

How Does Life Insurance Work?



Life insurance is one of the few things in life that you pay for while intending to never see its main benefit, as **life insurance is purchased to protect those who are left behind from the financial implications of one's passing**. Life insurance companies are well versed in taking care of policy beneficiaries, but it still helps to know how life insurance policies work so you can prepare your family for when you pass, or know what to do if anyone else in your life passes away – especially if you will be involved in settling their affairs.

For servicemembers and veterans, too, life insurance can be a little more involved than for the average citizen. You have to consider the coverage you have access to through the military or the Department of Veterans Affairs as well as any additional coverage your family may need – meaning that you may have multiple policies. Understanding how life insurance works is the first step to making sure that your family is protected now and in the future.

Basic Terminology

Before diving in, it is helpful to have a few key vocabulary words under your belt. Building an understanding of basic terms goes a long way in helping you understand how life insurance works as a whole.

- **Permanent life insurance:** Life insurance coverage that lasts for the duration of the insured's life.
- **Term life insurance:** Life insurance coverage that lasts for a set amount of time.
- **Policy owner:** The person who owns the policy. This is the person in charge of managing the coverage, choosing beneficiaries, and paying premiums.
- **Insured:** The person whose life is insured and the person whose death triggers the payment of a death benefit. The insured may be the same person as the policy owner, but it could be another person in which the policy owner has a vested interest (e.g., a spouse, child, or parent).



- **Premium:** The amount of money paid each month to maintain life insurance coverage. Premiums can change depending on the health and age of the insured, the coverage amount, and the type of policy purchased.
- **Death benefit:** The monetary payout of the life insurance policy to beneficiaries.
- **Beneficiaries:** The person(s) outlined in the life insurance policy to receive the death benefit.

[Read more: Life Insurance Basics](#)

How Life Insurance Policies Work

Once activated, life insurance policies work in two stages: the first that occurs before the death of the insured, and the second which occurs after.

- **Before passing:** While the policy is active, the policy owner pays a monthly premium to the insurance company to maintain coverage. This is the normal state of things until either a) the insured passes away or b) a term policy concludes. If the policy owner would like to renew a term policy, they may be able to do so after the conclusion of the term. In some cases, the policy owner can convert a term policy to a permanent policy before the conclusion of the original term. Some policies also allow the policy owner to draw against the total death benefit while the insured is still alive in situations that involve chronic or terminal illness or the need for long-term care.
- **After passing:** For a death benefit to be paid out, the insured must pass away while the policy is active and in good standing. The policy's beneficiaries must initiate a claim with the insurance company, after which a review of the policy and manner of death is conducted. Upon approval, the tax-free death benefit is paid out to the beneficiaries for them to do with as they see fit. To ensure the process goes as smoothly as possible, the policy's beneficiaries need to know where to access information about the policy and which documents they need to file a claim. Most life insurance companies will ask to see a death certificate, proof of identity, and a claim form that provides information about the death of the insured.

[Read more: Preparing Important Files and Life Insurance Documents for Emergencies](#)

Payout Options

There are a few common ways that beneficiaries can receive the policy's death benefit.

- **Lump-sum payments:** The beneficiaries receive the full sum of the death benefit all at once. This is often the default payment option.
- **Installments and annuities:** Installments and annuities are doled out over time in small, predetermined payments. This provides the beneficiary with a consistent stream of income for a set period of time.
- **Retained asset accounts:** The total amount of the death benefit is held by the insurance company and the beneficiary is given access to withdraw from it as needed. Beneficiaries may also receive interest payments at regular intervals.

Special Considerations for Servicemembers and Veterans

As a servicemember, spouse or dependent child of a servicemember, or veteran, you are eligible for life insurance that is not available to the general public.



- **Servicemembers Group Life Insurance (SGLI):** Provides up to \$400,000 of term life insurance coverage to servicemembers. All servicemembers are automatically enrolled when they join the military, and coverage lasts for the duration of their service, expiring 120 days after separation.
- **Family Servicemembers' Group Life Insurance (FSGLI):** Provides up to \$100,000 of term insurance coverage to spouses and \$10,000 of free coverage to children of servicemembers with SGLI coverage *while the servicemember is in the military*. Coverage expires upon separation.
- **Veterans Group Life Insurance (VGLI):** Allows servicemembers the opportunity to convert their SGLI coverage to renewable term coverage upon separation from service without requiring a medical exam, provided they do so within 240 days of separating. (Veterans can apply for coverage for up to one year and 120 days, but will have to undergo a medical exam after the first 240 days.) Coverage amounts initially match the servicemember's SGLI coverage. VGLI is not available to spouses or children.

Servicemembers are automatically covered by SGLI while on active duty, but depending on your family situation, [the \\$400,000 of coverage offered may not be enough](#). If you have a spouse, children, properties, or outstanding debt, additional coverage may provide extra protection and peace of mind for those who would be left behind. Furthermore, after separation, your spouse and children are not eligible for VGLI, so to maintain coverage for them, you will need to look at other options. Consider your current and expected future financial situations when determining what coverage is right for you.

Navy Mutual offers affordable [life insurance](#) coverage to servicemembers, veterans, and their families. We work with you to understand your family's needs, so you get the right amount of coverage for your personal situation. If you need help, [schedule an appointment](#) with a representative, [get a quote](#), or give us a call at [800-628-6011](#).