

**For more information:** contact the Division of Insurance, 605-773-3563

## **South Dakota Division of Insurance Consumer Alert**

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### **INSURANCE COMMISSIONER OFFERS “FACTS OF LIFE” TIPS FOR CONSUMERS**

**Pierre, SD (September 21, 2006):** Although consumers widely recognize the importance of life insurance in financially protecting their families, most need significant help in determining the type and amount of coverage appropriate at different life stages, according to the National Association of Insurance Commissioners (NAIC), of which South Dakota is a member. Acknowledging September as “Life Insurance Awareness Month,” the NAIC has assembled useful information about the subject on its consumer education Web site, Insure U ([www.InsureUonline.org](http://www.InsureUonline.org)).

“To help educate consumers about if and when to purchase, increase or reduce their life insurance at different stages in their lives, we’ve created Insure U,” said Director Merle Scheiber.

Consumer research conducted by the NAIC earlier this year indicates:

- Only 35 percent of young singles have life insurance. Furthermore, few young singles (28 percent) express high levels of confidence in knowing the difference between the two basic types of life insurance, term and permanent, and a similar number (27 percent) are highly confident that buying life insurance when they are young will guarantee their coverage later in life.
- Among young families, nearly two-thirds (64 percent) believe it’s “very important” for both spouses to have life insurance. Yet fewer than half (48 percent) say they actually have purchased life insurance for either spouse.
- Across all life stages, a significant number of consumers (around 40 percent) fail to review their life insurance policies on an annual basis.

### **The Basics: What All Consumers Should Know About Life Insurance**

There are three life insurance basics that all consumers should consider:

1. Start by considering how many people are financially dependent on you, what their major expenses are likely to be and whether you’re likely to leave them with substantial debts or taxes to pay on your estate. Life insurance can help on all of those fronts.
2. Evaluate the two main types of life insurance: term and permanent. As its name implies, term life insurance pays a death benefit if you pass away within a specified time period (typically a term of one to 20 years). In contrast, permanent life insurance (which comes in many varieties such as whole life, universal life and variable life) includes both a death benefit and the ability to build up cash value over your entire lifetime.

In general, term life insurance is much less expensive than permanent life. In fact, term life premiums have decreased markedly during the past decade due to the fact that Americans are living longer on average. Consumers who purchased their policies more than a few years ago should check out current rates. Also, consumers should ask whether the policy they are considering charges a surrender or cancellation fee if they decide to drop the policy or switch to another one.

3. Understand the major factors that can affect life insurance premiums. Some are uncontrollable, like the age at which one purchases a policy or a serious pre-existing medical condition, like cancer or heart disease. Other factors are much more dependent on an individual's behavior, like poor health habits (e.g., smoking and excessive drinking), driving record (e.g., accidents and Driving While Intoxicated citations), engaging in dangerous hobbies (e.g., sky diving, car racing or rock climbing) and even where one lives, since mortality rates in a geographic region may be used by life insurance companies to help establish premiums.

### **Life Insurance Tips for Each Life Stage**

Following are focused tips to consumers based on their likely needs in different life stages. For example:

- **Young singles** who want to be sure that they can get life insurance later in their lives when they may develop health problems should consider purchasing term life insurance that is guaranteed to be renewable. They may also want to consider a term policy with a conversion option, which enables them to switch, for a set fee, to a cash-value policy at a time when they have more money. Those serving in the military should consider Serviceman's Group Life Insurance, low cost term life insurance available to all those in active duty.
- **Young families** should consider purchasing life insurance for both spouses, even for a non-working spouse, to help pay for child care and other domestic services. At this life stage, term insurance may be the most cost effective when their salaries are still relatively low and they're paying off a mortgage. Some parents purchase small life insurance policies for their newborns to guarantee that they'll have some insurance if they develop health problems.
- **Established families** should consider the probable costs of their children's college education when determining how much life insurance they may need.
- **Empty nesters/seniors** should evaluate whether they can reduce their life insurance coverage based on such factors as whether their spouse is alive, their home is paid off, their children and/or grandchildren are financially independent, or if they anticipate high estate taxes that would be a burden on their heirs. Some older individuals with significant financial assets may choose to keep their life insurance in force because they view insurance as an estate planning tool that enables them to leave their loved ones money that is exempt from income and estate taxes.

“All consumers should remember to review their life insurance policy every year before paying their premiums and update it to reflect any major changes in their lives – like marriage, the birth of a child, divorce or the death of a spouse,” said Director Scheiber. “Before signing up for any kind of insurance, consumers should check with our state insurance department to make sure the company offering the policy is legitimate, solvent and authorized to do business in South Dakota.”

For more information about insurance, consumers can visit the NAIC's consumer education Web site, Insure U, at [www.InsureUonline.org](http://www.InsureUonline.org).