

TMAIT Insurance Guides for Physicians

Life Insurance



TEXAS MEDICAL ASSOCIATION
INSURANCE TRUST

TMAIT INSURANCE GUIDES

The TMAIT Insurance Guides are intended to help physicians make sound insurance decisions for themselves and their families. Created by the Texas Medical Association (TMA), TMAIT has more than 50 years of experience meeting the insurance and financial-planning needs of Texas physicians, and you can count on us to provide comprehensive information you can use.

Note: The purpose of this guide is to provide information and education about all types of life insurance and its related coverages. TMAIT may not offer all types of life insurance discussed in this guide.

Life insurance: You pay a monthly, quarterly, or yearly premium to an insurance company, and when you die, your beneficiaries receive money to help pay for funeral costs and ongoing living expenses.

Life insurance 101

Whether you've just finished medical school or have been practicing medicine for years, now's the time to make sure you have the life insurance you need in order to help protect your loved ones, your assets, and your medical practice.

Of course, most physicians know what life insurance is: You pay a monthly, quarterly, or yearly premium to an insurance company, and when you die, your beneficiaries receive cash (a "death benefit") to help pay for funeral costs and ongoing living expenses.

What's a little less clear is whether or not you need a life insurance policy. This guide can help you determine:

- Why you may need a life insurance policy
- How life insurance can address the unique concerns you have as a physician
- What type of policy might be right for you
- What questions you may want to ask before purchasing a policy

Tip

Save money on your policy by staying healthy. If you're a smoker, have high blood pressure, or are overweight, your premiums will be higher.

Do you need it?

Are there people in your life—children, a spouse, aging parents, or other loved ones—who would suffer financially if you weren't there to support them? Do you have a large estate you would like to protect after you're gone? Are you worried about how your family would pay off your debts if you died? If your answer to any of these questions is "yes," you may need life insurance.

Here are some ways a life insurance policy can help your loved ones:

- To allow them to help pay off your last debts, such as medical bills and funeral expenses
- To help meet estate taxes and other expenses in settling an estate
- To provide a lifetime income for your loved ones, or provide them income for a certain amount of time so they can readjust to a new standard of living
- To help pay off a mortgage
- To help pay for college education for your children
- To help provide funds for retirement

You may already have a good idea of what you want out of a life insurance policy. But it's wise to speak with a life-insurance advisor to discuss your various options.

The good news is that life insurance has become a more affordable way to help protect your loved ones and give you peace of mind. Because of improved mortality rates and greater industry efficiency, term life insurance premiums dropped, on average, 15 percent per year from 1994 – 1999, and 4 percent per year from 2000 – 2007.¹

Why physicians need life insurance

As a physician, you've probably accumulated, or will accumulate, many assets over the course of your career. You may also have more debt than the average person because you've borrowed money to attend medical school or start your practice.

Life insurance may help your family continue living the quality of life you've built for them and help protect them from the burden of paying off medical school loans or other debts. While federal school loans typically

don't have to be repaid if you die,² it's a different story if a family member co-signed the loans, or if you borrowed from a private lender. In those instances, your family or estate would more than likely have to pay back the loans.

Other reasons physicians may need life insurance include:

- If you take out a loan to start your practice, the bank may require you to purchase life insurance in order to protect that investment.
- A death benefit could help your children follow in your footsteps and go to medical school or continue your medical practice.
- A life insurance policy can be structured to fund a "buy-sell" agreement. This would ensure that the remaining partners in the practice have the funds to buy the practice interests of a deceased owner at a previously agreed upon price. That way, the partners get the business and your family gets the money.³

¹ Insurance Information Institute, Press Office, September 24, 2007
<http://www.iii.org/media/updates/archive/press.776974/index.html>

² U.S. Department of Education, April 20, 2009
<http://www.ed.gov/offices/OSFAP/DirectLoan/cancellation.html>

³ Life and Health Insurance Foundation for Education, September 21, 2009
<http://www.lifehappens.org/life-insurance/who-needs-it>

Types of life insurance

There are many life insurance products on the market these days. The biggest question people typically have is whether to buy term insurance or whole (also called permanent) life insurance.

What's the difference?

Term life insurance

When you purchase term life insurance, you chose the “term,” or the time period, of the policy. Your beneficiaries will receive benefits if you die during a specific period of time that your policy is in effect. You can purchase term life insurance for 1 year (renewable), 5 years (renewable), 10, 15, 20, or 30 years, or a term up to a certain age (usually age 65).

With level term life insurance, the death benefit and premium stay the same throughout the duration of the policy. Decreasing term means that the death benefit drops, usually in one-year increments, over the course of the policy term.

Most policies are level term policies.

Term life policies have lower premiums because you're only insured for a period of time, which means less risk for the insurance company.

Whole life/permanent

Whole, or permanent, life insurance provides a death benefit when you die, no matter when you die—even if you live to be 100. It isn't based on a term of coverage (hence, it lasts your “whole” life).

There are many different whole/permanent life products on the market, and your advisor can explain the differences between each. Here's a summary of the three most common types of whole/permanent life insurance:

Traditional whole life

Traditional whole life insurance offers a death benefit to your loved ones when you die, as well as a savings component that can be borrowed against or cashed in. Part of your premium accrues as cash value and is invested by the insurance company. You can use the cash accumulated as collateral to borrow money for a down payment on a house, for your child's education, or to help fund retirement. If you fail to pay back the loan, your beneficiaries will receive a reduced death benefit.

Universal life

Universal life insurance is like traditional whole/permanent insurance, except that you have more flexibility. You can adjust your premium and the death benefit amount to fit your changing needs.

