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Types of Life Insurance Policies

A. Term Life Insurance (a.k.a. Pure Protection) is the least expensive of all life contracts. It provides protection for a limited number of years (a term), the face amount being payable upon the death of the insured and nothing in case of survival. The two characteristics of term life insurance are: 1) the insured must die for any payments to be made; and 2) by definition at the end of the term the contract expires.

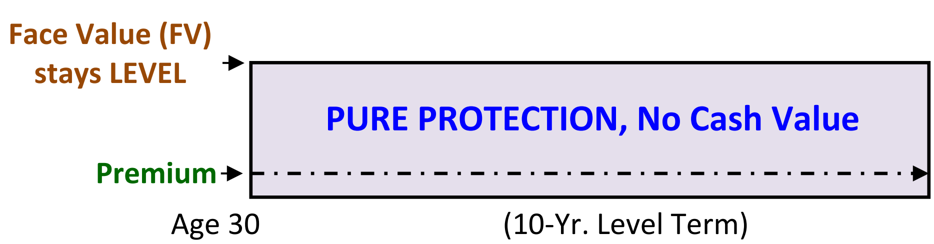
There are many reasons a person may purchase term insurance. Due to the low cost compared to a permanent plan, term is ideal if there is not a lot of money available for the insurance but the needs are great. It is perfect for short-term needs, *e.g., covering temporary expenses, college, mortgage, etc.* If there are better investment opportunities outside the policy as compared to inside a policy, term is a good mix. Businesses will use it to fund buy-sell arrangements, and it may be added as a rider to any other permanent plan to increase coverage.

There will be an option to renew or convert in most term policies. Term policies can be annual renewable term, 5-year term, 10-year term, etc., usually in 5-year increments. The cost of the insurance is based on age at the time of application and is very inexpensive when a person is younger. As you age though, the cost goes up accordingly so it can be unaffordable after age 65.

1. Basic Types of Term Contracts:

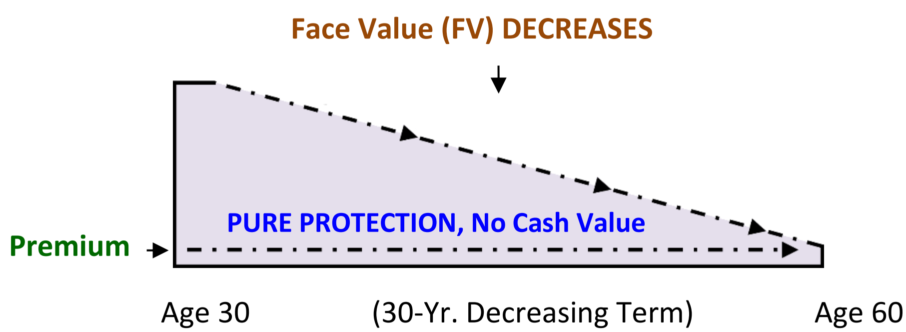
a) Level Term provides protection that remains constant for the term of the contract. The premiums remain the same per payment for the duration of the term as well. Generally, when a client asks about a term policy, they are referring to a level term.

The premiums may increase *upon renewal* due to an increase in the insured's age. *For example, the premium on a five-year term policy will be level for 5 years, but premiums will increase should the policy be renewed since the insured is now 5 years older, then the premiums will again remain level for 5 years.* Coverage remains the same upon renewal.

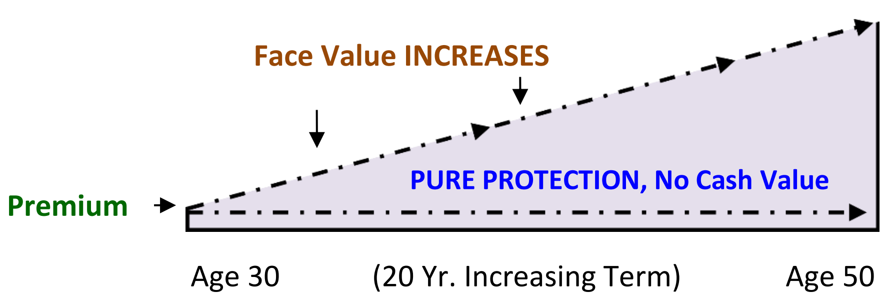


b) Decreasing Term provides protection which decreases each year. The premiums remain level for the duration of the term and can be 25% less than the same amount of initial coverage in a level term policy. *The most common use for decreasing term is to cover needs that will decrease over time, such as mortgages and other loans.*

Decreasing term insurance can also be used with a payout option to replace a breadwinner's income, especially important in a family plan. For example, if a family needs $500,000 to replace an income until retirement age today, in 10 years the amount needed is half. A decreasing term policy keeps the coverage in line with what is needed. The premiums stay level, meaning the premium paid remains the same throughout the life of the contract. It is the least expensive of the term policies.



c) Increasing Term provides protection which increases each year. It is never sold as a separate contract. Primarily, it is used as a rider in connection with a combination or package policy. The premiums stay **level** even though the coverage increases. It is commonly used for a return of premium benefit or a return of cash value when added to a permanent plan.



