

# 4 THE SMART SHOPPER'S GUIDE TO BUYING LIFE INSURANCE

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How to avoid getting ripped off in 2023

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**By James P. Tobin, CFP**

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## About The Author



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James P. Tobin, CFP

Mr. Tobin's agency, Bequest Mutual seeks to meet the unique goals of each client. Bequest Mutual, is an independent alternative to the 1-800 call centers and "captive" agents determined to shoehorn clients into only the products their employer offers. With over 50 highly rated life insurance carriers available, Mr. Tobin, and BMLI, have the flexibility to find the best fit for every client situation.

Mr. Tobin is a graduate of Eastern Connecticut State University, earning his Bachelor's Degree in Public Policy. Mr. Tobin received the CFP designation from the Certified Financial Planner Board of Standards after sitting for the rigorous CFP examination in 2011. James is an active member of community in Norwalk, CT, where he resides with his beautiful wife Nicole.

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# INTRODUCTION

If you are looking for a comprehensive guide to buying life insurance, you now have a great resource at your disposal. In addition to spelling out the process and the available options, this life insurance buyer's guide will provide some useful tips & tricks.

The guide will walk you through the [application process step by step](#) and provide links with in depth material on each step. The Post will follow the table of contents, which you can use to jump around to the subjects most important to you.

## SECTION 1:

# CHOOSING TERMS

Before you think about getting the best deal on life insurance you'll want to think about how much and what kind of insurance you want.



## How Much Insurance do you need?

These are several formulas that the life insurance industry uses to come up with a recommendation. These include the human life value formula, the needs analysis and the simple income multiplier. No formula or rule of thumb can be right for everyone. Moreover, the ultimate decision is usually dictated by budget, not a formula.

A good “quick and dirty” recipe to use as a starting point is the acronym L.I.F.E. Using this principle you add the following values:

L

Outstanding Loans (home mortgage, auto, credit cards, student loans...etc)

I

Income, (current salary multiplied by the number of years until retirement\*)

F

Future expenses, (major retirement expense, family gifting, significant charitable donations)

E

Education expenses, (a plan to fully or partially fund the education costs of children or grand children).

Adding these costs and then subtracting any 70 % of retirement savings and current life insurance coverage will provide a good starting point.\*



***\* This calculation has the option of adding step-ups to account for wage and cost inflation.***

## Example: L.I.F.E. Formula

**46 Y.O. with non working spouse and planning to retire @65**

**+ \$387500 – Loans (mortgage, auto, student)**

**+ 1520000 – Income(80K x19 years)**

**+ 100000 – Planned contribution to children's education**

**\$2,007,500 – Total Gross Need**

**– 297500 – 70% of Retirement savings**

**–160000 – Life insurance through employer**

**1.5 MM – Insurable Gap**

While this example is simplistic, it will give you the foundation to calculate your insurable gap. As with most things, the more information you provide the more valuable the output will be.





**Note that there are a couple of caveats to this formula:**

We have discounted the retirement savings by 30 percent. This is meant to represent taxation. Depending on how long you have until retirement, it's safe to predict the tax environment may well change.

Secondly, we have included the in-force life insurance from the client's employer. While this is commonly done, the initial calculation is best done without the employer sponsored life insurance.

The rationale for this is that if there is an employment change, there is no guarantee that the next employer will offer group life insurance.

The subject of [choosing terms: "how much and for how long?"](#) is [further discussed here](#).

## SECTION 2:

# WHAT KIND OF LIFE INSURANCE?



Now that you have a handle on how much insurance you may want, it's time to think about what kind of life insurance.

Life insurance can fill a temporary need (term), a permanent need (whole life), or a flexible need (universal). Additionally, all these types of insurance can be fully underwritten (medical exam) or accelerated issue ([no exam](#)).

**Term Insurance** – [term insurance](#) generally runs from 10 –30 years and is the least expensive option for that period of time. When the term expires the insurance does also and there is no cash value unless you have chosen a [return of premium \(ROP\) policy](#).

**Permanent Insurance** – As the name implies, permanent insurance is permanent as long as the premiums are paid. Permanent insurance is either [whole life](#) or [universal life](#). Rates are fixed for the life of the policy with whole life. Whereas, they can change with universal life.

Permanent policies are often used to accumulate cash value in an asset class that is not directly correlated to the equity market.

