

Final Expense Life Insurance

Many people do not like to talk about **end-of-life issues**.

Nevertheless, *end of life is a fact of life, and losing a loved one is a very difficult experience.*

Moving on and dealing with the loss can be very stressful.

The added pressure of coming up with the financial resources to pay for that person's final expenses can generate even more stress and strain.

The expenses associated with death—which, at a minimum, include a **burial or cremation**—can have a significant financial impact on those left behind.

Those with foresight make adequate plans to eliminate this burden on surviving family members and friends.

One way to do so—a practical, efficient means to meet the costs of final expenses—is with final expense insurance.

Final expense insurance is designed to cover obvious end-of-life expenses, such as a casket or crematory fees and services, as well as the indirect costs associated with a death, like placing the obituary notice and even paying off the deceased person's debts.

This coverage can help families deal with their grief, rather than worry about the financial obligations of paying for a funeral.

At its core, dedicated final expense insurance is a form of life insurance in that it delivers a stated amount of cash to a named beneficiary upon the insured's death.

It serves a distinct and valued purpose for those who are suited for the product. This course introduces final expense insurance and explains its uses and limitations.

Overview

None of us knows when we will die.

Yet most people, especially those over the age of 50, have given some thought to what their funerals should be like when the time comes.

They know if they prefer burial or cremation.

They have considered whether they want a short memorial service or an extravagant celebration of life affairs.

Many have even decided exactly where they want to spend eternity.

Other people refuse to think about such things despite the fact that, without exception, humans have a 100 percent mortality rate.

They avoid the subject because it is unpleasant and unexplored.

The unpredictability of the date abets their postponement.

Many people simply do not expect to die—at least not anytime soon. Some believe that planning for death will actually precipitate the event. and then there is the question of where to begin in planning.

Even those who have pondered end-of-life questions and answers are not likely to have addressed the subject's most pragmatic aspect: putting aside the funding to carry out their wishes.

What Is Final Expense Insurance?

Final expense insurance is a basic issue, relatively small life insurance policy.

Whereas traditional life insurance policies can be purchased in million-dollar benefit amounts, final expense policies typically range in benefit amounts from \$2,000 to \$50,000, depending on the insurer.

Final expense coverage is marketed and sold as just that—a payout of a sum of money intended to cover the expenses that occur at or around the time of one's death.

Of course, the term “final expenses” can be very broad.

For example, a small amount of coverage might be needed to pay for a simple casket, some flowers, and a graveside service.

A larger death benefit may contemplate a traditional, full-service funeral.

An even larger payout may be designed to pay burial costs as well as provide the funds necessary to pay off the deceased's outstanding financial obligations—credit card bills, a car note, perhaps even a mortgage.

Deciding to purchase enough coverage to pay off a mortgage usually considers leaving the property, free of indebtedness, to an heir or favored charity.

It might not be helpful to leave a home to someone, especially one in need, without the means of paying for the mortgage.

Use of the Proceeds

Despite what some may think, the use of the death benefit provided by a final expense policy is not dictated by the insurer nor expressed in the policy.

The policy does not specifically cover funeral or cremation goods or services, nor does it provide for any kind of funeral or cremation service or merchandise.

It does not guarantee that its proceeds will be sufficient to pay for any services or merchandise; in fact, it may not cover the entire cost of a funeral at the time of death.

It simply guarantees payment of a set sum of money upon the insured's death. Those funds are not paid to a funeral home or to a creditor.

They are intended for a named beneficiary who, presumably, is aware of the insured's final wishes and is responsible for carrying them out as the insured would have wanted.

Technically, the beneficiary of a final expense policy can use the policy's proceeds for any purpose, which is why it is important that the named beneficiary be trustworthy and reliable and aware of the insured's last wishes.

Final Expense vs. Traditional Life Insurance

The uses of traditional life insurance are many.

The policy can provide cash and income to an insured's survivors, or it can be used as a means to create liquidity at the insured's death.

Traditional life insurance can provide money to facilitate a business succession plan. Permanent life insurance policies can serve as a source of funds while the insured is alive, to fund a child's education or supplement retirement income.

And certainly, the proceeds of a traditional life insurance policy can be used to cover the insured's final expenses.

Final expense insurance is not so broad or far-reaching. It is intended to meet a simple, single purpose: to pay for the expenses incurred at and around the time of death.

It provides an alternative for those who do not have, would not qualify for, or cannot afford traditional life insurance coverage.

It also offers an option for those who own term insurance and outlive the policy's coverage period.

The Value of Final Expense Insurance

The financial value of a final expense insurance policy is proportionate to expected or desired final expenses.

It is not part of a complicated estate planning strategy; it is not a vehicle to provide for income replacement for survivors or to fund a business buy-out plan.

Its intended use is to pay for the cost of a funeral plus any expenses that the deceased insured leaves behind.

By comparison, a traditional life insurance policy is a much more complex product: it usually considers a longer term, and its financial value is proportionate to the insured's current and projected earning power and the desire to provide for surviving family members or a business in the event of death.

Whereas traditional life insurance is typically purchased to provide for the future needs of the insured's family, final expense insurance is purchased to keep the insured from burdening his or her family.

