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Applying for Coverage

Now that you've chosen the life insurance plan that suits you best, you're ready to make a life insurance purchase. Most people think this is simply a matter of answering a few questions and writing a check. It's true that your agent needs to fill out an application and that you need to pay all or part of your first premium. But there's a good deal more to it than that. In fact, what you and your agent do *just in applying for a policy* can determine how large a check you have to write—not just this year but every year you keep your policy. In some cases, what you and your agent do can even determine whether or not the insurance company issues you a policy at all!

There are a few simple things that can potentially save you hundreds of dollars on your first year's premium and thousands—even tens of thousands—of dollars in the years to come. This chapter reviews them all.

THE APPLICATION FORM

The first thing you need to remember is that an application for a life insurance policy is just that—an application, not an order blank. The insurance company has the right to say no to your application if it feels that you are too big a risk.

Each insurance company has its own unique application form, though most life insurance applications ask virtually identical questions. Your insurance agent will ask you the application questions orally, fill out the application for you, and then give you the form to look over and sign.

The application typically contains questions about the policy you wish to purchase, about other life insurance policies you may already own* and about your hobbies and future travel plans outside the United States and Canada. (The hobby and travel questions are asked to determine if anything you do or plan to do is potentially life-threatening.) You may also be asked if you have ever been turned down for life insurance, rated (i.e., given a less-than-standard risk rating by an insurance company) or issued a different life insurance policy than the one for which you applied.

It is *essential* that you answer every one of these questions honestly. Not only is honesty your ethical responsibility, but if you die within the first two years of coverage and the insurance company discovers that you lied on your application or deliberately left out important information, it is not legally required to pay the death benefit on the policy. Even if the lie or omission is unrelated to your cause of death (e.g., if you did not reveal that you had skin cancer as a child and you die in an auto accident), the company *still* does not have to pay the death claim. (In fact, if you do die within two years of buying a policy, your insurance company will launch a thorough investigation to make sure that all your application information is correct.) After two years, however, this escape clause expires, and the insurance company must pay the death benefit, whether or not the information on the application is accurate. If you are uncertain about how to answer any question, ask your agent. Rest assured that if a question you answer honestly and in good faith turns

* Insurance companies want to know what other life insurance you have in force because they do not want to overinsure anyone. Different companies set different limits, but in general, life insurance companies will not issue new or increased coverage on someone once the total death benefits from all of their life insurance policies total 15 to 20 times their annual income. Exceptions can be made in unusual circumstances, however.

out to be technically less than 100 percent correct, the death benefit will be paid in full.

If for any reason your agent advises you *not* to tell the truth on your application, or in any other dealings with your insurance company—or if he or she asks you to leave out anything significant on your application—you need a new agent. An agent who does not believe that you should be honest may not be honest with you. Working with that agent is simply too risky. Politely but firmly give this person the application back—unsigned. Tell the agent that you can't work with him or her and why, and usher the person to the door. Then look for a new agent, following the guidelines in Chapter 2.

After your agent fills out your application for you, look it over carefully to make sure it's correct; if anything looks wrong, let the agent know. When you are satisfied that the application is complete and correct, sign and date it and give it to your agent.

Plan to give the agent all or part of the first year's estimated premium as a deposit at this time. (I say "estimated" because the actual cost of your first year's premium could be higher or lower, depending on how you are rated by the company. See the next section for complete details on rating.) This amount will be refunded in full if the insurance company decides not to issue a policy or if you decide not to accept the policy once it arrives and you have looked it over. The insurance company may also choose to refund your premium while your application is being evaluated; normally, this is done only if something in your application makes warning bells go off in a medical underwriter's head (e.g., if you're taking flying lessons or your cholesterol is 295).

As I explained in Chapter 4, when you apply for coverage you may choose one of several payment options. You may pay premiums annually, twice a year, quarterly or monthly. In each case a bill is sent to you a few weeks in advance. An alternate payment method, called **automatic bank checking,** permits the insurance company to automatically withdraw the amount of your premiums from your bank account on either a monthly or quarterly basis. If you pay premiums more often than once a year, there will normally be a small service charge added to each premium; this service charge is lower on automatic bank checking than on standard billing.