Permanent policies are also the primary choice for [final expense policies](#).

### **Simplified Issue Policies (no exam)**

–These are generally term or whole life policies that offer a lower face amount of insurance \$250000 or less with no medical exam required. These policies do ask about serious medical questions that can exclude you from coverage, but do not require an exam.

Below we'll address the highlights of each kind of insurance, Please be sure to check out the links for more information.



## Term Insurance

The period for term most insurance, 5, 10 15,20 25,30 year increments, is pretty straightforward. At the end of the term, your policy may turn into an annual renewable term policy (ART). Generally ART policies are best avoided due to ever increasing cost.

The tricky part about term, finding the best deal, is discussed in the next section. In addition to the period of insurance, it is important to understand the available policy riders.

Riders, are additional benefits that, often for an additional cost, are included in your policy. The five most prominent riders are:

- ✓ Waiver of Premium
- ✓ Living Benefits
- ✓ Conversion Privilege
- ✓ Child Rider
- ✓ Additional Purchase Option



Let's take them one at a time.

## ***Waiver of premium***

This rider waives the policyholder's obligation to pay any further premiums should he or she become seriously ill or disabled. In this case the insurance policy continues without payment of premiums.

## ***Living Benefits***

The accelerated benefits option or rider in a life insurance policy provides that a portion of the policy's proceeds will be paid to the insured upon the occurrence of specified events. These include such things as the diagnosis of a terminal illness, the need for long-term care or the onset of a medically incapacitating condition. The life insurance company will deduct the accelerated benefits payment from the death benefit it ultimately pays to the beneficiary.

## ***Conversion Privilege***

A policy rider which obligates the insurer to allow changing to a permanent policy regardless of the insured's health. An insurance policy with this type of provision allows the insured to switch to a different type of policy without submitting to a physical examination. The rider will dictate which policies are available for conversion. This option can be very valuable in a situation where the insured's health declines to the point of being otherwise uninsurable.

## ***Child Rider***



The child rider allows for a set amount of insurance on each of the insureds children. This provision additionally allows for the conversion of this insurance to permanent coverage without proof of insurability.

This can be of value, not only in the event of a tragic death, also if the the child develops a medical condition preventing affordable coverage as an adult.

## ***Additional Purchase Option***

This policy rider allows for the additional purse of coverage without proof of insurability. This can be an advantage should your health status have a turn for the worse.

While these three riders are the most noteworthy there are many more available. As with the aforementioned riders, these additional riders vary from carrier to carrier. You should ask which riders are available and cost of the rider.

## ***Whole Life***

The best known of the permanent policies is called whole life. Whole life policies range from no medical exam final expense policies (usually under \$35000) to investment alternative cash accumulation vehicles.

Both of these types of policies guarantee that your premium will remain the same for the life of your policy and, as long as premium payments are made, the death benefit will never expire.

## ***Universal Life***

In addition to whole life, UL is a potentially permanent policy, referred to as Universal life. Universal life is a flexible policy that can be designed for cash accumulation and longevity (all the way to age 121) or an economical guaranteed death benefit (GUL).



The flexibility of the universal life policy (ability to manipulate premium and death benefit) is both the strength and weakness of this type of policy. Failure to monitor the policy can result in the policy becoming unaffordable.

Committing to a universal life policy means a commitment to monitoring the policy at least annually. Please refer [here for an in-depth look at using both universal life and whole life as cash accumulation vehicles.](#)

Also, a quick word about no exam/simplifies/guaranteed issue policies.

### **No Exam**



The life insurance world is changing fast. Historically, traditional carriers would offer no exam policies up to a maximum amount (usually \$250,000) charge an additional premium for the perceived increase in risk, and then underwrite based on your medical and driving records.

The recent changes are that the additional premium is largely disappearing and the maximum amount has increased to \$1MM for most carriers and as much as 3MM for a few. The primary reasons "no exam policies are the fastest growing segment of the life insurance market are:



- I. Fear of the unknown. If you have not been to a doctor in over a year, you may well be surprised what a medical exam will show and how it can affect the rate you pay.
- II. You don't like needles and would like to avoid them.
- III. You need insurance NOW. The usual underwriting process for a fully underwritten policy is 3-4 weeks. Non medical underwriting is usually done between 2 days and 2 weeks depending on the carrier. These policies are common requirements for small business loans and divorce proceedings.

