

The Consumer's Guide to

# LIFE and HEALTH INSURANCE

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Independent Insurance Agent



## **The Consumer's Guide to Life and Health Insurance**

If you're young and in good health, you probably have never thought much about life insurance. But have you ever considered what financial obligations might still exist if you died? In addition to funeral costs and current bills, what about family living expenses, mortgage payments, long-term debt and college costs? The primary purpose of life insurance is to provide resources for all of these expenses. This guide covers some of the basic questions you need to answer to help determine what kind of policy is right for you.

In a health care environment that is constantly shifting, are you unsure what kind of health insurance might be right for you? This guide covers health insurance basics and explains terms such as deductible, coinsurance, disability and other important issues.

Start planning your life and health insurance needs by talking to a Trusted Choice® insurance professional today.



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## **Q: How does life insurance work?**

When a person dies, there are many expenses that will need to be paid. These expenses may include such items as funeral costs, burial expense, current bills and estate taxes. In addition, there may be financial needs the insured would have met if they had remained alive, including family living expenses, mortgage payments, long-term debt and college costs for children. A life insurance policy's primary function is to provide, upon death of the insured, an amount sufficient to pay for any or all of the preceding costs and expenses. Which expenses or costs are to be provided for, and how much money will be needed, is entirely up to the insured.

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## **Q: How much life insurance should I have?**

There are many and varied needs for funds upon an individual's death, and all must be taken into account to arrive at a proper amount of insurance. For simplicity, a common recommendation is to be five times your annual income. Your Trusted Choice® insurance professional can talk with you about your needs and goals, and illustrate how each item translates into a given amount of money needed at the time of death. He or she can also share how to account other sources of income (such as Social Security or retirement plans) that will actually lower the amount of life insurance necessary.

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## **Q: Who will receive money if I die? How much?**

Upon death of the insured, the insurance company pays the policy's benefit amount to the beneficiary (or beneficiaries) named by the insured on the policy. Some policies may provide additional benefits, so be sure to discuss this with your Trusted Choice® insurance professional.

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**Q: Does it matter how I die as to how much my beneficiaries will collect?**

During the first two years of the policy period, there may be conditions (fraud, misstatement of age, suicide) that can affect the death benefit paid by the policy. Your Trusted Choice® insurance professional can discuss these with you. After two years, the full policy death benefit is payable, regardless of the cause of death. (Some policies may also pay extra benefits in certain conditions, such as the insured dies in an accident.)

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**Q: Will my beneficiaries receive the benefit in one lump sum, or will it be distributed over a period of years?**

That is entirely up to you, or you can leave the decision to your beneficiaries. Both options are available.

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## **Q: Who can I name as my beneficiaries? How often can I change them?**

You can choose the beneficiaries. . You can name individuals, organizations or your estate. You can also change them at any time. The original beneficiaries under your policy, as well as any changes you later make, must be designated in writing to the insurance company, and attached to your policy by endorsement.

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## **Q: Are there different types of life insurance I should consider?**

Although there are many types of life insurance policies, nearly all are variations of two basic types—term and permanent. (A third type, known as “universal” life, is a combination of term, permanent and various investment options. Its complexity is beyond the scope of this overview, but if you are interested, your Trusted Choice® insurance professional can discuss if universal is a good fit for your life insurance needs and goals.)

- Term insurance is exclusively death coverage. The policies are written for a specific length of time (the “term” referred to in the name). Common terms are one year, five year and ten year, although longer terms may be available. If the insured dies during the term of the policy, the death benefit is paid to the beneficiaries. If at the end of the term the insured is still alive, the coverage ends.
- Unlike term insurance, a “permanent” insurance policy (often referred to as “whole life”) never terminates as long as the premiums are paid. It also builds cash values in the policy that can provide valuable “living” benefits in addition to the death benefit.

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## **Q: Do I have to die to collect on life insurance?**

For term insurance, the answer is always “yes”. For permanent insurance, as the “living” benefits accumulate, they may be used to provide funds for financial needs such as loans, premium payments and retirement benefits.