2. Features of Term Life Insurance:

a) The Renewability Provision in a policy ***guarantees*** that the insured will be able to renew the policy at the end of its term **without** providing ***proof of insurability***. In order to be renewable, this provision must be in the policy. Premiums will go up at renewal because the *attained age* (a.k.a. current age) is used to calculate the premium, the premium will then remain constant for the length of the term. The renewal is with the same company for the same amount of coverage. If coverage is increased, proof of insurability is required.

- **Annual Renewal Term (ART)**: If a policy renews each year, it is referred to as an annual renewable term. If a policy renews every 5 years, it is referred to as a 5-year renewable term.

b) The Convertibility Provision allows the insured to convert the policy from term to permanent insurance **without** requiring ***evidence of insurability***. This provision is not automatically included in every policy, a Convertibility Clause needs to be in the policy for this privilege to exist. **Attained age** (current age) is used for calculating the **gross** premium with the new policy. The ***conversion*** is with the same company and for the same amount of coverage. If coverage is increased proof of insurability is required.

c) Return of Premium Life Policy (ROP)*:* Return of premium life insurance is a life insurance policy providing a death benefit if the insured dies **and** a return of premium ***if the insured lives***. The ROP life policy is aimed right at one of the greatest objections to term life insurance: "I probably am not going to die and my money will have been wasted." If you keep your policy for the term period, at the end of that time (e.g., 20 or 30 years), the life insurance company that issued the policy will return the entire premium that had been paid for the insurance.

You will pay a higher premium with the ROP life policy.

The following is an example of the cost difference between purchasing regular term life insurance vs. an ROP term life: A 30-year-old male buying a $1,000,000 FV 30-year term life policy would pay $720/year for a total of $21,000 in premiums over 30 years. By buying the ROP policy, the premium jumps to $1,180/yr. (an increase of $460/yr. or 63%) for a total outlay of $35,400 in premiums over 30 years. However, ***the ROP policy will return all of your premiums ($35,400) after the end of thirty years if you have not died***.

There is no cash value in this plan, so you cannot borrow against it or withdraw from it, therefor the face value cannot decrease as it can in a permanent plan. You have the guarantee that all the premiums will be refunded to you if you outlive the term and a death benefit paid to your beneficiaries if you do not.

B. Whole Life Insurance (Traditional Life, Ordinary Life, Straight Life)… Whole life insurance lasts for the insured's *whole (entire) life* and builds **cash value**. The policy owner pays a level premium for a limited period of time, until he dies or reaches age one hundred (100).

Everyone is statistically dead at age 100, so *Whole life insurance policies endow at age 100*. Endowment means that when the cash value equals the face amount of the policy, that face amount will be paid to the owner of the contract. Hence, a Whole Life Insurance Policy will pay whether you live or die. Since people are living longer and insureds want the money in the form of a death benefit to go to their beneficiary income-tax-free, there is a trend of Whole life policies not endowing until age 120. Thus, one is less likely to outlive the insurance policy.

1. Basic Features of Traditional Whole Life Insurance include the fact that there are actually two portions to the product. It has a death benefit and a cash account. As the cash value grows the amount of insurance decreases yet the death benefit remains constant. Cash value + amount of insurance = the face value of the contract. This is important because as a client ages the actual cost of the insurance increases. The cash value is there to offset the high cost in the later years.

- The cash value principal is guaranteed by the insurer.
- The rate of return on the money is guaranteed by the carrier.
- *The cash is in the company's general fund.*
- The cash value ***accrues tax deferred*** until **surrender.**
    - **Surrender** is giving up the coverage and the policy completely.
- The cash value belongs to the insured and may be accessed at any time only through a policy loan. The loan interest will accrue until the loan is repaid, the policy is surrendered, or the insured dies.
- The beneficiary receives the death benefits **income-tax-free**.
- The death benefit is level. The only change to the guaranteed amount is if a loan is taken out against the cash value. That amount plus interest will be subtracted from any death benefit due.
- Loans are received tax-free (see loan provisions). Withdrawals are **not allowed**. The death benefit will be reduced by the amount of the loan plus interest. Unpaid interest is added to the balance of the loan and becomes principal annually.
- Annual reports are sent for any product that has a cash value.
- Premiums and reports are ***bundled on traditional WL policies.*** This means the policy owner does not see for what each premium dollar is used or how it is distributed, such as the cost of insurance and expenses.
- Most policies today are what we call "transparent" meaning that all elements of the contract are given to the owner of the policy. Universal policies are transparent, any variable contracts also have transparent premiums and reports.
- At the insured's age of 100 the policy **endows** (the cash value equals the face value) and the face amount of the policy is paid to the owner.
- The Non-forfeiture provision is in the contract so that if an owner stops paying the premium while there is still premium due, the policy will cancel but the insurer cannot keep the money in the cash value.

Full surrender is the only way to access your money in the savings portion without incurring interest charges. Of course, surrender means you are giving up the product so there is no more insurance. Under the ***Cost Recovery Rule***, the amount included in the policy owner's taxable income upon policy surrender is the excess of the cash value received over the cost basis (premiums paid). Only **after** the policy owner's premium is fully recovered are additional amounts received treated as taxable interest or gain in the policy.

