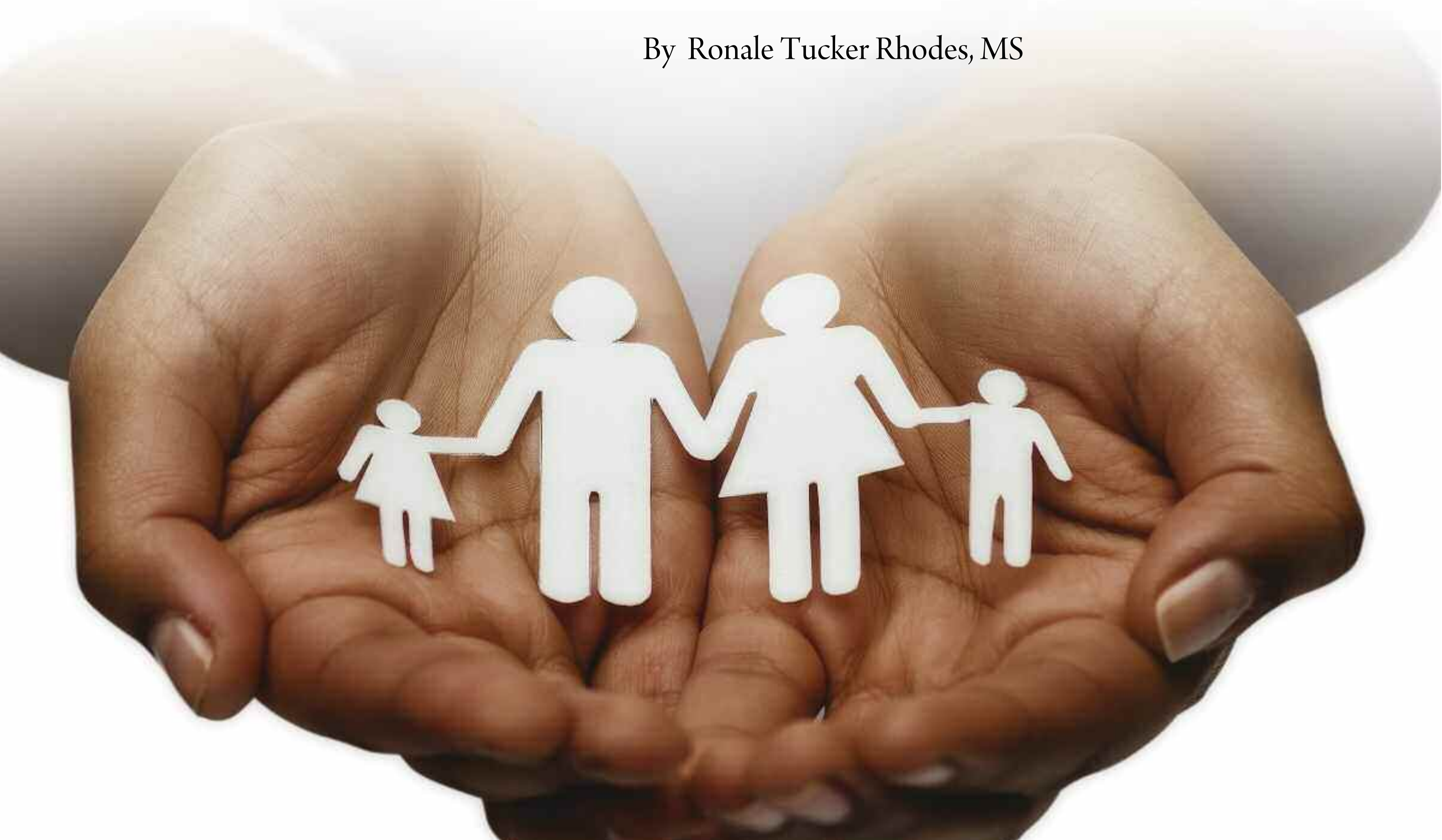
Purchasing Life Insurance *with a Chronic Illness*

Having a chronic illness is not necessarily a barrier to obtaining a life insurance policy. The key is understanding one's options and what to expect.