In addition to the questions on the application, the carriers will access the [MIB or Medical Information Bureau](#), your [Motor Vehicle Report](#), your Pharmacy Report, and any [attending physicians statements](#) (APS) that the insurer requests of your doctor(s).

The MIB is a database of information collected and shared by life insurance companies. The information you provided on a previous application will be available. Your Motor Vehicle Report will show tickets, suspensions, DUI.... Your Pharmacy Report is a list of all medications you have been prescribed. This will show prescriptions whether you have taken the drugs or not.

The APS, or attending physicians statement, is a wild card in that doctor's are not always prompt to return these requests as there is no real economic incentive for the doctor's office. There are times when it is helpful for the applicant to call his physicians office to "grease the wheel".

If you are wondering how they get all this information, the answer is you give consent when you apply. In addition to the questions on the application, the carriers will access the [MIB or Medical Information Bureau](#), your [Motor Vehicle Report](#), your Pharmacy Report, and any [attending physicians statements](#) (APS) that the insurer requests of your doctor(s).

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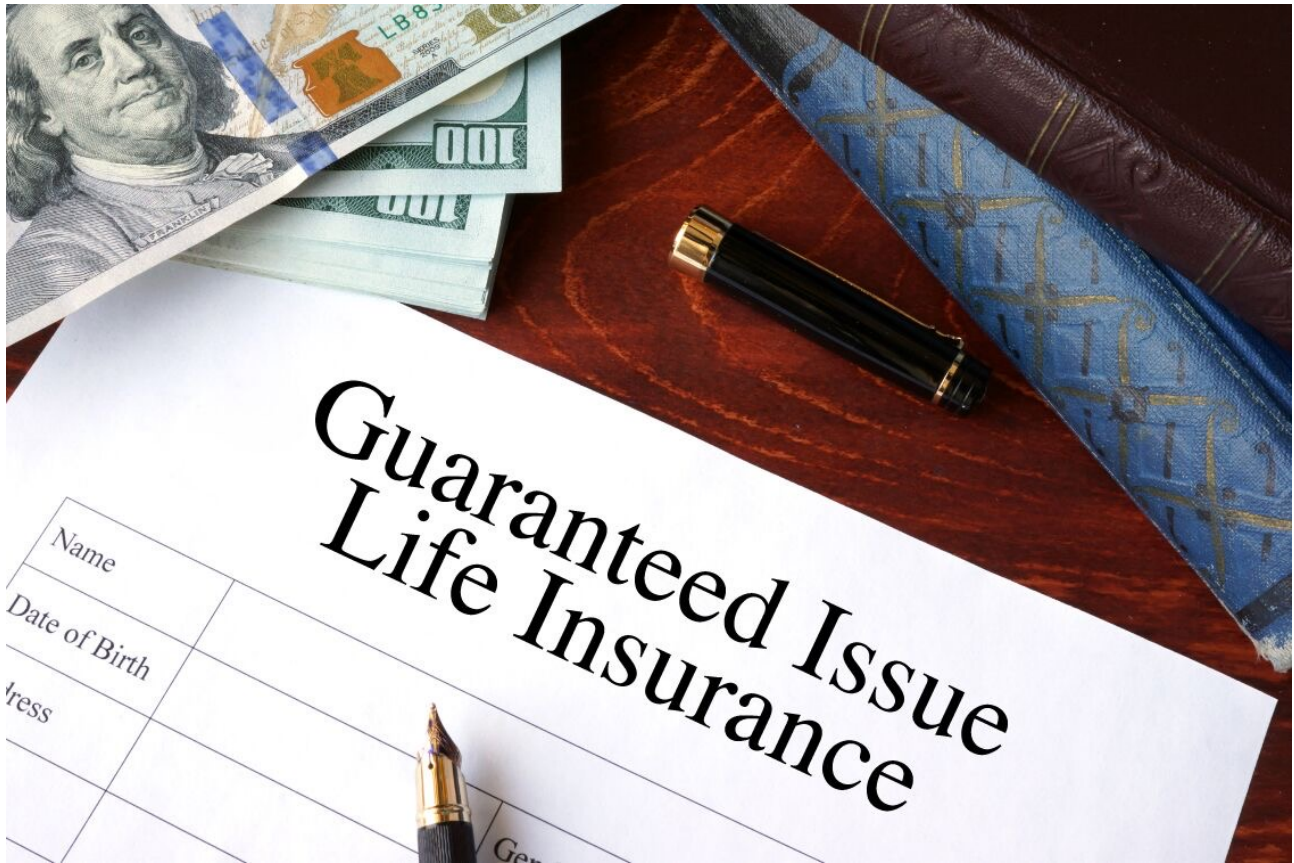
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### ***Simplified Issue***