*For example: $10,000 is in the cash value of a policy, and the paid premiums total $2,000. Should the owner decide to cash in the policy (a.k.a. surrender the policy) the $8,000 gain would be taxed as **ordinary income** to the owner.*

$10,000 (CV) - $2,000 (premiums) = $8,000 (taxable gains)

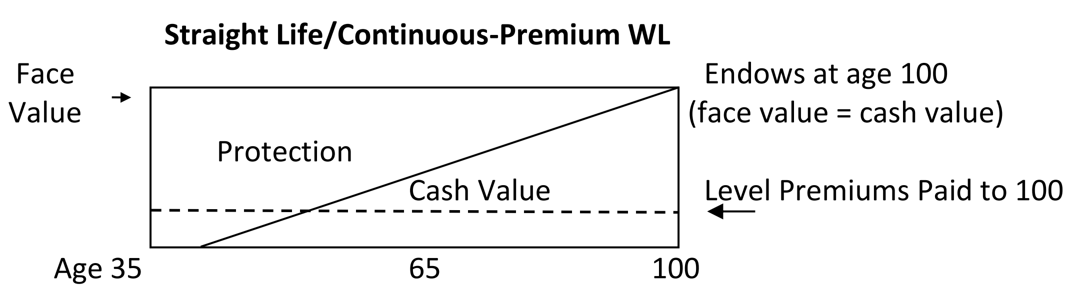
There are four forms of Whole Life (WL) insurance. The difference in them is in the payment plans: Single Premium Whole Life, Straight Life (a.k.a. Continuous Premium Whole Life), Limited Payment Whole Life, and Adjustable Life.

2. Single-Premium Whole Life is the extreme form of limited-payment life insurance. The policy, coverage until age 100, is paid for with one payment. Such policies have *substantial cash values immediately* and are *fully paid up from the inception of the policy*. The income from this cash goes to pay the cost of the insurance protection.

An advantage is that the policy is paid for with one payment and, although it is a large payment, the **interest will continue to accrue** as well as pay for the cost of the insurance. Due to the interest being paid in; a policy for $50,000 will not and cannot cost $50,000. (Remember, when the cash value meets the face value the policy endows, and the full amount is paid to the owner.) The carrier calculates how many years of interest, cost of insurance, etc., to produce an appropriate premium. There are no fees, etc., for billing or other administrative costs and so the owner will pay less for this policy (total out-of-pocket expenses) than they might pay if the premium was stretched out over a period of time. Someone who receives an inheritance, a sign-on bonus, or winnings may choose to purchase this type of coverage.

- A single premium life policy is considered "***over funded***" by the IRS and is subject to the **Modified Endowment Contract Rule** (covered later in this text).

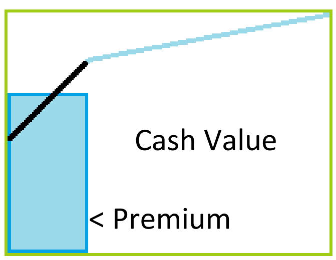
3. Straight Life, a.k.a. Continuous-Premium Whole Life or Traditional Whole Life has a fixed and level premium which is payable to age 100 or the insured's death, whichever comes first. The premiums are said to be bundled and will never change. Even though the cost for this is the highest assuming the insured lives to age 100, it is the most affordable whole life plan on a month-to-month basis.



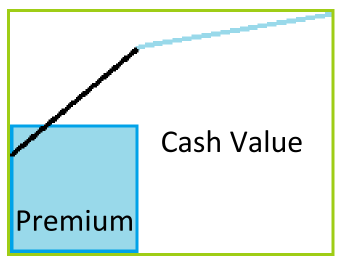
4. Limited Pay Life is a form of Whole Life characterized by premium payments being made for a specified or **limited** number of years. Limited pay whole life is also a way to fit the premiums for life insurance into the individual's budget. The longer the payment period the lower the premiums. ***The shorter the payment period the larger the individual payments but the overall investment is less.***

For example, a 10-pay life policy might be $1,000 a year in premiums, but a 20-pay whole life would be only $700 a year in premiums. However, with the higher payments up front, the individual will pay less for the life of the contract, over a shorter period of time. With a lower payment plan, the insured will pay more over the life of the contract.

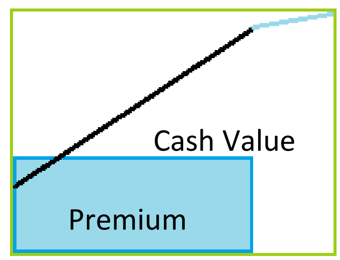
Cash values accumulate quickly during the premium payment period, a combination of premium and the guaranteed interest rate. They continue to accumulate after the premium period has ended but at a slower rate due to the guaranteed return offered by the carrier being the only addition to the account. At age 100 the cash value equals the face value and the policy endows.



