

# INSURANCE

## CHAPTER 7

Insurance is one method by which a person or group of persons may lessen the financial impact of unexpected problems which may arise in the ordinary course of events. Insurance may be obtained to cover any number of unexpected events. This chapter addresses the major areas of insurance coverage including automobile insurance, Workers' Compensation, public health insurance, private health insurance and life insurance.

If further information is desired on these or other types of insurance problems, one may contact the Missouri Department of Insurance, Post Office Box 690, Jefferson City, Missouri 65102, web site [www.insurance.mo.gov](http://www.insurance.mo.gov) or call 800-726-7390.

### COMPETENCY TO CONTRACT

The legal requirements for making a contract of insurance are no different from those of any other contract. To make a valid contract, the person taking out insurance needs to understand the nature and effect of the action he is taking.

As long as both parties understand what obligations they have accepted, the contract is valid. Therefore, physical condition of a party would not affect competency to contract as long as the parties understand the conditions of the contract.

### AUTOMOBILE INSURANCE

A 1983 Missouri Supreme Court case brought the concept of comparative negligence to Missouri. Simply stated, comparative negligence means that when two vehicles are involved in an accident, the insurance companies involved decide the percentage of negligence of each driver and pay for covered damage accordingly. If the insurance companies cannot reach agreement, legal action may be required.

Several kinds of automobile insurance may be purchased:

**Liability insurance** covers damage up to a specified amount that the insured might cause to another person or his property. Under Missouri's Financial Responsibility law, every licensed driver is required by law to have bodily injury liability insurance limits in the minimum amount of \$25,000 per person, \$50,000 per accident and \$10,000 for property damage. This is commonly referred to as "25/50/10" limits and is considered the minimum insurance that a motorist would want to purchase. Higher amounts of coverage are available for additional premiums. Premium rates will vary with the amount of coverage purchased.

**Collision insurance** covers damage caused by an impact to a car. This type of coverage usually includes a deductible of \$250, \$500 or more. This means that the insured individual pays the amount of the deductible and the insurance company pays the remaining amount to repair or total the vehicle.

Companies offer optional deductibles for collision insurance and coverages may differ somewhat among policies. A comparison should be made before purchasing insurance.

**Comprehensive insurance** usually covers losses occurring other than through collision for such things as fire, theft, hail, glass breakage, etc. Premiums vary according to the amount of coverage purchased and the amount of deductible.

Missouri insurance regulations extend automobile insurance coverage to not only the person named in the policy, but also to the spouse living in the same household and any other person who has been given permission to drive the automobile. Specifically named drivers may be excluded from coverage. However, this must be agreed to in writing by the person taking out the insurance, in the form of an exclusion endorsement.

The cost of automobile insurance varies among companies. Insurance company rates are generally based upon claims experience, operating expenses, and a margin for profit. The premium will vary according to the amount and type of coverage purchased, the location of the automobile, how it was issued, the driving record of the drivers, and the type and age of the automobile. The cost of insurance may vary greatly depending upon the company chosen. Comparative shopping may be an advantage when purchasing automobile insurance. Comparative shopping means comparing how much a policy will pay for injuries to each person, the total amount the company will pay for personal injuries, the total amount of property damage covered, and the costs of the policy to the purchaser.

A higher deductible option in an insurance policy decreases the amount that the insurance company will pay in the event of a claim, and, thus, the amount that must be paid in premium. For example, if there is a deductible of \$250 on an automobile policy and the insured has \$1,000 worth of damage, the insured pays the first \$250 and the insurance company pays the rest.

In some cases, better rates can be secured by obtaining automobile insurance through associations, organizations, or employee groups. The insurance company may automatically accept group members for insurance. However, some companies that sell to groups select only those members who meet their requirements.

## **DWELLING AND PROPERTY INSURANCE**

This type of insurance is more commonly sold in packages that are known as “homeowners’ insurance” and “renters’ insurance.” What most people fail to understand is the importance of having such insurance.