Other Ways Final Expense Differs from Traditional Life Insurance

In addition to its basic purpose, final expense insurance differs from traditional life insurance in the following ways:

- Final expense coverage is sold in **smaller amounts** than traditional life insurance policies.
- As noted, final expense policies are typically issued for benefit amounts of \$2,000 to \$50,000.
- As stated by the Society of Actuaries (citing a LIMRA Final Expense Insurance Report), the average face amount for final expense policies issued in the past few years was approximately \$11,000.¹
- Final expense coverage is primarily targeted at **older consumers**—age 50 or older—with **mid-to-low incomes**.
- This group may be further characterized by average to less-than-average insurability due to age and health.
- They may be retired from the workforce, and consequently, having lost their group coverage, may no longer have any life insurance coverage.
- Unlike other life insurance markets, the market for final expense insurance—measured in terms of the number of potential buyers—is **growing**.
- The age 50+ population, propelled by the aging of the baby boom generation, is expected to increase by 19 million over the next ten years.
- Final expense insurance requires **less selective underwriting** than traditional life insurance.
- In most cases, applicants are only required to answer a few questions about their medical history; they are not required to undertake a medical exam.
- Because there is no medical exam or extensive underwriting criteria to meet, final expense insurance may present an opportunity for those with preexisting health conditions or age-related issues that would otherwise prevent them from obtaining life insurance.
- Qualifying for final expense life insurance is typically easier than qualifying for more traditional forms of life insurance coverage

- Final expense insurance is generally **more expensive**, per unit of coverage, than traditional life insurance.
- The primary reason is that those who buy final expense insurance are older and have a much higher mortality rate. With less selective underwriting, final expense owners constitute risk pools that include many substandard risks. However, given the relatively small face amounts of these policies, the increased risks they represent, and their wide availability, the costs are equitable and, for most, affordable.
- The **payment of the proceeds** under a final expense policy is often much **faster** than the payment of proceeds under a traditional life insurance policy (once the policy has passed the contestable period). Given the purpose of the product, quick and timely payouts are crucial, and final expense insurers factor this requirement into their business operations and claims procedures.

Common Final Expenses



So exactly what are the expenses that can be met with a final expense insurance policy? Generally, final expenses can be slotted into one of two broad categories: direct expenses and indirect expenses.

Direct Final Expenses

Direct final expenses are the costs directly associated with a burial or cremation. These include, but are not limited to the following:

Direct Burial Expenses	Direct Cremation Expenses
Publishing obituary notices	Publishing obituary notices
Forwarding or receiving remains	Forwarding or receiving remains
Embalming	Removal of pacemaker and/or prosthetic devices
Cosmetic and garment services	Cremation fee
Use of the funeral home for viewing, ceremony, and service	Use of facility for ceremony and service
Funeral director's services	Funeral director's services if taking place at a funeral home
Officiating clergy fee, if any	Officiating clergy fee, if any
Memorial slide show	Memorial slide show
Floral arrangements	Floral arrangements
Organist and/or soloist	Organist and/or soloist
Guest register book	Guest register book
Printed programs	Printed programs
Casket and outer burial container or grave liner	Urn or other burial container
Pallbearers	Interment, if called for
Transportation	Permits and death certificates
Grave plot	Temporary sheltering and care of remains
Grave marker and engraving	Perpetual care, if called for
Grave opening and closing or other interment, including staff and equipment	
Permits and death certificates	

Direct Burial Expenses	Direct Cremation Expenses
Temporary sheltering and care of remains	
Perpetual care, if called for	

(Note that the death care industry typically refers to the services associated with a burial as “funeral services,” and the services associated with a cremation are called “memorial services.”)

Median Costs of Direct Expenses

The direct costs associated with a burial or cremation can be quite high, depending on the deceased’s wishes.

Some people plan elaborate parties with gourmet catering and open bars.

Others instruct that their ashes be scattered in exotic or sentimental places.

However, even a “simple” burial or cremation can be costly.

According to the **National Funeral Directors Association (NFDA)**, in 2021, the median cost for a basic adult funeral, including a viewing and a burial, was \$7,838 while the median cost for a funeral with viewing and cremation was \$6,953.

Specific costs for various services and items are as follows:

Costs with Viewing and Burial		Costs with Viewing and Cremation	
Item	Cost	Item	Cost
Basic services fee	\$2,300	Basic services fee	\$2,300
Removal/transfer of remains to funeral home	\$350	Removal/transfer of remains to funeral home	\$350
Embalming	\$775	Embalming	\$775
Other preparation of the body	\$275	Other preparation of the body	\$275
Use of facilities/staff for viewing	\$450	Use of facilities/staff for viewing	\$450
Use of facilities/staff for funeral ceremony	\$515	Use of facilities/staff for funeral ceremony	\$515
Hearse	\$340		
Service car/van	\$150	Service car/van	\$150

Costs with Viewing and Burial		Costs with Viewing and Cremation	
Basic memorial printed package	\$183	Basic memorial printed package	\$183
Metal casket	\$2,500	Cremation fee (if firm uses a third party)	\$350
<i>Median cost of a funeral with viewing and burial</i>	\$7,838	Cremation casket	\$1,310
Vault	\$1,573	Urn	\$295
<i>Total with vault</i>	\$9,411	<i>Median cost of a funeral with viewing, cremation casket, and urn</i>	\$6,953
NFDA 2021 General Price List Study, National Funeral Directors Association, the latest year for which these costs are available. The costs do not take into account cemetery, monument, or marker costs.			

The scope and range of services and merchandise associated with a funeral or cremation may come as a surprise to many people, as will their costs.

And these are *today's* costs. Based on these figures, and assuming an annual rise in prices of only 3 percent, in 15 years the average cost of a funeral with viewing, burial, and vault will be over \$14,700; the cost of a funeral with viewing, cremation, casket, and urn will be over \$10,000.

The costs of cemetery plots and markers, which are not included in the NFDA's price list, can add another \$1,000 to \$3,000 or more.