10-Year Pay



20-Year Pay



Paid up at 65

Once the policy owner has paid premiums for a stipulated number of years, the policy is **paid up**, meaning no more premiums need to be paid past that point to keep the policy in force. The most common form of limited pay whole life is paid up at age 65/66 which allows the insured to discontinue premiums payments at retirement, but the policy remains in force for the rest of the insured's life.

5. Adjustable Life Policy is a whole life policy where the consumer may <u>make changes</u> in the policy without canceling the contract and starting a new one. It is a flexible-premium, adjustable-death-benefit type of permanent cash value insurance. ***It is essentially a hybrid combination of universal life and traditional level-premium whole life insurance***. Adjustable life policy elements are "***bundled***" (meaning the pure protection and savings components are <u>not segregated</u>). This gives the consumer the ability to change their coverage as their needs change without starting a new policy.

The policy owner may annually:

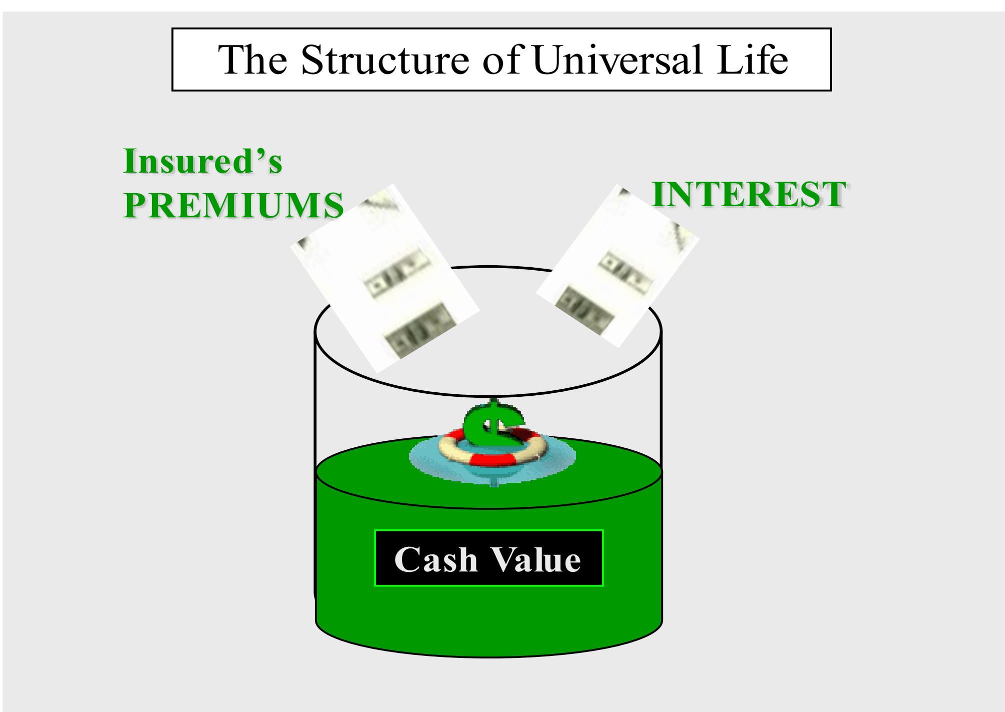
- Increase or decrease the premium
- ***Increase or decrease the face value*** (an increase in face value requires proof of insurability by the insured)
- Lengthen or shorten the premium payment period
- Change from whole life to term life, and back to whole life again

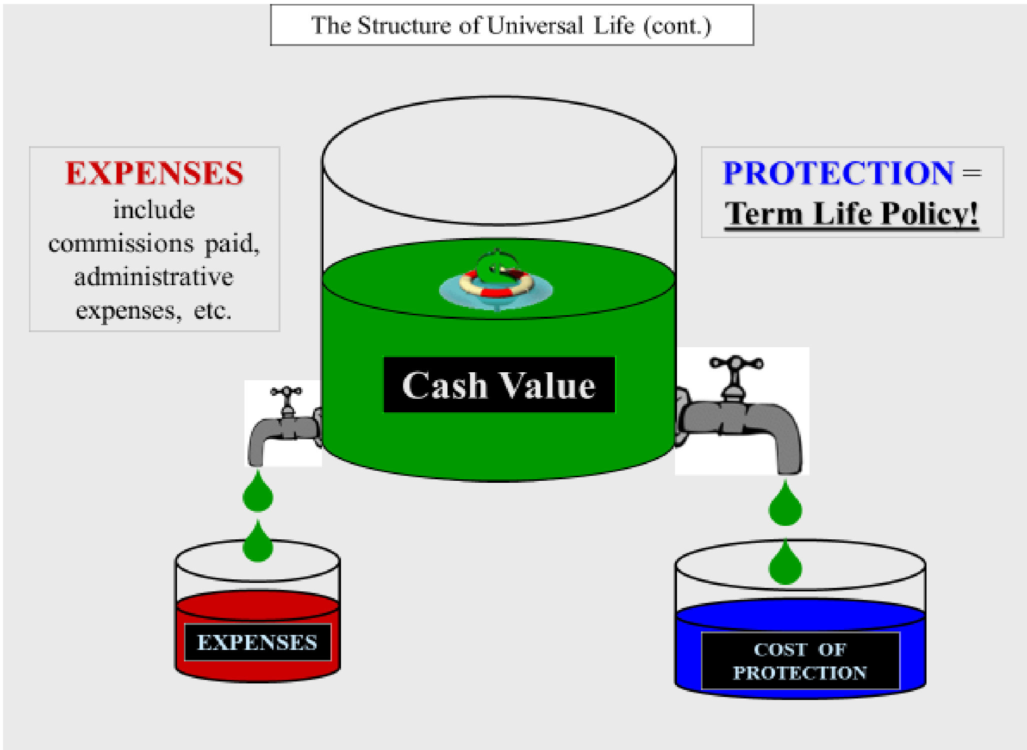
C. Universal Life (a.k.a. UL) is the newest **permanent life insurance product** and was introduced in the late 1970s. It offers the most flexibility to the insured in many areas, but that flexibility can also be harmful because the client may not understand all the long-term effects of their actions. If a client chooses low payments or withdraws the cash, there may not be enough to support their insurance, and the policy cancels. This creates a problem if the insurance is needed but the client is no longer insurable.