## **Homeowners' Insurance**

Homeowners insurance protects you from financial losses resulting from theft or damage to your home, other buildings on your property and your personal property. It also provides liability protection if you are found to be legally responsible for causing injury to others or damage to their property.

Three basic homeowners' insurance coverages are: 1) dwelling coverage, 2) personal property, and 3) liability coverage. Dwelling coverage insures the actual home itself along with any other detached buildings such as garages and tool sheds. This coverage pays for physical damage to the home from a specified list of perils such as fire, windstorm, and theft that cause sudden and accidental damage to the home. The policy will state how much the home is insured. You may have to insure the home for what it would cost to rebuild rather than the amount of the mortgage. If your home is under-insured, you may not receive enough money to repair the home, even if you only suffer a partial loss. In that event, you could only receive a percentage of the actual cost to repair the home; so it is very important to adequately insure your home.

Personal property is the contents of your home and other belongings owned by you or family members who live with you. Like the dwelling coverage, this coverage will pay for physical damage to your personal belongings from a specified list of perils that cause sudden and accidental damage. The policy will have an overall limit on how much it will pay for all personal property out of one claim/incident. There are two types of personal coverage: actual cash value and replacement cost. Actual cash value takes into account depreciation for age and use. Replacement cost coverage entitles you to the full cost of replacing your destroyed personal property without depreciation. Replacement cost typically costs more in premium than actual cash value.

The final coverage is liability coverage. Liability coverage pays for bodily injury to another person or property damage for which you or members of your household are legally responsible. It may also pay for an attorney if you need one.

Other coverages are generally available at an additional cost. Some things are not included in homeowners' insurance and are "excluded." Some common exclusions are earthquake, flood, and sewer back up. You may purchase coverage for these perils at an additional cost. There are also some items that are generally limited or capped to a certain amount under homeowners' coverage. For instance, there are typically limitations or caps placed upon special belongings such as jewelry, furs, coins, computers, antiques, etc. Generally, you can purchase extra coverage for these items for additional premium.

Coverages vary from company to company. Make sure that you ask what is and is not included in the policy and compare it carefully with policies from other companies. The amount of coverage and the types of coverage you get should be just as important as how much it costs.

## **Renters' Insurance**

Renters need insurance too. Your landlord may insure the building you live in, but that insurance does not cover your personal belongings, nor does it offer you liability protection if someone were injured inside your rented residence.

Like homeowners' insurance, there are different coverages that make up the typical renters' insurance policy. While renters' insurance does not include dwelling coverage, as the building is not owned, it does cover personal property coverage and liability protection.

Just remember, your landlord's insurance generally only covers the building where you live – not your personal belongings and your liability. Most people's belongings are often worth more than they think. Look in any room, make a mental note of every item in that room, and think how much each of those items cost. Ask yourself this – what would you do if the place where you lived burned to the ground while you were at work? Do you have enough money set aside to replace everything you own such as your clothing, linens, furniture, electronics and appliances, and even your medicines, health and beauty items and cleaning supplies? If not, then you should seriously consider purchasing renters' insurance.

Your landlord's policy most likely does not cover liability for something that occurs in your residence for which you may be held responsible. For example, a friend comes to your home and trips over an ottoman and breaks a leg. You most likely will be asked by your friend to pay the medical bills to have the broken leg treated. Without liability coverage, your current and future earnings could be at risk. The liability coverage under the renters' insurance policy would protect you from that liability and may provide legal defense costs.

Like homeowners' insurance, coverage varies from company to company. Make sure that you ask what is and is not included in the policy and compare it carefully with policies from other companies. The amount of coverage and the types of coverage you get should be just as important as how much it costs.

## **WORKERS' COMPENSATION**

Workers' compensation is a special field of insurance designed to provide a method to compensate for injuries that have been sustained by an employee arising out of and during the course of employment.

Unlike traditional areas of compensation, workers' compensation is not based upon fault, but merely upon the fact that the harm sustained by the employee arose from one's employment.

