How is life insurance sold?

Life Insurance

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You can buy life insurance either as an “individual” or as part of a “group” plan.

Individual Policy

When you buy an individual policy, you choose the company, the plan, and the benefits and features that are right for you and your family. You might be able to buy the policy from the same agent or company representative who sells you property and liability insurance for your home, auto or business. And although you won’t qualify for any discounts by buying your life insurance and other insurance from the same representative, working with a single advisor for all your insurance needs can make your financial life simpler.

Individual policies are typically sold through insurance agents or brokers. If you buy a policy through an agent or broker, you will pay a commission, also called a “load,” that is built into the premium rate. The commission compensates the agent or broker for the time spent advising you on how much and what type of life insurance to buy, for facilitating the application process, and for any further service that’s needed in future years to keep the policy up-to-date (such as changing beneficiary designations, arranging policy loans or coordinating your financial plans with your lawyer and accountant).

There are two other ways to buy individual life insurance. In Connecticut, Massachusetts and New York, you can buy it from a savings bank. Or you can buy a policy directly from an insurance company or from a fee-only financial advisor—what's known as a "no load" or "low load" policy. Although there is no sales commission on these policies, the company will still have charges built into the premium to cover its marketing expenses, application processing expenses and subsequent services. Finding an insurance company that will sell you a no-load policy isn't easy; typing in "no load life insurance" on Internet search engines will in many cases lead you to an agent or broker.

Group Policy

You might have life insurance automatically from your employer; many large companies do this. Your employer also might offer you the chance to buy additional life insurance under a group policy. And you might be eligible to buy life insurance under a group policy from a union or trade association or other group you belong to (such as a college alumni association or an automobile club).

Compared to buying an individual life insurance policy, there are several advantages to buying life insurance under a group policy:

- Group purchase can sometimes offer you a lower rate for a given death benefit either because the employer or other group sponsor subsidizes the premium or because the rates are averages weighted by people younger than you.
- There are virtually no health qualifications for getting the group coverage.
- Premium payment is usually by payroll deduction (for employer-based group coverage) or linked with other payments (e.g., credit card bills), lowering the chance of missing a payment.

Most employer group plans are term insurance, but if you leave that employer your state may require that you be allowed to convert the policy to a form of whole life insurance with the same insurance company that provides the group life insurance. You would then pay premiums directly to the company and keep the insurance in force. This can be an advantage if you are older, or have experienced deteriorating health, as it gives you the opportunity to qualify for whole life insurance without having a medical exam.

Credit Life Insurance

Credit cards and lending institutions may offer life insurance to pay off your outstanding loans in the event of your death. This is generally made available in two ways:

1. As part of the loan at no extra charge. In this case the cost of the life insurance is borne by the lender and is included in its interest rate or other finance charges. If you have this type of credit life insurance, you don't need separate life insurance to pay off that loan if you die.

2. As an option at an extra charge. In this case, you should usually reject the optional coverage, provided that you have some other life insurance (group or individual) that can be designated to pay off the loan if you die. If you're under age 50 and you don't have other insurance that could pay off this loan, consider buying individual life insurance for this purpose as the rates will probably be better. At 50 or over (or younger with health issues), if you have no other life insurance for this purpose, the optional credit life insurance is likely to be cheaper than individual life insurance.

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