



RICARDO LARA
Insurance Commissioner

Need help with insurance? Call us.
Call 800-927-4357 (HELP)
Se Habla Español



[File a Complaint](#) [Consumers](#) [Seniors](#) [Agents & Brokers](#) [Insurers](#) [Fraud](#) [News](#) [About Us](#)

[Consumers](#) / [Types of Insurance](#) / [Information Guides](#) / [Life Series](#) / [Life Insurance Guide](#)

Translate this page with [Google Translate](#)

Life Insurance Guide

(Revised March 2018)

Table of Contents

- ▶ [Introduction to Life Insurance and Annuities](#)
- ▶ [Defining Your Needs](#)

Life Insurance

- ▶ [Choosing the Amount of Life Insurance](#)
- ▶ [Steps to Determine How Much Life Insurance You Need](#)
- ▶ [Choosing the Appropriate Type of Life Insurance](#)
- ▶ [Important Facts if You Are Considering Changes to Your Life Insurance Policy](#)

Annuities

- ▶ [Deferred Annuities](#)
- ▶ [Choosing the Type of Deferred Annuity](#)
- ▶ [Finding a Good Buy](#)

Other Useful Information

- ▶ [Suitability](#)
- ▶ [Agents](#)
- ▶ [Reliability and Stability of Companies](#)
- ▶ [Information Sources](#)
- ▶ [The California Insurance Code and Code of Regulations](#)
- ▶ [Beware of Any Agent Who...](#)
- ▶ [Shopping Tips](#)
- ▶ [Glossary of Terms](#)
- ▶ [Highlights in Spanish](#)
- ▶ [Talk to Us](#)

Consumers

[File a Complaint](#)

[Check License Status](#)

Types of Insurance

[Automobile](#)

[Homeowner/Residential](#)

[Life And Annuity](#)

[Long-Term Care](#)

[Medicare Supplement](#)

[Pet](#)

[TNC Ridesharing](#)

[Workers' Compensation](#)

[Compare Premiums](#)

→ [Information Guides](#)

[Health Insurance Information](#)

[Company and Agent/Broker Information](#)

[Laws & Regulations](#)

[Virtual Viewing Room](#)

[Dealing with Catastrophes](#)

[Administrative Hearings and Public Programs](#)

[Cannabis and Insurance](#)

[Bail Bonds](#)

[Climate Change](#)

[Information Guides](#)

[Wildfire Response and Readiness](#)

Introduction to Life Insurance and Annuities

If you are planning to purchase a life insurance policy or an annuity contract, you should first consider your needs and understand the different type of insurance products that are available. Many more consumers are using life and annuity products as part of their financial planning goals. Consumers spend substantial sums of money each year on life insurance policies or annuity contracts knowing very little about what it is that they are getting. This guide was developed to help consumers make educated decisions and to help them understand both the benefits and the risks involved in financial planning.

The purpose of this information guide is to help you understand what type of life insurance policies or annuity contracts are available. If one type of policy or contract does not fit your needs, then ask and find out about other available policies or contracts, many of which are described in this information guide. You can research more information on life insurance policies or annuity contracts by checking with a licensed life insurance agent or a licensed life insurance company. You can also visit your public library for material or books on financial planning. Life insurance or annuity information is also available on the Internet. In addition, The California Department of Insurance (CDI) has a toll-free Hotline telephone number and website that can provide further information and assistance on life insurance policies and annuity contracts. Please see the many ways to contact the CDI on the last page of this information guide. This information guide is divided into two sections: Life Insurance and Annuities.

[Back to Top](#)

Defining Your Needs

The purchase of life insurance is an important decision for both you and your family. There are many reasons why life insurance policies or annuity contracts are purchased, but these reasons should be based upon your financial planning needs. Factors such as your marital status, number of dependents and cost for their support, future education needs, current and anticipated family income, and your current assets and debt obligations all play a role in determining the amount of life insurance that is right for you.