The Missouri Workers' Compensation statute provides for no-fault insurance coverage for on-the-job injuries sustained by employees. There are three basic areas of compensation: medical, lost time and permanent residual disability (either total or partial disability).

Employers who have five or more part or full-time employees must have coverage. Farm labor, domestic servants, real estate agents and federal employees are exempt from the Missouri statute. Employers with four or fewer employees are not required to carry workers' compensation insurance, but such an employer may elect to become subject to the law by purchasing a policy. Some employers in the construction trade are required to have workers' compensation insurance even if they have only one employee.

Workers' compensation covers injuries that result from accidents arising out of and in the course of employment. The law also provides for coverage for occupational diseases that are directly connected with employment.

**Temporary total disability** means that the employee is unable to be employed for a period due to an injury. Under such circumstance, the employer pays the employee compensation as long as the disability lasts, but not more than 400 weeks.

**Temporary partial disability** means that the employee is able to return to some kind of gainful employment, but not on a full-time basis. Compensation is paid for not more than 100 weeks, the rate of payment is computed at two-thirds of the difference between the average earning before the accident and the amount the employee is able to earn during the period of disability, up to a maximum based on the state's Average Weekly Wage.

**Permanent total disability** means that an employee is unable to return to gainful employment. The fact that an employee cannot return to his or her former employment does not necessarily qualify him or her as being totally disabled. The individual must be unable to be gainfully employed in the labor market.

**Permanent partial disability** means that the injury causes permanent disability, but does not render the employee incapable of being gainfully employed. There is a schedule of losses for certain parts of the body. The maximum allowed for a scheduled injury is 400 weeks.

In addition, employees have a right to receive medical, surgical and hospital treatment, including nursing, ambulance and medicines as required for the injury. There is no maximum or limit on medical care or treatment furnished to the employee. The employee may select his or her own physician or surgeon for care, but when this is done, the employer may not be required to pay for the treatment. The employer is required to provide the injured employee with an artificial leg, foot, arm, hand, brace or eye whenever the Division of Workers' Compensation finds that such a device would help the injured employee.

Workers' compensation coverage begins the first minute an employee is on the job and continues as long as the employee works. When an injury occurs, the incident should be reported to the supervisor immediately.

Missouri law provides the following benefits:

1. **Medical care to treat the injury** -- This includes not only doctor bills, but also medicines, hospital costs, lab tests, x-rays, crutches, etc. There is no deductible, and costs are paid directly by the insurance company. The employer has the right to select the providers of medical services. Treatment sought by the employee without the approval of the employer or insurer is payable by the employee.
2. **Temporary total (or partial) disability** - Payment for lost wages is made to the employee no less than every two weeks for the time the treating physician verifies that the employee is unable to work. There is a three-day waiting period. These payments must be forwarded directly to the employee from the insurance company. The

- employee is paid two-thirds of his average weekly wage, up to a maximum of seventy-five (75) percent of the state's average weekly wage. These benefits are non-taxable.
3. **Permanent partial disability** – Additional benefits are usually settled between the employee and the employers' insurance company after the employee is able to work, if there is a permanent handicap or disfigurement, such as amputation, impairment of sight, or limitation of the use of an arm, leg, etc. In the case of death or permanent total disability, payments may continue for the life of the worker with a permanent total disability or to the dependents of a decedent. Permanent partial disability is determined in a conference with a representative of the Division of Workers' Compensation. The injured employee and the attorney for the insurance company meet to determine the amount of the disability, based upon medical reports, the rating by the treating physician, and the employee's symptoms or complaints. Again, these benefits are non-taxable.

To determine if you have workers' compensation coverage, ask your employer or call the Division of Workers' Compensation, P.O. Box 58, 3315 W. Truman Boulevard, Room 131, Jefferson City, Missouri 65102. Telephone (573) 751-4231 or 800-775-2667.

