

## Title 210 -- NEBRASKA DEPARTMENT OF INSURANCE

### Chapter 33 -- LIFE INSURANCE SOLICITATION

001. Authority. This rule is adopted and promulgated by the Nebraska Department of Insurance pursuant to NEB. REV. STAT. §§ 44-101.01, §44-1522, §44-1525(l)(a) and §44-1533.

002. Purpose.

002.01 The purpose of this regulation is to require insurers to deliver to purchasers of life insurance, information which will improve the buyer's ability to select the most appropriate plan of life insurance for the buyer's needs, improve the buyer's understanding of the basic features of the policy which has been purchased or which is under consideration and improve the ability of the buyer to evaluate the relative costs of similar plans of life insurance.

002.02 This regulation does not prohibit the use of additional material which is not in violation of this regulation or any other Nebraska statute or regulation.

003. Scope.

003.01 Except as hereinafter exempted for the exemptions specified in Subsection 003.02, this regulation shall apply to any solicitation, negotiation or procurement of life insurance occurring within this state. Subsection 005.02 shall apply only to an existing nonexempt policy held by a policyowner residing in this state. This regulation shall apply to any issuer of life insurance contracts including fraternal benefit societies.

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003.02 ~~Unless otherwise specifically included,~~ This regulation shall not apply to:

003.02A ~~Annuities~~ Individual and group annuity contracts;-

003.02B Credit life insurance;-

003.02C Group life insurance (except for disclosures relating to preneed funeral contracts or prearrangements; these disclosure requirements shall extend to the issuance or delivery of certificates as well as to the master policy);-

003.02D Life insurance policies issued in connection with pension and welfare plans as defined by and which are subject to the federal Employee Retirement Income Security Act of 1974 (ERISA), 29 U.S.C. Section 100-1 *et seq.* as amended; or-

003.02E Variable life insurance under which the amount or duration of the life insurance death benefits and cash values vary in accordance with the investment experience of a separate account, with unit values of investments held in a separate account.

003.02F Except for the requirement to provide a Buyer's Guide, any life insurance policy which an insurer has designated as a policy to be marketed with an illustration as provided in Rule 72, the Life Insurance Illustrations Regulation.

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004. Definitions. For the purposes of this regulation, the following definitions shall apply:

004.01 Buyer's Guide. A "Buyer's Guide" means the is a document which is the current version of the Life Insurance Buyer's Guide adopted by the of the National Association of Insurance Commissioners (NAIC) or contains language approved by the Director of Insurance.

004.02 Cash Dividend. "Current scale of nonguaranteed elements" means a formula or other mechanism that produces values for an illustration as if there is no change in the basis of those values after the time of illustration. A Cash Dividend is the current illustrated dividend which can be applied toward payment of the gross premium.

004.03 Equivalent Level Annual Dividend. The Equivalent Level Annual Dividend is calculated by applying the following steps:

004.03A Accumulate the annual cash dividends at five percent interest compounded annually to the end of the tenth and twentieth policy years.

004.03B Divide each accumulation of step 004.03A by an interest factor that converts it into one equivalent level annual amount that, if paid at the beginning of each year, would accrue to the values in step 004.03A over the respective periods stipulated in step 004.03A. If the period is ten years, the factor is 13.207 and if the period is twenty years, the factor is 34.719.

004.03C Divide the results of step 004.03B by the number of thousands of the Equivalent Level Death Benefit to arrive at the Equivalent Level Annual Dividend.

004.04 Equivalent Level Death Benefit. The Equivalent Level Death Benefit of a policy or term life insurance rider is an amount calculated as follows:

004.04A Accumulate the guaranteed amount payable upon death, regardless of the cause of death, at the beginning of each policy year for ten and twenty years at five percent interest compounded annually to the end of the tenth and twentieth policy years, respectively.

004.04B Divide each accumulation of step 004.04A by an interest factor that converts it into one equivalent level annual amount that, if paid at the beginning of each year, would accrue to the value in step 004.04A over the respective periods stipulated in step 004.04A. If the period is ten years, the factor is 13.207 and if the period is twenty years, the factor is 34.719.

004.05 Generic Name. “Generic Name” means a short title ~~that~~which is descriptive of the premium and benefit patterns of a policy or a rider.