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## **Q: Will I ever need to requalify to keep my life insurance policy, as long as my premiums are paid on time?**

For permanent insurance, no. For term insurance, if an insured wishes to continue the coverage beyond the specified term, many policies (known as “renewable term”) allow the insured to continue the coverage for another term of the same length, without any need to fill out a new application or undergo an underwriting review. This is a valuable provision, since the insured’s health or occupational status may have changed during the policy period in ways that would render them uninsurable if they were to try and purchase a new policy.

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## Q: **How do companies set a price for life insurance?**

Although there may be a myriad of fees, expenses, interest assumptions and other factors used to develop a given life insurance company's premiums for a policy, the rates for life insurance are ultimately based upon one factor—the statistical chances of the insured dying in a given year. Such statistics, based upon insurance company experience and government records, are used to calculate an annual “death cost” for each \$1,000 of life insurance benefit.



Since statistically few people will die at younger ages, the death cost for those years will be extremely low. As people age, the statistical chance of death increases—slowly at first, then more rapidly after the insured passes middle age—and therefore so does the annual death cost.

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## **Q: Which life insurance is less expensive—permanent or term?**

Since term insurance only provides a benefit if the insured dies during the policy term, its premiums will be the closest to pure death cost. This is why term is the least expensive coverage to buy at younger ages. At older ages, however, the cost of a term policy rises rapidly along with the increasing death cost and may soon become prohibitive for many senior citizens. A term insurance policy's premium will remain the same during the term, and then increase at each renewal. For example, an annual renewable term policy is written for one year at a time, so the premium will generally increase each year. A five-year renewable term policy's premium will remain level for the five-year term, and then increase at the renewal. Once renewed, the policy premium remains level until the next renewal, and so on until the renewal provision expires (typically at age 65), or when the insured either decides the premium has risen too high or the insurance is no longer wanted.

Permanent insurance rates are also fixed for the policy term. However, since the policy is permanent, this fixed premium must represent an average death cost over the entire expected life of the insured. The result is that permanent policy rates will often be significantly higher than term rates at the younger ages, but then significantly lower at older ages.

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## **Q: If term life insurance is less expensive, why buy permanent?**

There are many reasons. Here are three of the key considerations:

- Permanent insurance will always be there. Some final expense needs are permanent, and only permanent insurance is guaranteed, assuming you pay the premiums, to be there when needed. Term insurance, by its nature, is temporary, and at some point will become nonrenewable. In fact, a good life insurance rule of thumb is to buy permanent insurance for permanent needs (funeral, burial, estate liquidity), and term insurance for temporary needs (mortgages, college costs).
- Permanent insurance premiums are fixed for life. While the premium may be higher at younger ages than term, it will never go up. And that can be a great comfort upon reaching older age and not having to face the possibility of your term insurance premium increasing beyond your ability to pay, possibly at the very time you need your insurance the most.
- Permanent insurance builds cash values. During those early years of your policy, when your “lifetime average” premiums are higher than the death cost, that extra money is set aside to help cover the higher death costs in later years. But in the meantime it is put to good use. In effect, it becomes a form of savings account inside your life policy. This “cash value”, as it grows, can be used as the basis for a loan from the insurance company, used to pay premiums if necessary, or taken as a cash settlement in the event you cancel the policy.

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## **Q: If I need to cash in my life insurance at some point, how much will it be worth?**

If your policy is term insurance, it will have no value. Term only provides a death benefit. If your policy is permanent insurance, you will be eligible to receive the current cash values contained in the policy, whatever they may be at that point in time. Your Trusted Choice® insurance professional will be able to show you sample charts illustrating your policy's anticipated values for any particular year after your policy is issued.

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## **Q: What is the major purpose of health insurance?**

To use the machine analogy, health insurance is designed to cover repairs, maintenance and any lost income while the machine is “in the shop”.

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## **Q: What are the major types of individual health insurance policies?**

There are many variations of health insurance policies. The two most common are major medical and disability. Your Trusted Choice® insurance professional can share other, more specialized types of coverage.

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## **Q: Do I need an individual policy if I have group insurance at work?**

Maybe. Many factors must be considered, such as: Do I plan to remain at my current job? Do I feel secure in my current job? What current benefits does my employer provide, and are they sufficient? Are there certain benefits that are not provided, or limited in a way that leaves a gap in my coverages? Are there members of my family who are not adequately covered, or are ineligible, for my group benefits?