### **PUBLIC HEALTH INSURANCE PROGRAMS**

The two primary health insurance plans are Medicare and Medicaid. Medicare is the federally sponsored insurance program for individuals 65 years of age and over and for disabled individuals who have received Social Security Disability Insurance payments for at least 24 months.

Medicare has two parts: (1) Hospital Insurance (called Part A), and (2) Medical insurance (called Part B). Medicare payments are handled by private insurance organizations under contract with the federal government. Medicare Hospital insurance can help pay for necessary medical inpatient hospital care and, after a hospital stay, for inpatient care in a skilled nursing facility and for care in the home by a home health agency.

Medicare Medical insurance can help pay for medically necessary doctor's services, out-patient hospital services, out-patient physical therapy and speech pathology services, and a number of other medical services and supplies that are not covered by other hospital insurance plans. Medicare Medical insurance can also help pay for necessary home health services when hospital insurance cannot pay for them.

Medicare does not cover all the costs of health care. Payments are based on reasonable and customary charges, which may differ from the actual bill an individual receives from his doctor or hospital, and, in addition, Medicare pays only 80 percent of the amount of charges that are approved. For these reasons, many individuals choose to purchase supplementary policies to take care of charges that are not reimbursed through Medicare.

Medicaid is another state-federal program. It provides for some health care costs for people of all ages with very low incomes. It is administered at the state level, and eligibility is based on

economic need. To determine if an individual is eligible for this program, contact should be made with the Division of Family Services office in his or her county of residence.

More detailed information concerning Medicare and Medicaid can be found in Chapter 5 of this handbook, Financial Assistance.

## PRIVATE HEALTH INSURANCE

### Recent Developments

Since 1980, a number of additions have been made to Missouri's statutes governing insurance that may be of special interest to individuals with disabilities

Some of the topics that have been addressed through legislation in recent years include:

1. **Life Care Contracts.** Individuals under the general supervision of the state division with a facility for the provision of care or maintenance (e.g., nursing care, room, board, treatment, etc.) for a stipulated period for the life of the individual.

Generally, these represent situations wherein an individual contracts with a facility for the provision of care or maintenance (e.g., nursing care, room, board, treatment, etc.) for a stipulated period or for the life of the individual. There is usually an initial fee, and there may then be a maintenance charge to be paid at monthly or other intervals.

The facility providing services must have a certificate of authority from the state Department of Insurance, and that certificate must be renewed annually. At the time of application for a certificate, the facility must also submit a report that details financial and other aspects of its operation.

The law provides a seven-day recession period within which an applicant can demand refund of any money he or she may have paid as a deposit and can void any contract made for such services. No person may be required to move into a facility until after the expiration of the seven-day recession period.

Any person or agency operating more than one facility for life care, continuing care or care for a term of years must have a separate certificate of authority for each facility, and the certificates are not transferable.

The statutory provisions for Life Care Contracts appear in §§ 376.900-376.950, RSMo.

2. **Medicare Supplement Insurance.** This type of coverage is generally purchased by individuals who are covered under Medicare and who wish to be covered for hospital and medical expenses not reimbursed by Medicare.

This coverage will usually reimburse the policyholder for expenses that are allowed by Medicare but are not paid in full by Medicare. For example: An individual incurs expenses of \$1,000. Medicare allows \$800 of that amount. Medicare then pays 80% of the \$800, or \$640. The

remaining \$160 would be paid through the Medicare Supplement policy, if the individual had such a policy in effect when the expenses were incurred.

Each Medicare Supplement policy sold in Missouri must include information as to any renewal, continuation or nonrenewable provisions. Missouri law requires that this information appear on the first page of the policy and clearly state the duration of renewability and the duration of the term of coverage for which the policy is issued and for which it may be renewed.

If a Medicare Supplement policy contains any limitations concerning preexisting conditions, such limitations must appear as a separate paragraph of the policy and be labeled as Preexisting Condition Limitations.