004.04 “Nonguaranteed elements” means the premiums, credited interest rates (including any bonus), benefits, values, non-interest based credits, charges or elements of formulas used to determine any of these, that are subject to company discretion and are not guaranteed at issue. An element is considered non-guaranteed if any of the underlying non-guaranteed elements are used in its calculation.

004.05 “Policy data” means a display or schedule of numerical values, both guaranteed and nonguaranteed for each policy year or a series of designated policy years of the following information:

\_\_\_\_\_ 004.05A illustrated annual, other periodic, and terminal dividends;

\_\_\_\_\_ 004.05B premiums;

\_\_\_\_\_ 004.05C death benefits; and

\_\_\_\_\_ 004.05D cash surrender values and endowments benefits.

004.06 Life Insurance Cost Indexes.

004.06A Life Insurance Surrender Cost Index. The Life Insurance Surrender Cost Index is calculated by applying the following steps:

004.06A1 Determine the guaranteed cash surrender value, if any, available at the end of the tenth and twentieth policy years.

004.06A2 For participating policies, add the terminal dividend payable upon surrender, if any, to the accumulation of the annual Cash Dividends at five percent interest compounded annually to the end of the period selected and add this sum to the amount determined in step 004.06A 1.

004.06A3 Divide the result of step 004.06A2 (step 004.06A1 for guaranteed cost policies) by an interest factor that converts it into an equivalent level annual amount that, if paid at the beginning of each year, would accrue to the value in step 004.06A2 (step 004.06A1 for guaranteed cost policies) over the respective periods stipulated in step 004.06A.1. If the period is ten years, the factor is 13.207 and if the period is twenty years, the factor is 34.719.

004.06A4 Determine the equivalent level premium by accumulating each annual premium payable for the basic policy or rider at five percent interest compounded annually to the end of the period stipulated in step 004.06A1 and dividing the result by the respective factors stated in step 004.06A3 (this amount is the annual premium payable for a level premium plan).

004.06A5 Subtract the result of step 004.06A3 from step 004.06A4.

004.06A6 Divide the result of step 004.06A5 by the number of thousands of the Equivalent Level Death Benefit to arrive at the Life Insurance Surrender Cost Index.

004.06B Life Insurance Net Payment Cost Index. The Life Insurance Net Payment Cost Index is calculated in the same manner as the comparable Life Insurance Cost Index except that the cash surrender value and any terminal dividend are set at zero.

004.067 Policy Summary. “Policy summary” For the purposes of this regulation, Policy Summary means a written statement describing the elements of the policy, including, but not limited to:

004.067A A prominently placed title as follows: STATEMENT OF POLICY COST AND BENEFIT INFORMATION;:-

004.067B The name and address of the insurance agent, or, if no agent is involved, a statement of the procedure to be followed in

order to receive responses to inquiries regarding the Policy Summary;:-

004.067C The full name and home office or administrative office address of the company in which the life insurance policy is to be or has been written;:-

004.067D The ~~g~~Generic ~~n~~Name of the basic policy and each rider;:-

004.067E The following amounts, where applicable, for the first five (5) policy years and representative policy years thereafter sufficient to clearly illustrate the premium and benefit patterns, including, but not necessarily limited to, ~~the years for which Life Insurance Cost Indexes are displayed and~~ at least one age from sixty (60) through sixty-five (65) and ~~or~~ maturity, whichever is earlier:

004.067E(i)~~1~~ The annual premium for the basic policy;:-

004.067E(ii)~~2~~ The annual premium for each optional rider;:-

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004.067E(iii)~~3~~ ~~The Guaranteed~~ amount payable upon death, at the beginning of the policy year regardless of the cause of death, other than suicide, or other specifically enumerated exclusions, ~~that which~~ is provided by the basic policy and each optional rider, with benefits provided under the basic policy and each rider shown separately;:-

004.067E(iv)~~4~~ ~~The T~~total guaranteed cash surrender values at the end of the year

with values shown separately for the basic policy and each rider;:- and

~~004.07E5 Cash Dividends payable at the end of the year with values shown separately for the basic policy and each rider. (Dividends need not be displayed beyond the twentieth policy year.)~~

~~004.067E(v)6 Any Guaranteed-endowment amounts payable under the policy that which are not included under guaranteed-cash surrender values above;-~~

~~004.067F The effective policy loan annual percentage interest rate, if the policy contains this provision~~sthis provision~~, specifying whether this rate is applied in advance or in arrears. If the policy loan interest rate is ~~adjustable~~variable, the Ppolicy Ssummary shall also indicate that the annual percentage rate will be determined by the company in accordance with the provisions of the policy and the applicable law; and~~includes the maximum annual percentage rate.~~~~