Discuss these issues with your Trusted Choice® insurance professional and he or she can make a recommendation as to the best choices to assure your medical coverages are adequate for your needs.

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## **Q: What is a major medical health insurance policy?**

This is the most common form of individual or group health insurance is a major medical health policy. It provides benefits for sickness or injury, regardless of whether the care is provided at a doctor's office, clinic or hospital. The types of sickness and injury covered are typically broad, although there are always limitations that should be discussed with your Trusted Choice® insurance professional prior to purchasing the coverage. Major medical policies normally have an annual deductible and a lifetime maximum amount of benefits that will be paid.

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## **Q: How does a health insurance deductible work?**

A deductible is the amount you must pay before the insurance company begins to pay on your bills. This is an annual amount per insured person, although typically there will be a maximum amount of deductibles you will have to pay in a given year. For example, if your "per person" deductible is \$500, and you have five people in your family covered under your health insurance, the maximum "family" deductible will usually be \$1,500. Once three of the people in your family have paid a \$500 deductible, no more deductibles will apply to any member of the family for the remainder of the year. This can vary, so be sure to discuss the specifics of your policy with your Trusted Choice® insurance professional.

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## **Q: What does “coinsurance” mean in a health insurance policy?**

In a health policy, coinsurance represents the percentage of the medical bills the insured will be responsible to pay after the deductible is met. For example, if your policy is “80% coinsurance”, then once the deductible is met, the insurance will pay 80% of covered medical bills and you pay 20%. Typically there will also be a provision called a “stop-loss”, which is basically a maximum amount you will ever have to pay out of your own pocket for covered medical bills. For example, let’s say your policy states it is “80% coinsurance, with a \$1,000 stop-loss.” Once you’ve paid your deductible, your covered medical bills are \$7,000. Here’s how that would work: First, the coinsurance provides the carrier will pay 80% of the \$7,000 (\$5,600) and you will pay 20% (\$1,400). But, your “stop-loss” says your maximum payable for this claim is \$1,000! So you only pay the \$1,000, and the additional \$400 comes from your insurance company. Notice this provision gets more valuable as the claim gets larger—no matter how large the final claim, or what percentage of coinsurance you’ve purchased, your stop-loss says your share of the covered expenses will never exceed \$1,000.

