



Illinois Insurance Facts

Illinois Department of Insurance

Replacing Life Insurance Policies or Annuities

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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.

If you already own a life insurance policy or annuity, you should think twice if someone suggests that you replace it - especially if you have had the policy for a long time. That doesn't mean you should never replace a policy, but you should think carefully before making that choice. To help protect your interests, insurance companies and agents in Illinois must follow certain requirements when you replace a policy or annuity.

What is Considered a "Replacement?"

If you are buying a new policy, under Illinois law, you are "replacing" your current policy if you:

- let it lapse, or forfeit, surrender or terminate it;
- convert it to a reduced paid-up policy, continue as extended term insurance, or otherwise reduce in value by use of nonforfeiture benefits or other policy values;
- amend it to reduce benefits or terms;
- have your policy or annuity reissued with a reduction of cash value; or
- pledge it as collateral or take a loan against the policy for more than 25% of the loan value.

Which Policies Apply?

All life insurance and annuity replacements must comply with Illinois replacement laws **except**:

- credit life insurance policies;
- group life insurance and annuity policies;
- life insurance that is issued in connection with a pension;
- contracts that are registered with the Securities and Exchange Commission (SEC), such as variable life insurance policies and variable annuities;
- non-convertible term life insurance policies that will expire in five years or cannot be renewed;
- life insurance or annuity policies where the replacing insurer is the same company or under common ownership; and,
- if the total cash surrender value is less than \$500 and the face amount of the policy is less than \$5000.

Before You Consider Giving Up Your Current Policy

- Make sure you are still insurable. Check any medical or other qualification requirements the new company may have. You don't want to give up your current policy only to find out you are not insurable with the new company.

- Understand that there may be no advantage to replacing a life insurance policy or annuity with another life policy or annuity because it may be years before the cash value in the new policy reaches the level in your current policy.
- Make sure the new policy has the same provisions as your old policy. Many times, older policies have good features that aren't offered in newer policies, such as low interest rates for loans.
- Understand that you may have to satisfy limits in your new policy that have already been satisfied under your current policy. For example, a life insurance policy or annuity has a two-year "incontestable" clause. That means after the policy has been in force for two years, the insurance company must, by law, pay a death claim even if there were misrepresentations in obtaining coverage, unless fraud can be proven. With a new policy, the two-year incontestable clause begins all over again.
- Remember that you are older now than you were when you bought your current policy. A new policy will likely cost you more because of your age.
- Tell your current agent or insurance company that you are thinking of switching policies. They may be able to match or beat the offer with their own new or updated products.

When Talking to an Agent or Company about Replacement

- Call the Department of Insurance to make sure the new insurance agent and company are licensed to do business in Illinois. Ask if any complaints have been filed against them.
- Make sure the application contains truthful statements about your health conditions. Don't leave information off the application, even if the agent suggests it. Misrepresentations or omissions on the application could jeopardize your coverage. Your signature on the application means you have read and agree with the information on the application.
- Make sure the application clearly states that you intend to replace your existing insurance policy. If the agent or company knows that you intend to replace your existing policy, they must give you a copy of a *"Notice Regarding the Replacement of Life Insurance or Annuity."* This notice gives you advice to think about before switching policies or annuities.
- If you are **buying the new policy from an agent**, he or she must give you a copy of the notice at the time of the sale. If you are **buying the new policy directly from a company**, the new company must: 1) ask you for a list of the policies you intend to replace and the names of your current insurers; and 2) mail you a copy of the notice within three (3) days of receiving your application.
- The new company must also send a *"Notice of Proposed Replacement of Life Insurance or Annuity"* to your existing insurer stating that you are replacing your existing policy. The notice must contain your name and address, your existing insurance company's name and address, your existing contract number and the agent's signature acknowledging that you intend to replace your current policy or annuity.

When You Receive Your New Replacement Policy

- Read it carefully. The application will be attached to the policy. Make sure there are no changes in the information you gave on the application.
- If you do not understand the policy, ask the agent or company for an explanation. No agent can change policy wording, so be suspicious of any agent who makes statements contrary to what is stated in your policy.
- If you find mistakes or decide that you do not want the replacement policy, you have 20 days from the date it was delivered to you to return it to the company for a full refund of premiums. Keep the envelope so you have proof of the date the new policy was mailed to you.

For More Information

Call our Consumer Services Section at (312) 814-2427 or our Consumer Assistance Hotline toll free at (866) 445-5364 or visit us on our website at <http://insurance.illinois.gov>