Funeral Service Packages

In order to remain competitive, many funeral service providers have begun to offer burial and cremation packages with a predetermined set of services and products.

These plans range from basic and economical to swank and expensive.

Packaged plans frequently offer family support services.

A package purchase makes the selection process easier for some people.

For example:

Basic burial package:

- A basic burial package might include permitting, the services of the funeral director and staff and the overhead, the transfer of the remains to the funeral home, embalming, and transfer of the remains to the cemetery.
- It does not include any planning or coordination.
- It may not include a casket if there will be no funeral service.
- The costs of the plot, a headstone, and any flowers can be paid for separately.

Full-service burial package:

- A full-service burial option typically includes additional services such as the use of facilities, staff and equipment for the visitation and ceremony, cosmetology, graveside duties, a hearse and other vehicles, transportation of flowers and belongings to the burial site and to the family's home—or wherever they request—afterward, a registration book, and acknowledgment cards. Funeral homes offer several full-service burial package plans to meet nearly any budget.

Cremation package:

- Cremation packages are similar to burial packages in that they can be tailored to meet the insured's or family's needs.
- A basic cremation might include the cremation, a receptacle, and permitting. A full-service cremation would include additional services similar to those of a funeral—use of facilities, staff, transportation of flowers, a registration book, and perhaps perpetual care.

Indirect Final Expenses

In addition to costs directly associated with a burial or cremation, there are also many **indirect final expenses**—that is, costs that result indirectly or incidentally from a person's death.

They may not be obvious or apparent prior to one's death, but they will become unpleasantly evident soon after. Indirect costs include:

- the deceased's personal indebtedness (e.g., credit card debt, a vehicle loan, or a mortgage)
- unpaid hospital or medical bills, or perhaps nursing home or hospice costs not covered by Medicare
- final unpaid household expenses such as rent, insurance, and utilities
- charges for clearing out a home or apartment
- income tax due or payable for the deceased's final tax year
- legal costs related to estate administration, such as probate fees, attorney fees, the disposition of assets, and taxes (Even if an estate is small enough to qualify for a simplified administration process, it's likely there will be some costs involved in its administration.)

A great motivator and prime reason for the purchase of final expense insurance is the desire not to pass on debt to one's spouse or children.

The Appeal of Final Expense Insurance

With funerals running as much as \$7,000 or \$9,000 and more, boosted by numerous indirect expenses that too can add up to thousands of dollars, the upshot is clear: dying is expensive.

If those expenses cannot be met with the deceased's existing assets or insurance—or if other plans have not been made—the financial burden will ultimately fall on family or friends.

And it's likely that at least some of that burden will materialize very soon after death: many funeral establishments require payment in full when their services are rendered.

Though families of eligible veterans may be eligible for a few hundred dollars in death benefits from the Veterans Administration, and Social Security provides a small lump-sum death benefit of \$255, it's not likely that either of these sources can make much more than a small dent in the cost of a family member's death.

Desire to Leave a Legacy

And then there are those of modest means who may have sufficient assets to cover the cost of their funeral, but would like to leave a legacy to their loved ones.

In addition to its primary purpose, final expense insurance can provide a relatively inexpensive way for a person of modest means to leave a small legacy.

A 69-year-old grandmother, for example, could have enough assets to cover her final expenses, but she may be interested in purchasing a final expense policy to provide her four grandchildren with a small inheritance when she passes away.

A \$20,000 final expense policy could be her answer: at her death, each grandchild would receive \$5,000—a legacy she otherwise would not have been able to provide.

For Some, an Ideal Solution

It is for all of these reasons that final expense insurance may be the ideal solution for certain individuals and their families.

Most people do not want to leave the burden of their final expenses to surviving family and friends.

This cost, whether expected or not, can cause strain on family members who may not have the funds immediately available.

Planning a funeral can be a taxing and tense experience on its own without adding financial hardship to the situation.

Final expense insurance allows insureds to spend their remaining years knowing that their wishes for their final disposition can be met, that their surviving loved ones will not be burdened with funeral and other final costs, and that conversations—both before and after death—can focus on memorialization and commemoration, not hardship and expenses.

Summary

- **Final expense insurance is a basic issue, relatively small life insurance policy that provides a benefit ranging from \$2,000 to \$50,000, depending on the insurer.**
- Final expense policies do not specifically cover funeral or cremation goods or services; instead, they simply guarantee that a set sum of money will be paid upon the insured's death to a beneficiary who is expected to use the funds to pay for the insured's final expenses.
- While traditional life insurance has a broad range of uses, final expense insurance is intended to meet a single purpose: to pay for the expenses incurred at the time of the insured's death.
- **Final expense coverage is generally targeted at older consumers with mid-to-low incomes who may have average—or less-than-average—insurability due to age and health.**
- Final expense insurance requires less selective underwriting than traditional life insurance; applicants are typically only required to answer a few questions about their medical history.
- When a person dies, there will be a number of direct and indirect expenses that final expense insurance is designed to cover: direct final expenses include the costs directly associated with a burial or

cremation; indirect final expenses include personal indebtedness and final hospital and medical bills.

- The FTC's Funeral Rule requires providers of funeral goods to make a general price list available to consumers that contains itemized prices for funeral merchandise and includes other important disclosures.
- Some individuals of modest means who have sufficient assets to cover the cost of their funeral may purchase final expense insurance in order to leave a small legacy to heirs.

Overview

Though limited in its application, final expense insurance nonetheless serves a very important need. To meet that need and to best serve its growing market, the final expense insurance industry offers a variety of different policy and coverage options.

This chapter explores the most common types of final expense policies, and explains their features and characteristics.