It is a *flexible-premium*, *current-assumption*, *adjustable-death-benefit* type of cash value life insurance, sometimes referred to as a ***term coverage (ART) and a tax-deferred savings account,*** in one package, and the money does grow tax-deferred. What this means is there is a savings account funded by both premium and interest and this is where the insurance company pulls the cost of insurance from. As long as there is money in this account, insurance coverage is there as well.

The term **flexible premium** means the policy owner is permitted to select whatever premium she wishes to pay, within limits, and anytime adjust or change the premium. This premium is put into the 'savings' account. It can be easy to 'overfund' a UL, changing the status to a MEC. What MEC status means is when withdrawing money, the interest is taken out first and the owner is taxed and penalized if not age 59 ½.

Policy owners may even skip premium payments as long as the cash value is sufficient to cover policy charges. The term adjustable death benefit means that policy owners are permitted to raise or lower their policy death benefits. However, increases may require evidence of insurability. The policy is set to endow at age ninety-five (95) but is not guaranteed like a traditional whole life policy.





Basic Features of Universal Life Insurance include the fact that there are actually two separate portions to the product, a cash account and insurance coverage. These portions are visible to the insured when they receive the transparent report.

- The cash value principal is guaranteed by the insurer.
- The minimum rate of return on the money is guaranteed by the carrier.
- **Current Assumption** Interest Rate is paid on Universal policies. It is the guaranteed rate (usually 1.0% - 2.0%) plus excess interest earned by the Insurance Company. The excess interest is not guaranteed.
- *The cash is in the company's general fund.*
- The cash value ***accrues tax deferred*** until **surrender.**
- The cash value belongs to the insured and may be accessed at any time through a policy loan or a withdrawal, A.K.A. partial surrender. The loan interest will accrue until the loan is repaid, the policy is surrendered, or the insured dies.
- The death benefits are received by the beneficiary **income-tax-free**.
- **Cash Value Surrender or Withdrawals - Under the Cost Recovery Rule** the amount included in the policy owner's gross income upon policy surrender or withdrawal is the excess of the cash value received over the cost basis (premiums). Only **after** the policy owner's premium is fully recovered are additional amounts received treated as taxable interest or gain in the policy. (First in, first out)

- Total surrender of the policy in the first years may net the client nothing. The policies put all the money in the cash value with few if any fees so the cash value grows rapidly. The cash value appears to be significant, but the surrender value is what the owner gets to keep if they should surrender the policy. A surrender charge can last 10 or 15 years and the percentage the carrier keeps decreases over time.

- **Withdrawals** (a.k.a. partial surrender) and **loans** are permitted. Loans must be repaid and interest is charged by the insurance company, but withdrawals **do not** have to be repaid and therefore accrue no interest. However, the death benefit is reduced by the amount of the withdrawal or the loan plus interest.

- The insured may also ***drop-in additional money directly into the cash value.***

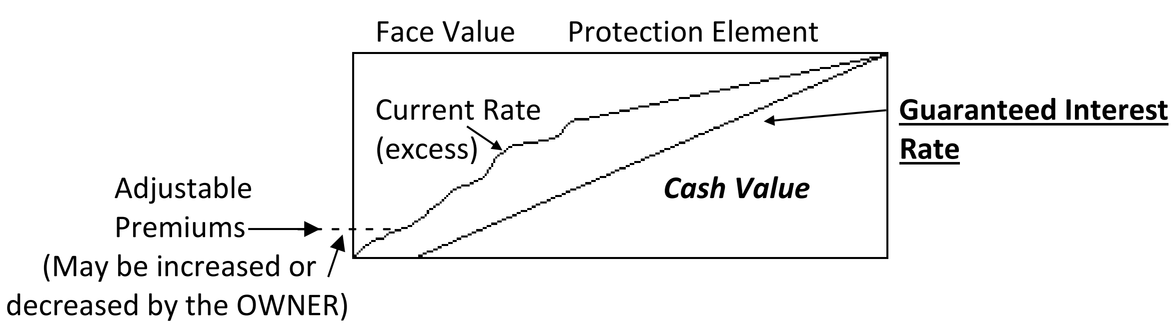
- An ***annual report*** is sent to the insured that shows the death benefit, cash value, surrender value, premiums received, expense charges, cost of insurance (which is based on term rates), and interest credited, meaning that it is a **transparent product.**

- Premiums and reports are ***bundled on traditional WL policies.*** This means the policy owner does not see for what each premium dollar is used or how it is distributed, such as the cost of insurance and expenses.