~~004.07G Life Insurance Cost Indexes for ten and twenty years but in no case beyond the premium paying period. Separate indexes are displayed for the basic policy and for each optional term life insurance rider. Such indexes need not be included for optional riders which are limited to benefits such as accidental death benefits, disability waiver of premium, preliminary term life insurance coverage of less than 12 months and guaranteed insurability benefits nor for the basic policies or optional riders covering more than one life.~~

~~004.07H The Equivalent Level Annual Dividend, in the case of participating policies and participating optional term life insurance riders, under the same circumstances and for the same durations at which Life Insurance Cost Indexes are displayed.~~

~~004.07I A Policy Summary which includes dividends shall also include a statement that dividends are based on the company's current dividend scale and are not guaranteed in addition to a statement in close proximity to the Equivalent Level Annual Dividend as follows: An explanation of the intended use of the Equivalent Level Annual Dividend is included in the Life Insurance Buyer's Guide.~~

~~004.07J A statement in close proximity to the Life Insurance Cost Indexes as follows: An explanation of the intended use of these indexes is provided in the Life Insurance Buyer's Guide.~~

~~004.067GK~~ The date on which the ~~P~~policy ~~S~~summary is prepared. The Policy Summary must consist of a separate document. All information required to be disclosed must be set out in such a manner as to not minimize or render any portion thereof obscure. Any amounts which remain level for two or more years of the policy may be represented by a single number if it is clearly indicated what amounts are applicable for each policy year. Amounts in item ~~004.07E~~ of this section shall be listed in total, not on a per thousand nor per unit basis. If more than one insured is covered under one policy or rider, guaranteed death benefits shall be displayed separately for each insured or for each class of insureds if death benefits do not differ within the class. Zero amounts shall be displayed as zero and shall not be displayed as a blank space.

004.07 “Preneed funeral contract or prearrangement” means an agreement by or for an individual before that individual’s death relating to the purchase or provision of specific funeral or cemetery merchandise or services.

## 005. Duties of Insurers Disclosure requirements.

### 005.01 Requirements Applicable Generally

~~005.01A~~ The insurer shall provide, to all prospective purchasers, a Buyer's Guide and a Policy Summary ~~prior to all prospective purchasers, prior to accepting the applicant’s initial premium or premium deposit. However, if the policy for -to accepting the applicant's initial premium or premium deposit, unless the policy for which application is made contains an unconditional refund provision of at least ten (10) days, the Buyer’s Guide may be delivered with the policy or prior to delivery of the policy. -or unless the Policy Summary contains such an unconditional refund offer, in which event the Buyer's Guide and Policy Summary must be delivered with the policy or prior to delivery of the policy. At the insurer's option, an illustration as defined in the Life Insurance Illustrations Regulation, Rule 72, may be substituted for the Policy Summary.~~

~~005.01B2~~ The insurer shall provide a Buyer's Guide and either a Policy Summary or an illustration, as provided in Section 005.01, ~~to any prospective purchaser upon request. policy summary to prospective purchasers where the insurer has identified the policy form as one that will not be marketed with an illustration. The~~

policy summary shall show guarantees only. It shall consist of a separate document with all required information set out in a manner that does not minimize or render any portion of the summary obscure. Any amounts that remain level for two (2) or more years of the policy may be represented by a single number if it is clearly indicated what amounts are applicable for each policy year. Amounts in Subsection 004.06E shall be listed in total, not on a per thousand or per unit basis. If more than one insured is covered under one policy or rider, death benefits shall be displayed separately for each insured or for each class of insureds if death benefits do not differ within the class. Zero amounts shall be displayed as a blank space. Delivery of the policy summary shall be consistent with the time for delivery of the Buyer's Guide as specified in Subsection 005.01A.

~~005.03 In the case of policies whose Equivalent Level Death Benefit does not exceed \$5,000, the requirement for providing a Policy Summary will be satisfied by delivery of a written statement containing the information as described in Subsection 004.07, items 004.07B, 004.07C, 004.07D, 004.07E1, 004.07E2, 004.07E3, 004.07F, 004.07G, 004.07J, 004.07K.~~

#### 005.02 Requirements Applicable to Existing Policies

005.02A Upon request by the policyowner, the insurer shall furnish either policy data or an in force illustration as follows:

005.02A(i) For policies issued prior to the effective date of 210 NEB. ADMIN. R. & REG. 72, the insurer shall furnish policy data, or, at its option, an in force illustration meeting the requirements of 210 NEB. ADMIN. R. & REG. 72.