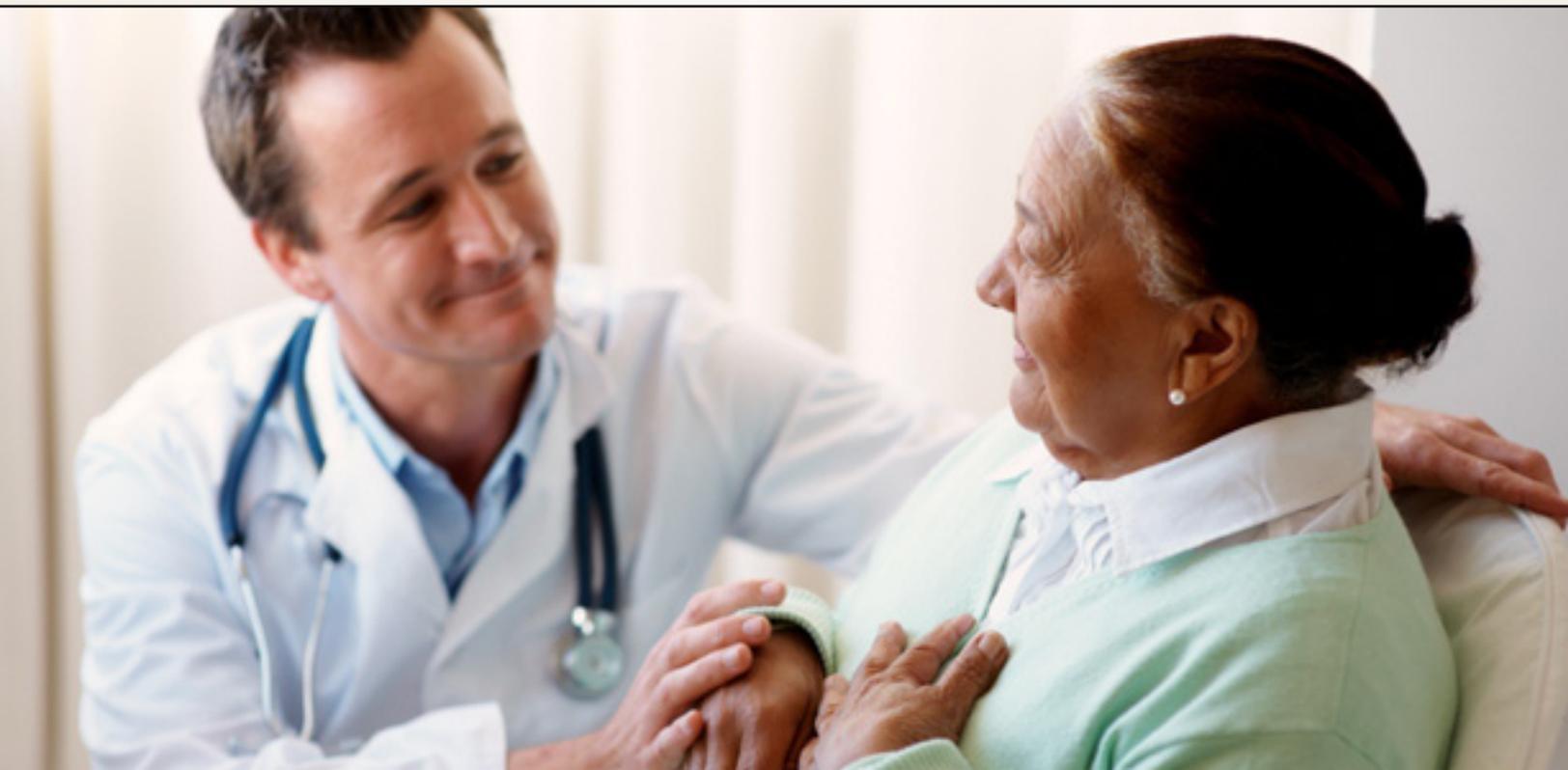
Please note some policies refer to “stop-loss” as “maximum out-of-pocket”. And many policies include the amount of the deductible in determining when you hit your maximum, also a helpful provision.

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**Q: What is the purpose of “coinsurance”, “stop-loss”, “maximum out of pocket”, etc. Isn’t this just complicating the policy?**

All of these are provisions meant to help control the cost of the policy. For example, if the coinsurance percentage tells you how much of the covered expenses the insurance company is on the hook to pay, then clearly the higher the coinsurance percentage, the higher your policy premium will be. Similarly, the lower your deductible and stop-loss, the more you are asking the insurance company to pay, and the higher your policy premium. While these terms may seem complicated, the bottom line is the more you can afford to pay out of your own funds, the lower your medical insurance premium can be. Your Trusted Choice® insurance professional can discuss the various options available to you, and how each option will affect your insurance premiums. You can then choose the combination of provisions that best fits your budget and needs.

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## **Q: What does a disability income policy do?**

Disability income is a form of health insurance that is designed to provide you with an income during the time you are unable to work due to illness or injury.

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## **Q: What does “disability” mean?**

In its simplest sense, disability means you are unable to work. But it's important to realize the definition of the term under a given disability income policy will be specified by that policy. The broader the definition of disability, the higher the cost and increased limits to the underwriting restrictions. For example, some policies will define “disability” to mean “the inability to reasonably perform the duties of your occupation,” while another will define it as “the inability to reasonably perform the duties of any occupation”. How significant is this difference of a single word? To use an extreme example, if you were a highly trained surgeon, the first policy would pay you if you were sufficiently injured that you couldn't perform surgery. The second would refuse to pay if you could perform any job—even sweeping floors or answering phones. Despite the obvious loss of income when going from surgeon to receptionist, the policy definition of disability will determine whether you will receive benefits for specific policy. As you might guess, the second policy is likely to be great deal less expensive. Also, your current occupation is the single most important factor in determining what type of disability policy and coverage options you will be eligible for.