- At the insured's age of 95 the policy **endows** (the cash value equals the face value) and the face amount of the policy is paid to the owner.

The Universal policy owner has a choice of Two Death Benefit Options:

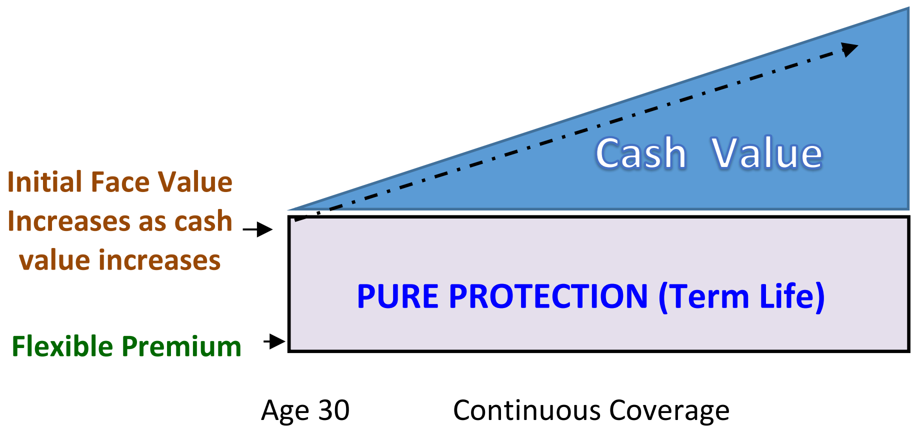
Option "A" Death Benefit is similar to a whole life policy in that it offers a fixed death benefit (a.k.a. ***level***). As cash values grow larger, the net amount risk (or pure insurance) is reduced to keep the total death benefit level.



- Because (1) the insurance may pay a higher rate of return and because (2) the insured may add more money at any time, the cash value may end up the same as the face value before the insured is 95. The problem now is this is no longer an insurance contract. This is strictly an investment with tax-deferred growth, but it is not a qualified plan, so it is not legal. To keep it legal there must be an element of protection.

- Until age 95, a ***corridor must be maintained***. The corridor is the amount of protection that must be maintained in the policy so that a life policy can retain its tax advantage status. *If the policy cash value is increasing and near the face value, the amount of coverage will increase to keep the product an insurance policy rather than an investment product.*

<u>Option "B" Death Benefit</u> of a Universal life insurance policy is an increasing death benefit contract. The death benefit at any time is equal to the face amount of pure insurance (term insurance) plus the policy's cash value at the time of death. Therefore, the ***death benefit increases*** as the cash values grow. (Remember "**B for Both**" the cash value and face value.)



Variable Products

Variable Products are security products **(a.k.a. *Equity Products or Registered Contracts*)** and include Variable Life, Variable Annuities, and Variable Universal Life. To sell a variable product, both a ***security license and a life insurance license are required***.

Variable products have the same characteristics as other life policies; however, these policies use a ***separate account*** (the investment feature) for accruing cash value, fixed products have cash values growing in the general account of the insurer.

Other features of variable products include:

- Because there is no guarantee given by the carrier, these policies are not guaranteed to endow.
- Cash value accrues or grows in the form of ***accumulation units.***
- Policy reports are sent to the insured on a **<u>quarterly</u>** basis.
    - Fixed products that have a cash value send annual reports.
- **Higher risk**, *e.g., stocks, bonds, mutual funds, etc.,* with ***no guaranteed cash value***.
- ***Dual regulation:*** Securities and Exchange Commission (SEC) and the Insurance Industry. The producer must be registered with the Financial Industry Regulatory Authority, (FINRA).
- The policy owner chooses the level of risk he desires and bears the *investment risk.* Meaning he not only gets the gains in the stock market, but he also gets the losses.
- The policy owner has choices of where to invest the money
- Variable contracts are designed primarily to provide the consumer with a ***hedge against inflation*** and insurance protection.

D. Variable Life (a.k.a. Variable Whole Life) has most of the characteristics of a whole life policy; however, these policies use a **separate account** (stock market), which is run by a management company, for ***accruing cash value***.

The ***premium is fixed***, just as a whole life policy has a fixed and level premium. The face amount of the policy varies up and down, subject to a minimum guaranteed death benefit, according to the cash value returns. The cash value of the policy is not guaranteed and fluctuates with the performance of the separate account (stock market). *The management company offers the policy owner a choice of investments*.