Life Insurance

Choosing the Amount of Life Insurance

Your need for life insurance will vary with your age and responsibilities. The amount of insurance you buy should depend on the standard of living you wish to assure for your dependents. You should consider the amount of assets and sources of continuing income available to your dependents when you pass away. Simply stated, you should choose an amount of life insurance that is determined necessary to meet the needs you are trying to satisfy. A balance needs to be achieved in this process. To be over-insured can negatively affect your budget and threaten your long range financial goals just as much as being under-insured can. While each person must individually assess their responsibilities, needs, and financial situation, it is important to be careful to choose an amount of life insurance that reflects your specific circumstances without under-insuring or over-insuring.

Steps To Determine How Much Life Insurance You Need:

1. Determine how much life insurance you need based on the factors mentioned above.
2. Decide how much money you can afford to pay.
3. Choose the type of life insurance policy that meets your coverage

goals and current family budget. Fitting these two factors together will move you toward a successful overall financial plan.

Once you have completed these steps, you will be able to move ahead and contact several life insurance companies (through an agent or broker) to shop for the right type of policy for you.

There are many reasons for purchasing life insurance, among which are the following:

- ◆ Insurance to provide financial protection and security for surviving family members upon the death of the insured person.
- ◆ Insurance to cover a particular need such as paying off a mortgage or other debt upon the insured's death.
- ◆ Business insurance to compensate a company on the death of a key employee or to provide a surviving partner the resources to buy out the deceased partner's share of the business.
- ◆ Insurance to provide funds to pay estate taxes or other final obligations necessary to settle a deceased person's estate.
- ◆ Insurance to provide the funds necessary for the deceased person's burial expenses.

[Back to Top](#)

Choosing the Appropriate Type of Life Insurance

There are two basic types of life insurance: Term Life Insurance and Cash Value Life Insurance. There are many policy variations between these two types of life insurance. Term Policies provide life insurance for a specified period of time. This period could be as short as one year or provide coverage for a specific number of years such as 5, 10, 20 years or to a specified age.

If you die during the term period, the company will pay the face value to your beneficiary.

If you live beyond the term period you had selected, no benefit is payable. As a rule, term policies offer a death benefit with no savings element or cash value. If you have a limited amount to spend, and only need insurance for a specified period of time, you may be able to get more coverage by buying term insurance than by buying cash value insurance. Keep in mind that the cost of term insurance increases as you get older, which may make it more expensive than cash value insurance in the long run. Today's term policies usually have two sets of premiums: guaranteed maximum premiums and current premiums. Current premiums are usually much lower, but they can be changed by the insurance company. The insurance company cannot increase the current premium above the guaranteed maximum premiums shown in the policy.

When you buy term insurance, you need to make a choice as to how long you want the protection. You may renew the policy without a physical examination for the period of years specified in the policy. Some term insurance can be converted to cash value insurance up to a specified age with no physical examination. Premiums for the converted insurance will most likely be higher than the premiums you would be paying for the term insurance. If you do not pay the premium for your term insurance, it will generally lapse without cash value, as compared to a permanent type of

policy that has a cash value component.

Cash Value Insurance combines death benefits with a cash value accumulation feature. The buyer of a cash value policy pays more in the early years than for term insurance, but the premium not needed to pay for the cost of the death benefit accumulates with interest within the policy. If the policy is surrendered before the insured person dies, there may be a cash value paid to the owner, less any outstanding loans placed against the policy.

Make sure the agent/broker provides you with the method by which the cash value is determined and that they obtain this information based on the policy's guaranteed value. It is not a good idea to buy a cash value life insurance policy if you plan to surrender early due to substantial surrender penalties. If all premiums are paid, cash value insurance usually lasts for the entire life of a person and pays death benefits to the beneficiaries named in the policy upon the death of the insured. The cash value can be used as loan collateral for borrowing funds at the interest rate specified in the policy. Any outstanding loans are deducted from policy proceeds at death or at policy surrender.

Some of these products may enjoy tax advantages while they remain active. Therefore, a policy lapse or surrender may create a taxable event and may generate a Form 1099. Form 1099s are sent to the IRS for tax purposes; be sure to check with your tax advisor.

Some of the most popular types of cash value insurance are described below:

[Back to Top](#)

Whole Life Insurance (also known as straight life, ordinary life, and traditional permanent insurance) is designed to provide coverage for your entire lifetime unlike term insurance which provides protection for a specified time period. To keep the premium level, the premium at the younger ages exceed the actual cost of protection. This extra premium builds a reserve (cash value) which helps pay for the policy in later years as the cost of protection rises above the premium. Whole life policies stretch the cost of insurance over a longer period of time in order to level out the otherwise increasing cost of insurance. Under some policies, premiums are required to be paid for a set number of years. Under other policies, premiums are paid throughout the policyholder's lifetime.

