



Illinois Insurance Facts

Illinois Department of Insurance

Frequently Asked Questions Individual Life Insurance

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Note: This information was developed to provide consumers with general information and guidance about insurance coverages and laws. It is not intended to provide a formal, definitive description or interpretation of Department policy. For specific Department policy on any issue, regulated entities (insurance industry) and interested parties should contact the Department.

General Questions

1. How do I know which life insurance companies are reputable?

The Department of Insurance can provide you with the following information to assist you in making a decision about purchasing coverage: whether or not the company is licensed in Illinois; the number of complaints we have received about the company in recent years; and the company's financial rating from A.M. Best Company.

2. Is there a law against the insurance company or agent returning a portion of the premium when a new insurance policy is purchased?

The practice of the agent or company returning part of the commission or providing some other thing of value, such as a return in whole or part of the premium, is known as "rebating." This practice is prohibited by law in Illinois. No refund, discount, gift or other inducement may be given to the insured to encourage the purchase of insurance.

3. Will my life insurance policy be protected if my company goes broke?

Insurance companies licensed to write life insurance policies in Illinois are members of the Illinois Life and Health Insurance Guaranty Association. If you are an Illinois resident who bought life insurance from an Illinois licensed company, Illinois law provides protection up to the following limits:

- \$300,000 in life insurance death benefits on any one life, regardless of the number of contracts issued
- \$100,000 in life insurance net cash surrender and net cash withdrawal values.

4. What about my annuities? Are they also protected if my company goes broke?

The Illinois Life and Health Insurance Guaranty Association covers up to \$100,000 in present value, including net cash surrender or withdrawal values, per annuitant; and up to \$5,000,000 in present value per unallocated group annuity.

5. My mom died recently. We think she had life insurance but we can't find any policies. Is there a central records bureau that keeps track of all life insurance policies sold in Illinois?

Unfortunately, there is no clearinghouse of information for life insurance policies. You should go through your mother's cancelled checks and credit card receipts for names of insurance companies to which she may have paid premiums. You should contact her employer or her former employer or union to find out if she was covered by a group policy. Also, if she belonged to an association, she may have had insurance through them. You might also check with her insurance agent to see if he has a record of a policy for your mom. There are several services available on the Internet that perform searches for lost life insurance policies. Many of these services charge a fee. To find a service, do a search for "lost life policies" on any Internet search engine such as Yahoo or Gomez. The Department of Insurance does not regulate or endorse these services. If you know the name of the insurance company but cannot locate a policy, you may contact the company and ask them to do a search. Make sure to provide the company with all names your mother may have used, as well as her social security number. If you find a policy but cannot locate the company named on the policy, the Department of Insurance can tell you if the company has moved, changed its name, or merged with another life insurance company, and provide you with a current address and phone number.

6. I purchased a life insurance policy from an insurance company over twenty years ago. This company is no longer in business. How can I find out where my policy is now held?

The Department of Insurance can tell you what happened to the original company. If, for example, it was purchased by another company, we can provide the name, address and phone number of the new company. If you are unable to determine if your policy has been assumed by the new company, contact our Department in writing or by e-mail. We will then contact the succeeding carrier to see if we can determine what happened to the policy.

Beneficiary Questions

7. Can I designate whomever I want to be a beneficiary on my life insurance policy?

Most insurance companies require that the beneficiary have an insurable interest in the life of the insured at the time of application. In other words, the named beneficiary would suffer a financial loss should death of the insured occur. An insurable interest is presumed for close family members such as spouse, children, parent, grandchild, sibling, etc. However, an insurable interest is not presumed when the designated beneficiary is a more distant relative or a person who is not related. An insurance

company may decline to issue a life insurance policy to an applicant if the company questions the appropriateness of the beneficiary designation.

8. In that case, how can a bank be named a beneficiary of a life insurance policy I purchased when I borrowed money to buy my home?

The beneficiary must be able to satisfy the insurable interest requirement. If you borrow money from the bank to purchase your home, the bank would have a financial, and consequently insurable, interest in your life.

9. My husband passed away. The beneficiary on his life insurance policy is his ex-wife because he forgot to change it. What can I do to receive the benefit?

The beneficiary designation by your husband probably states, "(ex-wife's name), wife of insured." While she is no longer married to the insured, the courts have ruled that words such as "wife of the insured" are descriptive only. The name of the beneficiary itself is controlling. Therefore, the courts have held that the benefit is payable to the person named as beneficiary whether or not the descriptive term is correct.

Cash Value Questions

10. How can I find out the cash value of my whole life insurance policy?

All policies that produce cash values must state the method used to compute such values and they must list the cash value available at the end of each of the first 20 years that the policy is in force. You may also write to the company to request the exact cash value of your policy. Many companies also send an annual statement to the insured, which specifies the cash value of the policy.

11. Why is the cash value of my life insurance policy much less than the total premiums paid?

Cash value or cash surrender value of a whole life insurance policy is the amount of money the policyowner will receive as a refund if the policyowner cancels the insurance and surrenders the policy to the company before the policy matures. The amount of cash value depends on the face amount of the policy, the length of time the policy has been in force, and the length of the policy's premium payment period. The cash value will increase throughout the life of the policy and will eventually equal the face amount of the policy, but usually not until the insured reaches the age at the end of the mortality table used to calculate premiums for the policy, usually age 100.