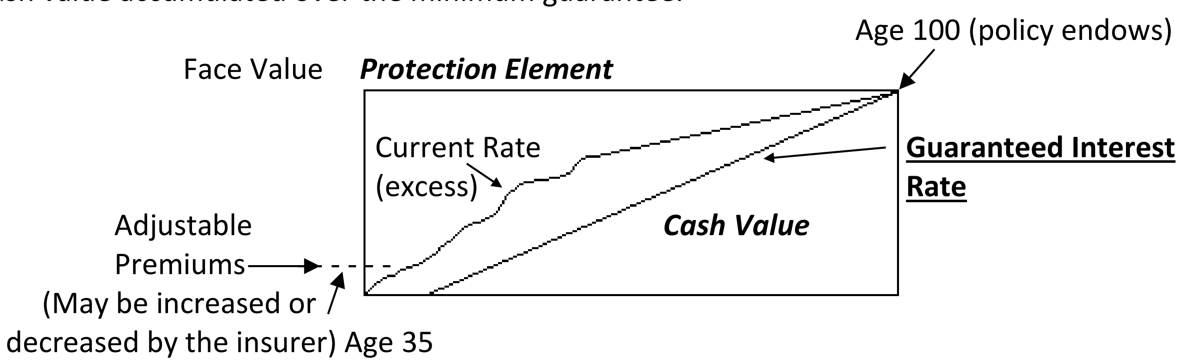
The only difference between a whole life policy and variable whole life is 'where's the money.' It is not guaranteed to endow at any age and the cash value is not guaranteed.

Actual Death Benefit = Separate Account + Guaranteed Death Benefit

E. Variable Universal This policy is identical to a universal policy except for where the money is. In a UL1, the money is in the company's general fund. In a UL2 (aka variable universal) the money is in a **separate account**. Each insured decides where to allocate their funds and there are no guarantees on either the principal or the growth.

F. Interest Sensitive Whole Life (a.k.a. **Current Assumption Whole Life**) is essentially a hybrid of traditional cash-value whole life insurance and a universal life contract. At the time of issue, the premium and death benefit are level, similar to traditional whole life policies. However, ***the insurance company does reserve the right to increase or decrease*** the premium (a.k.a. **adjustable premiums**) within a certain range and at certain times (if the assumptions under the contract are higher or lower than expected).

As with Universal Life, the C.A.W.L. is a **transparent contract**. **Withdrawals** are permitted for the **excess** cash value accumulated over the minimum guarantee.



G. Equity Indexed Life (EIL)… The advantage of Equity Indexed Life Insurance (EIL) is that it combines most of the features, benefits, and security of universal life insurance with the potential to earn interest based on the upward movement of an equity index, such as the Standard & Poor's 500 Composite Stock Price Index. Instead of the company declaring a specific interest rate as with traditional universal life insurance, interest earnings are credited based on increases in the value of a specific equity index. ***Credited interest is linked to increases in the Index without the downside risks associated with investing directly in the stock market. So…***

The excess paid by the company is based on whichever index or indexes have been chosen.

- If the index goes down, the guaranteed minimum is paid.
- If the index says flat, the guaranteed minimum is paid.
- If the index goes up, the excess is paid.

There are minimum and maximum payouts, if the S & P goes up 20 points, you will not get 20%. You will get the maximum in your contract.

Because EILs are permanent life insurance plans, they provide features that give a sense of stability through:

- A guaranteed minimum interest rate
- The principal is guaranteed, the money is in the carrier's general fund
- Tax-deferred interest accumulation
- Access to the cash value through withdrawal and/or loan provisions
- The potential to earn more based on the return of an equity index

H. Specialized Policies

1. A Joint Life Insurance policy covers two or more insureds under one policy. A joint policy averages the risk factors *(e.g., age and sex)* to establish the premiums. That is why a joint policy is less expensive for covering two individuals than purchasing two separate policies. Two separate policies would also give greater total coverage than a joint policy. There are two types of joint life insurance policies:

a) First to Die covers two or more insureds with one policy (usually term life due to the low premium), with benefits being paid to a beneficiary upon the **first-to-die**. If one of the insureds dies, the **joint policy usually allows the surviving insured to purchase permanent coverage without evidence of insurability.** This is usually term coverage.

This coverage is useful in a household where two breadwinners need large amounts of insurance but have little money to pay the premium. It can also be ideal for key person policies where the is more than one key person or used to fund a buy-sell agreement.

b) Survivorship Life (a.k.a. Last Survivor or ***Second to die***), is a **joint** policy that covers two insureds and pays the proceeds after the second insured dies. This is a type of ***joint whole life policy***, usually used for **estate planning**.

If a couple has a large estate and it is mainly tied up in property or a business, when the first dies the spouse owns everything. When the second person dies the estate passes to the heirs who may incur a large estate tax bill. This is what the insurance is designed to pay. *E.g., if the estate consists of a dairy farm, the amount of taxes due may require the heirs to sell the farm to pay them. Rather than take this drastic step, an insurance policy that pays out when the second person dies will ensure the government gets its share and business can continue.*

Another use for these products is for a young family to purchase both. You can't plan on one partner passing away first, so the first-to-die policy is for a large amount to cover all the needs of the survivors. Adding a survivorship policy to cover final expenses means the money is guaranteed to be there.

