

The Maryland Insurance Administration (MIA) acts as the regulatory authority for insurance in Maryland, providing assistance to consumers, businesses, and healthcare providers with various insurance-related inquiries. They offer educational resources, guides for comparing insurance rates, and investigate complaints regarding insurance practices, including improper claim denials or policy terminations. The guide emphasizes the significance of life insurance in financial planning, noting that needs differ based on age and family responsibilities. Key motivations for obtaining life insurance include replacing lost income, covering medical and burial expenses, and ensuring dependents are not left with debt. When determining the appropriate coverage amount, consumers should consider their financial contributions, dependents, final expenses, and potential estate taxes.

Life insurance is divided into two primary categories: term insurance, which provides coverage for a specified period with lower premiums but no cash value, and permanent insurance, which offers lifelong coverage and may include a cash savings component at higher premiums. Consumers are advised to verify the licensing of their insurance agents, assess their coverage needs, and review applications carefully before signing. The document clarifies that only individuals with an "insurable interest," such as family members or certain business partners, can take out a policy on another person's life.

The policy document outlines essential aspects of life insurance, including ownership, coverage types, and considerations for policyholders. When purchasing a policy on one's own life, the buyer becomes the owner and can designate any beneficiary. Policies labeled as "no physical exam" may have higher premiums and require extensive health questions, while "guaranteed issue" policies do not require health history but come with higher costs and limited benefits, often only returning premiums if the insured dies within the first few years. Term life insurance is described as "temporary," requiring renewal, and if the insured does not die during the term, no benefits are paid, although the peace of mind it provides is considered a benefit. The implications of switching term insurance companies are discussed, noting that a new policy starts a new contestability period,

which could affect claims if inaccuracies are found in the application.

For permanent life insurance, the cash value is specified in the policy, and upon death, the death benefit is paid, potentially reduced by any outstanding loans against the policy. Policies may be "paid up" after a certain period, meaning no further premiums are required, but cash value withdrawals could affect this status. The document explains participating policies that may pay dividends and clarifies that the cash surrender value is typically less than total premiums paid.

Before selling a life insurance policy, consumers are encouraged to consult financial professionals to understand the implications, including tax consequences and potential impacts on public assistance eligibility. The document describes viatical and life settlements, where policies are sold for cash, often at a value greater than the cash surrender value but less than the death benefit. Brokers involved in these transactions must be licensed and disclose their compensation and any alternatives to selling the policy. Consumers should be cautious about privacy concerns and transaction costs, which can be significant. Selling a policy may also affect the ability to purchase new insurance, and all options should be considered before proceeding with a sale.

The document further outlines that if seeking a new policy, premiums may increase due to age or health changes. To maintain coverage while potentially lowering premiums, options include reducing existing coverage or utilizing a "1035 Exchange," which allows for the tax-free exchange of one life insurance policy for another insuring the same individual, although this may affect death benefits for beneficiaries. Policyholders have a legal right to rescind a transaction within 15 days of receiving cash payment, requiring all parties to return funds.

For beneficiaries, life insurance policies typically provide a single death benefit payment but may also offer alternative payout options, such as a Retained Asset Account (RAA), which allows beneficiaries to manage funds temporarily while considering their financial options. The RAA

functions like a checkbook, enabling beneficiaries to access funds while earning interest. Important considerations for RAAs include the interest rate, whether funds are FDIC-insured, and any associated fees. Maryland law mandates that insurers provide clear information about RAAs and other payout options, ensuring beneficiaries understand their choices and the implications of each.

Other payout options include lump sum payments, installment payouts for a fixed amount or period, lifetime installment payouts, and interest-only payouts, each with specific terms regarding fund distribution. Beneficiaries are advised to contact the insurance company promptly after the insured's death, provide necessary documentation, and carefully evaluate their financial needs and tax implications before selecting a payout option.

In cases where a deceased individual's life insurance policy cannot be located, it is recommended to search personal papers, contact insurance professionals, and utilize resources like the National Association of Insurance Commissioners (NAIC) to assist in locating policies. For military personnel, the MIA offers a guide to navigate insurance matters, including tips on avoiding deceptive practices and understanding policy exclusions. This consumer guide serves educational purposes and does not provide legal advice or endorsements, and it is available for free from the Maryland Insurance Administration, which can also accommodate requests for alternative formats for individuals with disabilities.