005.02A(ii) For policies issued after the effective date of the illustration regulation that were declared not to be used with an illustration, the insurer shall furnish policy data, limited to guaranteed values, if it has chosen not to furnish an in force illustration meeting the requirements of this regulation.

005.02A(iii) If the policy was issued after the effective date of the illustration regulation and declared to be used with an illustration, an in force illustration shall be provided.

005.02A(iv) Unless otherwise requested, the policy data shall be provided for twenty (20) consecutive years beginning with the previous policy anniversary. The statement of policy data shall include nonguaranteed elements according to the current scale, the amount of outstanding policy loans, and the current policy loan interest rate. Policy values shown shall be based on the current application of nonguaranteed elements in effect at the time of the request. Notwithstanding Chapters 40 and 72 of Title 210 of the Nebraska Administrative Code, the insurer may charge a reasonable fee, not to exceed twenty (\$20.00) dollars for the preparation of the statement.

005.02B If a life insurance company changes its method of determining scales of nonguaranteed elements on existing policies; it shall, no later than when the first payment is made on the new basis, advise each affected policy owner residing in this state of this change and of its implication on affected policies. This requirement shall not apply to policies for which the amount payable upon death under the basic policy as of the date when advice would otherwise be required does not exceed \$5,000.

005.02C If the insurer makes a material revision in the terms and conditions under which it will limit its right to change any nonguaranteed factor; it shall, no later than the first policy anniversary following the revision, advise each affected policy owner residing in this state.

006. General rulesPreneed Funeral Contracts or Arrangements. The following information shall be adequately disclosed at the time an application is made, prior to accepting the applicant's initial premium or deposit, for a preneed funeral contract or prearrangement that is funded or to be funded by a life insurance policy:

006.01 The fact that a life insurance policy is involved or being used to fund a prearrangement;~~Each insurer shall maintain at its home office or principal office, a complete file containing one copy of each document authorized by the insurer for use pursuant to this regulation. Such file shall contain one copy of each authorized form for a period of three years following the date of its last authorized use.~~

006.02 The nature of the relationship among the soliciting agent or agents, the provider of the funeral or cemetery merchandise or services, the administrator and any other person;~~An agent shall inform the prospective purchaser, prior to~~

~~commencing a life insurance sales presentation, that he is acting as a life insurance agent and inform the prospective purchaser of the full name of the insurance company which he is representing to the buyer. In sales situations in which an agent is not involved, the insurer shall identify its full name.~~

006.03 The relationship of the life insurance policy to the funding of the prearrangement and the nature and existence of any guarantees relating to the prearrangement;~~Terms such as financial planner, investment advisor, financial consultant, or financial counseling shall not be used in such a way as to imply the insurance agent is generally engaged in an advisory business in which compensation is unrelated to sales unless such is actually the case.~~

006.04 The impact on the prearrangement;~~Any reference to policy dividends must include a statement that dividends are not guaranteed.~~

006.04A Of any changes in the life insurance policy including but not limited to, changes in the assignment, beneficiary designation or use of the proceeds;

006.04B Of any penalties to be incurred by the policyholder as a result of failure to make premium payments;

006.04C Of any penalties to be incurred or monies to be received as a result of cancellation or surrender of the life insurance policy;

006.05 A list of the merchandise and services which are applied or contracted for in the prearrangement and all relevant information concerning the price of the funeral services, including an indication that the purchase price is either guaranteed at the time of purchase or to be determined at the time of need;~~A system or presentation which does not recognize the time value of money through the use of appropriate interest adjustments shall not be used for comparing the cost of two or more life insurance policies. Such a system may be used for the purpose of demonstrating the cash flow pattern of a policy if such presentation is accompanied by a statement disclosing that the presentation does not recognize that, because of interest, a dollar in the future has less value than a dollar today.~~

006.06 All relevant information concerning what occurs and whether any entitlements or obligations arise if there is a difference between the proceeds of the life insurance policy and the amount actually needed to fund the prearrangement;~~A presentation of benefits shall not display guaranteed and non-guaranteed benefits as a single sum unless they are shown separately in close proximity thereto.~~

006.07 Any penalties or restrictions, including but not limited to geographic restrictions or the inability of the provider to perform, on the delivery of

merchandise, services or the prearrangement guarantee; and a statement regarding the use of the Life Insurance Cost Indexes shall include an explanation to the effect that the indexes are useful only for the comparison of the relative costs of two or more similar policies.

