

LIFE INSURANCE

TEST TIPS

TAXES

Individual Policies

- ⇒ Premiums paid are **never tax deductible**
- ⇒ Life insurance proceeds paid to the beneficiary are **never taxable**

Group Policies

- ⇒ Portion paid by the employee (insured) is **never tax deductible**, but the portion paid by the employer (policy owner) is **tax deductible** as a business expense
- ⇒ Life insurance proceeds paid to the beneficiary **are never taxable**

FREE LOOK

The free look always starts from the date of policy delivery. On the test always assume it was delivered in person.

GRACE PERIODS

The grace period is the first policy provision to apply if the premium is not paid on time. There are three you need to know:

- ⇒ **30** days on Individual Life Insurance and on Annuities
- ⇒ **31** days on Group Life Insurance
- ⇒ **28** days on Industrial Life Insurance

NON-FORFEITURE PROVISIONS OR OPTIONS

These provisions only apply to policies with cash value. They apply when a policy lapses with cash value. The insurance company will send you a letter saying, “**CER**, your whole life policy has lapsed and we have your \$40,000 cash value. What would you like us to do with it? We can’t just keep it.” They give you 3 choices:

- ⇒ **Cash Surrender** – You take your money, no more coverage
- ⇒ **Extended Term** – You will get this option automatically if they don’t hear from you within 60 days
- ⇒ **Reduced Paid-up to 100** – Whole life, they take your cash value and buy you a single premium whole life policy



INCONTESTABILITY CLAUSE

A period of time in which a newly issued policy's claim can be contested.

⇒ It is **2 years** after which the policy is incontestable for everything including fraud

⇒ **Liars pray for 2 years and then they are covered**

SUICIDE EXCLUSION

A period of time after buying a policy during which suicide is excluded.

⇒ If an insured commits suicide during the suicide exclusion, the insurance company will refund premiums, less any loans outstanding.

SETTLEMENT OPTIONS

These are the various ways that a beneficiary can select to receive the proceeds from the insured's life insurance policy. There are five options and they can be easily remembered using the word **CIFFA**. They are:

⇒ **Cash** – The insurance company pays the beneficiary the face amount in cash

⇒ **Interest option** – The insurance company keeps the money and pays the beneficiary interest on it

⇒ **Fixed amount** – The insurance company pays the beneficiary a fixed amount monthly until the proceeds are exhausted

⇒ **Fixed period** – The insurance company pays the beneficiary for a specific period of time

⇒ **Annuity option** – The beneficiary selects to take monthly payments for his or her life

RISK CLASSIFICATION

Risk classification pertains to the amount of risk that a client poses to the insurance company. Some clients present more risk than others. There are three you need to know for the test:

⇒ **Nonstandard or Substandard risk** is a client that may have a health problem or a dangerous hobby (avocation) or occupation. This type of person involves a higher risk to the company and would have to pay a higher premium than most people

⇒ **Standard risk** is the average person and would pay an average premium

⇒ **Preferred risk** is someone who is in excellent shape and likely to live a long life. Their premium rate would be at a discount. They pose a lower risk to the insurance company so they pay a lower premium for coverage.