2. Juvenile Life Insurance coverage can be purchased in two separate manners.

a) A term rider (often called a child rider or family rider) added to the parent's policy. This rider covers children of any age up to the limiting age (18-25) for a specified amount. One rider can cover any number of children, each with a full payout if needed and each can convert the coverage to an adult plan at the age listed in the policy.

A nice feature of the child or juvenile rider is that any newborns are added automatically without having to show evidence of insurability. Adopted children are treated the same as newborns. Let the carrier know as soon as possible so the child can be listed.

At an age listed in the rider (usually between 18 to 25) the child will drop off the rider. However, the insured can keep life insurance by converting the coverage to a permanent life policy. Without showing evidence of insurability, the juvenile will be able to increase the original face amount by five times. This was formerly known as a jumping juvenile.

b) A juvenile plan is a whole life policy with a savings portion. The juvenile life insurance policy is usually written on children under the age of fifteen (15). Each child in a family needs a separate policy. Depending on the company, coverage can double at the limiting age and the policy converts to a permanent, payable to age 100, without an increase in premium and without having to prove insurability.

It will also have the added benefit of the ability to increase this amount with a multiple of five (5) non-medically. Premiums will increase if this option is chosen.

Payor Waiver Rider: A juvenile policy is issued on the application of the child's legal guardian (usually parents or grandparents) who usually pays the premiums on the policy. This person who applies for the child's insurance can add the Payor (Applicant) Waiver Benefit Rider. When added to the Juvenile Policy, the Payor Waiver provides that premiums will be waived in the event the premium payor dies or becomes disabled, or until the insured (the child) reaches a specified age. The payor will have to show proof of insurability as well as the juvenile.

I. Group Life Insurance differs from individual life insurance contracts in many areas including underwriting and some policy provisions. It is life insurance though and will pay a death benefit as long as premiums are paid. The majority of group life is employer-sponsored, but almost any group is eligible.

1. Eligible groups

- Group life coverage is concerned with the selection risks by group factors rather than by individuals.
- **A group of individuals may NOT have come together for the specific purpose of securing group insurance protection.** Insureds may also purchase coverage on a spouse and children through this plan.
- Group life insurance can be issued to trustee groups, debtor groups, credit union groups, labor union groups, insurance producer groups, Washington State Patrol, and financial institutions.

2. Characteristics of Group Life Insurance

a) Employee Group

is where a single employer gets coverage on its employees. Employee groups (the most common) now account for almost 90% of all group life coverage in-force.

b) Employment Probationary Period

(not more than 90 days) is nothing more than a period of time established by the employer for all new employees before the employee will be eligible for any group benefits. This is to avoid adverse selection by the carriers.

c) Eligibility Period

is 31 days following the end of the "probation" period in which the employee is entitled to enroll in the group plan. However, some group plans have an Open Enrollment Period which allows an employee to sign-up for benefits after the eligibility period. Under "noncontributory" plans, enrollment is automatic.

d) Participation Requirement…

what percentage of the group needs to be involved in the plan?

- A ***contributory*** group is where the group member or employee contributes some or all of the premium. With this type of group, the insurance company requires that at least ***75%*** of eligible employees and their dependents be enrolled in the group plan.
- A ***noncontributory*** group is where the employer pays all of the premiums. With this type of group, the insurance company requires that ***100%*** of eligible employees and their dependents be enrolled in the plan.
- It is possible to have both plans at the same time. The boss covers the first $50,000 for everyone but that is not enough coverage to meet everyone's needs so employees can purchase more through the participating plan. As long as the coverage is purchased immediately there are no medical underwriting requirements. If an employee waits until open enrollment to add coverage, they may need to provide proof of insurability.

e) Master Policy vs. Certificate of Insurance… The employer/sponsor owns the policy and receives the master policy; enrollees receive certificates of insurance. The insurer will issue to every insured an individual certificate regarding insurance protection, benefits, and rights. The certificate must summarize the essential coverage features of the policy and to whom benefits are payable.

f) Conversion Rights for employees and dependents **guarantees** that coverage can be continued (at the insured's option) should the insured leave the group. The insured has **31 days** to convert to a ***permanent and individual insurance policy***. Premium is based on attained age with ***no evidence of insurability required***.

- These rights apply for all dependents.
- Conversion rights are also available to all insureds if the employer/sponsor or the insurance company terminates the master contract.

g) Term Life Insurance… Almost all group life insurance is annual renewable term insurance. Premiums may fluctuate from year to year, depending on the number of employees and the average age of the group.

h) The beneficiary may NOT be the employer or sponsor. The only exception to this is Credit life. A bank is the policyholder and is the beneficiary if the debtor dies.

i) Group underwriting is usually written on a non-medical basis, meaning that no proof of insurability is required by the enrollees. **This is only when joining the group though**. *If a person waits to buy into the plan (in a contributory plan) at open enrollment, they may need medical underwriting and could be turned down.*

j) The coverage must be the same for all persons on the plan in a non-contributary plan. If the plan is participating or contributary enrolled insured may purchase any amount within limits set by the company.