006.08 Any sales commission or other form of compensation that is being paid and the identity of the individuals or entities to whom it is being paid. A Life Insurance Cost Index which reflects dividends or any Equivalent Level Annual Dividend shall be accompanied by a statement that it is based on the company's current dividend scale and is not guaranteed.

006.09 For the purposes of this regulation, the annual premium for a basic policy or rider, for which the company reserves the right to change the premium, shall be the maximum annual premium.

#### 007. General Rules.

007.01 Each insurer shall maintain at its home office or principal office, a complete file containing one copy of each document authorized by the insurer pursuant to this regulation. This file shall contain one copy of each authorized form for a period of three (3) years following the date of its last authorized use unless otherwise provided by this regulation.

007.02 An agent shall inform the prospective purchaser, prior to commencing a life insurance sales presentation, that he or she is acting as a life insurance agent and inform the prospective purchaser of the full name of the insurance company which the agent is representing to the buyer. In sales situations in which an agent is not involved, the insurer shall identify its full name.

007.03 An insurance producer shall not use terms such as "financial planner," "investment advisor," "financial consultant," "financial counseling," or other similar terms in such a way as to imply that he or she is primarily engaged in an advisory business in which compensation is unrelated to sales unless that is actually the case. This provision is not intended to preclude persons who hold some form of formal recognized financial planning or consultant designation from using this designation even when they are only selling insurance. This provision also is not intended to preclude persons who are members of a recognized trade or professional association having such terms as part of its name from citing membership, providing that a person citing membership, if authorized only to sell insurance products, shall disclose that fact. This provision does not permit persons to charge an additional fee for services that are customarily associated with the solicitation, negotiation or servicing of policies.

007.04 Any reference to nonguaranteed elements shall include a statement that the item is not guaranteed and is based on the company's current scale of

nonguaranteed elements (use appropriate special term such as “current dividend” or “current rate” scale.) If a nonguaranteed element would be reduced by the existence of a policy loan, a statement to that effect shall be included in any reference to nonguaranteed elements. A presentation or depiction of a policy issued after the effective date of 210 NEB. ADMIN. R. & REG. 72 that includes nonguaranteed elements over a period of years shall be governed by that regulation.

0087. Failure to comply. Failure of an insurer to provide or deliver a Buyer's Guide, ~~and either an in force illustration, a Policy Summary or policy dataan illustration,~~ as provided in Section 005, shall constitute an omission which misrepresents the benefits, advantages, conditions or terms of an insurance policy.

0098. No Requirement to show dividendsSeverability. ~~Nothing in this chapter intends to require an insurer to show a dividend or dividend-related information in a Policy Summary~~If any provision of this regulation is for any reason held to be invalid, the remainder of the regulation shall not be affected thereby.

0109. Effective date. This amended rule shall become effective on October 1, 2008.~~apply to all solicitations of life insurance which commence on or after July 1, 1997.~~

## **APPENDIX**

### **LIFE INSURANCE BUYER'S GUIDE**

The face page of the Buyer's Guide shall read as follows:

#### **Life Insurance Buyer's Guide**

This guide can show you how to save money when you shop for life insurance. It helps you to:

- ~~—Decide how much life insurance you should buy,~~
- ~~—Decide what kind of life insurance policy you need, and~~
- ~~—Compare the cost of similar life insurance policies.~~

Prepared by the National Association of Insurance Commissioners

Reprinted by (Company Name)

Month and year of printing

The Buyer's Guide shall contain the following language at the bottom of page 2:

The National Association of Insurance Commissioners is an association of state insurance regulatory officials. This association helps the various insurance departments to coordinate insurance laws for the benefit of all consumers. You are urged to use this Guide in making a life insurance purchase.