Universal Life Insurance is the most flexible of all the various kinds of policies because it treats the elements of the policy separately; universal life allows you to change or skip premium payments or change the death benefit more easily than any other policy. It works by treating the three elements of the policy — premium, death benefit, and cash value — separately. Cash values are accumulated by crediting premium payments and interest to a fund from which deductions are made for expenses and cost of insurance. Interest rates are linked to an external index such as Treasury bills. Because the cash value element of this type of policy is interest-rate sensitive, predictions of future costs are highly dependent upon the accuracy of interest rate projections. The policy can also be structured to operate like term insurance.

Variable Life Insurance has a death benefit that varies in relation to the investment experience of the assets underlying the policy. A higher rate of return on the invested fund will cause the death benefits to increase, while a low or negative rate will cause the death benefits to decrease.

Variable Universal Life Insurance Insurance combines the flexibility of universal life insurance with the investment account features of variable life insurance.

[Back to Top](#)**Various type of Life Insurance policies**

Type of Policy	Premium	Face Amount	Cash Value	Policy Loans
Term	Low; but increase w/age	Renewable into old age	None	No
Whole	Level	Level; can't be changed	Yes; no ability to choose investments	Yes
Universal	Flexible	Level; can vary	Yes; no ability to choose investment	Yes
Variable	Level	Level; Can't be changed	Yes; ability to choose investments	Yes
Variable Universal	Flexible	Level; can vary	Yes; ability to choose investments	Yes

Group Insurance

Many employers offer life insurance under a group plan and sometimes pay part or all of the premium. A medical exam is usually not required for insurance purchased this way, and the insurance can be less expensive than coverage purchased as an individual. Under California law, group life insurance must be convertible to permanent insurance at the insured's option when the insured's coverage under the group policy terminates. The converted policy will probably be much more expensive than the group insurance. Some employers will allow insurance companies to send agents or enrollers to their premises in order to offer insurance to their employees. Policies offered in this manner are different from group insurance, and you should evaluate the materials shown to you in the same way as if you were considering a purchase of an individual policy through an agent.

Insurance by Mail Order or Through the Internet

Some insurance companies solicit by mail or through the Internet. In most cases, the prospective buyer mails a completed application directly to the company. Both Internet and mail order marketing may not provide a complete range of choices as target marketing often involves offering only one type of policy. Before you buy by mail or through the Internet, consult an expert who can help you determine the best policy for you. You should verify that the insurance company offering the coverage is licensed to sell life insurance in California.

Some insurance companies solicit by mail or through the internet. In most cases, the prospective buyer mails a completed application directly to the company. Both internet and mail order marketing may not provide a complete range of choices as target marketing often involves offering only one type of policy. Before you buy by mail or through the internet, consult an expert who can help you determine the best policy for you. You should verify that the insurance company offering the coverage is licensed to sell life insurance in California.

Sales Illustrations

It is likely that an agent will show you one or more life insurance sales illustrations. An illustration consists of a series of numbers indicating how the policy works. The illustration usually shows the guaranteed results under the policy for each year in the future, and the results if all the non-guaranteed items continue at their present level. Actual results may be better or worse

than the non-guaranteed amounts shown in the illustration (but not worse than those that are guaranteed).

Using Indexes

Your chances of finding a good buy on a life insurance policy is better if you use the index numbers that have been developed to aid you in shopping for life insurance. The Buyer's Guide that each insurer is required to provide to a purchaser explains these index numbers in detail. They are good tools to help you compare the merits of similar policies.

[Back to Top](#)

Important Facts If You Are Considering Changes to Your Life Insurance Policy

Many consumers are approached by life insurance agents or life sales representatives and are asked to consider canceling their current life insurance policy in order to purchase a replacement policy. In most cases, the cash value of the current life policy is used to buy more insurance or a new policy. While a decision to replace an existing life insurance policy may be a good one, sometimes this may not be in your best interest. More than likely you purchased your policy with a long term financial plan in mind. Replacing or changing your insurance policy at this point may affect the intended results of your overall financial plan. If you are considering replacing or changing your life insurance policy, you should first assess your needs and determine what is in your own long term best interest. It is also important to consider the interests of those you are protecting. Deciding how much insurance you need, how long it is needed, and which policy provides the best coverage is crucial to your financial security.