Not to be confused with the "no exam" policies offered by traditional carriers, these are the policies generally referred to as "Final Expense". These policy have no exam, but are priced with a premium to account for increased mortality. These policies are often approved at point of sale or within 24-48 hours. The underwriting process does a pharmacy check, but is much more liberal than traditional carriers.



## Guaranteed Issue



Guaranteed issue policies are generally limited to \$25,000, with some companies going to \$40,000. These policies also require no exam, but come at a materially additional cost and only pay out a "graded" portion of the death benefit, or worse, the premiums paid plus interest for the first two or three years. The provisions are carrier specific, but never particularly friendly.

The only advantage to guaranteed issue life insurance policies that you have been seeing advertised on television is as the name implies, you are guaranteed to get a policy.

## SECTION 3:

# GETTING THE BEST DEAL



Now that you have an idea about how much life insurance you want and an understanding of the different types, it's time to find the best deal on life insurance.

No one could blame you if your first instinct is to choose the policy and carrier that meets your needs and has the lowest price. After all, that makes perfect sense.

However, how you go about the initial task of finding the best deal will have a lot to do with the policies available and the final price paid. You have several options in how you go about this task, but be forewarned...they are not all equal.

- ✓ You can go directly to the website of a life insurer.
- ✓ You can contact a local agent who works for one of the big carriers.
- ✓ You can call one of the big advertisers (SelectQuote, Matrix Direct..etc)
- ✓ You can contact a local Independent Agent

All of these scenarios are addressed below:

## ***Direct to the Carrier***

While you might logically think that going directly to a carrier would save you money, it won't.

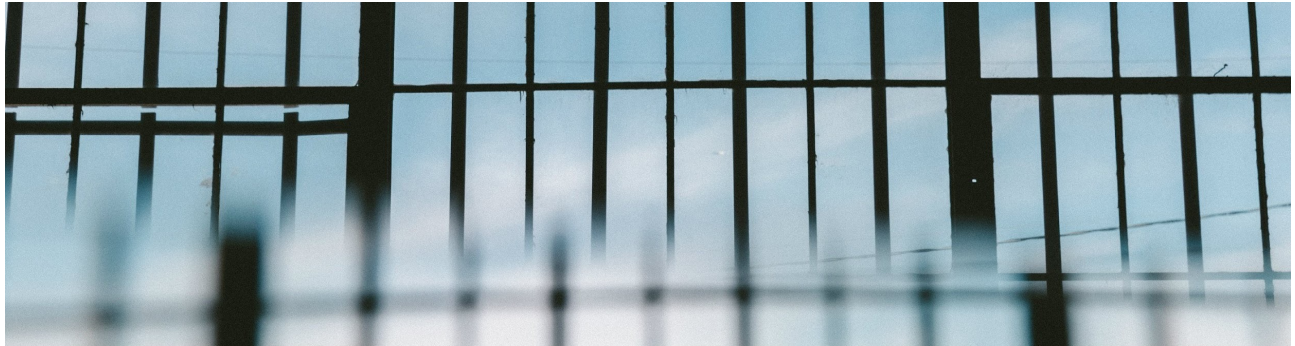
**Life insurance rates are approved by the Department of Insurance (DOI) in each state. As such, the rates are the same for a carrier regardless of where you obtain the insurance.**

Cutting out the agent helps the carrier but saves you nothing and costs you the agent services for which you'd still be paying.

Moreover, a carrier-direct purchase will be with that carrier whether it's a good fit or not. Going direct is never a good idea.



## ***"Captive" Agent***



You can go to an agent who works for one of the big carriers. Many consumers will get a life insurance quote from the agent who handles their property and casualty insurance. The issue with this is largely the same as with going direct to a carrier, the agent is obligated to try and sell his company's policy regardless of suitability.

The agent may have a limited access to other companies, but will be obligated to offer his company first. Furthermore, his compensation will adversely affected if he sells outside of the company.

For this reason so called "captive" agents are famous for "fitting" clients into policies sold by their employer. As a result, captive agents are seldom your best choice when shopping for a policy.

