**Questions You Must Ask BEFORE You Apply for Life Insurance**

Nobody wants “buyer’s remorse” when it comes to something as important as life insurance! And yet, we hear it all the time… policy owners who wish they knew what they know now *before* they bought their policy!

Today we’ll give you some questions to consider early in the process. (There are also questions to consider later, such as specific riders, amount of insurance, and beneficiaries, but first things first.) There are important questions you may not know to ask, and additionally, there are the questions that everyone asks that may be less important than you think!

**How do you choose the right life insurance company?**

This question is often top of mind for people who wish to obtain insurance, so let’s dive into it. Many companies have extremely similar products that are priced and perform similarly, so there may be many “right companies” that will work well for you. What is more important is to first choose the right TYPE of insurance and the right KIND of life insurance company.

Questions that will help you choose the right kind of company include:

**Is the company a mutual or stock company?**We work with mutual companies because mutual companies work for the best interests of their policyholders, which collectively own the company. Participating mutual life insurance companies are legally obligated to pay out their profits to policyholders in the form of dividends. While not guaranteed, most mutual companies have paid profits in the form of dividends without interruption for many decades, even centuries.

Stock companies have policyholders who are their customers, but their objective is to make a profit for their stockholders. Your best interest as a policyholder is not necessarily their top priority.

While most companies are either mutual or stock companies, there are also mutual holding companies (a hybrid that generally exists when a company is in the process of demutualization) and fraternal companies that operate for the benefit of their members, often part of a certain church, religion, or other groups of people.

**Does the company have a long, solid history?** When it comes to life insurance, we believe that longevity is important! We recommend obtaining insurance with companies who have been in business for well over 100 years.

**Is the company well-rated?** While the financial crisis of 2008 demonstrated that rating agencies are not always reliable—especially when conflicts of interest exist—they are still an indicator of overall financial strength (or trouble). You want to only purchase insurance with companies rated “A” or better (such as AA, A++) by the rating agencies (Moody’s, A.M. Best, ***Fitch*** and Standard & Poor’s). We find that established mutual life insurance companies tend to have excellent credit ratings, so there are many good options.

In our experience, people tend to try too hard to find “the right company” while NOT asking the *other* questions they *should* be asking, or while purchasing a type of life insurance that is WRONG for them! Indexed Universal Life (IUL) policies have become extremely popular in recent years, yet many people don’t realize they can have some of the same problems as Universal Life policies that have recently unraveled. You can avoid buyer’s remorse by asking the right questions, such as…

**Is your death benefit guaranteed for life—regardless how long you live?**

Of course, this question refers to life insurance that you intend to be permanent. Term life insurance is not guaranteed for life, only for a specific term, and there is absolutely a place in most people’s personal economy for term insurance, too. You’ll also find our post on [Convertible Term Insurance](https://www.prosperitypeaks.com/convertible-term-insurance/) helpful.

**When you desire permanent life insurance…** Watch out for death benefits that are only guaranteed with a special additional rider (and can be invalidated perhaps by a late premium payment) or guaranteed only “to age 100,” an age which more and more people are reaching!

Another related question to ask is, “Does the policy endow?” This means that when you reach a certain age if you are still alive, the policy benefit will automatically be paid to you because the cash value will equal the death benefit. (This used to be 100 and is typically 121 with new policies, a good age to shoot for!) If a policy endows, you also know it is a policy that is designed to grow substantial cash value.

**Do policy loans or changes in premium payments jeopardize the guaranteed death benefit?**

Be sure to “read the fine print,” because changes such as these can actually nullify a guaranteed death benefit with some types of policies! Also, note if there is a minimum premium amount to keep the policy guarantees in place.

**Are the premiums guaranteed not to change?**

“Flexible premiums” became a catch-phrase that sold a lot of universal life in the 1980’s and 1990’s, and by the 2000’s, it became painfully obvious that these types of policies not only gave policyholders the flexibility to change premiums but the COMPANY as well. That’s because Universal Life (UL) and Indexed Universal Life (IUL) policies typically have changeable costs, such as rising mortality costs as the insured ages. The life insurance portion of the policy starts to climb dramatically as a person ages, and these costs can eat away at cash value, require higher premiums, or cause a policy to implode.

We think a much better solution is to have **guaranteed *premiums*** with the option for **flexible** ***payments***. In other words, whether you’re paying premiums for 10 years, 20 years, until age 65, or the rest of your life, you want the type of policy in which *your premiums can never rise.* Then if you need to pause or reduce payments for awhile, there is a surprising amount of flexibility with a whole life policy. For instance, you can take an automatic premium loan, or even a withdrawal if repaying a loan would be difficult. If you’ve been paying into the policy for many years, you may have an option of a natural vanish or a reduced paid up policy.

Also, explore if the policy would allow you to take advantage of a **Guaranteed Reduced Paid-Up option.** This would guarantee your ability to stop making payments at some point in the future, without obligating you to do so.

