Life Insurance Policies differ from company to company and from state to state.

The following provisions are usually in a policy:

- Insuring agreement
- Ownership rights
- Death benefit
- Beneficiary clause
- Settlement options
- Incontestability clause
- Misstatement of age clause
- Grace period clause
- Reinstatement clause
- Alteration of policy
- Suicide clause
Entire Contract Clause or Insuring Agreement

• Basic clause in the contract that states once the application is completed, answering everything truthfully, and the policy together have become a contract

• If the insurer believes the person misrepresented themselves on the application, the contract can be voided
Ownership Rights and Assignment

Policyholder is the owner and has certain rights:

- To designate beneficiaries
- To determine settlement options
- To receive dividends of a participating policy
- To cash in or borrow against the policy
- To transfer ownership rights
Death Benefit

• Provision specifies how the death benefit is handled

Beneficiary Clause

• Policyholder names who the payout will go to
  • The primary beneficiary is the person the money goes to first
  • The contingent beneficiary gets the payout if the primary beneficiary has died
  • The beneficiary can be changed at any time
Life Insurance: Policy Basics

Settlement Options

• Determines how the death benefit is paid to the beneficiaries

Incontestability Clause

• After a set period of time, usually two years, the company will not contest the contract for any reason
Life Insurance: Policy Basics

Misstatement of Age Clause

• If the insured misstates their age, the insurance company has the right to adjust the death benefit to the correct age

Grace Period Clause

• Allows a grace period if someone misses their premium without the policy lapsing, usually 31 days
Reinstatement Clause

• Takes effect if the policyholder misses payments beyond the grace period and the policy lapses
• Policy can be reinstated if all outstanding premiums are paid
• Company may also require evidence of insurability

Alteration of Policy

• States that no modification of the policy can be accepted unless the modification is in writing and signed by one of the officers of the company
Suicide Clause

- Protects insurers for people who buy insurance to pass onto their dependents before committing suicide.

- The policy is considered void if the insured commits suicide within the specified period of time, usually two years.
Special Options

You can purchase riders as an add-on to your policy

Accidental Death Rider

• Doubles the death benefit if the insured dies by accident rather than by natural causes

Guaranteed Insurability Rider

• Gives the insured the right to buy a new policy or to increase the death benefit on a present policy
• Insured does not have to prove insurability
Applying for Life Insurance

• You must fill out an application

• An application is made up of two parts
  • The first part of the application consists of your basic information such as name, address and birth date
  • The second part contains information that underwriters use to determine your insurability such as tobacco use and hazardous hobbies
Life Insurance: Policy Basics

Applying for Life Insurance

• An individual may be asked to take a medical exam
  • Generally, if you are under 40 a person will not be asked to take an exam
  • Exceptions include applying for a large amount of insurance or if you have a medical condition
• Most consumer experts agree that you should pay the first premium when you apply
  • Although there is a small chance that something would happen to you, you are covered if a loss happens
Uninsurable

An insurance company may reject an application stating that a person is too high of a risk

What options are left for the person?
Graded Death Benefit

• The death benefit is calculated on the amount of time the person lives

• Example

  • If the person dies within the first year the dependents receive premiums paid plus 10%
  • If the person dies within the second year the would receive premiums plus 25%
  • It may take up to five years for the person to receive the entire death benefit
Group Insurance

• If someone is deemed uninsurable they could seek group life insurance through an employer, a union, or a professional group.

• Group plans must accept everyone belonging to the group.
Steps to take when filing a death benefit claim

• You should give the name and phone number of your company to appropriate family and friends

• Make a list of all bank accounts, investments, and insurance policies

• You must file a claim with the insurance company