Your financial needs should be thoroughly evaluated before changes are made in existing policies. Any change in your personal circumstances since you first purchased life insurance may require a different strategy. A comprehensive evaluation may indicate that replacing or changing your policy is advisable. However, certain cautions are appropriate when considering replacing or changing your life insurance. For example:

- You may have to pay "start up" costs again.
- You may be required to wait one or two years before a new policy passes through the contestable period. During the contestable period the insurer is contractually entitled to cancel the policy or refuse to pay a claim based on omissions, or mistaken or untrue statements in your application.
- You may pay a higher premium for new insurance over the duration of the policy because you are older than when you first purchased life insurance.
- The financial strength of a new insurer may be different from that of your present insurer.
- There may be specific tax consequences when you replace or change your current policy.
- You may find different loan provisions in a new policy, or you may find that you cannot take tax advantaged loans in the new policy.
- If you use the cash value of one policy to pay for the premium on a new policy, the values used may not be sufficient to support the new policy

in future years, and may result in the need to make additional premium payments to keep the insurance in force.

- You may not have immediate access to your money in a new policy. You may have to wait a considerable period of time, or pay a monetary penalty, to access the cash value in the policy.
- Tax consequences may occur if you take cash from an annuity or mutual fund that started as a replacement policy for your original life insurance policy.
- When considering policy replacement, it is important to note that you may have the ability to amend or convert your current policy to a newer product within the same insurance company without any loss of rights or accumulated cash value. It may be in your best interest to contact your current agent or company and to inform them of your intent.
- Illustrations are utilized by agents to highlight certain features of their policies. Illustrations should never be the only factor used in deciding to replace or change your policy. Illustrations that are presented for comparison purposes may not give a complete picture of the new policy's future. To ensure that your insurance policy meets your financial objectives, it is recommended that you obtain a second opinion, as well as consult with your current agent. Given the complexities involved in counseling a consumer regarding insurance purchases, you may want to inquire about the professional qualifications of your current agent and new agent.

[Back to Top](#)

Annuities

While life insurance proceeds are paid at the time of death of the insured, the proceeds of an annuity can provide you with an income for as long as you live. There are two types of annuities:

- The first is when you pay a lump sum to a life insurance company, and they pay it out to you right away in periodic installments. This type is known as an **immediate annuity** — the payments to you start immediately.
- The second, and more common, is where money paid by you accumulates with interest over a period of time. If you choose, the accumulated amounts will then be paid out to you in periodic installments, usually when you retire, in order to supplement your retirement income. This type is known as a deferred annuity — the payments to you are deferred for a number of years. Currently, a **deferred annuity** may have tax advantages, in that the interest credited to your funds is deferred from current taxation. That is to say, income tax is not owed until you start receiving distributions from the annuity.

Both types of annuities offer you certain options for receiving your income. It is usually paid to you monthly. The most common options are:

Life Annuity - The company will pay you an income for as long as you live.

Period Certain Annuity - The company will pay you an income for a specified amount of time (5 years, 10 years, 20 years, etc.).

Life Annuity with Period Certain -The company will pay you an income for

as long as you live, but if you die before the period certain that you choose, the income will be paid to a survivor you designate until the end of that period.

Joint and Survivor Annuity -

The company will pay an income to you during your life, and after your death will pay a percentage of that income (50% or 75%, for example) to a survivor you designate during his or her life.

Deferred Annuities

In recent years, there has been an increasing emphasis on deferred annuities. If you are going to make an informed choice when you buy a deferred annuity, you need to understand which kinds are available. If one type does not seem to fit your needs, find out about the other contracts that are described in this guide. If you need more information than is given here, you should check with a life insurance agent or company, or consult books on life insurance which are available at your public library. Also, the California Department of Insurance (CDI) has a toll-free Hotline listed in this guide to assist you.