As is the case with all life insurance, final expense coverage is regulated at the state level, and different states impose different regulations.

Insurance companies do not all offer the same kinds of policies, nor will one insurer's policies necessarily be available in all states.

This chapter takes an overall look at the most common forms of final expense policies accepted in the industry.

Funeral Policies: Clarifying the Language

To begin, it's important to clarify some language.

“Final expense insurance” is one of many terms used to describe or characterize various plans and means associated with covering the cost of a funeral or one’s final disposition.

There are a variety of names and labels, but all generally refer to one or another of the following:

- **Final expense insurance**—a life insurance policy that covers the life of an individual, paying a set sum of money when the insured individual dies.
- The policy’s death benefit is payable to a named beneficiary with the expectation that the funds will be used to cover the insured’s final expenses.
- Final expense insurance is typically sold by licensed insurance agents or through direct marketing efforts by an insurance company.
- This type of insurance is also referred to as “**last expense insurance,**” “**burial insurance,**” “**funeral insurance,**” or occasionally, “**senior life insurance.**”

Pre-need insurance

- A life insurance policy that provides for the pre-funded purchase and delivery of predetermined funeral services.
- This type of insurance is usually sold by funeral homes or cremation providers; in fact, the insured may not have any contact at all with the insurance company.
- The funeral home or cremation provider is named the beneficiary of the policy or the assignee of the death proceeds; upon the insured’s death, the benefit covers the cost of the funeral or funeral services as specified in the contract.
- The amount and cost of the insurance are directly tied to the cost of the predetermined funeral services and merchandise.
- This type of policy is also known as “**pre-paid funeral insurance**” or “**pre-fund funeral insurance.**”

- **Funeral trust**—an arrangement whereby an individual enters into a formal pre-need contract with a funeral establishment for pre-arranged funeral services and merchandise.
- The cost of the services and merchandise is paid by the individual into a trust account set up with a bank or other financial institution.
- The financial institution manages the funds for the benefit of the individual; at his or her death, the money in the trust is used to pay for the funeral services and goods, as arranged and specified in the pre-need contract.
- One of the benefits of a funeral trust (if irrevocable) is that the funds are typically not counted for purposes of determining Medicaid eligibility and are exempt from the Medicaid spend-down requirement (though state Medicaid laws differ).

Pre-need insurance and funeral trusts are typically limited to funding the direct costs of a funeral or an individual's final arrangements. Final expense insurance is also intended for this purpose, but can provide for additional needs. The focus of this course is on final expense insurance as defined above.

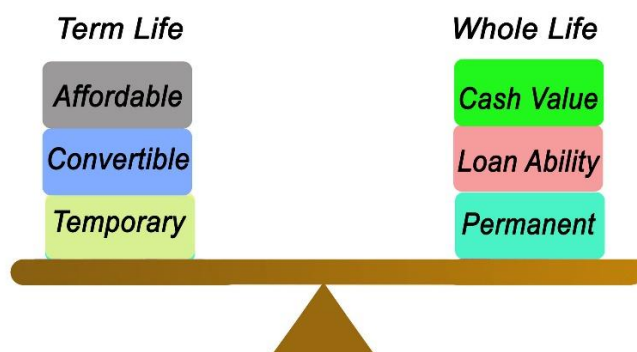
Final Expense Insurance: In General

As a starting point to a discussion of final expense insurance policies, consider the profile of a typical policy:

- policy type: whole life
- simplified issue underwriting, two-year contestable period
- insured: female, age 63
- face amount: \$12,000
- death benefit: level
- annual premium: \$700

This profile identifies the primary attributes and characteristics of final expense (FE) insurance. Let's look at each.

Type of Coverage: Permanent or Term



In the broadest sense, final expense policies as life insurance can be either permanent or term insurance. By far, most are permanent insurance plans.

Permanent Coverage

As its name implies, **permanent life insurance**, including permanent final expense insurance, is guaranteed to remain in force as long as the insured lives.

Once the policy is purchased, and as long as the policyowner continues to pay the billed premium within the grace period, the policy cannot be cancelled by the insurer.

Permanent life insurance features a guaranteed death benefit and cash value.

Cash value is created by premiums paid by the insured and a guaranteed minimum rate of interest credited to the policy by the insurer, along with dividends paid on participating policies.

With all permanent life insurance, the cash value grows tax deferred. These values can be borrowed, or paid in cash to the policyowner if the owner decides to surrender the policy.

At the insured's death, the policy's benefit is paid tax-free to the named beneficiary.

Most insurance policies dedicated to fund final expenses are traditional (ordinary) whole life.

In an ordinary whole life policy, the premium does not vary. It is a level premium. Though life expectancy continues to decline with age and the likelihood of the

insured's death and declining health become greater each year, the premium remains the same.

Term Life Coverage

Term life insurance is pure insurance protection.

Its death benefit is guaranteed and tax-free to the beneficiary, but coverage lasts only for the policy's stated term, such as 10, 20, or 30 years.

Term insurance pays a benefit only if the insured dies during the term.

If he or she outlives the policy, it will expire, and coverage will end.

Term life can be an ideal protection product for many needs and many consumers.

However, given the objective of final expense insurance—and assuming that is why the policy is purchased—it may not be practical to purchase a form of coverage that could terminate before the insured's death.

Renewable term coverage is available for final expense coverage and it can, in fact, be renewed; however, the policy's premiums will increase at each renewal date.

At an advanced age such as 70, 75, or 80—close to the time that the coverage would be most needed—the premium can be prohibitive.

In addition, because it has no cash value, a term policy cannot draw on policy values to cover any missed premium payments.