If any individual buys a Medicare Supplement policy, he has 30 days after the policy is delivered in which he may return the policy and have the premium refunded. In the case of a policy issued as the result of a direct response solicitation (such as a television commercial where no agent is involved in the transaction), the individual has 30 days in which to return the policy for full refund if he is not satisfied for any reason.

Qualified seniors at least age 65 or disabled Missourians have the right to buy any Medicare supplement policy from any insurance carrier during the first six months after they sign up for Medicare Part B coverage. All persons under age 65, who have been approved for Social Security disability, have the right to buy any Medigap policy during their six-month open enrollment, but the cost may differ from policies available to seniors. Insurers are allowed to charge disabled persons under 65 slightly higher premiums. When disabled Medicare policyholders turn 65, you again can exercise the right of any 65-year-old first becoming eligible for Medicare. You may choose the plan of your choice from any insurer, and you will pay the same rates as other seniors.

Current policyholders also have the right to switch insurers each year, if they do so during the last month before or first month after their policy's annual anniversary date. Enrollees may only change to a like plan – for example from Plan F with Insurer XYZ to Plan F with Insurer ABC.

Statutory provisions for Medicare Supplement Insurance in Missouri appear in §§ 376.850-376.885, RSMo.

**3. Coverage for treatment of alcoholism, chemical dependency and drug addiction.**

Missouri law requires that any group or individual health insurance policy issued in the state include coverage for treatment of alcoholism in a hospital or a residential or nonresidential facility certified by the Department of Mental Health. This coverage must be provided on the same basis as coverage for any other illness, except that it may be limited to 30 days in a policy or contract benefit period.

State law requires that health insurance policies offer coverage for chemical dependency and drug addiction. The policyholder, however, may accept or reject this coverage. It is also specified that the Department of Mental Health must certify either residential or nonresidential treatment programs for chemical dependency and drug addiction.

The coverage offered may be limited to 80% of the reasonable and customary charges for such services up to a maximum benefit of \$2,000.

Statutory provisions for this insurance coverage appear in § 376.779, RSMo.

4. **Provision of coverage for treatment of mental illness.** In the 2004 Legislative session, the Mental Health Insurance Parity was passed (House Bill 855). The Bill requires group policies to cover all mental illnesses, except for substance abuse, in the same manner that they cover physical illnesses. The Department of Insurance will establish the criteria regarding the new law; however, its exact effects have not been determined. For more information, contact the Department of Insurance Consumer line at (800) 726-7390.

Group and individual health insurance policies issued in Missouri must offer coverage for expenses arising “from psychiatric services for a recognized mental illness.” This does **not** include mental retardation. Minimum requirements for coverage that must be offered include:

- a) where benefits are provided for inpatient services in a general hospital, benefits must be the same as for any other illness, except that benefits may be limited; however, benefits shall be available for at least 30 days in any policy period.
- b) when coverage is provided for outpatient expenses, they must apply to the therapeutic care and treatment of a recognized mental illness when prescribed by a licensed physician specializing in the treatment of mental illness and rendered in a psychiatric treatment center accredited by the Joint Commission on Accreditation of Hospitals. Such benefits shall be payable to the extent of not less than 50% of the reasonable and customary charges for such services and up to a maximum benefit of \$1,500 during each policy or contract benefit period.
- c) coverage for outpatient expenses must include not less than 50 percent of reasonable and customary charges for 20 psychotherapy sessions for a recognized mental illness rendered by a licensed physician specializing in the treatment of mental illness. Such benefits must apply to such services when rendered by a licensed psychologist unless specifically rejected by the policyholder.

The statutory provisions for coverage of mental illness treatment appear in §§ 376.381 and 376.382, RSMo.

5. **Provision of coverage for speech and hearing disorders.** Missouri legislation adopted in 1984 requires that health insurance policies issued in the state “. . . offer coverage for the necessary care and treatment of loss or impairment of speech or hearing . . .” “Loss or impairment of speech or hearing” is defined as those communicative disorders generally treated by a speech pathologist, audiologist or speech/language pathologist licensed by the state Board of Healing Arts or certified by the American Speech-Language and Hearing Association, or both, and which fall within the scope of his or her license or certification.