**~~This Guide Does Not Endorse Any Company or Policy.~~**

The remaining text of the Buyer's Guide shall begin on page 3 as follows:

**Buying Life Insurance**

~~When you buy life insurance, you want a policy which fits your needs without costing too much. Your first step is to decide how much you need, how much you can afford to pay and the kind of policy you want.~~

~~Then, find out what various companies charge for that kind of policy. You can find important differences in the cost of life insurance by using the life insurance cost indexes which are described in this guide. A good life insurance agent or company will be able and willing to help you with each of these shopping steps.~~

~~If you are going to make a good choice when you buy life insurance, you need to understand which kinds are available. If one kind does not seem to fit your needs, ask about the other kinds which are described in this guide. If you feel that you need more information than is given here, you may want to check with a life insurance agent or company or books on life insurance in your public library.~~

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**Choosing the Amount\***

~~One way to decide how much life insurance you need is to figure how much cash and income your dependents would need if you were to die. You should think of life insurance as a source of cash needed for expenses of final illnesses, paying taxes, mortgages or other debts. It can also provide income for your family's living expenses, educational costs and other future expenses. Your new policy should come as close as you can afford to making up the difference between (1)~~

what your dependents would have if you were to die now, and (2) what they would actually need.

### **Choosing the Right Kind**

All life insurance policies agree to pay an amount of money if you die. But all policies are not the same. There are three basic kinds of life insurance.

1. Term insurance
2. Whole life insurance
3. Endowment insurance

Remember, no matter how fancy the policy title or sales presentation might appear, all life insurance policies contain one or more of the three basic kinds. If you are confused about a policy that sounds complicated, ask the agent or company if it combines more than one kind of life insurance. The following is a brief description of the three basic kinds:

#### Term Insurance

Term insurance is death protection for a "term" of one or more years. Death benefits will be paid only if you die within that term of years. Term insurance generally provides the largest immediate death protection for your premium dollar.

Some term insurance policies are "renewable" for one or more additional terms even if your health has changed. Each time you renew the policy for a new term, premiums will be higher. You should check the premiums at older ages and the length of time the policy can be continued.

Some term insurance policies are also "convertible." This means that before the end of the conversion period, you may trade the term policy for a whole life or endowment insurance policy even if you are not in good health. Premiums for the new policy will be higher than you have been paying for the term insurance.

#### Whole Life Insurance

Whole life insurance gives death protection for as long as you live. The most common type is called "straight life" or "ordinary life" insurance, for which you pay the same premiums for as long as you live. These premiums can be several times higher than you would pay initially for the same amount of term insurance. But they are smaller than the premiums you would eventually pay if you were to keep renewing a term insurance policy until your later years.

Some whole life policies let you pay premiums for a shorter period such as 20 years, or until age 65. Premiums for these policies are higher than for ordinary life insurance since the premium payments are squeezed into a shorter period.

Although you pay higher premiums, to begin with, for whole life insurance than for term insurance, whole life insurance policies develop "cash values" which you may have if you stop paying premiums. You can generally either take the cash, or use it to buy some continuing insurance protection. Technically speaking, these values are called "nonforfeiture benefits." This refers to benefits you do not lose (or "forfeit") when you stop paying premiums. The amount of these benefits depends on the kind of policy you have, its size, and how long you have owned it.

A policy with cash values may also be used as collateral for a loan. If you borrow from the life insurance company, the rate of interest is shown in your policy. Any money which you owe on a policy loan would be deducted from the benefits if you were to die, or from the cash value if you were to stop paying premiums.

### Endowment Insurance

An endowment insurance policy pays a sum or income to you — the policyholder — if you live to a certain age. If you were to die before then, the death benefit would be paid to your beneficiary. Premiums and cash values for endowment insurance are higher than the same amount of whole life insurance. Thus endowment insurance gives you the least amount of death protection for your premium dollar.

### Finding a Low Cost Policy

After you have decided which kind of life insurance fits your needs, look for a good buy. Your chances of finding a good buy are better if you use two types of index numbers that have been developed to aid in shopping for life insurance. One is called the "Surrender Cost Index" and the other is the "Net Payment Cost Index." It will be worth your time to try to understand how these indexes are used, but in any event, use them for comparing the relative costs of similar policies. **LOOK FOR POLICIES WITH LOW COST INDEX NUMBERS.**

### What is Cost?

"Cost" is the difference between what you pay and what you get back. If you pay a premium for life insurance and get nothing back, your cost for the death protection is the premium. If you pay a premium and get something back later on, such as cash value, your cost is smaller than the premium.

The cost of some policies can also be reduced by dividends; these are called "participating" policies. Companies may tell you what their current dividends are, but the size of future dividends is unknown today and cannot be guaranteed. Dividends actually paid are set each year by the company.

