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**Harmony Wealth  
Strategies**

BUILDING AND SAFEGUARDING  
YOUR FINANCIAL WORLD

# Claiming Life Insurance Benefits





# Claiming Life Insurance Benefits

## What is it?

Life insurance benefits are not automatic. If you are the beneficiary of a life insurance policy (usually your spouse's or other family member's policy), you must file a claim to receive any money. This can be as simple as contacting your insurance agent and filling out some paperwork. However, if this is the only step you take, may miss out on other life insurance benefits to which you are entitled.

Your spouse or family member may have owned one or more group policies that pay benefits depending on how the insured person died or in restricted amounts. If you spend time uncovering these hidden policies, you may end up with more money from life insurance than you expected.

**Example(s):** *Arnold knew that he was the beneficiary of his wife's \$100,000 individual life insurance policy, and he filed a claim form with his insurance agent. He didn't know, however, that his wife had signed up for credit life insurance when she bought her new van. When he went to the bank to make his wife's monthly auto payment, he was surprised when the bank manager told him that the car loan would be paid off by the credit life insurance company and that he wouldn't owe any more money to the bank.*

## Claiming benefits from individually owned life insurance policies

### *Finding individually owned life insurance policies*

Your spouse or family member may have owned one or more permanent (e.g., whole life) or term life insurance policies. Individually owned term or permanent policies are what most people think of as life insurance. These policies are purchased by one person (often through an insurance agent) and pay benefits when the insured person dies. If your spouse or family member owned one of these policies, he or she probably kept it with his or her important papers in a file or a safety-deposit box. However, if you know that your spouse or family member owned an individual policy and you can't find it, call his or her insurance agent or company to check. If you're not sure if your spouse or family member owned a policy and your agent can't find one, check credit card statements, canceled checks, or tax statements, looking for evidence of premiums paid. Several companies also offer policy locator services (for a fee).

## Claiming benefits from group life insurance policies

### *Finding group life insurance policies*

Group life insurance policies provide coverage to many people under one policy. Group insurance policies may be issued through an employer, bank, credit agency, or other professional or social organizations, and they often pay benefits in specialized circumstances. Since the group holds the actual policy, the insured person receives a certificate of insurance as proof that he or she is insured. Look for these certificates in your spouse's or family member's personal papers, files, and safety-deposit box, if you can access it. However, even if you can't find any certificates, this doesn't mean your spouse wasn't insured. You should still check with your spouse's or family member's employer, bank, or credit agency, or study loan paperwork or purchase contracts. Read the following sections for a list of types of group policies your spouse or family member may have owned.

### *Employer-based group life insurance*

If your spouse or family member was employed at the time of his or her death, you may be the beneficiary of a life insurance policy issued through his or her employer. Since some employers offer their employees a certain amount of life insurance at no cost (a common amount is one times the employee's base salary), you may not even be aware that your spouse or family member was insured by a group policy because the employer paid the premiums. Or your spouse or family member may have been able to purchase additional group life insurance through the employer by paying the extra premiums himself or herself. Thus, before assuming that your spouse or family member did not have group life insurance, check any pay stubs and call the employer.

**Example(s):** *When Mona began working at Leonardo's Art Institute, she enrolled in a group life insurance plan through her employer. Her employer provided her with \$25,000 worth of life insurance at no cost. In addition, Mona purchased an additional \$75,000 worth of life insurance, and the monthly premium was deducted from her salary. When she died, her husband received a*



total benefit of \$100,000.

## ***Accidental death and dismemberment policy***

Your spouse or family member may have been offered an accidental death and dismemberment policy through an employer, credit card company or bank. These policies pay benefits if an insured individual dies accidentally. This is another type of life insurance you may be unaware that your spouse or family member had because occasionally these policies are offered as part of a loan package, issued as a free benefit by banks or as a rider to an employer-issued insurance policy. If your spouse or family member died accidentally, look for such a policy in his or her files, or contact his or her employer, bank, credit card issuer, or insurance company.

## ***Travel accident insurance***

If your spouse or family member was killed while traveling by air, boat or train, you may be eligible to receive the proceeds from a travel accident insurance policy he or she may have purchased when buying tickets. If your spouse or family member used a credit card to purchase travel tickets, you may be automatically entitled to a life insurance benefit payable if he or she died as a result of an accident when using those tickets. Some travel agencies and road and travel clubs also routinely issue travel accident insurance policies, and employers sometimes pay death benefits to employees who are killed while traveling on company business.

## ***Mortgage life insurance***

If your spouse or family member owned a house, he or she may have purchased mortgage life insurance. A mortgage life insurance policy pays off the balance of the policyholder's mortgage at his or her death. If you're not sure whether your spouse or family member purchased such a policy, check with the mortgage lender.

## ***Credit life insurance***

Banks and finance companies routinely offer credit life insurance when someone takes out a loan or is issued a line of credit. This insurance will pay off the outstanding balance of a loan or account if the insured individual dies. A few extra dollars (or less, depending on your loan balance) is added to the monthly loan payments to pay these premiums. Because it is so profitable for the bank or finance company, most institutions try to sell this type of policy when someone finances a purchase or signs up for a line of credit, and occasionally they add it to a contract before the individual signs it. Thus, it is likely that you won't find out that your spouse or family member owned such a policy unless you check with credit card companies, banks, or any lenders to whom your spouse or family member owed money at the time of his or her death.