It is essential that you pay at least a portion of your first year's premium at the time you apply for coverage. *This provides you with interim life insurance coverage while your application is being evaluated.* Normally, you will simply pay your first annual, semiannual or quarterly premium as a deposit. If you have opted for monthly premium payments, however, the company may request a deposit of either one or two monthly premiums. In some cases the insurance company may require only a partial premium (e.g., half of your first annual premium) as a deposit.

If you wish to keep your deposit as small as possible, it is fine to initially choose to pay monthly or quarterly premiums and then (if you wish) switch to less frequent premiums once you have received and accepted the policy. Once a policy is issued and you accept it, the deposit serves as part or all of your first premium. If you do not put down a deposit when you apply—that is, if you apply for a policy COD (cash on delivery)—then your coverage won't begin until and unless you receive your policy and write your first premium check. *Don't take this risk; pay the deposit and purchase the protection of interim coverage.*

Quite a few conditions apply to this interim insurance; these will be spelled out in detail in the **conditional receipt** that your agent will give you when you give him or her your deposit check. This conditional receipt serves as both a receipt for your deposit and a description of your interim life insurance coverage.

The terms and conditions of interim insurance vary from company to company, and in some cases from policy to policy. Typically, however, there are limits on both the length of interim coverage (90 days is typical) and the size of the interim death benefit (e.g., the maximum might be $500,000, even if you have applied for a higher amount of coverage).

Make sure that when you give your agent your application and check, he or she gives you a conditional receipt *on the spot*. This must be properly filled out, signed and dated by the agent for the interim insurance to take effect. Read the conditional receipt over carefully so that you understand all the terms of the interim coverage; then put it in a safe and accessible place until you receive (and decide to keep) your life insurance policy.

Your deposit check, like all premium payments, must be made out to the insurance company, not to the agent or agency and not left blank. If a life insurance agent *ever* asks you to make out a check directly to him or her, or to his or her agency, it is fraud; get rid of the agent immediately and report this person's actions to the insurance company (and, if you like, to the Better Business Bureau).

If an insurance company decides that you do not qualify for a standard or preferred risk rating (see the next section for a complete discussion of this topic), your interim coverage expires on the day the carrier makes this decision. Many companies make this initial determination quickly and then make a second, more careful decision on whether to offer you the policy you requested, a somewhat different policy or no policy at all.

GETTING RATED

Once an insurance company receives your application, it will call you to schedule a brief, free-of-charge medical exam. *With few exceptions, you must take this exam to be eligible for a policy.* Once the results of your exam are in, a medical underwriter at the insurance company's headquarters will consider them—as well as your age, your life-style, your health history and your answers to a series of health-related questions—and make a decision on your application. If, after considering all of this information, the medical underwriter believes that you will probably live as long, or almost as long, as most other people your age, he or she will approve your application and issue you a policy. But if the underwriter believes that you have a good chance of dying much sooner, either because of a health condition or some activity you regularly engage in (such as skydiving or motorboat racing), he or she may choose to deny you coverage and refund your money.

In practice, stunt pilots, heroin addicts and people who have had several heart attacks may be refused life insurance by some companies. But other companies might insure those same people (though their premiums would probably be high). And people with chronic but non-life-threatening health problems, such as colitis or diabetes, can frequently get life insurance. In fact, many people whose health is downright poor are sometimes issued policies by first-rate companies.

Insurance companies also have the right to issue you a policy but exclude one or more specific causes of death from coverage. These exclusions will have to do with your life-style or hobbies (e.g., skydiving). Policies with these exclusions usually have limited value, however, since your beneficiary won't receive a penny of death benefit if your death is caused by (or related to) the excluded activity.