[Back to Top](#)

Choosing the Type of Deferred Annuity

There are two basic types of deferred annuities: fixed annuities and variable annuities. There are several variations on them.

Fixed Annuities guarantee that your money will accumulate at a minimum specified rate of interest. However, the company will pay you a higher rate of interest if its investment experience is better than the minimum guarantee.

Variable Annuities

differ from fixed annuities in that contract owners direct the distribution of their money among several different accounts and their accumulated funds reflect the experience of those accounts rather than that of the company. Typical account choices are common stock, bond, mortgage or money-market accounts. If the value of the accounts increases or decreases, so will the amount accumulated. Variable annuities are more risky to the contract owner than fixed annuities, but there is a possibility of greater returns. Other types of deferred annuities combine the characteristics of fixed and variable annuities.

Annuities are sometimes sold as alternatives to investment vehicles such as certificates of deposit, money market accounts, mutual funds, etc. There are differences between these products. If you die during the surrender charge period, the surrender charges are deducted from the amount the beneficiary receives. You should consult with your investment and/or tax advisor before making any decisions on purchasing this product. If you die during the accumulation phase of a deferred annuity, an amount usually at least equal to the amount you have accumulated will be paid to your beneficiary. If you cancel the contract, or take some money out of it, there may be surrender charges deducted from the accumulation value. The amount you receive is usually referred to as the cash value. It is usually not a good idea to purchase a deferred annuity unless you are planning to keep it for more than just a few years.

Banks and Brokerage Firms

Products developed by life insurance companies are sometimes marketed through banks and brokerage firms. The person who sells you a life insurance policy or annuity should be a licensed life insurance agent, and in the case of a variable annuity, a licensed securities dealer. If you purchase

an annuity through these sources, you should ask for the name of the insurance company, since they are the ones who will be managing your money. life insurance agent, and in the case of a variable annuity, a licensed securities dealer. If you purchase an annuity through these sources, you should ask for the name of the insurance company, since they are the ones who will be managing your money.

Finding a Good Buy

Guarantees

A fixed deferred annuity always contain guarantees. For example, it might guarantee that the interest rate on the funds accumulating in your policy will be at least 2%. The guarantees are conservative, so that the company will be able to pay you the guaranteed amounts, even if conditions are very bad. Today, most companies pay greater amounts than they guarantee, but do not promise to continue to do that indefinitely. If you are shown any tables of numbers illustrating how the annuity might grow in the future, you should keep in mind that the non-guaranteed numbers could turn out to be lower or higher than those shown.

You should also ask questions about the amounts you will receive if you decide to surrender your annuity, and find out the difference between the accumulation value and the amount you will receive. It is important to make sure that you receive all guarantees in writing for both life insurance and annuities.

[Back to Top](#)

Other Useful Information

Suitability

Only buy an annuity if it is suitable for your circumstances. Consider your purpose in purchasing an annuity and whether an annuity is the best vehicle for achieving your financial goals. Make sure you are buying an annuity that fits your goals and circumstances.

You should consider:

- The extent to which purchasing an annuity will tie up your money and whether you will need to pay surrender charges to access sufficient funds to pay for living expenses, including emergencies which may arise in the future;
- Your age; income; liquidity needs; financial time horizon; intended use of the annuity;
- The extent to which the annuity allows you access to your money in the future without your having to pay surrender charges or other penalties;
- The values, benefits, and costs of your existing investments as compared to those of the recommended annuity contract.

The law requires insurance agents to ask you questions about your financial situation to make sure the annuity you are purchasing is suitable for your needs and circumstances. Insurance companies and insurance agents are prohibited from selling you an annuity unless there is a reasonable basis to believe the annuity is suitable based on the information you provide to the agent.

Agents

Life insurance agents are licensed by the State, and may represent one or more companies. If you use an agent, choose carefully. Agents earn a commission on your business, and should do more for you than just sell you a life insurance policy or annuity contract. They should assess your individual needs, answer your insurance questions, and help you establish your goals. If you are considering the purchase of a variable annuity, the agent should have an insurance license and a registration with the Financial Industry Regulatory Authority (FINRA) to sell variable products, which are considered to be securities. You should receive a prospectus describing the investment alternatives available to you.