## ***National Agency***

You can call one of the big national agencies. These are the firms that advertise constantly on television and radio (Select Quote, Matrix, Zander..) While these agencies offer multiple major carriers, they are generally staffed by agents in a quota driven call center.



There are several negatives about these call center operations:

- ✓ The choice of carriers is intentionally limited, in order to increase volume based compensation from the carrier to the agency.
- ✓ The call center agent does not service the policy. If you need help changing a beneficiary or getting an in-force illustration, you will need to call the carrier's 800 number (and probably listen to 80's elevator Musak).
- ✓ The quota driven environment, encourages high pressure sales tactics





Additionally, the advertising that these agencies conduct is arguably bait and switch. The rates that are quoted on television and radio are accurate for a person rated preferred plus (highest class). However, **less than 10% of life insurance offers are preferred best.**

That is, the chance that a random radio listener will receive a best class offer is one in ten. Does this sound like an legitimate way to advertise?

For these reasons, **the big national agencies are not your best choice** when shopping for a policy.

## **LIFE INSURANCE TIP: WHY USING AN INDEPENDENT AGENT GIVES YOU THE BEST CHANCE AT THE BEST DEAL**



Now that you know the pitfalls of captive agents, call center agencies, and consumer direct websites, it's time to explore speaking with an independent agent.

Independent agents have a nearly unlimited choice of carriers to work with and are best suited to find the company that best suits your particular situation. Additionally independent agents tend to have more experience in the insurance business. This is because most agents start out as “career” agents at one of the big carriers.

Like the national agencies, independent agents are not immune from the pull of higher compensation from a specific company. However, because they are less likely to be part of a quota system, you have a far better likelihood of getting unbiased advice.

This likelihood is furthered, if the independent agent holds a professional designation with code of ethics. The Certified Financial Planner (CFP) is a good example.

The reasons that you would want your agent to be honest and free of perverse financial incentives is obvious. The reasons you would want your agent to be independent and have many carriers to choose from, may not be as obvious.

While price competition is clearly a positive outcome of having many choices, the real benefit is far less known. The real benefit lies in understanding that different life insurance carriers will treat your health issues differently.



For example, if you take medications for high [blood pressure](#) and [cholesterol](#), some companies will not offer you better than a standard rate, while other companies will offer preferred rates. This difference will save you thousands of dollars over the life of a [20 year policy](#). In more severe cases it can mean the difference of being approved or declined outright.



An additional advantage of working with an independent agent with a broad array of carriers to choose from is that the agent will know which companies offer the best conversion riders. As noted earlier, a conversion rider can be valuable if you develop a health issue subsequent to obtaining term insurance.

Conversions are generally taken care of by your servicing agent, and are not the forte of national call center agencies. For personal service that is unbiased and not beholden to any specific company, ***working with an independent agent makes the most sense.***

# ***The Application Process***



If you have read this far, at this point you know more about life insurance than most anyone who is not a licensed professional (and sadly, a few who are).

You know how to calculate need, and you understand the differences in term and permanent life insurance. You understand the benefits of working with an independent agent and the drawbacks of working with the “captives” or a call center agency.

Now you may want to know what’s involved in actually starting the process of obtaining life insurance. While you will always have to use an agent (even when you contact the company directly), you can start the quoting process for term life insurance yourself.

The many online quote systems will ask your age, gender, and health rating class. In spite of all the advertising of “superman” pricing, the majority of applicants will be rated standard, standard plus or preferred. These are reasonable places to start if you have no known health issues.



If you use the free quote tool, the quote will be as accurate as the rating on which it is based. Being conservative lessens the chances of disappointing surprises.\*



**\*Note that if you have a known health issue your best course of action is to forego the quote tool and contact your independent agent as the quote tool will be of limited value.**

Once the information is entered into the quote tool you will see the rates from several highly rated life insurance carriers. Now you'll want to reconcile the proposed cost with your budget. If the monthly or annual premium is more than you are comfortable paying, you have a couple of options to consider:

- ✓ Lower the face amount of the policy.
- ✓ Shorten the length of the term.



While neither of these options is ideal, budgeting realities often force these hard choices.

After choosing a company to apply with based on price, riders and carrier financial condition (this will be done with an experienced agent), you will answer application questions and it will be emailed to you for a secure signature.