If a term policy's premium is not paid by the end of the premium grace period, the policy will lapse and coverage will terminate.

There are no values in the policy to be paid to the policyowner or insured.

Most Common Product: Permanent Whole Life

Products marketed to meet the final expense need are most typically permanent whole life insurance; accordingly, the remainder of this course will focus on the whole life policy providing lifetime protection as the means of funding final expenses, with the following characteristics:

- level death benefit, paid tax-free to the policy's beneficiary
- cash value growth
- level, unchanging premiums
- noncancelable, except for nonpayment of premium

Underwriting Final Expense Insurance



The process of **underwriting** life insurance involves the assessment of an applicant's insurability, including his or her medical health and health history, in order to determine whether or not coverage will be issued and at what premium rate.

Given the purpose it serves, the customer base it targets, and how it is marketed, final expense insurance is usually underwritten in one of the following ways:

- as simplified issue or
- as guaranteed issue (or guaranteed acceptance)

Both approaches entail a much less demanding and less rigorous screening of insurance applicants than traditional life insurance usually requires.

These methods enable individuals, who due to age or health issues might otherwise be uninsurable, to qualify for some level of coverage.

Though simplified and guarantee issue underwriting are not limited to final expense insurance—insurers use these underwriting methods for other types of policies and other markets—for final expense insurance, they represent the standard.

Simplified Issue Underwriting

Simplified issue underwriting requires an applicant to complete an application and answer a few health-related questions; there is no medical or paramedical exam.

Common types of questions involve:

- gender
- age/height/weight
- use of tobacco products
- alcohol or drug use
- personal history of heart disease, stroke, or cancer
- HIV/AIDs
- diabetes or respiratory conditions
- Alzheimer's disease or dementia
- lifestyle/dangerous hobbies

The questions are often worded so that the applicant only has to answer “Yes” or “No.”

For example, the application for a simplified issue final expense policy might contain questions like the following:

Within the last 12 months, has the proposed insured used any form of tobacco products?	☐	☐
	Yes	No

Is the proposed insured hospitalized, bedridden, residing in a nursing home or long-term care facility, or receiving hospice or home health care?	☐	☐
	Yes	No

Has the proposed insured ever been diagnosed with, treated for, or advised to receive treatment for Alzheimer's, dementia, memory loss, or organic brain disease?	☐	☐
	Yes	No

Has the proposed insured ever tested positive for exposure to the HIV infection or been diagnosed as having AIDs?	☐	☐
	Yes	No

Within the past two years, has the proposed insured been diagnosed with or been treated for a heart attack or stroke?	☐	☐
	Yes	No

If the applicant's answers to the questions (and other underwriting criteria) are in line with the company's simplified issue risk guidelines, a policy will be issued. In other cases, how the questions are answered may indicate that the proposed insured would only be eligible for a rated (higher premium) policy or for a graded or modified policy (explained below), or that the proposed insured is not eligible for any coverage.

It's common for simplified issue policy applications to include some "knock-out" questions: adverse answers to these questions will automatically disqualify the proposed insured for coverage, thus providing protection for the insurer.

Simplified Underwriting

The fact that simplified issue underwriting does not require a formal medical exam does not mean that the company will not subject the application to some degree of underwriting.

Simplified issue applications are still carefully reviewed, and the review process still involves the use of standard underwriting tools, such as an **MIB (Medical Information Bureau)** report.

The MIB is a nonprofit clearinghouse that maintains confidential medical data and databases on applicants for life insurance.

As one way to assess the applicants' risks and insurability, insurers screen applicants against MIB data, looking for errors, omissions, and misrepresentations in the application.

If the information provided by an applicant on the application is inconsistent with the information in an MIB report, the applicant may be declined.

Other Simplified Issue Underwriting Considerations

Prescription drug and motor vehicle databases are also used to determine what kinds of medications the proposed insured uses and whether he or she has been involved in drug- or alcohol-related accidents.

While some prescriptions would normally raise an underwriting red flag for traditional policies, they might be considered “maintenance medications” under final expense underwriting standards and would not disqualify the applicant for coverage.

Some final expense insurers require a phone interview—a personal history interview—with a proposed insured, either as a standard element of the underwriting process or at the underwriter’s discretion.

No Guarantee of Policy Issue

Again, simplified issue policies do not guarantee that the proposed insured will be accepted for coverage.

Applicants can still be rated or they can be declined altogether. However, simplified issue underwriting for final expense coverage is not intended or designed to aggressively exclude older applicants who have normal age-related health issues.

It’s likely that most relatively healthy seniors would qualify for simplified issue coverage.

Simplified Issue Timeline

Even though they are subject to some level of underwriting, simplified issue policies are usually issued in a matter of days compared to the weeks it often takes for issue of a traditional, fully underwritten policy.

Coverage usually goes into effect 24 to 48 hours after the limited underwriting process has been completed and the application has been accepted.

The death benefit is the full face amount for the policy’s full term; it is available from the first day the policy goes into effect. For this reason, simplified issue insurance is often referred to as “level benefit” insurance.

(This is in contrast to guaranteed issue policies, which typically provide for a reduced death benefit during the first few policy years, as explained later in this chapter.)

In the final expense market, simplified issue constitutes the bulk of policies written and issued.

Simplified Issue and Contestability

All life insurance policies include a provision that enables the insurer to **contest a claim** if the insured dies within a certain period of time after policy issue.