12. I bought a life insurance policy one year ago. I thought that after one year I could surrender the policy and receive a refund of premium paid in excess of \$1,000. The company says the cash value is zero. Why is there no value to my policy?

Most whole life insurance policies do not provide cash value until the end of the second or third year. However, insurance companies are permitted to provide cash values sooner as a means of competing in the sale of life insurance. Check your policy to determine when the cash value is provided.

13. I borrowed money from my life insurance policy. How does that affect the cash value?

The cash value of your policy will be reduced by the outstanding amount of the loan. If you write the insurance company for the cash value of your policy, their response should include adjustments for loans outstanding against the policy.

14. I purchased a life insurance policy for my child who is now an adult. I tried to cash the policy in for its cash value but was told by the insurance company that my child owns the policy now. How did this happen?

Most life insurance policies which cover the life of a minor child state that the child will automatically assume ownership of the policy when he or she becomes an adult. Check the section of the policy on ownership to determine if that is what has happened in your case.

15. I surrendered my life insurance policy over 30 days ago. How long does the company have to send me the cash value of my policy? How much interest am I entitled to collect?

Illinois law allows the insurance company to defer payment of the cash surrender value of a life insurance policy up to six months after the application for surrender is made. However, most insurance companies pay in a timely manner. Insurance companies are not required to pay interest for cash surrender. If you believe your company is taking too long to pay you, you should contact our Department for assistance.

16. I have a life insurance policy with a \$1,000 benefit. I have paid over \$1,200 in premiums on this policy. How can it only be worth \$1,000?

Premiums paid for life insurance are not like deposits in a bank where the insured can always get back at least the amount which has been paid in. The primary purpose of life insurance is to provide protection in case of death. If you die, the company pays the death benefit regardless of the amount of premiums that have been paid. The company must stand ready to pay the death benefit guaranteed by the policy even though that benefit may be many times the amount of premium received. A basic insurance principle is that the losses of one individual are shared by many. The claims of those who die are met in part by the premiums paid by those who survive. Thus, part of the premiums you have paid went toward the payment of death claims for other policyholders.

17. I purchased a term life insurance policy which has expired. Shouldn't the company refund some of my money since no claims were ever filed?

Term life insurance products provide coverage for a specified, limited period of time that can be as short as one year or as long as thirty or forty years. Term life insurance provides for insurance protection only and provides no further benefits when the term expires.

Death Benefit Questions

18. Is double indemnity a standard provision of all life insurance policies?

Typically, an accidental death benefit is provided in an amount equal to the amount of insurance provided by the life policy. For example, if the death benefit were \$10,000, the accidental death benefit would be \$20,000. For this reason, the accidental death benefit is often referred to as "double indemnity." However, as a general rule, the accidental death benefit is available only on application and is added to the policy by rider for an additional premium.

19. My insurance company has returned my premium after a claim was filed for a death benefit for my wife. Can they do that?

The insurance application form is part of the life insurance contract. The applicant signs the application affirming that all information is true and correct to the best of his/her knowledge, and the insurance company issues a policy based on that information. Contracts may be rescinded (coverage voided and all premiums returned) within the first two years if the insurance company discovers a material misrepresentation. "Material" means that the information would have affected the issuance of the policy. For example, if a person answers a question on the application about heart disease as "no" and the company learns that the applicant had been treated for a heart attack, this would be considered a material misrepresentation since the coverage may not have been issued if the correct information had been provided. When a claim is filed within the first two years after issuance of the policy, it is not unusual for the company to investigate the validity of the application. Even if a material representation was not intentional, the company may rescind the policy.

20. What if the reason for the rescission had nothing to do with the cause of death?

The company may rescind the coverage for any material misrepresentation, whether or not it was directly related to the cause of death. For example, if an applicant fails to disclose on the insurance application that he has heart disease but then dies from cancer, the company may rescind the coverage for failure to disclose the heart disease.

21. After my mother died, I filed a claim with the life insurance company and received a death benefit check from them. In the meantime, my cousin has filed a claim and states she was the named beneficiary. The company has now stopped payment on the benefit check and has turned the matter over to the courts. What has happened?

When an insurer is faced with conflicting claims for policy proceeds, and there is reasonable doubt as to which of the claimants is entitled to the proceeds, the matter is turned over to the courts using interpleader. This means that the insurance company pays the policy proceeds directly to the court, stating that they cannot determine the proper recipient. The court examines the evidence and determines the proper party to receive the money and awards the money. Unfortunately, you will have to defend your right to policy proceeds and may need the assistance of an attorney to do so.

22. I have been approached by someone who says they want to purchase my life insurance policy and can pay me a percentage of the death benefit now (the benefit amount payable on the death of the covered person). Can I sell my policy? Such a practice is usually called either a viatical settlement or life settlement. While this practice is legal, we encourage you to review the Illinois Department of Insurance fact sheet entitled [Stranger/Investor Originated Life Insurance \(STOLI\)](#) prior to selling your policy. It is important that you fully understand your options, as well as the financial impact of your decision.