Once the [application is submitted](#) you will be contacted by the carrier for a brief (15–20 min.) telephone interview. The interviewer will ask medical and lifestyle questions and in the case of fully underwritten policies, schedule a medical exam.



## ***The Medical Exam***

While we generally try to avoid exams, there are times where it is an unavoidable requirement.

The [medical exam](#) consists of height and weight measurements, blood pressure reading, and blood and urine samples. The exam is conducted by a mobile nurse that can be conducted at your home or place of business. There is no cost for the exam.

While the para medical exam is largely a painless exercise (depending on your tolerance of needles), it is nonetheless worth doing some simple preparation. Bequest Mutual recommends the following:

- ✓ Make sure that, for the a couple of days leading up to the exam, you avoid salty, fatty foods and liquor.
- ✓ Stay hydrated and get a good nights sleep the night before exam day.
- ✓ Schedule your exam in the morning, skip your work out (to keep blood pressure level) and fast until you take the exam- that is no food or caffeine (water is okay).

It is unlikely that “living clean” for 2-3 days will materially improve your health rating. However, poor sleeping, eating and drinking choices can certainly hurt you.



## ***How Long Does Underwriting Take?***

Ah, this the tricky part.

The time frame is largely dependent on the type of policy you choose and your health.

Guaranteed issue and simplified issue policies will be issues in a matter of 24-72 hours.



Fully underwritten cases, with or without an exam, will take between two weeks and two months. This wide range will be dependent on your age and health. When medical records are not requested, because the applicant is young and in good health, the process is quicker.

If on the other hand, the applicant has health issues an [attending physicians statement \(APS\)](#) will be requested. Doctors' offices are notorious for not attending to these requests in a timely manner. It is often best for the client to make a call to speed up the process.



## AOTA and Table Ratings

If you are wondering what the heck is AOTA?  
I really can't blame you.



In an industry replete with acronyms, AOTA stands for "[approved other than applied](#)". On rare occasions, this means the underwriting came back better than the class submitted. However, usually, it means that your health was not graded as high as the policy was submitted.

This is a the common and unfortunate outcome of agents telling prospective clients what they want to hear, rather than the truth. The unscrupulous agent assumes it's his best shot, and the client will take what's offered in the end. Unfortunately, this sleazy process works more than it should.

An example would be a policy sold at Preferred Plus rates that came back "standard" or worse, "substandard". Substandard underwriting grades are known as [table rated policies](#). The "table" is the process that insurers use to add premium to policies that insure risks that they are willing to cover- but only for a higher price.

AOTA's and even table ratings can often be avoided with an honest conversation with an independent agent. remember, it's like computers...garbage in/garbage out.

## ***Finalize The Policy***

Once the insurance carrier has approved your application it is time for you to review the policy and assuming everything is in order, accept delivery.



This process simply consist of [a policy signature on your part usually handled via email](#) and you are now insured.



# ***Why you Should Have A Periodic Review of Your Policy***

Now that your loved ones are protected, take a moment to pat yourself on the back. You deserve it.

Now, take out your phone/calendar and make an appointment for a painless periodic review of the policy you just went to the trouble of getting. The reasons for this are pretty simple: Things change.

The life insurance industry is filled with legal cases that a simple telephone review would have solved. For instance:

- ✓ A divorced spouse getting the death benefit because the beneficiary was never changed.
- ✓ Family acrimony, because a new child was not added as a beneficiary.
- ✓ Policy lapses because of faulty routing numbers due to a changed bank account.

The list goes on and on, and most of it is avoidable. Moreover, if your health has improved, or you quit smoking, you could save real money with a simple review.

## SECTION 5:

# CONCLUSION

The life insurance process is different for everybody. this is in part because of the myriad options available to the consumer. But, it is particularly the case because we are all different, carriers have different appetites for risk, and insurance carriers look at each individual case.

To reinforce this point, We suggest you look around the Bequest Mutual site, and check out the [articles on specific conditions](#). Most all of these post conclude with a case study showing how one carrier looks at a health risk differently than another, and prices this appetite accordingly. There are several cases where the savings over the life of the policy is in the tens of thousands.

Finally, we'd like to thank you for choosing Bequest Mutual to seek a life insurance buyer's guide. We hope that this guide, and the site in general, have been a resource for you. Should you have any questions, please feel free to call or [drop an email](#) to us.