For most policies in most states, this period is two years. Consequently, if the insured dies during the first two years following policy issue, the insurer will likely scrutinize the application to determine if all questions were answered truthfully and that the applicant made no material misrepresentations or concealments. If, in fact, a material misrepresentation or concealment was made (whether intentionally or inadvertently), and the insurer would not have issued the policy had it been aware of the facts, the insurer has a right to deny payment of the death benefit.

After the policy has been in force for two years (or whatever period of contestability is allowed by state law), the insurer cannot contest a claim or deny payment of the death benefit due to statements or misstatements on the application.

Simplified issue final expense policies are no different.

While the underwriting process is simplified and the timeline for policy issue is shorter than that of traditional policies, simplified issued policies also contain contestable periods.

Should the insured die during the contestable period, the payment of the policy's death benefit will be subject to the insurer's review.

The review could delay payment of the death benefit for as much as two months or more.

Guaranteed Issue Underwriting

The other common underwriting approach for final expense insurance is **guaranteed issue**, also known as **guaranteed acceptance**.

As its name implies, all applicants must be accepted and are guaranteed a policy will be issued—regardless of their health or underwriting status—as long as they meet the eligibility requirements and pay the policy’s premium.

Common Eligibility Factors

In this regard, the allowance for an “eligibility” factor is usually limited to age issue ranges or to membership in a defined group; any other criteria would likely disqualify a policy from being considered (or marketed) as guaranteed issue.

Thus, a guaranteed issue policy could limit eligible applicants to those age 50 to 80; it could not predicate acceptance and issue on any health factors.

Another guaranteed issued policy from another insurer might limit eligible applicants to those age 45 to 85 who are members of a motor vehicle club; it could not apply any other underwriting criteria.

Obviously, because guaranteed issue policies are issued to all eligible persons who apply, the insurer faces greater risk.

To compensate for the increased risk, it’s common for insurers to “grade” or “modify” the death benefit.

Graded Death Benefit

A **graded death benefit** provides for payment of the full death benefit amount only after the policy has been in force for a certain period of time, such as two or three years.

If death occurs during the initial period—during the first two or three years—the insurer will only pay some lesser amount, usually defined as a percentage of the face amount.

The following provides an example of how a graded death benefit works.

Modified Death Benefit (Return of Premium)

A modified death benefit also provides for a different death benefit amount during an initial period—the first two or three years—after policy issue, but it typically defines that amount as a return of premiums paid plus interest.

If death occurs during the initial two or three years, the amount the insurer will pay the beneficiary will be equal to the amount of premiums paid for the policy, plus interest.

Only if the insured lives past the initial period will the policy's full face amount be paid.

A brief example will help explain how a modified death benefit works.

Guaranteed issue final expense insurance

May be appropriate for individuals who, due to age and health, would not qualify for any other type of coverage, including simplified issue, or who have been turned down in the past for coverage.

Though it is the most expensive type of plan (per \$1,000 of coverage), it offers an alternative for the very elderly or for those who suffer from debilitating health conditions.

Policy Variations Using Graded and Modified Benefits

Providing for graded or modified death benefits is standard for guarantee issue policies.

However, it should be noted that many final expense insurance companies also offer distinct graded and modified benefit policies using simplified issue underwriting.

For instance, an insurer might offer a simplified issue level benefit policy, a simplified issue graded benefit policy, and a simplified issue modified benefit policy.

All would require some measure of simplified underwriting, but the available death benefit would vary:

- The insurer's *level policy* would provide coverage with the full death benefit immediately upon contract issue.
- This policy is designed for those in good health.

- The insurer's *graded benefit policy* would provide for, say, a death benefit of 30 percent of the policy's face during the first contract year, 75 percent of the policy's face during the second contract year, and 100 percent of the policy's face thereafter.
- This policy is offered to those with some health conditions or minor health conditions.
- The insurer's *modified benefit policy* would provide for a return of premium plus 10 percent during the first two policy years; thereafter the full benefit is payable.
- This policy is intended for those with impaired health or challenging health conditions.
- Thus, this company's offerings for final expense insurance policies include:

Level Death Benefit Plan	Graded Death Benefit Plan	Modified Death Benefit Plan
Benefit amount: \$5,000–\$40,000	Benefit amount: \$5,000–\$40,000	Benefit amount: \$5,000–\$40,000
Issue ages: 45–85	Issue ages: 45–80	Issue ages: 45–75
Death benefit: Immediate, full	Death benefit: Year 1: 30% Year 2: 75% Year 3: Full face amount <i>Death due to accident pays full face amount at all times.</i>	Death benefit: Year 1: Premium + 10% Year 2: Premium + 10% Year 3: Full face amount <i>Death due to accident pays full face amount at all times.</i>

Graded and modified death benefit plans may enable those who do not pass the underwriting requirements for a level benefit plan to acquire the same amount of coverage.

Coverage is not necessarily guaranteed to be issued; however, the underwriting requirements for graded and modified benefit plans are not as strict.

Modified benefit policies are usually reserved for those with the most serious health challenges or impairments.

Final Expense Face Amounts



Final expense insurance is characterized by relatively small face amounts.

This is understandable when, again, one considers its purpose, its buyers, and how it is issued.

It is not intended to provide ongoing support or income to one's family or address sophisticated long-term financial objectives; it is simply a direct, cost-efficient way to cover final expenses, regardless of one's age.

Accordingly, most final expense insurers limit coverage amounts from \$2,000 up to \$50,000, and offer individual policy amounts within that range in \$1,000 increments.

Most policies are purchased in the \$5,000 to \$25,000 range.

As noted earlier, the average face amount of a final expense policy in the past few years has been approximately \$11,000.

As is the case with most life insurance policies, final expense proceeds paid as a death benefit are received by the beneficiary tax-free.

