Understanding Life Insurance
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People buy insurance coverage to transfer a portion of potential financial responsibility to an insurance company. When faced with the challenges of cancer, it is vitally important for clients to understand their current insurance coverages, benefits, and coverage gaps.

LIFE INSURANCE

Life insurance is used to make sure that loved ones are provided for in the case of death. As a general rule, life insurance will be available at death, but you'll need to review your client's life insurance policies thoroughly to see if there are any ways that the insurance policy can help with current financial needs or at least make sure they are not also depleting current finances.

There are several types of life insurance.

- **Term insurance** – The insured only pays for the insurance. A premium is paid every year to keep it active. It may be a set premium, meaning every year it is the same. In that case you want to see when the "term" of this policy ends. The premiums may then go up significantly. It will have no cash value.
    - It may and should have the "waiver" that premiums may be discontinued with a life-threatening condition. This is called a "waiver of premium."

- **Permanent life insurance** – Called **whole life, universal or variable universal life**. These policies may have accumulated a cash value that can be distributed or borrowed against.
    - A loan from the insurance policy is a lot easier to get than a bank loan because they are using the cash value of your client's policy as collateral.
    - If your client takes out the cash value, he/she will want to be careful and not surrender or terminate the policy if that is not his/her desire. The withdrawal of the cash value will be considered a loan against the policy, and an interest rate accumulates an amount added to cash distribution.
    - The cash withdrawn from the insurance policy along with the accumulated interest will typically reduce the death benefit available for the designated beneficiary if it is not paid back.

   - Also, if premiums are not being paid into the policy, the cash value amount and the accumulated interest over time may be greater than the underlying insurance policy can sustain. The policy and its death benefit is then terminated. This needs to be considered and understood.

- **Accelerated death benefit rider** - Some life insurance policies have "riders" attached to the coverage. An accelerated death benefit rider allows the insured to withdraw sums of cash from an insurance policy if the individual has been diagnosed with a life-threatening condition.
   - The process and how much the insured can withdraw depends upon the terms of the policy.
   - Receiving and accelerated death benefit will reduce the ultimate death benefit for the designated beneficiary.

Viatical and life settlements refer to the process of selling a life insurance policy to a third-party buyer as a means of gaining immediate funds. The payout is usually a lump sum of cash that has variable tax implications.
   - Viatical settlements usually require the insured to have a known chronic/terminal illness with a significantly shortened life expectancy.
   - The life settlement is negotiated in a different way and does not require a known shortened life expectancy.

The amount of money that the insured can expect to receive from a life insurance policy is based on the age of the policy, the client's current age and health status, the type of life insurance, the premium, the quality of the insurance provider, and the total amount of death benefit.

Bank loans against the policy may be done if there is a conditional assignment appointing a lender as the primary beneficiary/owner of the death benefit to use as collateral for a loan. If the loan is not paid back the lender can withdraw against the cash value, or receive the death benefit when the time comes.