**Can you use your policy to store cash for as long as you wish?**

On the other hand, you don’t want to be forced into stopping premiums before you’re ready! 10-pay and other policies that limit the payment term only allow you the option to continue premium payments for a certain span of time. If life insurance cash value is your primary tool for saving money and storing cash, you’ll want an option to continue premium payments as long as you still have the ability and desire to save money.

That may sound odd, because with most types of insurance (car, home, health), “premium payments” are usually an *expense* and not something you would want. Whole life policies work differently. As long as a policy remains in force, every premium dollar (plus additional growth or benefit) comes back to you and/or your beneficiaries.

**Are policy guarantees based upon a guaranteed *rate* or a guaranteed *dollar amount*?**

We’re taught to think of everything in terms of ROI. But would you rather have fewer dollars earning a potentially higher rate of return, or more dollars growing for you steadily—guaranteed? This is one of the issues with Universal Life; it is sold as an affordable option that will earn sky-high returns and turn modest premiums into a fortune. Yet even if the cash value DOES earn the promised return, there often just aren’t *enough* dollars earning those returns to matter. This problem is exacerbated when policyholders choose to pay minimum flexible premiums.

Over a 30 year time period, you’re much better off having $1000 growing at 4% than $100 growing at 8%. By guaranteeing a minimum dollar amount, companies that provide whole life insurance are guaranteeing a minimum *net* return that is locked in. By guaranteeing a minimum net return, the company must also keep costs under control. (This is critical, as rising costs have been known to compromise Universal Life policies.) Dividends, which are historically reliable, though not guaranteed, increase returns further.

**Are cash value returns tied to the stock market or non-correlated?**

People often assume certain types of risk or tolerate a certain amount of volatility or uncertainty in their investments. We believe that permanent life insurance should be your long-term protection and savings vehicle—the safe, steady, guaranteed part of your personal economy that provides a stable foundation for all else. And while we recommend non-correlated investments as well, it is particularly important that your savings grow uninterrupted, preferably faster than inflation.

If you are looking at a policy that is somehow linked to the returns of the stock market, ask yourself:

* What is the current participation ratio?
* What is the current maximum investment / index cap?
* What is the guaranteed minimum investment / index cap?
* Is there an additional fee for participation, and if so, how often is it paid?
* If the stock market is level or losing, how can policy costs affect the minimum returns of the policy? (A policy with a 0% or even a 2% minimum rate with 2.5% costs can lose money.)
* Do I really want my savings plan to be compromised at the same time my investments are potentially losing money?

**Does the type of insurance you’re exploring have a history of stability or lawsuits?**

Just google “universal life insurance lawsuits” and you’ll find pages and pages of information on unhappy policyholders suing their companies, often because they were misled as to how the policies would perform. As Vinas & DeLuca Law Firm says in their article, [“Why Some Policyholders Are Suing their Universal Life Insurers,”](http://vdlegal.com/why-some-policyholders-are-suing-their-universal-life-insurers/) policy costs, especially mortality costs, are known to rise in such a way as to compromise the investment aspect and even the integrity of Universal Life policies. For further information, we recommend the Wall Street Journal’s [“Surprise: Your Life Insurance Rates Are Going Up”](https://www.wsj.com/articles/surprise-your-life-insurance-rates-are-going-up-1449225000).

And if you think that (IUL) Indexed Universal Life is somehow immune from this problem, check out what [ClassAction.org](https://www.classaction.org/iul-insurance-lawsuits-complaints) has to say about the pervasive legal issues with IUL policies:

*“We have reason to believe that some companies… may have used misleading financial return illustrations when selling their permanent life insurance policies. Several consumer groups, policyholders, financial regulators and other insurance companies have complained about the practice – and now the attorneys we work with are looking into whether class actions can be filed.*

*“When someone purchases a life insurance policy, the insurance company may provide… an ‘illustration’ of the policy’s benefits. While not binding, this illustration serves as an ‘educated guess’ as to what the policy will be worth in any given year… however… reports within the industry suggest some companies may be misleading their customers when putting together their financial return illustrations… using current interest rates and costs to project policy benefits without taking into account how the performance of stock indexes and costs charged to the policyholder can fluctuate over time. Others may be representing a higher growth rate of the stock index than what most financial experts would believe to be reasonable.”*

In light of this information, perhaps you can understand why we’ve come to appreciate [the guarantees of whole life insurance](https://www.prosperitypeaks.com/give-dollars-lifetime-guarantee/).

**Do you have the right help?**

This question may be the last on today’s list, but it is really the place you must begin! You should work with an advisor who you trust, one who can:

* see the “big picture” of your finances to ensure that your life insurance makes sense in the broader view of your personal economy
* have the capability of working with multiple life insurance companies
* assist you with illustrations, guidance, questions, and paperwork
* advise you from a Fiduciary standard, and
* help you understand your choices and the potential financial impact they may have.

*Life insurance doesn’t need to be confusing.* We are here to help you through the process!

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