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## **Q: How long can I collect under a disability income policy?**

Policy provisions vary, as do the premiums depending upon which provisions you choose. Generally the policy will specify a maximum period of time it will pay for a covered disability. Typical policy terms are for two years, five years or to age 65. If during that time you recover from the disability and return to work, the policy will provide that a new disability will start a new benefit period. For example, if under a “five year” disability policy, you meet the definition of disability for three years, then return to work, the policy will have paid you three years worth of benefits. Four years later you suffer a new disability. For that new disability, your policy will pay benefits for up to five full years.

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## **Q: Must I be disabled for a certain length of time before my disability benefits begin?**

Typically a disability policy will provide for some length of time the disability must last before benefits begin. This is usually referred to as a “waiting period.” Similar to a deductible under major medical insurance, the purpose is to avoid paying benefits for minor injuries or illnesses, thus saving the insurance to apply to major times of need. The length of the waiting period can vary, and usually you will have several options. The longer you are willing to wait, the lower the premium. Your Trusted Choice® insurance professional can discuss your available options with you.

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## **Q: What is a PPO?**

This stands for “Preferred Provider Organization”. Basically, it is a network of health care providers who provide certain services at agreed-upon costs for individuals whose coverage is a part of the network. (Some suggest it is best described as a discount-buying club for medical care.) You are free to use any medical provider within the network, and all will honor the agreed services and fees. If you choose to use a provider who is not an approved member of the network, coverage may be diminished, your personal cost higher or, in some cases, benefits for non-emergency services may be totally denied. Be sure to discuss with your Trusted Choice® insurance professional if your coverage will utilize one or more PPOs, who are the current approved providers and how utilizing an out-of-network provider will affect your coverage.

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## **Q: What is an HMO?**

This stands for “Health Maintenance Organization”. Unlike a PPO network of independent care providers, HMOs are typically fixed facilities, and benefits are designed to cover services obtained at the HMOs facilities and supplied by HMO personnel. HMO coverage plans must specify how and under what circumstances services may be obtained from non-HMO providers, and this information is crucial to determining the value of the HMO under your particular circumstances. Your Trusted Choice® insurance professional can assist you in determining whether there are good HMO options available in your area, their benefits and any limitations for you to consider in making your final medical coverage choices.

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## **Q: What is the purpose of PPOs and HMOs?**

By assembling a network of providers who agree to provide services at a discount (PPO) or by requiring you get all of your services from a specific provider, with an emphasis on preventative care (HMO), the hope is to provide you the best possible care at the lowest possible costs. A downside is such benefits and discounts require a great deal of control over your health care options by the PPO or HMO, and not all the limitations are popular or convenient. And whether these approaches are always successful is subject to ongoing debate, and results can vary greatly by where you live.

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## **Q: What if I want to go to any doctor or hospital I choose?**

You can buy health insurance which basically says “go to whomever you want and have them send us the bill” (often referred to as “indemnity” coverage), but it lacks the negotiated cost discounts and overview of services (meant to dissuade providers from over treating and over billing) that PPOs and HMOs utilize to try and keep costs lower. Thus an indemnity policy may be readily available to you, but may be significantly more expensive than a coverage plan utilizing a PPO or HMO. Ask your Trusted Choice® insurance professional for your options and possible premiums, and then choose the coverage method that best meets your personal preferences and needs.

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An important, but sometimes overlooked, factor to keep in mind is that there are two kinds of insurance agents: those who represent only one insurance company and those who represent more than one insurance company.

Agents offering only the policies of one insurance company often are referred to as “captive agents,” because the company they represent does not allow them to offer their customers competitive alternatives.

By contrast, agents offering the policies of more than one insurance company are called “independent agents” or Trusted Choice® insurance professionals, because they can shop around for their customers for the best insurance values among a variety of competing companies. Trusted Choice® insurance professionals can offer you a variety of coverage choices and can customize a plan to meet your specialized needs. Most important, a Trusted Choice® insurance professional isn’t an employee of an insurance company, so you have someone who works for you.

To find a Trusted Choice® insurance professional, go to [www.TrustedChoice.com](http://www.TrustedChoice.com) and click on “Find a Trusted Choice® Agent.”

**[www.TrustedChoice.com](http://www.TrustedChoice.com)**

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