But medical underwriters at every life insurance company must make more of a choice than simply thumbs up or thumbs down. They must also select a **risk rating** for every policy they decide to issue and every applicant they decide to insure. The healthier you are and the longer the underwriter believes you are likely to live, the better a rating you will receive and the lower your premiums will be. With some policies, a more favorable risk rating may also mean higher cash values and/or higher death benefits. *It is therefore to your great financial advantage to be placed in the most favorable rating class that you can.*

Specific risk ratings, and the criteria used to arrive at them, differ from one insurance company to the next. However, most companies use the following ratings or close variations on them:

- *Preferred.* This is the best risk rating, and people who receive it pay the lowest premiums. A preferred rating is normally granted only to people in good or excellent health. A few life insurance companies do not offer a preferred rating, but most do.
- *Standard.* This is an average rating that is usually given to people who are expected to live into their seventies. If you are in reasonable health but are overweight, take a blood pressure medication or have a minor but chronic health problem (such as an ulcer), you will probably receive a standard rating. Your premiums will be somewhat higher than those charged to people with a preferred risk rating.
- *Substandard.* This rating is for policyholders whose current health or health histories are significantly poorer than average. People with potentially serious health problems or a history of severe illness typically receive substandard ratings. Most insurance companies use several different levels of substandard ratings, each with a correspondingly higher schedule of premiums. If you engage in a potentially dangerous activity (e.g., if you scuba dive frequently, take flying lessons or regularly parachute jump), you may also be given a substandard rating.

When calculating your risk rating, all insurance companies and medical underwriters also take into consideration whether or not you smoke. Some companies simply consider this as one factor among many. Others break down each rating category into two subcategories, one for smokers and one for nonsmokers. For example, most people in good health will normally qualify for either a **preferred nonsmoker** or a **preferred smoker** rating, with the premiums for the smokers, of course, being somewhat higher. (One company has an additional designation—and lower schedules of premiums—for people who haven't used tobacco for 15 years or more.) There is some variation from company to company in determining nonsmoking status. However, most life insurance companies consider you a smoker only if you smoke cigarettes. In most cases you are considered a nonsmoker if you smoke a pipe or cigars, or if you take snuff or chew tobacco.

If you are an ex-cigarette smoker, most insurance companies will give you nonsmoking status if you quit one year or more ago. If you have given up cigarettes more recently, you may need to accept smoking status at first; however, after you have kept your policy for a year or two, you can ask your agent to change your status to nonsmoking—and to have your premiums lowered accordingly. See Chapter 10, "Reducing Your Future Premiums," for more details on this strategy.

You'll recall that when you first met with your life insurance agent to assess your goals and needs, he or she asked you some questions about your health and life-style. This was done in part to ascertain what risk rating you would most likely receive on your policy. When your agent brought you one or more policy proposals to look at later on, he or she used this anticipated rating to determine what your guaranteed and illustrated premiums would most likely be. (If the agent's educated guess turns out to be wrong and you receive a better or poorer rating than expected, your premiums will be lower or higher than you and your agent anticipated. In practice, an agent is far more likely to anticipate a risk rating that is too positive rather than one that is too poor.)

These ratings are not determined by computer or by some simple mathematical calculation. Medical underwriters at insurance companies' home offices must thoroughly and carefully examine each application and make their own best judgment about how to rate it. In making their decisions, they use standard statistical tables on illness and mortality, their company's previous experience and their own best judgment. But because the experiences of insurance companies may differ, and because medical underwriters are human beings making human judgments, it is quite possible that two different companies might assign you two different risk ratings. In fact, if two different underwriters at the same insurance company were given the same life insurance application, *they* might even come up with two different ratings in borderline cases!

Other factors completely unrelated to your health may sometimes enter into the decision as well. How well is the particular policy you have applied for selling? How are the company's profits in general right now? How much does the company want your insurance agent's business? A company that is especially eager to bring in new business may be more likely to give new applicants favorable ratings, especially in borderline cases.