Variable life

With variable life insurance, your premium stays the same, but you can build up a cash reserve. Unlike traditional whole life policies, with variable life you have more control as to how your cash is invested. You can choose to invest in stocks, bonds, money market accounts, or mutual funds. A portion of your premium will be applied to this separate investment account.

How to purchase

Another question is whether to sign up for your employer's life insurance plan, purchase an individual or association-group policy, or buy some combination of these options. The answer could come down to how much coverage you need.

Make sure you purchase life insurance through a company that has a high credit rating. You can check a company's rating through A.M. Best (www.ambest.com).

Employer policy

Many employers offer a small group life insurance policy as part of their benefits package. These policies are typically term life insurance plans that will cover you as long as you have the job. These policies typically only offer up to \$500,000 worth of coverage, and you may lose the coverage once you leave the job. While this is a nice benefit, you may want to combine it with an individual or association-group policy to make sure you have enough coverage.

Association-group policy

A group policy pools a group of people (e.g., members of an association) and offers term life insurance to the group. Rates may be cheaper than individual policies because the risk is spread over the entire group. Association-group life insurance may also be portable in some situations.

Individual policy

An individual policy is just that—a life insurance policy you buy on your own. An individual policy has more options on the amount of coverage, and it's not dependent on your employment.

 **Tip**

The right time to buy

Often, people purchase life insurance when they have children and keep it until their children are out of college. However, even if you're single or married without children, you may want life insurance in order to protect your spouse, parents, or other loved ones.

If you buy life insurance when you're young and healthy, your premiums may be lower and it may be easier to get a policy. And you may be able to buy a term policy with an option to renew your coverage at the end of the term.

When to review your coverage

Many people buy an insurance policy, and then don't think about it for years. In fact, according to the Insurance Information Institute, one-third of all U.S. families with a new baby at home don't update their life insurance coverage.⁴

Whenever you have a big life change, such as a new baby, a divorce, or an empty nest, you'll want to take a look at your life insurance coverage to ensure that you have enough coverage, and that you don't have more than you need or want.



Tip

Review your life insurance regularly to make sure you have adequate coverage for your life stage. You may get to a point in life at which life insurance is no longer necessary.

How much life insurance do you need?

Everyone's situation is unique. However, a rule of thumb is to purchase eight-to-ten times the amount of your income so your loved ones have several years of income with which to make any transitions their new circumstances might require. Another approach is to purchase enough so that your family can draw interest on the amount and have enough to support themselves.

Also consider the amount of unfunded liabilities you have, and how much your loved ones need in order to maintain their current lifestyle.

⁴ Insurance Information Institute, Press Office, January 27, 2006
<http://www.iii.org/media/updates/archive/press.749561/index.html>

Qualifying for a life insurance policy

To purchase an individual policy, you will have to answer a few questions regarding your overall health and you may have to take a medical exam. Your insurance provider will charge premiums that reflect the level of risk you represent. If you're young and healthy, it may be easier for you to qualify for life insurance and your premiums may be very affordable. However, if you're older and have been diagnosed with a serious medical condition, your premiums may be higher and there's a possibility you may not qualify for insurance.

Group and employer insurance policies often don't require you to answer medical questions, as the risk is spread over a larger group.

Life insurance rates

Life insurance premiums typically are based on several things, including your age, your health, and the size of the policy. Life insurance companies take the following things into account when determining your rates:

- The type of policy and amount of coverage you buy
- Whether you buy term or permanent life insurance
- Your lifestyle habits (for example, if you smoke or have a bad driving record)
- Your age
- Your medical condition
- Your occupation (if it is considered a hazardous one, such as flying airplanes or racing cars)
- Your gender (women have a longer life expectancy)

Basically, insurance companies want to know if you're at high risk for an early death. If you're a "preferred" customer, you'll get better rates than if you're "sub-standard" (above-average risk of death). Many companies require you to answer a questionnaire about your lifestyle, hobbies, health, and medical history and may even require you to undergo a short medical exam to determine your health.

Questions to ask before buying a life insurance policy

1. *Why am I buying life insurance?*

- To provide a death benefit for loved ones?
- Estate preservation?

2. *How much life insurance do I need?*

- How much debt do I have that my family would need to pay off?
- How much would it cost for my family to live comfortably without my income for the rest of their lives, or at least until they could start supporting themselves and adjust to their new circumstances?

3. *How much can I afford to pay in monthly premiums?*

4. *If I want to cancel my policy, would I have to pay a surrender charge?*

5. *What are the renewal terms of the policy?*

6. *If it's a term policy, can I convert it to a permanent policy once the term is up?*

7. *Will I want to take a loan out against my policy? If so, does the policy allow me to do so?*

8. *How are the claims handled?*

9. *What is the insurance company's financial rating?*

Contact us today and speak with an experienced Advisor—we're available online or by phone.

Insurance policy terms, premiums, application requirements, and claim processes vary by provider. To make the right choices, it's best to consult an Advisor.



Online

Visit www.tmaid.org/quote



Phone

Call **1.800.880.8181**

Monday–Friday, 7:30 a.m. – 5:30 p.m. CST

Getting to know TMAIT

The Texas Medical Association Insurance Trust (TMAIT) was created by the Texas Medical Association (TMA) in 1955 as an exclusive benefit to its members. TMAIT's mission is to help Texas physicians get the insurance coverage and financial planning they need.

What TMAIT offers physicians:

Personalized Service

We pair each physician who contacts us with an experienced insurance Advisor.

Convenience

We do the legwork to find quality, competitively priced insurance products that meet the unique needs of physicians.

Experience

We have been serving Texas physicians for more than 50 years.

Peace of Mind

We were created by the TMA, an organization dedicated to serving Texas physicians.



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