3 Innovations That Have Changed Life Insurance

Life insurance is no longer constrained to the inflexible policies of the past. Here are some of the latest additions and innovations to give you more options than ever.

Today's life insurance policies are not the policies our parents and grandparents grew up with and purchased over the kitchen table decades ago. They offer more features and more customization, at a price lower than many consumers expect to pay.

In fact, a recent study showed that more than 50% of people assume that the cost of life insurance is three times higher than it actually is. Furthermore, 44% of millennials (28 to 43 years old), a group whose net worth continues to rise more rapidly than any other generation, overestimate the cost of term life insurance by more than six times.

Price, however, isn't the only barrier holding people back from looking at what life insurance has to offer. Lack of information, explanation, and time to research options, combined with the fact that no one enjoys thinking about and planning ahead for their own death, can make life insurance a tough subject.

Life insurance policy features have undergone massive change, as insurance companies compete to offer more client-oriented policies with more appeal to consumers. Here are three of the latest innovations in the life insurance industry.

1. Cash Value

Term life insurance—ends at a certain point

In the past, life insurance used to be about what happened after you were no longer alive. In the event of unexpected death, policyholders wanted to protect their families financially, often by purchasing term life insurance. Term life insurance provides a death benefit paid by an insurance company to your beneficiaries—usually tax-free. A term policy lasts for a predetermined period of time, such as 20 years, and typically has a low monthly rate as long as you are healthy and pass the medical underwriting exam. (Some new policies don't even require an exam—you just fill out a health questionnaire.)

After the term is up, the policy disappears. Inexpensive term life can still be a very good choice for young families with minor children. However, other options should also be explored because a permanent policy can provide a death benefit for as long as you live while also potentially building value for the long-term.

Permanent life insurance—borrowing money

Permanent policies—like whole or universal life—with a cash value component often allow policy owners to access cash in the form of policy loans that they can use for any purpose, like: 1) retirement income, 2) college funds (and insurance isn't counted on FAFSA—Free Application for Federal Student Aid), or 3) money to self-fund a business startup venture, make a real estate down payment, or make another type of investment, 4) pay for unexpected expenses, or 5) any other reason. If you don't need to borrow cash during your lifetime, the potential growth of the policy's cash value can increase the death benefit amount. Although a permanent policy usually costs more than a term life policy, with new types of policies, the cash value can grow at a rate guaranteed by the claims-paying ability of the insurance company.

Borrowing money from your policy's cash value is generally tax-free as long as you keep your policy in force, and you can pay the loan back on your own schedule. It's important to understand all of the aspects of the permanent policy's fine print. For instance, interest is charged, but the policy is credited as if the borrowed money was still there. In some cases, you may be credited at a higher rate than the interest charged on your loan, or vice versa. Depending on their situation, healthy retirees can sometimes benefit from single-premium permanent life insurance, allowing you to borrow money for retirement income that you may not ever have to pay back, tax-free in most cases. Once again, you must make sure the policy stays in force and make sure there are no surprises. It's advisable to work with a financial advisor experienced in life insurance.

IUL (indexed universal life)—protection from market risk; flexible premiums

New types of policies, like indexed universal life (IUL), offer the chance for policy growth and crediting based on the market performance of an index, such as the S&P 500. Although benchmarked to an index, IUL policies are a contract between an insurance company and a consumer; they are not actually invested in the market. Even if the benchmark index drops, IUL policies never go below 0% crediting, meaning the policy owner's principal is protected from market risk but can experience growth based on market performance.

IUL's flexible premiums allow you to increase or decrease your premium and the amount that goes toward your cash value or your death benefit amount depending on your situation or needs. So, as you get older and your dependents grow up and become self-sufficient, you can lower the death benefit amount and devote more of the premium to the cash value, or make other changes during your lifetime as you see fit. Once again, it is important to keep your policy in force and stay in compliance with all policy terms.

2. Long-Term Care Hybrid Policies

Just as no one enjoys planning for their own death, no one likes to imagine needing long-term care. Unfortunately, 70% of people currently age 65 or older in America will need long-term care, with 20% needing support for longer than five years. Additionally, Medicare does not cover long-term care, necessitating some sort of plan to pay for long-term care to avoid the accelerated depletion of funds in retirement.

One solution to the problem may be a modern life insurance and long-term care hybrid plan. The main problem or sticking point when it comes to traditional long-term care (LTC) insurance is the potential for not needing long-term care at all, and older LTC policies were "use-it-or-lose-it." In other words, if you didn't end up needing long-term care, all of those premiums you paid through the years were for nothing. These policies often raise rates beginning at age 65, too, so that you either have to pay more or opt for lower coverage.

Now, hybrid policies provide flexibility. Policyholders have the ability to use their benefit to fund long-term care if they need it. If they don't need it, it becomes a death benefit provided to their beneficiaries.

3. Riders

One of the biggest expansions in life insurance is in the way you can customize a policy to your needs using a wide array of options available as riders that can be added to a permanent insurance policy. A guaranteed insurability rider, for example, allows the policyholder to purchase more coverage without additional medical examination. It can be helpful to have a guaranteed insurability rider if you expect changes in circumstances that would have affected your original premiums.

Accidental death riders are also common, usually doubling the death benefit in the event that the policyholder dies in an accident. Additionally, accelerated death benefit riders can give the policyholder access to the death benefit if diagnosed with a terminal illness. The amount accessed is typically subtracted from the death benefit, meaning that the policyholder's beneficiaries receive a smaller death benefit, but it's yet another example of a feature allowing access to funds during life.

If you have any questions about life insurance and the latest advancements, please give us a call! We can help you compare between hundreds of policies from dozens of insurance companies.

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