Reliability and Stability of Companies

In the past, high-risk investment strategies have threatened the solvency of some companies and thus the safety of policy benefits. Be sure to check out independent rating services' rating of any life insurance company you are considering before purchasing a life insurance policy or annuity contract. Also make sure that your life insurance company is licensed in California. Owners of annuity contracts or life insurance policies issued by companies licensed in California may be partially protected by the California Life and Health Insurance Guarantee Association (CLHIGA) in the event of the failure of the insurer. If you need further information on CLHIGA or California Insurance Code Section 1067.02 (c) that explains the monetary protection under CLHIGA, then contact the CDI via the methods provided on the last page of this brochure.

[Back to Top](#)

Information Sources

Additional information about life insurance companies can be found by reading insurance company rating services reports. Five major insurance rating co

Additional information about life insurance companies can be found by reading insurance company rating services reports. Five major insurance rating companies grade insurers on their financial health and ability to pay claims. These companies are:

A.M. Best — www.ambest.com

Standard and Poor's — www.standardandpoors.com Moody's Investor Service — www.moody.com

Duff & Phelps — www.duffandphelps.com

Weiss Research — www.weissrating.com

You should check two or three of these services to get a good look at the company's condition. They can usually be found in your local library.

The California Insurance Code

Specific requirements are imposed on agents and insurers when a life insurance policy or annuity replacement or change is proposed. Some of these rules are as follows:

1. The agent must leave with the applicant an original or copy of all printed materials used for the presentation to the applicant. CIC 10509.4. (b)(2)
2. The replacing insurer may request the existing insurer to furnish it with a copy of the summaries or ledger statement, within five working days of the receipt of the request. CIC 10509.6
3. Every life insurer that uses an agent in a life insurance or annuity sale shall require with or as part of each completed application for life insurance or annuity, a statement signed by the agent as to whether he or she knows replacement is or may be involved in the transaction. CIC 10509.6. (a)
4. An agent or insurer may not recommend replacement or certain changes to a policy using materially inaccurate presentations or comparisons of an existing contract's premiums and benefits or dividends and values, if any, or recommends that an insured 65 years of age or older purchase an unnecessary replacement annuity. CIC 10509.8.
5. A life insurer shall provide to all prospective insureds a buyer's guide prior to accepting the applicant's initial premium or premium deposit. However, if the policy for which application is made contains an unconditional refund provision of at least 10 days, the buyer's guide shall be delivered with the policy or prior to delivery of the policy. CIC 10509.975.
6. Every policy of individual life insurance shall have a notice stating that after receipt of the policy by the owner, the policy may be returned by the owner for cancellation by delivering it or mailing it to the insurer or to the agent through whom it was purchased. This period shall not be less than 10 days nor more than 30 days. CIC 10127.9. Senior citizens must be given a notice printed on or attached to the policy indicating a period of no less than 30 days for an individual life insurance and individual annuity contract after receipt of the policy by the owner, the policy may be returned by the owner for cancellation and a full refund. CIC 10127.10. (a). Discuss the free look period with your agent or insurer before purchasing a life insurance policy. If the transaction involves a replacement policy the replacing insurer shall provide in its policy or in a separate written notice which is delivered with the policy that the applicant has a right to an unconditional refund of all premiums paid within a period of 30 days commencing from the date of delivery of the policy. CIC 10509.6. (d).

[Back to Top](#)

Beware of Any Agent Who...

- Suggests that using the cash value from your current policy to fund the premiums on a new policy offers a demonstrable advantage to you,
- Advises you not to speak to anyone from your current insurer about a policy replacement or change he/she is proposing,
- Asks you to sign incomplete or blank forms, or
- Speaks negatively about another agent or company.

Your best defense against an ill-advised replacement or change to your life insurance policy or annuity is knowledge. The more you know and understand about your current policy and the proposed new policy, as well as

the company and the representative, the better equipped you will be to make the best decision. Remember, if you intend to replace or change an existing coverage, you should be sure that the agent selling the new policy has your best interests at heart, and bases the purchase recommendation on an appropriate needs analysis. Agents have a duty to inquire about your current coverage. Once on notice, the regulatory steps designed to protect you should occur.

