

## Life Insurance 101: The Basics

By Jacques Chambers

For a person dealing with a serious disease, such as HCV, health insurance is by far the most important insurance benefit to get and keep. After that, disability insurance that can supplement public programs is very important as well.

While not as necessary as these, life insurance is still a handy benefit to have, especially when there are people who depend on you for support. If you have life insurance, you want to be sure to keep it in force. If not, there may be some ways to obtain it even after an HCV diagnosis.

Some basic terms that will help you understand life insurance better are:

- **Insured** – This is the person whose life the insurance policy covers.
- **Face Amount** – This is the dollar amount that will be paid upon the death of the Insured.
- **Beneficiary** – This is the person or persons designated to receive the proceeds of the life insurance upon the death of the insured. It may be one person; it may be several persons sharing equally or as designated; it may provide for payment to a contingent beneficiary if the primary beneficiary is no longer living. The beneficiary is the person named in the policy; wills and bequests in a will cannot alter the beneficiary designation on the policy itself.

**NOTE:** It is generally not considered wise to name minor children as beneficiaries because that can tie up the proceeds until they become of age.

- **Cash Value** – Savings that accumulate in Whole Life policies that are accessible through borrowing or surrendering the policy.

Life insurance is really one of the simplest policies in concept. If the insured dies, the insurance company pays the Face Amount to the Beneficiary. Of course, marketing people can't leave it that simple so it is cluttered with different names, odd twists, and bells and whistles to make it more sellable. Just remember, the basis of life insurance is simple.

**Types of Life Insurance** – There are lots of fancy names for various life products: juvenile coverage, mortgage life, credit life, life paid up at 65, group life, 20 year term, etc. However, they are all just specialty names; there are really only three types of life insurance:

- **Term Life Insurance** – This is life insurance that only lasts for a specific period or term, whether it is one, five, or ten years, the length of the mortgage, or until the Insured's 21<sup>st</sup> birthday. Term Life insurance has a definite ending date, and the Face Amount is only paid if the insured dies while the policy is in force. Group Life Insurance, whether offered by an employee or an association, is really term insurance; it only lasts while you are an employee or a member of the association, although it may often be "converted" to a Whole Life upon losing the Term coverage. Premiums on Term Life policies often increase regularly as the insured ages.
- **Whole (or Level Premium) Life Insurance** – This is life insurance that will last as long as the insured person is alive, provided the premiums are all paid on

time. In addition, these policies usually keep the same premium rate for the life of the policy. Because of the length of time these policies can stay in effect, the insurance company collects more money than they need in the early years of the policy to cover later years. This extra money accumulates as Cash Values and even earns a minimal amount of interest. The insured can borrow against it or receive it if he or she cancels the policy.

- **Universal Life Insurance (also called Flexible Premium Life Insurance)** – This is actually just a more sophisticated version of the Whole Life Policy. In these policies, the Cash Values are put into various investments that will often earn more in interest. Excess accumulated Cash Values can be used to reduce future premiums or increase the Face Amount. Although this product is marketed heavily, it has been somewhat slow to become popular because of its complicated structure.

There are a few other terms used in life insurance that you need to be aware of:

- **Accidental Death & Dismemberment (Double Indemnity)** – This is an additional feature, called a “rider,” that is added to many individual life insurance policies and most group insurance policies. It doubles the Face Amount if the death of the insured is due to accidental bodily injury rather than illness. Group policies will also pay a percentage of the face amount if the accident, instead of causing death, causes a loss of limb(s) or sight.  
**NOTE:** Many banks and credit card companies will offer “free insurance” coverage to their members. Read the certificate carefully; it almost always is Accident Only coverage.
- **Disability Waiver of Premium** – This benefit, also included in many individual policies and most group policies, allows the coverage to stay in force without premium payment while the insured is totally disabled.  
**NOTE:** Premiums should continue to be paid until the insurance states in writing that they are no longer due. Any overpayments will be refunded.  
**NOTE:** The waiver of premium provision is an excellent way to continue group life insurance from an employer if you have to leave work due to disability. If included in the policy, it will keep the life insurance in force, without premium payment, for as long as you are disabled, whether or not the employer terminates you or the group life insurance policy.
- **Viatical or Life Settlements** – In the past twenty years, a small industry has grown up buying life insurance policies from elderly or terminally ill insureds, allowing them access to a portion of the Face Amount while they are still alive. The Insured gets cash, usually substantially less than the Face Amount, for immediate use, and the Life Settlement company collects the full Face Amount upon the insured’s death. This is rarely beneficial, especially for people dealing with HCV, because of the company’s inability to accurately estimate life spans. Any payment given will be drastically reduced, often only 15 – 25% of the Face Amount.

### Getting Life Insurance

Most individual life insurance policies are medically underwritten, which means that the insurance company will review your current health condition and health history and

occasionally ask for a physical examination, including blood tests, before accepting the coverage. Persons with HCV are not generally eligible for life insurance through this method, but there may be some other sources of life insurance:

- **Simplified Issue** – Some companies issue life insurance policies and ask only minimal questions. With these policies, they usually only ask about recent hospitalizations or a history of heart disease and cancer. Many persons with HCV are eligible for coverage with simplified underwriting.
- **Graded Premium or Benefit (also called Guaranteed Issue)** – There are a few companies that will write life insurance with no health questions whatsoever. Usually these policies are limited to a Face Amount of \$25,000 - \$50,000. Often companies only offer them to persons over age 40 or 50, but some companies may offer them to younger people. These policies get around the need for medical underwriting by only paying to the Beneficiary the premiums paid plus interest if the insured dies within the first two years of the policy. If the insured dies after the policy has been in force for two years, the full Face Amount will be paid to the Beneficiary.
- **Group Life Insurance** – Most employers who offer employee benefits will provide a basic amount of life insurance to all employees. This coverage is almost always guarantee issue, without requiring any medical information. The Face Amount is determined by the employer and may be a flat amount for everyone or use a schedule. The Face Amount usually ranges from \$10,000 at the low end to “One Times Annual Salary Rounded Up To the Next Higher \$1,000” or higher.
- **Group Supplemental Life Insurance** – Some larger employers will give their employees a basic amount of life insurance and allow them to purchase additional amounts of life insurance above that. Usually the amounts that can be purchased are multiples of the Face Amount of insurance, such as 3X annual earnings or up to four times the Basic Face Amount. There is no medical underwriting on the Supplemental insurance until the amounts reach much higher levels, often \$300,000 or more. Even then, underwriting would consist of only a health questionnaire.
- **Association Life Insurance** – Occasionally, professional associations, guilds, members of certain organizations may offer a form of group life insurance. Sometimes the insurance is guarantee issue, however, it more likely will ask some health questions, but not that many. Read any such literature carefully to make sure it is a true life insurance policy and not just Accident Only coverage.