By Ronale Tucker Rhodes, MS



SOME PATIENTS with a chronic illness are under the impression they cannot either obtain or afford a life insurance policy. In fact, a study conducted by Genworth Financial found between 39 percent and 54 percent of adults with pre-existing conditions have no life insurance. According to Ray Dinstel, senior vice president of underwriting at Genworth (an international financial services organization), the fear that the price of a policy will be too high because of their impairments prevents them from buying it.[1] But, life insurance companies do not always preclude those with pre-existing conditions from obtaining life insurance.

Whether chronically ill patients are able to purchase a life insurance policy and how much it will cost depends on the type of policy and how the illness affects coverage. While companies typically group buyers into one of several rate classes based on their health and the risk they represent, many pre-existing conditions are not barriers to an affordable life insurance policy if they are controlled by medication or other treatment. And, many applicants with medically controlled chronic conditions can now get the preferred insurance rate.[1]

Life Insurance Types

There are different types of life insurance policies for which chronic illness patients can qualify, including term and whole (individual policies), group (through an employer), and simplified issue and guaranteed issue.

A term life policy is often called a "pure" life insurance policy because it's designed only to protect dependents in case the policyholder dies prematurely. The policy lasts for a set number of years — usually 10, 20 or 30 — during which time the policyholder pays premiums to keep it active. If the policyholder dies while the policy is active, his or her beneficiaries receive the agreed-upon death benefit. Term life insurance is typically the lowest cost, and the premium remains the same throughout the life of the policy. When buying this type of policy, the number of years and the amount of the policy should coincide with the time frame the policyholder will be paying the bills and how much money the family would need if the policyholder were no longer there to provide for them.

Whole life insurance is permanent life insurance that combines life insurance and an investment component known as the policy's cash value. Rather than providing coverage for a set period, it is in force until the policyholder dies, as long as premiums have been paid the entire time. The policyholder can borrow money against the account, but if the loan is not repaid with interest, the death benefit is reduced. In addition, the policy can be surrendered for cash, but then the policyholder will no longer have coverage. The upsides of whole life are the premium remains the same for as long as the policyholder lives, the death benefit is guaranteed and the cash value account grows at a guaranteed rate. And, some policies can earn annual dividends that can be taken in cash or left to earn interest, decrease the premium, repay policy loans or buy additional coverage. The downside of whole life is premiums can be six to 10 times as expensive as term life.[2,3]

Both term and whole life insurance policies require a medical exam. Therefore, if a complicated health history due to chronic illness makes purchasing or affording an individual policy out of reach, the solution may be a group policy or a simplified issue or guaranteed issue policy. A simplified issue policy requires some medical questions but no medical exam, whereas group and guaranteed issue policies require neither.

Individuals with pre-existing conditions can purchase group life insurance through their employers. While this policy is generally at least partially funded by the employer, employees usually have little or no choice of features, coverage is typically limited to one or two times the employee's annual salary, and coverage is lost when the employee leaves the job. The upside, however, is it is available even to newly hired employees and, as mentioned, there is no required health exam.[4,5]

Both simplified issue and guaranteed issue policies have higher premiums and lower benefit amounts than individual life insurance policies. Mostly, they are designed to pay for funeral expenses, which is why the policy amounts are small (typically ranging from $5,000 to $100,000), and they are often offered only to those between 45 years and 85 years old.

The benefits of a simplified issue policy include no medical exam, coverage is provided in days or weeks compared to months with other insurance policies, the death benefit is available immediately upon policy issuance, and it is less expensive than guaranteed issue life insurance. The downside is the policy has high premiums (sometimes two to four times higher than other life insurance policies).[6]

A major difference with a guaranteed issue policy is, unlike simplified issue, there are also no medical questions to answer. If the premium is paid, the company is "guaranteed" to issue you a policy. The major drawback is the full death benefit is not available until after the policy has been in force for a specific period, usually one to two years. In some cases, if the policyholder dies within two to three years of purchasing the policy, the beneficiaries are refunded the premiums paid to that point. Some companies give a percentage of the death benefit, but the beneficiaries won't get the full amount. In addition, it is probably the most expensive life insurance one can buy.[6]

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What to Expect from Underwriting

When it comes to chronic illness, life insurance companies take many details into consideration for individual policies, including the severity of the condition, treatment, age of onset and other variables. Carriers often rate a condition based on its category: mild, moderate or severe. Those with mild illness will likely qualify for preferred (less expensive) rates, while those with moderate illness will likely qualify for standard (more expensive) rates. And, while severe illness is insurable, it usually comes at the highest cost.