[Back to Top](#)

Shopping Tips

Purchasing the right insurance that meets your needs can be challenging. Insurance can be one of the most important ongoing purchases you make to protect yourself and your family from financial hardship. Since your needs and financial situation change over time, it is important to understand and review your insurance policies to decide if the same policies are still right for you. If you are considering buying, reviewing, or replacing insurance, then the following insurance tips can be of assistance:

- Verify status of the agent and insurance company (call the California Department of Insurance toll-free at 1-800 927-4357).
- Never be pressured or intimidated by an agent.
- Answer all questions on the application correctly.
- Never sign an incomplete or blank form, or anything you don't understand. • Compare policies or contracts carefully.
- Always read your policy or contract.
- Keep your policy or contract in a safe place.
- Seniors shopping for annuities should also order or view the informational guides: Annuities: What Seniors Need to Know and Informing Seniors/Senior Insurance Bill of Rights.

The Department of Insurance cannot make recommendations concerning life insurance or annuity products. However, you may contact the CDI for informational guides on all types of insurance such as Auto, Home, Life, Annuities, and Health. The CDI can assist you with any insurance question, concern, or problem. You can reach us toll-free at 1-800-927-4357 or www.insurance.ca.gov.

This guide is intended to address some of the more common issues faced by consumers when making life insurance decisions. However, it does not address all the issues which may affect someone intending to purchase, replace, or change a life insurance policy or annuity.

[Back to Top](#)

Glossary of Terms

Accelerated Benefit Provision — A provision in many new policies which will allow the policy owner to receive a portion of the death benefit early if the insured person is diagnosed with a terminal illness or permanently confined to a nursing home.

Accidental Death Benefit — A rider added to a policy that provides an additional benefit if the insured dies from accidental causes.

Accumulation Phase — The phase in which you pay into your annuity.

Annuitization Phase — The phase in which you receive monthly payment

from your annuity.

Basis Points — The fees in your annuity; reflects a percentage of your investment.

Certificate — A document provided to a person insured under a group insurance policy that provides evidence that the coverage exists.

Death Benefit — The amount of money your beneficiary receives if you die before you begin the annuitization phase; generally the value of your annuity or the amount you have invested, whichever sum is greater.

Evidence of Insurability — Medical and other information about a person applying for insurance that the life insurance company keeps confidential, but uses to decide whether the policy can be issued and what premiums will be charged.

Face Amount — The amount to be paid to the beneficiary when the insured dies. It will be reduced by any unpaid policy loans and interest on those loans, and may be increased by any dividends.

Free Look — The right of the policyowner to have a period of ten or more days to examine an insurance policy and, if not satisfied, return it to the company for a full refund of all amounts paid.

Grace Period — A period of time (usually 31 days) after the premium due date when an overdue premium may be paid without penalty. The policy remains in force throughout the period.

Guaranteed Insurability — An option that permits the policyholder to buy additional stated amounts of life insurance at certain times in the future, without having to provide new evidence of insurability.

[Back to Top](#)

Illustration — A document used in life insurance sales presentations showing year-by-year numbers indicating how a policy will work. Usually it assumes that amounts being paid today will continue in all future years.

Insured — The person whose life is covered by a life insurance policy; the policyowner; the policyholder.

Lapse — The discontinuation of insurance without cash value when the required premium is not paid. If cash value exists, there may be nonforfeiture provisions available.

Loan Value — The amount which can be borrowed by the policyowner from the company using the value of the policy as collateral. Usually the interest rate payable on the loan varies based on an index defined in the policy.

Mode of Premium Payment — The frequency of premium payments during the policy year. Premium payments can usually be made on annual, semi-annual, quarterly, or monthly mode.

Mortality and Expense (M&E) — The fee the insurance company charges you to provide you with a lifetime income, and your beneficiaries with a death benefit should you die during the accumulation phase. **Mortality Table** — A statistical table showing the death rate (probability of death) for each age.

Nonforfeiture Options — A provision in the policy that allows the policyowner to choose how the cash value of the policy will be used if the policy is surrendered or lapses due to nonpayment of premium.

Non-Qualified Annuity — An annuity that is funded with after-tax dollars.

Ownership — All rights, benefits, and privileges under a policy controlled by the owner, who is usually the insured. Ownership may be transferred or

assigned to someone else by written request of the current owner.