Some policies do not pay dividends. These are called "guaranteed cost" or "nonparticipating" policies. Every feature of a guaranteed cost policy is fixed so that you know in advance what your future cost will be.

The premiums and cash values of a participating policy are guaranteed, but the dividends are not. Premiums for participating policies are typically higher than for guaranteed cost policies, but the cost to you may be higher or lower, depending on the dividends actually paid.

### What Are Cost Indexes?

In order to compare the cost of policies, you need to look at:

1. Premiums
2. Cash Values
3. Dividends

Cost indexes use one or more of these factors to give you a convenient way to compare relative costs of similar policies. When you compare costs, an adjustment must be made to take into account that money is paid and received at different times. It is not enough to just add up the premiums you will pay and to subtract the cash values and dividends you expect to get back. These indexes take care of the arithmetic for you. Instead of having to add, subtract, multiply and divide many numbers yourself, you just compare the index numbers which you can get from life insurance agents and companies;

1. Life Insurance Surrender Cost Index. This index is useful if you consider the level of the cash values to be of primary importance to you. It helps you compare costs if at some future point in time, such as 10 or 20 years, you were to surrender the policy and take its cash value.

Life Insurance Net Payment Cost Index. This index is useful if your main concern is the benefits that are to be paid at your death and if the level of cash values is of secondary importance to you. It helps you compare costs at some future point in time, such as 10 or 20 years, if you continue paying premiums on your policy and do not take its cash value.

There is another number called the Equivalent Level Annual Dividend. It shows the part dividends play in determining the cost index of a participating policy. Adding a policy's Equivalent Level Annual Dividend to its cost index allows you to compare total costs of similar policies before deducting dividends. However, if you make any cost comparisons of a participating policy with a nonparticipating policy, remember that the total cost of the participating policy will be reduced by dividends, but the cost of the nonparticipating policy will not change.

### How Do I Use Cost Indexes?

The most important thing to remember when using cost indexes is that a policy with a small index number is generally a better buy than a comparable policy with a larger index number. The following rules are also important.

(1) Cost comparison should only be made between similar plans of life insurance. Similar plans are those which provide essentially the same basic benefits and require premium payments for approximately the same period of time. The closer policies are to being identical, the more reliable the cost comparison will be.

(2) Compare index numbers only for the kind of policy, for your age and for the amount you intend to buy. Since no one company offers the lowest cost for all types of insurance at all ages and for all amounts of insurance, it is important that you get the indexes for the actual policy, age and amount which you intend to buy. Just because a "Shopper's Guide" tells you that one company's policy is a good buy for a particular age and amount, you should not assume that all of that company's policies are equally good buys.

(3) Small differences in index numbers could be offset by other policy features, or differences in the quality of service you may expect from the company or agent. Therefore, when you find small differences in cost indexes, your choice should be based on something other than cost.

(4) In any event, you will need other information on which to base your purchase decision. Be sure you can afford the premiums, and that you understand its cash values, dividends and death benefits. You should also make a judgment on how well the life insurance company or agent will provide service in the future, to you as a policyholder.

(5) These life insurance cost indexes apply to new policies and should not be used to determine whether you should drop a policy you have already owned for awhile, in favor of a new one. If such a replacement is suggested, you should ask for information from the company which issued the old policy before you take action.

#### Important Things To Remember — A Summary

The first decision you must make when buying a life insurance policy is choosing a policy whose benefits and premiums must closely meet your needs and ability to pay. Next, find a policy which is also a relatively good buy. If you compare Surrender Cost Indexes and Net Payment Cost Indexes of similar competing policies, your chances of finding a relatively good buy will be better than if you do not shop. **REMEMBER, LOOK FOR POLICIES WITH LOWER COST INDEX NUMBERS.** A good life insurance agent can help you to choose the amount of life insurance and kind of policy you want and will give you cost indexes so that you can make cost comparisons of similar policies.

Don't buy life insurance unless you intend to stick with it. A policy which is a good buy when held for 20 years can be very costly if you quit during the early years of the policy. If you surrender such a policy during the first few years, you may get little or nothing back and much of your premium may have been used for company expenses.

Read your new policy carefully, and ask the agent or company for an explanation of anything you do not understand. Whatever you decide now, it is important to review your life insurance program every few years to keep up with changes in your income and responsibilities.