



Client Connect

Ten Questions For Your Life Insurance Advisor

Intimidated By Your Options?



A 2010 study shows less than half of consumers feel confident about making insurance decisions. More frightening is only 2 out of 5 people could answer basic questions about insurance coverage.

Get informed about your policy and the company issuing it by asking your life insurance agent these 10 questions.

Whom am I Buying From?

Before getting into the major questions of how much life insurance you need or whether you want term or permanent insurance, do some homework on the company. You need to know how long the company has been in business, the size of it (and) its ratings. You also want to ask the agent about his credentials for being a life insurance professional.

Consumers can research the financial strength of their life insurance company by checking out their fiscal ratings through organizations such as A.M. Best Co. and Standard and Poor's. When it comes to the life insurance agent, look for designations such as Chartered Life Underwriter, Certified Financial Planner and Chartered Financial Consultant. Those who come out of these courses are, at least knowledge wise, going to be quite professional.

Consumers will also want to know if their agent sells insurance from one particular insurance company or multiple firms.

How is My Need Determined?

How much life insurance you'll need involves two major factors: how much it will take to pay your debts off, including the mortgage, and how much your dependents will need to maintain the same lifestyle after you're gone. Though all companies factor those two variables in, insurance providers frequently use different formulas for determining your specific insurance need.

Consumers need to ask how the advisor came up with the appropriate amount of insurance. Was it a ballpark figure? Was it based on an analysis? If so, how deep was the analysis? Understanding how your need is determined is crucial, especially for families with unusual debts, such as high medical bills, that may not be considered in a rudimentary-needs formula. Once policy shoppers are sure their insurance agent is taking all of their current and future fiscal needs into consideration, they can purchase a policy that fits their family.

Does the Policy Provide Living Benefits?

You'll want to ask about the basics of the policy, including how long the policy will last, what your premiums will be, what the policy's rate of return is and how the death benefit works. If you're purchasing permanent insurance, you should also ask about what kinds of benefits the policy provides while you're living. You're basically looking for four things: control, liquidity, use and equity.

Control means the policyholder is clear on who owns the policy, who's funding it, who gets to decide the beneficiaries and whether the policy stays open or closed. Liquidity means the policyholder is clear on how much money he or she can take out of the policy and how fast. As for use and equity, Policyholders should thoroughly understand what money taken from their account can be used for and what the rules are on borrowing against it if you need to take a policy loan.

What's Guaranteed?

If purchasing a permanent policy, consumers need to pay careful attention to their life insurance illustration. Another question consumers should ask is "What are the guarantees associated with this product?"

While life insurance illustrations frequently provide several projections on how your policy could pay out down the road, the numbers that really count are the "guaranteed" figures, which show how much you'll make regardless of fluctuations in the market or fiscal problems the insurance provider may encounter in years to come.

When Can I Expect Returns?

This won't be a question for term purchasers, but those eyeing permanent policies should be prepared to wait several years before their policy will start generating positive returns. Expect that 100% of your first-year premiums will go to issuing the policy with most of it being paid to the agent as commission.

Permanent life insurance policies are designed as long-term savings vehicles and can take anywhere from five to 10 years to generate positive returns. New purchasers who see green in their immediate future could be sorely disappointed.

What if My Health Changes?

Unless you're buying a guaranteed-issue policy or purchasing life insurance through your employer, you'll probably have to endure a medical evaluation. The problem is that over the duration of your policy, your health could change for better or worse.

If you don't get the highest (health) classification when you apply for the policy, you need to ask if there is the ability to improve on that rating if your health increases. People who have had health risks such as a heart attack, DUI or smoking habit in the past can have between 10% and 20% knocked off of their life insurance premium if they undergo new medical underwriting after a certain period of time. Policyholders, especially those with term insurance, will also want to know what happens if their health decreases or if they become uninsurable.

What's Covered if I Become Disabled?

Even if you don't purchase a disability rider or a separate disability insurance policy, some life insurance policies provide some benefits for policyholders who become disabled.

Usually those benefits are a disability premium waiver. For example, if you have a \$5,000 annual premium and you were deemed to be disabled, the company would provide that \$5,000 for that policy.

Insurance companies have different definitions for "disabled." While some providers define it as an inability to perform your specific occupation, others define it as an inability to perform any occupation at all. Being clear on what defines disability and whether your life insurance waives premiums in the event of catastrophe can help you find the right policy and determine your need for additional riders.

Will the death Benefit Adjust for Inflation?

If we're talking about a death benefit that's anywhere from 20 to 80 years away, we need to talk about having that death benefit increased over time.

A \$500,000 death benefit may seem enormous today, but 30 years down the road, it will only be worth approximately \$200,500 after adjusting for inflation. With inflation increasing approximately 3% each year, time alone can severely erode your life insurance policy even if you never miss a payment. While some policies automatically adjust to keep pace with inflation, some companies sell that feature as an additional rider. Before signing onto a policy, clients should ask their life insurance agent if the policy automatically factors in inflation and allows them to buy more insurance later on if necessary.

What Happens if I Can't Pay the Premium?

If you run into financial trouble, knowing your options is invaluable. Policyholders who can't pay their premiums typically have a 60- to 90-day grace period to come up with the money, but permanent policyholders have more options. Permanent policyholders can take an 'automatic premium loan' and borrow against the cash value of the policy to pay the premiums. If you're going to borrow against the cash value, you'll want to ask what the loan rate is, and those are usually anywhere between 5 and 8%.

The added bonus of borrowing against your policy is you don't have to pay it back, but you should understand how borrowing against a cash value policy could affect your future returns and death benefit.

What Happens as I Age?

Your fiscal needs will change as you age. The terms and conditions of your policy might as well. Most term policies will allow you to convert to a permanent policy although you may not want to do so. Usually you have to convert by age 70. For people in their later years, it's very expensive. For example, if a 45-year-old buys a term policy for \$1 million, that could cost \$1,300 per year today. If they wanted to convert that same policy at age 65, the premium could be \$15,000 a year. To save thousands of dollars down the road, ask your life insurance agent about the future of your policy.

If you have any questions, please contact us.

Complimentary Advice. Any Time. Just Ask.

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