The law states that the offer for such coverage must be in writing and may be rejected by the individual or group policyholder.

Statutory provisions for coverage for speech and hearing disorders appear in § 376.781, RSMo.

6. **Offer of coverage for child health supervision services.** Under provisions of House Bill 795 adopted in 1989 (§ 376.801, RSMo.), “All health insurance policies which provide coverage for a family member of the insured or subscriber shall offer coverage for child health supervision services. Such services shall include coverage from the moment of birth through the age of 12 years.”

These benefits shall be provided at approximately the following age intervals: birth, two months, four months, six months, nine months, twelve months, eighteen months, two years, three years, four years, five years, six years, eight years, ten years and twelve years. The offer of this coverage must be in writing and may be rejected by the individual or group policyholder or contract holder.

Child health supervision services are defined as the periodic review of a child’s physical and emotional status by a physician or pursuant to a physician’s supervision. A review shall include a history, complete physical examination, developmental assessment, anticipatory guidance, and appropriate immunization and laboratory tests in keeping with prevailing medical standards.

7. **State health insurance pool for high-risk individuals.** The passage of House Bill 998 during the 1990 session of the Missouri General Assembly provided an increase in the availability of health insurance for individuals who previously could not obtain coverage because of disability or chronic illness.

Now many such individuals can obtain coverage. Rates are generally no less than 150 percent of a standard premium and no more than 200 percent.

8. **Senate Bill 1003.** On March 10, 2004, Senate Bill 1003 was passed allowing children with mental illness to receive Medicaid coverage without requiring parents to relinquish custody to get treatment. The new legislation also authorized the creation of a Comprehensive System Management Team, an interagency team to provide better coordinated mental health services.

For more information on any of these programs, contact the Missouri Department of Insurance: P.O. Box 690, Jefferson City, MO 65102. Telephone (573) 751-4126 or 800-726-7390.

For most other conditions, there still is no Missouri law requiring health insurance companies to provide coverage. Therefore, if a company decides to exclude everyone with a particular disability, which the company thinks increases its risk of loss; it can exclude such persons from coverage. Some companies may write such individual at a rated amount. This amount will probably be higher than conventional rates for other persons in the same age group.

## Group Insurance

Group insurance is often an answer to obtaining coverage. If a person can get insurance through a group policy, the premiums are usually lower than with individual insurance. This is because the employer or other sponsoring organization may pay part or the entire premium. In addition, the risk is distributed among all members of the group, usually lessening the degree or risk for each individual. In group insurance, age is not a factor in determining coverage or the amount of premium paid, although it may be a factor in determining the cost of the entire group plan.

In a majority of groups, an individual is automatically eligible for group insurance by being a member of the group, such as through employment. Physical conditions do not affect eligibility. However, the employee usually must enroll for the group coverage, if it is optional, within a specified period after becoming eligible. If not enrolled within this time, an individual may have to show evidence of good health to qualify for coverage. If the individual has had twelve months prior continuous group coverage, the new group will have to waive any waiting period they may have on pre-existing conditions.

In a group policy, all group members have the same coverage. Under some group plans, coverage will not begin until after a waiting period (e.g., a month after beginning employment).

When an employee's employment is terminated, they have the right to continue their group coverage. If the employer has less than 20 employees, Missouri law (Section 376.428) requires that the employer allow the employee to continue their group coverage for nine months. If the employer has more than 20 employees, under the federal COBRA law, employees are allowed to continue their group coverage for 18 months. There is an eleven-month extension available to an individual who receives Social Security disability approval during the initial 18 months of COBRA if his plan is notified of the approval within 60 days.