Paid-Up Insurance — A life insurance policy where all premiums have already been paid, with no further premium payment due.

Participating Insurance — Insurance on which the policyowner is entitled to share in the surplus earnings of the company through dividends, which reflect the difference between the premium charged and the actual earnings and costs of providing coverage.

Policy — The printed document issued to the policyowner by the company stating the terms of the insurance contract.

Policy Year — A one-year period starting on the day and the month the policy was issued. The first policy year starts on the date of issue, and ends on the day before the policy's first anniversary date.

Premium — The payment a policyowner is required to make to an insurance company to purchase insurance coverage and to keep the policy in force.

Qualified Annuity — Annuity that is funded with pre-tax dollars.

[Back to Top](#)

Rated Policy — A policy issued with an additional premium to cover the extra risk involved if an insured has impaired health, a hazardous occupation or hobby, or is a private pilot.

Reinstatement — The restoring of a lapsed or surrendered policy to full force and effect. The company requires evidence of insurability and payment of all amounts necessary, including interest, to put the policy into the condition it would have been in had the lapse or surrender not occurred. The company is not obligated to reinstate a policy.

Rider — A provision added to a policy that provides additional benefits, usually accompanied by a corresponding premium increase or change.

Settlement Option — The manner in which the insured or beneficiary may choose to have the policy proceeds paid.

Suicide Clause — A policy provision which reduces or eliminates the amount to be paid if the insured dies from suicide within the first two policy years.

Standard Risk — The classification of an applicant for a life insurance policy who fulfills the physical, occupational, and other requirements on which most of the company's policies are issued. Someone whose characteristics are more favorable may be classified as a "Preferred Risk." When the characteristics are less favorable, the applicant may be characterized as "Rated" or refused coverage altogether.

Surrender — To voluntarily terminate or cancel a policy or the act of getting out of your annuity for its cash value or other nonforfeiture options. Usually a fee is applied if you surrender your insurance policy or annuity within the first seven or eight years of owning it.

Tax Deferral — The money that accumulates in your annuity grows tax-deferred, meaning you do not pay taxes on it until you begin receiving annuity payments.

Term Certain Annuity — An annuity that provides you with income payments for a specific period of time, such as 10 or 20 years, rather than a lifetime.

Underwriting — The process of evaluating applicants for insurance and classifying them fairly, so the appropriate premium rate may be charged. This may involve a physical examination of the applicant.

Waiver of Premium — A rider added to policy that will waive the premium payments required by an insured during the total disability of the insured.

Resumen en Español

Seguros de vida y Anualidades Esta página ofrece una visión general de los temas tratados en este folleto.

Definir sus necesidades Seguro de vida

- Como elegir la cantidad de seguro de vida
- Pasos para determinar cuánto seguro de vida necesita
- Como elegir el tipo adecuado de seguro de vida
- Puntos importantes si usted está considerando cambios a su póliza de seguro de vida Anualidades
- Anualidades diferidas
- Como elegir el tipo de anualidad diferida
- Como encontrar una buena compra Si usted planea comprar una póliza de seguro de vida o un contrato de anualidad, este folleto le ayudará a entender los diferentes tipos de pólizas de seguros de vida y contratos de anualidades que están disponibles.

Para consultar la versión en Español de este folleto, visite www.insurance.ca.gov. Encuentre al consumidor/tipos de seguros.

Talk to Us

Do you have a question, comment or concern?

There are several ways to talk to us:

- Call our Consumer Hotline at (800) 927-HELP Telecommunication Device for the Deaf dial TTY (800) 482-4833
- Telephone lines are open 8:00 AM to 6:00 PM Pacific Time, Monday through Friday, excluding holiday
- Write: California Department of Insurance 300 South Spring St., South Tower Los Angeles, CA 90013
- Visit us in person on the 9th Floor at the address above. Office Hours: Monday through Friday 8:00 AM to 5:00 PM Pacific Time, excluding holidays.

[Back to Top](#)

[Privacy Policy](#)

[ADA Compliance](#)
[Free Document Readers](#)

[Site Map](#)

[Career Opportunities](#)

[Internships](#)

[Scheduled Site Maintenance](#)

Copyright © California Department of Insurance