

## Understanding Your Life Insurance Policy



Servicemembers and veterans who buy life insurance outside of what is offered by Servicemembers' Group Life Insurance (SGLI) or Veterans' Group Life Insurance (VGLI) often have coverage needs greater than what those group policies can provide. Coverage provided by SGLI or VGLI may not be enough for those who have a spouse or children, are sole breadwinners, pay a mortgage, have other outstanding debts, or plan to pay for their children's future education.

Additional coverage can be obtained through commercial insurers, and the process to apply is often easy, but you will want to confirm that you understand all documents related to your policy. Reading and understanding your policy can help you avoid coverage gaps or lapses that could leave your loved ones unprepared to manage their financial responsibilities after you are gone.

Policies break down into five key parts:

### **1. Life Insurance Quote**

It's important to know that the information you received when you requested a life insurance quote may not be wholly reflected in your policy documents. A life insurance quote is an *estimate* of what premium rate a potential policy owner may pay for a specific type and amount of coverage. Premium rates are determined by risk, which is further determined by the proposed insured's age, health history, and hobbies. Simply put, the higher the risk, the higher the premium. Insurance companies typically ask a few basic questions about the proposed insured to create an initial life insurance quote. Final premiums are determined after the insured goes through underwriting and may be lower or higher than what was quoted.

### **2. Main Policy Information**

Once you have been issued a policy, you will want to review a few key pieces of data contained within it. These include:

- The policy owner's personal information and the policy number
- The insured's personal information; the insured may also be the policy owner
  - Personal information of the insured includes their name, date of birth, sex, and risk rating as determined by underwriting. The insured's risk rating is based on several factors including the insured's medical history and their family's medical history, their hobbies, and their status as a smoker or nonsmoker. The risk rating then affects the policy's premiums.
- The policy's effective date and expiration date
  - Term life insurance policies will have a listed expiration date that depends on the length of term you selected when purchasing your policy; permanent life insurance has no expiration date and is active until the death of the insured.
- The policy's death benefit, or the amount of money that will be paid out to a beneficiary or multiple beneficiaries if the insured passes away while the policy is active
- The policy's beneficiaries, or the names of the individuals or entities to which the death benefit will be paid out if the insured passes away while the policy is active and the percentage of the death benefit that is payable to each, if there are multiple beneficiaries.
  - The policy owner can also name contingent beneficiaries, or individuals or entities to which the death benefit should be paid if the primary beneficiaries are deceased before a claim is made.
- The policy's premiums and payment information
  - Policies with level premiums, or those that do not change over the life of the policy, will show a monthly or annual premium cost. Policies with variable premiums, or those that change over time, will demonstrate the cost in a different manner. With the premium information provided, there will likely also be instructions on how to submit payments and information about due dates.

### 3. Riders

Your life insurance policy documents will also note whether you have purchased any additional riders. Riders are optional benefits that can be added on to a life insurance policy in exchange for a greater premium payment. Riders allow policy owners to customize their policies to provide the best coverage for their circumstances. Available riders vary by insurer, but a few common riders are listed below.

- **Guaranteed Insurability:** This allows a policy owner to purchase additional coverage without the insured having to provide further proof of medical insurability.
- **Guaranteed Convertibility:** This allows the owner of a term life insurance policy to convert their coverage into a permanent policy without the need for a medical exam.
- **Child:** Provides a small death benefit in the event a child passes away before reaching a certain age; this coverage can be converted into a permanent policy before the child reaches a set age.
- **Long-Term Care:** Provides a monthly benefit if the insured develops the need for long-term care and needs to move into a nursing facility or receive at-home care.
- **Accelerated Death Benefit:** Allows access to the death benefit in the event the insured is diagnosed with a chronic or terminal illness.
- **Return of Premium:** Refunds a portion of the premiums paid into a term life insurance policy if the insured outlives the term.

### 4. Clauses



Aside from basic policy information, many policies also have additional clauses and exclusions that serve to protect either the individual or insurance company from unnecessary risk. Common clauses include:

- **Free Look Period:** Policies with free look periods offer policy owners the ability to “return” the policy within a specified period of time and receive their premiums back.
- **Misstatement of Age Clause:** If a policy owner misstates the age of the proposed insured (which may be done in an attempt to secure lower premiums), and the insurer finds out, the insurer can cancel the policy or make changes to the policy’s premiums to reflect the true age of the insured.
- **War and Aviation Clauses:** These clauses state that insurers will not pay out a death benefit if the insured is a casualty of war or passes away as a result of air travel.
  - Note that Navy Mutual has no war, aviation, terrorism, or travel clauses for those on active duty.
- **Suicide Clause:** This clause states that insurers will not pay out a death benefit if the insured dies by suicide within a certain amount of time after the policy’s effective date, typically two years.
- **Grace Period:** If you are late on your payments, most policies offer a grace period, or a set period of time during which your account is considered past due but you can still make a payment to bring your account current and maintain your coverage. If payment is made after the grace period expires, the policy may expire.
- **Contestability Period.** This is a set period of time, usually two years from the policy’s effective date, when, if the insured were to pass, the insurer can review the policy owner’s application and question claims made by a beneficiary. The death benefit may only be reduced or denied if the insurer finds intentional misrepresentation was made during the application process.

## 5. Provisions

Policy provisions are an explanation of the conditions that must be met before an insurance company will pay a death benefit after a claim has been made. If the conditions are not met, it is within the rights of the insurance company to deny the claim. Typically, the provisions include descriptions of the riders chosen to include on the policy as well as any relevant clauses.

It’s important to understand what rights and protections are afforded to you as the policy owner and what rights are granted to the insurance company – and in what circumstances. Reviewing your policy and its terms regularly can also help you stay on top of important tasks, like making sure your beneficiaries are listed correctly, updating your contact information, or reaching out to a representative about a new policy when your current one expires. You may also be able to increase or decrease the policy’s death benefit as your circumstances change.

Understanding your life insurance policy is only the first step. The next step is staying on top of changes in your life and adjusting your coverage accordingly. We recommend you review your life insurance policies at least annually – this allows you to stay on top of address changes, beneficiary changes, and important dates. If you need to adjust your coverage or apply for a new policy, we’re here for you. [Schedule a consultation](#) with a representative or [get a quote](#) today.