RATINGS AND YOUR WALLET

Let me give you some idea of what all this translates into in terms of your premiums. Right now I'm looking at the schedule of illustrated premiums for a simple, initially inexpensive term insurance policy that offers a $100,000 death benefit. This policy, for a 36-year-old male, was issued by a very strong and financially stable company. If this man had received a preferred risk rating, his first year's premium would have been $114; but because he was given a standard rating instead, his initial premium was $171—*a full 50 percent higher.*

Now let's take a look at his illustrated premiums 20 years down the road, at age 56. If he had received a preferred rating, he would pay $770 in his 56th year; instead, because of his standard rating, he will have to pay $1,002. Ten years after, at age 66, he will have to pay $2,376 instead of the preferred premium of $1,784. All told, *the difference in premiums over this 30-year period exceeds $6,000*—all because of a one-step difference in his initial risk rating. And this is just for an initially inexpensive term policy with a small death benefit. For a $500,000 policy, the differences can exceed $20,000 just in the first 20 years.

Furthermore, some policies may pay higher cash values and/or death benefits to policyholders with preferred—or preferred and standard—risk ratings. It is your job, then—and your agent's—to make sure that you get the best possible risk rating and the lowest possible premiums. The rest of this chapter will show you how.

PREPARING FOR YOUR MEDICAL EXAM

Since your risk rating is based largely on the results of your medical exam, how you prepare for that exam can have a substantial effect on what you will have to pay in premiums, both now and later on. Your preparation should begin even before you get a call to schedule the exam. While in general it is best to take the exam as soon as possible so that your policy can be issued as quickly as possible, it is just as important that you pick a location, day and time for the exam that will result in the least stress and the greatest comfort for you.

The exam normally can be done at either your home or office—or, in some cases, another location of your choice. You can usually schedule an exam for almost any time on a weekday, from early morning until late evening. Some companies schedule weekend exams as well. Avoid scheduling an exam so that it may follow a potentially stressful situation, such as rush-hour traffic or packing your kids off to school. If at all possible, try to stay home from work altogether on the day of your exam.

Most exams take only 30 to 45 minutes and involve nothing more than drawing blood, collecting a urine sample, taking your blood pressure and asking you some health-related questions. However, depending on your age and the amount of insurance you wish to buy, you may be asked to take a more thorough physical, which may include a chest X ray, an EKG, a treadmill test and/or some other test(s). (This more extensive examination cannot be done in your home or office. You will need to take the exam in a medical center or doctor's office of the insurance company's choice in or near your hometown—or, if there is no doctor or medical center affiliated with the insurance company nearby, at the office of your regular physician. There is typically no charge for any insurance medical exam, no matter how extensive.)

What you do during the three or four days before your exam can have a profound effect on its results. What you do during the 24 hours immediately before the exam is especially important. For the best results on your medical exam, follow these tips:

- Do not drink coffee—or any caffeinated beverage (tea, cola, etc.)—during the 24 hours before the exam. Ideally, avoid them for two or three days before the exam.
- Do not smoke for at least three hours before the exam. If possible, do not smoke for 24 hours before (unless it will make you a nervous wreck).
- Limit your salt intake as much as possible for three or four days before the exam. If you can, omit salt from your diet completely during this time.
- Eat healthily during the three or four days before the exam. Even if you have eaten nothing but fast food and TV dinners for years, eating well for these few days can have a positive and noticeable effect on your test results. Eat mostly fruits, vegetables and whole grains. Particularly avoid rich, fatty foods.
- Strictly limit your sugar intake for three to four days before the exam. Avoid soft drinks; eat fresh fruit for dessert or skip it entirely.
- Limit your alcohol intake during the three or four days before the exam to one or two drinks a day. Do not drink at all during the day of the exam or the day before.
- Take the exam on an empty stomach. *This is important*. Skip the meal immediately before the exam. Better yet, fast for 12 hours beforehand.
- Get a good night's sleep the night before. This can make a bigger difference than you think.
- If you will be taking the exam elsewhere, allow plenty of extra time to get where you're going *plus* 10 or 15 minutes to relax and get comfortable, so that your pulse and blood pressure will go down. If the exam will take place in your home or office, stop what you're doing 15 minutes beforehand and use the time to rest. A short period of relaxation does wonders for the blood pressure.
- If you are not feeling well on the day of the exam or during the night before, reschedule it for another day. You do not want your insurance premiums to be based on a medical exam you took when you were ill.

