



Chapter 6 PROVISIONS

COVER / FIRST PAGE

Entire contract

- Includes policy, application and riders (not medical exam)
- “Nothing may be incorporated by reference

Insuring clause

- Basic promise to pay a death benefit
- Signed by the president and secretary of the insurance company
- Beneficiary’s instruction

Free-look

- BEGINS AT DELIVERY
- Receives a full refund
- Life = 14 days, Annuity = 21 days, Health = 10 days, LTC/Medigap = 30 days

Consideration clause – NOT ON COVER / FIRST PAGE

- Premium schedule = amount & frequency

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MODE

Weekly – lowest premium rate, highest cost/outlay



Annually – highest premium rate, lowest cost/outlay

Grace period – late time for premium

- Industrial = 4 weeks
- Ordinary = 1 month (30 days)
- Age 64+ = additional 21 days, also have to let you know you can name a “secondary addressee”
- Die within the grace period = pay the claim AND subtract premium owed

Reinstatement – Need premium, interest, pay back loans (replace the cash value), prove insurability

- Yes new contestable period
- NO NEW SUICIDE CLAUSE
- Can go back 3-7 years, depends on the company

Policy loan provision (interest on loans)

- flat = 10% max, some states 8%...refer to your law chapter
- if it is adjustable the rate is tied to Moody’s

Misrepresentation (Lying) on the application: All depends on what you lied about, see chart below

Not Material Facts	Material Facts	3 I's
<ul style="list-style-type: none"> ▪ Not a deal breaker ▪ Yes insurable but more expensive <ul style="list-style-type: none"> Sex Age Smoking ▪ ADJUST THE BENEFIT ▪ ANY TIME 	<ul style="list-style-type: none"> ▪ Deal breaker ▪ Uninsurable (like a serious health condition) <p><u>First 2 years</u> – Deny claim/void policy AND refund premiums</p> <p><u>After 2 years</u> – We're stuck with you and pay the claim</p>	<ul style="list-style-type: none"> ▪ More severe than material facts ▪ Deny claim/void policy at ANY TIME <p>Impersonation No insurable interest Intent to kill (murder)</p>

Suicide

- Within first 2 years = deny claim and refund premiums
- After 2 years = pay the claim

Automatic premium loan – prevents unintentional lapse

OPTIONS

Nonforfeiture Options

1. Cash surrender – no more insurance, take the cash value and go on vacation
 - Any **Gain** is taxable income –if you get back more cash value than premiums paid in
 - Industrial = 5 years (must have available cash value) “Indy 500”
 - Ordinary = 3 years (must have available cash value)
 - **Delayed payment provision applies to cash value**, can make you wait 6 months
2. Reduced paid-up = whole life (because “paid-up” = whole life) so has a cash value
3. Extended term – maximizes the death benefit because same death benefit as the original policy

Dividend Options - CRAPO

- CASH – tax-free
- REDUCE PREMIUM
- ACCUMULATE INTEREST – dividend is tax-free but interest it earns is taxable income
- PAID-UP ADDITIONS – whole life
- ONE-YEAR TERM (ART)

RIDERS

Guaranteed insurability – lets you buy more insurance without health questions

- Premium goes up because :
 - it is a new policy,
 - Because of age (class)
 - Not because of health, can't ask about health

Between ages 25 and 40 every 3 years

Waiver of premium – insurance company pays premium for you if you become disabled

- Keeps the policy in force
- Waiting period (elimination period) 3-6 months (you pay premiums during this time),
- After waiting period, the company pays premium and refunds you the waiting period premiums

Waiver of monthly deduction – same as waiver of premium but for flexible premium policies (universal)

Payor rider – same as waiver of premium, but for juvenile policies

- If adult premium payor becomes disabled, insurance company pays premiums until the kid is 25 or the policy is paid-up, whichever is first

Long-term care rider – Exclusion: Does not pay if suicide attempt is the reason you can't do ADLs

COLA rider – Maintains the value/spending power/purchasing power of the benefit, protects against inflation

- Benefit goes up each year with Consumer Price Index

Return of Premium rider – term policies only; returns the premium if insured does not die during the term period