### **Loss of Income Protection**

Disability income insurance, or loss of income insurance, is intended to replace income in the event a physical disability keeps the insured from working. The amount of coverage that can be purchased is generally a percentage of average gross income. For example, if the worker's pay is \$200 a week, he might be able to buy coverage that will provide benefits of up to \$120 a week. The payments are usually made in a specified monthly amount.

There is a range of policies available and the kind of coverage selected will affect the size of the premiums. Some cover accidents only, while others cover both accidents and illness. Disability income is paid only in the event of total disability, but partial disability is available as an option. It is important to understand the definition of disability in a policy. Under Missouri law, insurance companies are required to use the definition of total disability given in the state insurance statutes.

The length of time for which benefits may be received varies according to the policy. Many policies pay until the insured reaches the age of 65. Sometimes there is an elimination or waiting period before benefits begin. The waiting period is commonly seven days to six months. The amount of the premium will depend on the percentage of income the policy will pay, the length of time for which it will pay, and when benefits begin.

Disability income insurance usually has high premiums if purchased on an individual basis. An individual may want to ask his employer if he is eligible for a group disability plan. Group plans are usually less expensive.

Find out how long the employer will continue to pay an employee who cannot work. Could an employee use sick leave or vacation time to provide uninterrupted income for a brief illness or minor injury? Would the employee be eligible for Workers' Compensation if he were to be injured on the job? If totally disabled, the employee could be eligible for Social Security disability payments that will provide some income to him and his family. Check with the Social Security office. Taking these sources of income into account, the individual should be able to select the right policy at the lowest cost.

### **Required Coverage of Newborn Children**

Newborn children are required by Missouri law to be covered under family health policies. The coverage is for injury or illness, including the necessary care and treatment of medically diagnosed congenital defects and birth abnormalities. If a specific premium or subscription fee is required to provide the coverage, the policy or contract may require that notification of the birth of a newly born child and payment of the required premium or fees must be furnished the insurer or corporation within 31 days after the birth of the child in order to have the coverage continue beyond the 31-day period.

### **Dependent Children**

Dependent children are covered under a health insurance plan if the policy states that they are covered. Therefore, in order to secure coverage of children, it is important that an individual tells his agent he wants them included. Coverage of dependent children may increase the premium, depending on the number of children and their ages.

Normally, coverage for children under a group plan can be secured by paying an extra premium. Adding family members to a group plan is usually less expensive than covering them under an individual or family plan. An individual or family policy can be written to cover just one or all members of a family. The policy may even be written on all but one member, excluding the one member whom the company does not wish to underwrite.

### **Life Insurance**

Life insurance is normally purchased in order to provide some measure of financial security for dependents who might be left due to death of the main breadwinner. The premiums are calculated on the type of plan purchased, the age of the applicant, the amount of the insurance involved, the period to be covered, and the health of the applicant. A Missouri regulation forbids refusal to accept life insurance applications from those who are physically disabled or blind. There must be some statistical evidence that the physical disability or blindness results in an increase in risk to the insurance company.

Term policies are life insurance policies for a specific number of years. The most common term periods are five years, ten years, twenty years, and to age 65. A death benefit is payable should

death occur during the term period. If, however, the insured lives beyond the purchaser, the lower the rates will be. A term plan may be sold either as a separate policy or as a rider to a permanent plan. Some term plans provide the right to renew for another period when a term ends, regardless of health. With each new term, the premium is increased.

Most term insurance policies permit an exchange of the term policy for a permanent plan. Usually this option must be exercised a few years before the expiration of the term period. If converted within the prescribed period, information regarding insurability is not usually required. The premium rates paid on this conversion are usually based on the age at the time of the conversion. The main types of term insurance are level, decreasing, and increasing. Level term policies provide a constant or level death benefit during the term period. Decreasing term policies provide a death benefit that decreases each year during the term period. Increasing term policies provide a death benefit that increases during each year of the term.