Especially when they are used together, these strategies can result in significantly (and sometimes surprisingly) improved test results, and often lower premiums as well. If you are willing and able to make the recommended changes in your life-style for a longer period—say, for two or more weeks before the exam—your test results should be better still.

The insurance company is not required to automatically provide you with a copy of the lab report that describes the results of all your tests. However, some insurance carriers routinely provide applicants with these results anyway, as a courtesy. If you do wish to see a copy of the lab report, tell your agent and/or the medical technician or doctor who administers the exam. If the insurance company does not provide you with the exam results, write the underwriting department of the company and ask that the results be sent to your regular physician. The insurance company *must* legally comply with this request, and you can in turn get the results from your doctor.

The medical technician or physician who gives you your medical exam will normally ask you a series of health-related questions. Most of these will have to do with your health history. You will also be required to sign a statement allowing the insurance company to get copies of your medical records from your doctor(s).

There will also be some life-style questions having to do with smoking, drug use and exercise. (Remember, if you do not smoke cigarettes but use snuff, chew tobacco or smoke a pipe or cigars, say so. *You may qualify as a nonsmoker and thus save hundreds or thousands of dollars in premiums over the years*.) You will probably also be asked if you have a family history of any major illnesses; in this case, "family" means your immediate family (your father, mother and siblings). It is a good idea to mentally review your health history for a few minutes before the day of your exam, as you did before first meeting with your insurance agent, so that you can answer these questions easily and accurately.

Once again, it is essential that you answer every question honestly and completely. If a question seems vague or unclear, ask the med tech or doctor for clarification; if you are not sure how to best answer a question, explain the situation and ask for guidance. For example: "I have very dry skin, especially in the winter. Does that count as a disorder of the skin or not?" (By every insurance company's definition, it does not.)

HOW YOUR INSURANCE AGENT CAN HELP

In chapter after chapter of this book I've given you concrete examples of how very important choosing the right life insurance agent can be. Let me share with you another crucial difference between an on-the-ball agent and a mediocre one: a good agent can go to work on your behalf to make sure that you get the best appropriate risk rating.

If it is clear to your agent from the start what risk rating you qualify for, he or she doesn't have to do anything special for you. But if there is any doubt in his or her mind about what rating you will receive, the agent should do one or more of the following things.

A good agent can carefully choose which medical underwriter to submit your application to.

A savvy agent has taken the time and trouble to get to know several different medical underwriters at each insurance company he or she deals with on a regular basis. The agent knows from experience what each underwriter is most concerned about and what that underwriter is likely to downplay or ignore.

I'd like to give you an example from my own experience. As I was filling out a life insurance application for one of my clients—a well-respected and well-to-do businessman in his forties—he said to me, "Terry, I need to tell you something I've never told anyone except my wife. Almost every day for the past few years, I've gone down into my basement and smoked marijuana to relax." I asked him if he used any other drugs or if he had any problems with alcohol. He said no. I reminded him to answer the questions about drugs on his medical exam honestly, and I took his application to a medical underwriter who I knew was young and fairly liberal in his thinking. He approved the businessman's application and issued a policy.

A good agent can speak to the medical underwriter on your behalf.

No agent can perform miracles here, but a sharp one can make a strong case for you. In the case of the businessman who smoked marijuana, I said to the medical underwriter, "I think we should cover this gentleman and give him at least a standard rating. He's in good health; he doesn't smoke tobacco; he doesn't have an alcohol problem and doesn't do any other drugs; he's been running a successful business for years; and, except for his marijuana use, he takes good care of himself and lives a stable life-style. I think he's a good overall risk." The medical underwriter agreed and gave the businessman a standard risk rating.

This kind of support can be especially helpful in borderline cases, when a little extra information from the agent can sometimes encourage a medical underwriter to give an applicant the more favorable rating—or to say yes to an application that could just as easily have been turned down.

A good agent will challenge a risk rating that he or she believes is inappropriate.

