

# Life Policy Provisions, Riders, Options and Exclusions

1. **Riders** – Can be added to a base policy for a cost
  - a. **Waiver of Premium** – Pays premiums if insured becomes disabled
    - i. 6 month waiting period before premiums would be waived
    - ii. Reimburses premiums paid during waiting period
  - b. **Guaranteed Insurability Rider**
    - i. Allows insured to add more coverage at future dates without having to prove insurability
    - ii. Cost of increased coverage would be based on their attained age
  - c. **Payor Benefit Rider**
    - i. It is the Waiver of Premium Rider
    - ii. 3<sup>rd</sup> Party ownership (child's policy, key person, business owner)
    - iii. Waives premiums if payor dies or becomes disabled
  - d. **Accidental Death Rider**
    - i. Pays 2x or 3x face amount of policy for accidental death
    - ii. Death must usually occur within 90 days
  - e. **Accidental Death and Dismemberment Rider**
    - i. Principle Sum paid for accidental death or double dismemberment, blindness or deafness
    - ii. Capital Sum(% of Principle Sum) paid for loss of one limb
  - f. **Term Rider**
    - i. Added to a permanent policy – less expensive way to add extra coverage
  - g. **Other Insured Rider**
    - i. Coverage for a spouse or newborn child
    - ii. Term coverage
    - iii. Family Term Rider
  - h. **Children's Term Rider**
    - i. One low cost, no matter how many kids

- ii. Allows the kids to convert to permanent protection at 18 or 21
  - 1. Without proof of insurability

**j. Return of Premium Rider**

- i. Increasing Term insurance
- ii. Beneficiary collects both the death benefit and premiums paid on policy
- iii. Insured lives to end of term – gets back all premiums

**2. Provisions** – Part of every policy – Protects the Insured

**a. Entire Contract**

- i. Application, Policy, Riders and Ammendments
- ii. Prevents insurer from changing policy one it is issued
- iii. Changes can only be made by an officer of the insurer

**b. Insuring Clause**

- i. The Heart of the policy
- ii. States who the parties to the contract are
- iii. Amount of premium and coverage
- iv. States the insurers promising to pay benefits

**c. Free Look**

- i. Gives the insured time to look at policy and return it for a refund if not satisfied
- ii. 10 days – when they get the policy in their hands
- iii. 30 days – Medicare Supplements and Long Term Care policies
  - 1. Guaranteed Renewable

**d. Consideration Clause**

- i. Something of value each party promises to the other
  - 1. Insured – answers on the application and premium
  - 2. Insurer - promising to pay benefits

**e. Owners Rights**

- i. Paying premium, making changes, naming beneficiary
  - 1. Unless beneficiary is set up as Irrevocable
    - a. Needs written permission before making any changes

**f. Beneficiary Designations**

- i. Primary – 1<sup>st</sup> in line for death benefit
  - 1. Revocable – owner can make changes without beneficiary permission
  - 2. Irrevocable – owner cannot make changes without written consent of beneficiary
- ii. Contingent – 2<sup>nd</sup> in line if Primary dies before the insured
- iii. Estate is final beneficiary – benefit fully taxable
- iv. Does not have to have insurable interest or sign application

**g. Common Disaster Provision**

- i. Uniform Simultaneous Death Law
- ii. Will assume that primary beneficiary died first, even if that is not the case
- iii. Protects a contingent beneficiary – preserves the wishes of the insured

**h. Mode of Premium Payment - Frequency**

- i. More frequent the mode, the higher the premium

**i. Grace Period**

- i. 30 days for individual life
- ii. 31 days for group life
- iii. Prevents a policy from lapsing due to non-payment of premium
- iv. Death benefit would be paid, minus earned premium

**j. Automatic Premium Loan**

- i. Helps prevent the unintentional lapse of a permanent policy
- ii. Takes premium from cash value
- iii. When no more cash value – policy will lapse

### **k. Reinstatement Provision**

- i. After a policy lapses – up to 3 years
- ii. Pay back premiums + interest
- iii. Proof of insurability