Face Amounts by Issue Classification and by Age

In the final expense arena, it's also common to find different coverage ranges for simplified issue policies and for guaranteed issue policies.

For example, a simplified issue policy may have a face amount range of \$5,000 to \$50,000; a guaranteed issue policy may have a face amount range of \$2,000 to \$20,000. Reduced coverage amounts for guaranteed issue coverage help mitigate the increased risk that insurers assume when coverage is provided to all who apply.

Available face amounts within policy issue classification can also vary by age.

For example, a final expense insurer might provide for the following face amounts:

Type of Policy	Issue Ages	Maximum Benefit
Simplified Issue	50–65	\$35,000
	66–80	\$25,000
	81–85	\$15,000
	86–89	\$10,000
Guaranteed Issue– Graded	50–65	\$25,000
	66–80	\$20,000
Guaranteed Issue– Modified	50–65	\$25,000
	66–80	\$20,000

Cash Value Component

Final expense coverage that is provided by a whole life policy will accumulate cash value, as do all whole life plans.

A policy's cash value belongs to the policyowner and once values begin to accumulate, they can be accessed by the policyowner whenever he or she wishes, for any reason he or she wishes.

Cash values can be left intact to support the death benefit; they can be surrendered for cash; they can be taken as a policy loan.

In principle, all the benefits of owning a cash value life insurance policy extend to owners of cash value final expense insurance policies.

However, there is also this reality: due to their relatively small face amounts, final expense policies do not accumulate much cash value, especially during the first ten or so years.

A final expense policy that is surrendered for its cash value will not deliver a large sum of money, though surrender is an option if the owner is in need of some ready cash.

The same is true of policy loans: a policy's loan value is limited to its cash value; therefore, final expense insurance policies should not be considered a source of large loan amounts.

Furthermore, amounts taken through a policy loan must be paid back—with interest. If they are not paid back, the loaned amount plus interest will be deducted from the policy's death benefit at the insured's death.

Final expense whole life policies are scheduled to mature or endow at the insured's age 100 (or age 120, depending on the insurer). At that point, if the insured has defied actuarial projections and is still living, the face amount of the policy will be paid out as a living benefit.

Nonforfeiture Options in the Event of Lapse

If issued as permanent whole life insurance, final expense policies provide for the application of a policy's cash value in the event that the owner—for whatever reason—stops paying the policy's premium.

These **nonforfeiture options** enable the policyowner to continue to maintain some measure of death benefit protection, in one form or another, even though he or she no longer pays premiums.

Nonforfeiture options include:

- **Reduced paid-up insurance**: The death benefit is reduced; however, the policy is fully paid-up and no more premiums are due.
- **Extended term insurance**: The policy's cash value is used to purchase a fully paid-up term insurance policy of the same amount as the original policy, but for a limited period of time.
- **Apply the cash value as premium loans**: Payment for the policy's premium is automatically taken from the cash value, as long as the cash value is sufficient to support these payments.

Under most policies, the owner can pre-select a nonforfeiture option with the policy application, with the right to change the election later, if he or she desires.

The option is triggered when a premium remains unpaid at the end of the grace period.

Issue Ages

There is no set issue age for final expense insurance policies; it depends on the insurer, its sales and marketing objectives, and state law.

Policies may be issued to those as young as 18 and as old as 85. As a general rule, simplified issue policies are more likely to be available to prospects of all ages; guaranteed acceptance policies are often limited to those who are older, such as age 50 to 75, or age 50 to 85.

(For this purpose, “age” is typically defined as the proposed insured’s age as of his or her nearest birthday or his or her age as of the last birthday.)

Overall, final expense policies are typically marketed and issued to those between the ages of 50 and 85.

Final expense insurers may use age to define or limit the amount of death benefit they will issue. For example, an insurer may offer final expense coverage of up to \$50,000 for those age 50 to 65, but limit coverage to \$25,000 for those aged 66 through 85.

According to a LOMA news release, the average issue age for final expense insurance—simplified or guaranteed issue—is 63; the buyer is typically female.²

Final Expense Premiums

As noted, final expense insurance is usually priced (and marketed) at rates per \$1,000 of coverage, based on the proposed insured's gender and age at application.

As a general rule, these rates are higher than those associated with larger policies that are fully underwritten; however, they reflect the realities of the targeted market:

- The targeted market consists primarily of older individuals; the cost of life insurance increases with age regardless of the need for which it is designed. Underwriting criteria and underwriting standards for final expense policies are intentionally more permissive than those for traditional life insurance in order to broaden the number of individuals who can be accepted for coverage; however, this risk pool is more heavily weighted with risks that would be considered substandard for traditional life insurance.
- Final expense insurers—who, like every other insurer, use their premium receipts to cover costs and expenses and generate a profit—must compensate for the increased risk they assume by charging higher premium rates.
- By the same token, because so many final expense applicants and insureds are older or would not qualify for fully underwritten coverage, there may be a tendency toward anti-selection within this insured group.
- Persistency rates among final expense insurance buyers are lower; lapse rates are higher, especially among younger buyers.

Market Realities Factored into Premiums

These realities are factored into final expense policy premiums.

The following are illustrative annual rates per \$1,000 of coverage for a level benefit (simplified issue) final expense policy:

Representative Annual Premium Rates Per \$1,000 of Coverage		
Age at Issue	Male	Female
55	\$41.27	\$33.15
60	\$49.16	\$40.25
65	\$64.36	\$50.13
70	\$85.58	\$63.14
75	\$118.63	\$87.63
80	\$167.10	\$123.78
<i>Level benefit plan (simplified issue); non-tobacco use. Rates are illustrative only; they do not reflect any actual rates of any company.</i>		

Based on these rates, a 60-year-old man who purchases a \$15,000 final expense policy would pay an annual premium of \$737.40 ($\49.16×15); a 65-year-old woman who purchases a \$10,000 final expense policy would pay an annual premium of \$501.30 ($\50.13×10).