If one of my clients is given a rating that doesn't seem to make sense, I do something about it. Sometimes I talk to the medical underwriter. I might double-check to make sure that all of the medical information the insurance company has on my client is accurate. Or if the results of a client's medical exam seem poorer than his or her life-style and health history suggest, I might urge that client to take some or all of the tests over again—and/or to take some additional tests. (The client would foot the bill for these tests.) The test results would then be submitted to the insurance company, and I'd ask the medical underwriter to reexamine the application in light of these new results. I recently had one of my client's ratings improved in this manner by having him get and submit the results from a second EKG.

If and when a client's risk rating seems inappropriate but cannot be changed, a smart agent may look for a similar policy from another good insurance company.

A good agent can follow your policy, step by step, through the underwriting process and will be ready to address any problems.

If necessary, your agent should be able to monitor your application as it passes from the hands of one person to another. If there is any problem or delay, the agent can then get on the phone to ask questions, provide additional information, coax others into making a favorable decision on your behalf, and generally keep the approval process moving forward. Of course, the policy must in all events be right for you, and neither the agent nor the medical underwriter should ignore the principles of sound underwriting.

Actually, a good agent has made important choices on your behalf even before he or she brought you some policy proposals from which to choose. Remember those health and life-style questions your agent asked you when the two of you first sat down to assess your goals and needs? The agent should have used your answers to those questions to determine which insurance companies and medical underwriters would be likely to give you the most favorable rating. Then, ideally, he or she chose the best and most appropriate policy proposals from one or more of these companies and brought them to you for your consideration and selection.

For example, suppose you are a little overweight and your cholesterol is 210, but you are otherwise in good health and do not smoke. Your agent may know from experience that the medical underwriters at Hypothetical Life take cholesterol very seriously, especially among people who are heavy. But your agent may also know that the medical underwriters at Imaginary Mutual are far less concerned about slightly high cholesterol and extra body fat, at least among people who are otherwise in good health. As a result, he or she will probably not try to sell you a Hypothetical Life policy, because Hypothetical is likely to give you a standard risk rating. Instead, he or she will look for an Imaginary Mutual product that suits you, in the expectation that with a little coaxing, Imaginary Mutual will give you a preferred rating—and thus lower premiums. (This assumes, of course, that Hypothetical Life and Imaginary Mutual are both first-rate, well-managed and very financially stable companies.)

A truly outstanding agent might go one step further. He or she might know, for example, that although the Fictitious Insurance Company is an excellent firm, it is having a slow year and is eager for new business. Because of this eagerness, the agent knows that Fictitious will be a bit more generous than usual, both in rating policies and in accepting borderline applications. Your agent might then offer you a policy from Fictitious, in the expectation that you will be able to get the best risk rating and lowest premiums there.

Don't expect your agent to automatically do all of the things just described. It is your job to let him or her know that you may need and expect this extra effort. *When the agent fills out the insurance application for you,* ask these two questions:

1. What risk rating do you think I am likely to receive?
2. What are my chances of receiving a higher or lower rating, or of having my application turned down?

If your agent has any doubt about what rating you will receive, or if your agent believes there is a chance that you won't be issued a policy at all, say, "Please do everything you can to get me approved, and to get me the best rating you believe is possible." Feel free to suggest some or all of the strategies previously described in this chapter. (Your agent is probably quite familiar with them all, but it can't hurt to provide a reminder.) If need be, show your agent this chapter.

If the agent waffles when answering these two questions, or if he or she openly expresses some uncertainty about the risk rating you'll receive, then there is a fair chance that you will be given a poorer rating (and charged higher premiums) than you and your agent hope and expect. Your best bet in this case is to ask your agent to provide you with sample schedules of guaranteed and illustrated premiums (and, if appropriate, schedules of guaranteed and illustrated cash values and death benefits) based on the poorer risk rating, so that you know in advance what the two different risk ratings will mean for you financially.

Now you know everything you need to about applying for coverage and taking your insurance exam. A few weeks after you take your exam, your policy should arrive. In the next chapter I'll show you exactly what to do, step by step, to make sure that everything in your policy, including your schedule of premiums, is what you want and need.