### **l. Policy Loans**

- i. Only found in permanent policies
- ii. Insurer can charge interest
- iii. Loans are not taxed – borrowing your own money
- iv. Loan balance would be deducted from death benefit

### **m. Incontestability Provision**

- i. Insurer can contest claims during the first 2 years
- ii. After 2 years, they cannot deny a claim because of statements in an application

### **n. Assignment Provision – transferring owners rights**

- i. Absolute - complete an permanent transfer of all rights in a policy
  - 1. Child's policy at age 18
- ii. Collateral – partial transfer of rights for a period of time
  - 1. Loan from a bank – allows bank to collect amount owed
  - 2. Beneficiary would collect the balance
  - 3. All rights transfer back to insured when loan paid off

### **o. Suicide** – excluded during the first 2 years a policy is in force

- i. Would return premiums to beneficiary
- ii. After 2 years, entire death benefit would be paid

### **p. Mis-Statement of Age/Gender**

- i. Trumps period of incontestability
- ii. As long as a policy is in force – still would pay a death benefit
  - 1. Benefit adjusted down to how much coverage could have been purchased with the premium that had been paid

## **3. Non-Forfeiture Options**

- a. Required by law in all permanent policies
- b. 20 years of options must be illustrated in policy

- c. Cash Value in policy can't be forfeited
- d. **Cash Surrender Value**
  - i. Surrender policy
  - ii. Send you a check for the cash value you had in the policy
  - iii. No further coverage exists
    - 1. Cannot get policy reinstated
- e. **Extended Term**
  - i. Uses the cash value to purchase a new term policy
  - ii. Same face amount as in prior permanent policy
  - iii. Length of term depends on age, cash value and face amount
  - iv. Provides the **highest amount of protection**
- f. **Reduced Paid Up**
  - i. Uses cash value to purchase another permanent policy
  - ii. Single premium – no more payments will be due
  - iii. New policy has a reduced face amount from old policy
  - iv. Can continue to build cash value
  - v. Provides the **longest period of protection**

#### 4. Dividend Options

- a. Paid on Participating policies – Mutual Companies
- b. Paid to Policyholders
- c. Not guaranteed
- d. Not taxable – considered a return of their premium from prior year
- e. **Cash option** – send me a check
- f. **Interest** – dividend stays at insurer and they pay the interest it earns
  - i. Interest always taxable
- g. **Paid Up Additions** – use the dividend to purchase a small paid up policy
- h. **Application to Reduce Premium Payments** – reduces next years annual premium by the amount of the dividend
- i. **One Year Term Option** – dividend buys a one year term policy to add to their death benefit
  - i. Goes away after a year

**5. Settlement Options** – How proceeds from a death benefit can be received

a. **Lump Sum Cash** – tax free to beneficiary

b. **Interest Only** – insurer pays out only the interest it is earning

i. Interest always taxable

ii. Only option to preserve the principle

c. **Fixed Amount**

i. “I choose the amount”

ii. Insurer chooses the time period

iii. Interest will be part of each payment

iv. All proceeds will get paid out – whether to beneficiary or their beneficiary

d. **Fixed Period**

i. “I choose the period” – 5 years, 10 years

ii. Insurer chooses the amount

iii. Interest will be a part of each payment

iv. All proceeds will get paid out

e. **Annuity Options**

i. Life Income

1. Income cannot outlive

2. Die too soon – insurer keeps the rest

ii. Life with Period Certain

iii. Join Life

iv. Joint and Survivor

**6. Accelerated Benefits**

a. Insured has a terminal illness – death expected within 2 years

i. Early payout of death benefit - up to 100% of it

ii. Not taxable

iii. Reduces amount payable to beneficiary

b. Long Term Care Rider - Accelerated Benefits

i. Insured can take from death benefit to pay for nursing home needs

ii. Reduces death benefit

iii. Usually only up to a certain % will be tax free though

**7. Exclusions**

- a. Aviation
- b. Criminal Activity
- c. War and Military