> When applying for an individual policy, preparing for the medical exam can be key.

Individuals who are able to control their condition with medication, diet and lifestyle, and those who were diagnosed at a younger age, are in a much better position for obtaining a policy. Other variables insurance carriers consider include the individual's build, family history, background history and other medical conditions. For instance, if a person has asthma and smokes, he or she will be denied. Once all of the information is obtained by the insurance carrier, it will assign a rate class based on level of risk. This will determine the monthly premium rate (see below).[7]

For a simplified issue policy, usually four or more questions will be asked to determine approval and cost (some companies will ask a few more questions, and with some, the questions will be slightly different): 1) Do you smoke? 2) Do you currently reside in a hospital or long-term care institution? 3) Have you been declared terminally ill? 4) Do you have AIDS or HIV? By answering "Yes" to smoking, individuals may still qualify for a simplified issue policy, but it will be more expensive. By answering "Yes" to any one of questions two through four, the policy will likely be denied. However, answering "No" to questions two through four will almost certainly gain policy approval.[6]

There is no underwriting process for group or guaranteed issue policies.

How Are Rate Classes Determined?

As mentioned previously, life insurance companies use health ratings to determine what rate will be used to calculate an individual's premium. The ratings generally fall into four classes: preferred plus, preferred, standard plus and standard. While these rating class names and the factors that determine one's class can vary between insurers, many follow similar rules:[8]

Preferred plus: This is considered the best category. Most people in this category do not have a poor health history, are not taking any medications and are within the guidelines for height and weight. Only about 5 percent of people qualify for this class.

Preferred: This is considered the second-best category. Individuals are deemed to be in excellent health with a few minor health issues that may be treated with medication such as controlled cholesterol, are within the guidelines for height and weight, may have a family history of cancer or other diseases, and participate in dangerous occupations such as risky sports or risky work occupations.

Standard plus: Individuals are considered to be in better than average health, but may have minor health issues, may be slightly over the height and weight guide, but have no family history of diseases.

Standard: Although this may be in the bottom of the four general life insurance health classes, it is considered to be the most common category. Individuals are of average health and take multiple medications. Their height and weight do not meet the guidelines, and they have a family history of cancer or other diseases.

In addition, individuals are advised to buy life insurance as early as possible since waiting to buy will always be more expensive. For example, consider a 30-year-old who waits 10 years to buy a policy at age 40:[9]

- A 20-year, $500,000 term life policy will cost about $100 more per year.
- By waiting 20 years until age 50, rates for a 20-year, $500,000 term life policy will more than triple.

Improving the Chances of Approval

Individuals can take steps to improve chances of getting approved for a life insurance policy. According to Dinstel, people with chronic conditions must take medications, not have any significant symptoms or be otherwise healthy to receive an insurer's preferred rate. And, they need to work with a broker who represents companies that ask whether a condition is controlled. In addition, people with impairments "shouldn't stop at disclosing their condition," Dinstel says. "They need to get on the phone with a company representative to provide their full information." Otherwise, they could be quoted a rate that's much higher than what they would qualify for if they had disclosed that their condition was under control.

When applying for an individual policy, preparing for the medical exam can be key. To improve the exam's outcome, Dinstel recommends fasting 24 hours before the exam (to help lower cholesterol slightly); avoiding alcohol and fatty and salty foods before the exam; refraining from caffeine the morning of the exam; taking medications to ensure cholesterol, blood pressure and other conditions are under control; refraining from a heavy workout the day before the exam (which can cause an elevated protein level); and getting a good night's sleep the night before.

Furthermore, there are also some things that virtually ensure standard or substandard rates or denial. For instance, having diabetes or a history of cancer will qualify only for the standard rate, and for those who currently have cancer, they won't even qualify for that rate. In addition, individuals who smoke will pay a lot more for life insurance even if they have a treatable medical condition that is under control. In general, Dinstel says smokers pay twice as much for life insurance as healthy nonsmokers do.[1]

A Broker Can Improve Chances

Chronic illnesses should not be a deterrent to applying for a life insurance policy, and they are no longer a barrier to an affordable policy. What is crucial is to work with a broker who represents a broad range of insurance companies and who is specialized in working with impaired risk cases to find the right company.[6] Some insurers have changed their underwriting guidelines so the majority of their applicants with medically controlled chronic conditions get the preferred rate.[1]

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