

Texas Life Insurance
Frequently Asked Questions

Provided by:

www.TexasInsuranceZone.com

Frequently Asked Questions and Answers about Texas Life Insurance

Q. What determines my life insurance premium?

A. An insurance company bases your premium on the type and amount of insurance you buy and your chance of death while the policy is in effect. Other factors include the company's agent commissions, overhead, and expenses of doing business.

A company determines risk of death primarily by reviewing your age, gender, smoking habits, and medical condition. Companies usually classify individuals as "preferred" (below-average risk of early death), "standard" (average risk of death), or "substandard" (insurable, but with an above-average risk of death). Companies classify a small percentage as "uninsurable" (a high probability of early death). Find out the company's rates and what you must do to qualify for a preferred rate.

If a company determines that you are in a substandard class, it will rate your policy, which means your premiums will be above the standard premium. Shop around before paying a higher rate. Other companies may classify you differently. Some companies will remove a rated premium if you maintain good health for a specified period, give evidence that your health has improved, or change to a less-hazardous occupation. Companies often offer lower rates to nonsmokers. Companies cannot charge different rates, deny, cancel, or non-renew coverage because a person was a victim of family violence.

Q. Is a company required to pay interest on a death benefit?

A. For individual life policies, an insurance company must pay interest on the death benefit from the date the company receives proper proof of loss statement to the date the company accepts the claim and offers to pay it.

Q. What happens if I miss a premium payment?

A. During the grace period, usually the 30- or 31-day period after the date your premium is due, you can pay your premium with no interest charged. If an insured dies during this period, the beneficiary receives the policy's death benefit minus the premium owed.

To reinstate a lapsed policy, you must pay all overdue premiums with interest, and reinstate or repay any debts (loans) on your policy. An insurer must put a lapsed policy with nonforfeiture benefits back in force if nonpayment of premiums caused the lapse and the policy still has a paid-up insurance benefit. Most companies will reinstate a policy within a five-year period, but may require new evidence of insurability.

If an individual policy without a nonforfeiture benefit lapses because of the mental incapacity of the insured, the company may reinstate the policy without evidence of insurability if the policy meets certain guidelines.

Q. How much coverage is enough?

A. There is no precise formula to determine how much coverage you need. Some consumer groups recommend five times your annual income. Under this formula, a family with an income of \$40,000 might need at least \$200,000 worth of life insurance protection. Some insurance industry organizations recommend a policy that would pay 10 times your yearly income.

Q. How can I get the most coverage for the least cost?

A. Term life insurance usually gives you the most coverage for the least cost. Also, you may save money, particularly in the purchase of cash value policies, by buying a policy with low administrative fees. A small number of companies sell these "low load" policies by mail or telephone. Financial planners, licensed as insurance counselors, also may sell low load policies. Generally, these planners charge service fees and do not receive commissions. Since the initial fees are low, they reduce your risk of losing money if you cash out early.

Q. Can agents offer student loans along with life insurance?

A. Some agents refer to student loans in their presentations. While agents may provide information about student loans, they cannot offer loans as an inducement to buy insurance.

Q. Is it a good idea to replace a term life policy with a new one?

A. Price competition and new product development make it worthwhile to periodically review the price and coverage of your term life policy. Sometimes your present insurer will offer you a better deal to keep your business. Remember, if you change companies, the two-year contestable period starts again.

Q. Will I need life insurance when I retire?

A. If you are close to retirement, be sure to review your coverage and needs. With fewer responsibilities, you may want to reduce or even eliminate some of your policies.

Social Security and some retirement plans provide a continuing income for dependents after a retiree's death. For retirement income, many financial advisers suggest investing in IRAs,

qualified tax deferred annuities, Keoghs, and deferred-compensation plans, which allow you to reduce taxable income and defer income taxes until you withdraw the money.

Q. What are the tax consequences of life insurance?

A. Interest and dividends paid on a life insurance policy accumulate tax deferred. Life insurance policy withdrawals (cash surrenders) normally are nontaxable until the total amount withdrawn exceeds the total amount of premiums paid into the policy. Also, proceeds from loans made against the policy are normally not taxable. However, if the policy lapses, amounts borrowed in excess of premiums paid are taxable.

Death benefit proceeds are exempt from federal income tax but may be subject to estate taxes under certain conditions.

You should consult an accountant or tax attorney for more information about the tax consequences of life insurance.

Q. How does a life insurance policy affect my eligibility for Medicaid benefits?

A. When determining nursing home Medicaid eligibility, Medicaid officials count life insurance cash values in excess of \$1,500 as assets.

Q. What is an annuity?

A. While life insurance pays the beneficiary when the policyholder dies, an annuity provides income to the policyholder during his or her lifetime. Most annuities marketed today are tax deferred annuities. Before the payout stage, annuities operate like savings accounts, except the IRS does not consider the interest taxable income until it is paid, usually 10 or more years in the future. Deferred-annuity income may be fixed, variable, or a combination of the two. Before buying, be sure you understand any restrictions, penalties, or charges that may apply to withdrawals or partial surrenders of your annuity. Surrender charges may be substantial if you cash in your annuity during the first seven to 10 years.

Most people buy annuities to have an income for retirement purposes. An annuity contract is not a life insurance contract, a savings account, or a savings certificate. You should not buy an annuity for short-term purposes.

Insurance companies issue annuities and licensed life insurance agents-including some banks-sell them. Agents selling variable annuities must hold a variable annuity license and a securities license. Insurance companies also must be specifically licensed to sell variable annuities. Call TDI's *Consumer Help Line* to verify a company's and agent's license before signing any contract.

Q. Are the values of my life insurance policy or individual annuity exempt from the claims of creditors and bankruptcy proceedings?

A. The cash value and death benefit of a life insurance policy are fully exempt from creditors and from all demands in any bankruptcy and from execution, attachment, garnishment, or other legal process unless a statutory exemption, such as fraud, is applicable.

For more information, contact the Texas Department of Insurance at:

www.tdi.state.tx.us

Copyright © USIZ Inc.