Group life insurance covers a group of persons, such as the employees of a company, under one policy. The master policy is issued to the employer, and a certificate of insurance is given to each employee. The certificate explains the benefits furnished to each insured employee. This coverage is also available to groups formed in other ways such as members of a labor union or a professional association. If a member separates from the group, he may convert his master policy, even though he may then be uninsurable. Nearly all group insurance is yearly renewable term insurance. For this reason, and because of low administrative expenses, it is the least expensive life insurance available.

### **Permanent Plan**

Permanent plans of life insurance usually provide a level benefit for a level premium throughout the life of the policy. Because premiums are averaged over the expected life of the policy, the premiums in the early policy years are higher than necessary to cover the company's risk and less than necessary to cover the risk in later years. The cash value increases each year as the premium payments continue.

Whole life insurance, also known as ordinary or straight life insurance, is the most common form of permanent life insurance. It provides protection on a permanent basis for the entire life of the insured. Premiums in the face value of the policy will remain level or unchanged and payable until death. Cash values begin in the early policy years.

Endowment life insurance provides for a payment of the face amount to the beneficiary if death occurs within a specified period, such as twenty years. If at the end of the specified period, the insured is still alive, the face amount is payable to the insured. The dollar amount of insurance remains the same throughout the entire period. The real purpose of endowment insurance is two-fold to:

1. Accumulate, through forced savings, a specified sum of money for the insured over a specified period of time; and

2. Pay the beneficiary that sum if the insured fails to live to the end of the specified period.

There are several other types of life insurance available that provide such options as an endowment policy on the breadwinner and term insurance on the spouse and children. The policy may provide for benefits to be paid in a lump sum. If the spouse dies during the childbearing years, the benefits may be paid as a monthly income over a period specified in the contract.

A retirement income plan could provide life insurance coverage to age 65 and build substantial cash value, which is available at age 65 to provide a retirement income. This type of policy may be considered in order to increase retirement income benefits.

Missouri law does not permit the standard exclusion of suicide in a life insurance policy. To exclude policy benefits from deaths resulting from suicide in the first two policy years, the company must prove that the insured intended to commit suicide at the time the application was completed. If the company cannot prove this, all benefits of the policy must be paid.

Canceling a life insurance policy already in existence and purchasing a new one is called a replacement. This action is usually not advisable because the:

1. New policy is likely to require a higher premium because the insured is older;
2. Premium must provide for the initial cost of writing the insurance policy the second time and this will be reflected in the slow buildup of cash values;
3. Two-year period of contestability will begin again, during which time the company can check all information that was provided in order to deny a death claim;
4. Existing policies may have more favorable provisions than new policies in such areas as settlement options and disability benefits; and
5. Present policy can often make the change desired at a lower cost.

For some of the same reasons, it may not be advisable to borrow against the loan value of the existing policy to obtain money to buy a new insurance policy.

Many people use life insurance in order to plan their estates. Life insurance provides a tax advantage to the estate. The policy proceeds are not subject to inheritance taxes. The face amount of the insurance policy goes directly to the beneficiary without going through Probate Court. (See Chapter 9, Estate Planning).

## COMPLAINT PROCEDURES

If you have any complaint about an insurance practice or policy, you should first contact the insurance agency and company through which you obtained insurance. If satisfaction is not obtained, you should contact the Missouri Department of Insurance and a complaint form will be mailed to you.

Missouri Department of Insurance  
Post Office Box 690  
301 West High Street, Room 530  
Jefferson City, MO 65102  
800-726-7390

Missouri Department of Insurance  
111 N. 7th Street  
Wainwright State Office Bldg, Room 229  
St. Louis, MO 63101  
314-340-6830

Missouri Department of Insurance  
615 E 13<sup>th</sup> St  
Kansas City State Office Bldg, Room 510  
Kansas City, MO 64106  
816-889-2381

The Consumer Service Section will answer questions and pursue all legitimate complaints. If there is a factual dispute as to what occurred, then the matter must be handled by a private attorney. In all other circumstances, the Missouri Department of Insurance Consumer Service Section will handle the complaints and answer any questions related to insurance.