# **How to file a life insurance benefit claim**

## ***Notify the insurance company that the policyholder has died***

When your spouse or family member dies, you should notify his or her life insurance company as soon as possible. You can call the insurance company's policyholder services department directly, or if the life insurance policy was issued through an agent or an employer, you can ask them to notify the company for you to begin the claims process.

## ***File a claim form***

You'll begin the claims process by filling out and signing a proof of death form and then attaching to it an original or certified copy of the policyholder's death certificate. If you are too distraught to fill out the form yourself, your insurance agent may fill it out for you, although you'll still have to sign it. If there is another beneficiary named on the policy, that person must also fill out a claim form. You may also have to fill out Form W-9 (Request for Taxpayer Identification Number and Certification), which will enable the insurance company to notify the Internal Revenue Service of any interest it has paid to you on the value of your policy. To expedite your claim, follow the insurance company's instructions carefully.

## ***Wait for the company to process the claim***

Life insurance claims are usually paid quickly, often within a few days. First, however, the insurance company will ensure that you are the beneficiary of the policy, that the policy is current and in force, and that all conditions of the policy have been met. This is usually a simple matter and does not delay the claims process. Claims are more often delayed because the insurance company



has not received a valid death certificate. The insurance company also has a right to challenge or deny a claim if it believes that a policy provision has been violated.

**Example(s):** *When Laurie died, her husband, Lou, filed a life insurance claim. The insurance company challenged his claim because Laurie had died of hepatitis that she contracted before she purchased the policy, and the policy contained a clause prohibiting payment in the case of death from a preexisting condition. However, Laurie's doctor submitted paperwork showing that although Laurie had contracted hepatitis before she purchased the life insurance, she didn't know she had a serious illness; her condition didn't become life-threatening until two weeks after she bought the policy. So, the insurance company paid the claim after all, six weeks after it had been submitted.*

## Receiving life insurance proceeds

### **Lump-sum cash payment**

Life insurance proceeds are often paid as lump-sum cash payments. As the beneficiary, you will receive the full value of the policy in a lump sum. Most people elect this form of payment because it enables them to control how the insurance money is invested or spent. If you elect to receive a lump-sum payment, you generally will not owe income tax on the life insurance proceeds that you receive as a beneficiary. See Questions & Answers.

### **Settlement options**

Settlement options are ways of paying the proceeds of a life insurance policy other than with a lump-sum cash payment. Many types of settlement options are available, but all are designed to ensure good money management in situations where the beneficiary is unable or unwilling to manage a lump sum of cash. When a settlement option is chosen, the insurance company keeps the policy proceeds, invests them, and pays interest to the beneficiary. Sometimes, the beneficiary is allowed to withdraw part of the proceeds, and sometimes periodic payments of both principal and interest are made. Either the policyowner chooses the settlement option at the time he or she purchases the policy, or the beneficiary chooses the option at the time the benefit becomes payable (unless the policyowner chooses an irrevocable option).

**Example(s):** *Maisie named her daughter Daisy as beneficiary of her \$200,000 life insurance policy. When Maisie died, Daisy was only 17 and unprepared to handle a large lump sum of cash. Fortunately, Maisie had chosen an irrevocable settlement option at the time she had purchased her life insurance policy. Instead of receiving a lump-sum payment, Daisy received part of the principal and interest from the policy monthly until the insurance proceeds were exhausted.*

For more information, see Settlement Options .

## Questions & Answers

### **Do automobile insurance policies pay death benefits?**

Sometimes. Although automobile insurance is property and casualty insurance and not life insurance, it may pay a death benefit to a survivor to cover funeral expenses if the insured individual elected medical payment (MP) coverage as part of his or her automobile insurance coverage.

### **If you are the named beneficiary of your ex-spouse's life insurance policy, will you be entitled to receive the proceeds of the policy if he or she dies?**

Possibly. If your ex-spouse intentionally or unintentionally neglected to change the beneficiary on his or her life insurance policy, then you may still be entitled to receive the proceeds, despite your divorce. This is true even if the policy states "my spouse" as the beneficiary because you were the spouse at the time the policy was written.

### **Is there any way to get proceeds from a life insurance policy before the claim is finally settled in order to pay funeral expenses?**

Most insurance companies will advance you a small portion of the life insurance proceeds so that you can pay funeral costs. Another option is to assign part of the proceeds from the life insurance policy to the funeral home now if they won't wait for payment. The funeral home can give you an assignment form to do this.



## ***If a life insurance company delays paying a claim, does that cost the beneficiary money?***

Beneficiaries of life insurance policies often like to receive proceeds right away so that they can invest the money and begin earning interest. Even if a beneficiary has to wait to receive the proceeds, he or she will be entitled to receive with the proceeds the amount of interest that has accrued since the date of his or her spouse's death. However, the beneficiary might have earned more interest on his or her own than the insurance company is paying.

## ***Are lump-sum cash proceeds from a life insurance policy taxable?***

No. The entire amount of the cash payment generally will not be included in the beneficiary's income for tax purposes. However, if the beneficiary had elected a settlement option that paid the proceeds to him or her in installments, then the payment would have been partially taxable. The interest part of the payment would have been taxable because interest is considered as income. However, the principal part of the payment would have been nontaxable. All or a portion of the life insurance proceeds may be subject to income tax if the policyholder transferred the policy for value.

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