one person (the beneficiary) you wish to receive the proceeds of the policy.

- Beneficiaries can be your children, spouse, other family members, friends, a charity, your estate, or others.
- Life insurance policies can be split between beneficiaries: if a person has two children, they can receive equal shares of the policy (in our example, \$25,000 each).

It can also be useful to combine life insurance with your other assets in an estate plan. For example, you have two children and own a house and you want to provide for your children in the future, but you are concerned about leaving your house to both your children, because it would be difficult to share that asset and may require your children to sell the house. You could buy a life insurance policy and name one child as a beneficiary and then leave your house to your other child.

Things to know about beneficiaries

- A life insurance beneficiary can receive the policy funds without having to pay taxes on those funds.
- Because you have already named a beneficiary of your life insurance policy, it does not get included in a will or trust. This is an example of a “non-probate transfer.”
- If none of the people named in your life insurance policy are living at your death, your estate will receive the proceeds of your life insurance policy.

Buying Life Insurance

The first step in buying a life insurance policy is deciding how much coverage you need. One strategy is to buy enough coverage to cover at least one year of living expenses and to pay off your mortgage if you own your home. Some people choose to buy life insurance coverage to pay for their funeral expenses. Once you buy a life insurance policy, it is important to review your coverage once a year to make sure that it still meets your needs. For example, do you have enough coverage to pay for your current expenses. Or, if there were any changes to your family, such as the birth or adoption of a child or grandchild, you may want to make changes to your beneficiaries, which you can do at any time.

Ways to Get Life Insurance

Life insurance companies go through a process called medical underwriting to determine what they will charge for a policy. Medical underwriting could include a written questionnaire, a verbal survey, medical exams, and a review of your medical records. Typically, the healthier an individual, the more affordable the policy. Life insurance companies are permitted to refuse to sell policies to people with pre-existing medical conditions. Each company can decide if, or when, they would be willing to insure someone who has been diagnosed with cancer.

- Individual life insurance is bought directly from a private insurance company. There are many companies to choose from. Contact the state insurance agency to get a list of insurance companies that offer policies in your state. Find your state's insurance agency here: <https://triagecancer.org/stateresources>. Then, contact each insurance company to ask about specific rules related to selling policies after a cancer diagnosis and costs.
- Employer-sponsored life insurance is when an employer offers you access to a life insurance policy as an employee benefit. These policies may not require that you provide your medical history or answer any medical questions. An employer may pay the monthly premiums for you, or you may have to pay some or all of the monthly premium to have the policy. If you have a pre-existing condition and find it difficult to find a policy, working for an employer that offers a group life insurance policy can be a valuable benefit.
- Some professional associations, churches, alumni associations, banks, credit unions, and other groups also offer life insurance policies as a benefit of membership. Typically, you are responsible for paying those monthly premiums.

Two Main Types of Life Insurance Policies: Term & Permanent

Term life insurance: you pay a premium and if you die during the term of the policy (e.g., 1-30 years), your beneficiary will get paid. Typically, term insurance is the most affordable, but it does not build any cash value over time.

Permanent life insurance: a portion of your premiums is put into an account, known as the cash value, which grows at a fixed or variable interest rate. You can withdraw from, invest, or borrow against the cash value. Some policies tie the growth to investment accounts, so your cash value could go up or down, depending on the performance of your investments. It can take several years to build up a cash value. Premiums for permanent life insurance are higher than for term life, because of your ability to build up savings and because you're buying coverage for a longer period. There are different types of permanent life insurance options, including whole, variable, universal, and variable universal.

To understand the full range of life insurance options, individuals should consider speaking with a financial planner or insurance agent.

Types of Life Insurance Riders

Some insurance companies offer more benefits that can be added to their policies for an additional fee. These added benefits are called "riders." Common riders that may be particularly useful for people coping with cancer, include:

- **Waiver of premium:** waives your premium if you have a total disability and cannot work
- **Guaranteed insurability:** allows you to buy additional coverage in the future without medical underwriting
- **Accelerated death benefit:** can collect a portion of the policy's benefit if terminally ill

Some riders are only available when you first purchase your policy, while other riders are offered after an individual has a policy for a period of time.

Loans and Sales of Life Insurance Policies

In addition to providing financial security for loved ones after an individual dies, life insurance may also be a source of income while an individual is still living. There are pros and cons to each of these options, but they may be an effective way to access a larger sum of money than some financial assistance programs can provide. However, each option may also have other financial and tax implications including impacting eligibility for government benefits. It can be helpful to talk with a financial advisor or an accountant before making these decisions. To find out if your insurance policy qualifies for a loan or a life settlement, contact your life insurance company or a life settlement company in your state.

Finding Lost Life Insurance Policies

Beneficiaries often do not know they are supposed to receive money from a life insurance policy and never pursue a claim. The National Association of Insurance Commissioners (NAIC) has an online tool called the Life Insurance Policy Locator: <https://eapps.naic.org/life-policy-locator/#/welcome>. This free tool allows consumers to search for possible life insurance policy or annuity proceeds anywhere in the nation.

For more detailed information about all of these life insurance topics, visit www.CancerFinances.org.