It's common for final expense policies to charge annual policy fees of \$15 to \$40 or so. These fees, plus any surcharge for premium payments made on other than an annual basis (such as monthly or quarterly), must be disclosed to the applicant.

The following illustrates how fees and surcharges will affect a policy's premium.

If the final expense policy is a whole life policy, the premium is fixed, level, and guaranteed.

It will remain the same for the insured's life and will not increase as the insured ages.

Some insurers might offer limited payment policy options, such as 10 or 15 years.

The policyowner pays (higher) premiums for a limited period of time—say, ten years. After that, the policy is fully paid up; no more premiums are due, but the coverage will remain in place as long as the insured lives.

Guaranteed Issue Premiums

The highest rates for final expense insurance are those associated with guaranteed issue policies.

Because there is no underwriting and because all eligible applicants are accepted for coverage and issued a policy, the premiums reflect the even greater risk the insurer assumes.

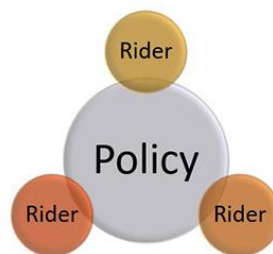
It's common to find that the premium for a guaranteed issue policy is 1½ times (or more) than the premium for a simplified issue policy for the same amount.

Due to their high premium cost, guaranteed issue policies are often considered the coverage of “last resort.”

Though they may be perfectly suitable for some clients—and may provide the only option for insurance coverage for others—clients should understand the cost they pay.

If they can qualify for the coverage, a simplified issue policy might be more appropriate.

Policy Riders



As with other life insurance products, final expense policies often offer *riders* or *additional coverage options*.

Some require the payment of an additional premium amount; others are standard to the policy.

The availability of riders varies considerably by policy and by insurer (as well as by the states in which the policies are offered); however, the following are the most common.

Accelerated Benefit Rider

An **accelerated death benefit rider** provides the option for the payout of a certain portion of the policy's face amount if the insured is diagnosed with a terminal illness.

This option is usually available at no additional charge.

The amount of the accelerated benefit is specified by the insurer. It may be set as a flat dollar amount, such as \$2,500 or \$3,000, or it may be expressed as a percent of the policy's face amount, such as 50 or 80 percent.

If the benefit is elected and if it is paid out, the policy's death benefit is reduced by the amount paid out.

Most accelerated benefit provisions stipulate that the insured's illness must be expected to result in death within 12 months or less.

Accelerated benefits are paid to the insured—not to the beneficiary—and can be used in any way the insured wishes.

If the insured elects to take advantage of this option and does receive a portion of the policy's death benefit, the balance will be paid to the policy beneficiary at the insured's death.

If the accelerated option is not elected, the policy's death benefit (as defined in the policy) will be paid fully to the beneficiary.

Accelerated death benefit options typically expire when the insured reaches a specified age, such as 85.

Nursing Facility Waiver of Premium Rider

The **nursing facility waiver of premium rider** waives the policy's premiums if the insured is confined to a qualified nursing facility for a stated period of time, typically 90 consecutive days or more.

Waiver of premium riders are usually not available for insureds of all ages; they're usually reserved for those through age 55. Coverage is inexpensive, perhaps \$1.25 or so per \$1,000 of coverage.

Accidental Death Benefit Rider

Another common rider for final expense policies is the **accidental death benefit rider**, which provides for an additional benefit amount if the insured's death occurs as a direct result of an accident.

Though the amount varies, such riders typically provide for a doubling of the death benefit—that is, the policy's face amount times two.

(If the policy is a graded benefit policy and death by accident occurs during the first two years of the policy—i.e., while the policy is still graded—the death benefit would be equal to twice the graded amount.)

Death has to occur within a specified time from the accident, such as 90 days, and the policy has to be in force.

These riders are also fairly inexpensive, such as \$2.50 per \$1,000 of coverage.

Waiver of Premium Due to Disability Rider

A **waiver of premium due to disability rider**, sold at an additional cost, is an option that will waive the policy's premium if the insured is disabled for a stated period of time, typically for six months.

Some policies require an upfront fee to activate the waiver and also charge monthly for the coverage.

Other companies charge only an additional monthly premium.

If and when the disability ends, premium payments resume.

The definition of "disability" may vary from insurer to insurer, but it is usually "total" or "permanent" as a result of injury or illness.

A qualifying injury would have to result in the insured's inability to maintain normal functional or participate in daily activities.

This might include loss of a limb, vision, or hearing or full or partial paralysis. An illness usually requires a lengthy hospital stay where the insured is basically incapacitated.

Children and Grandchildren's Term Rider

For an additional premium, children and grandchildren term riders can be added which will provide for level term insurance on children or grandchildren.

The face amounts of the term insurance are low —typically, \$1,000 to \$5,000—and provide coverage for a limited time, such as to the child's age 21 or to the insured's age 65, whichever occurs earlier. At that point, the policy can be converted to an individual policy for the child or grandchild.

If a conversion policy is not purchased, the term coverage expires.

If the insured dies before the child, the rider will typically provide for the automatic conversion to a term or permanent policy.

Funeral Services Rider

Another option that a number of insurers offer for their final expense policies is a rider that provides access to a funeral planning service or funeral planning organization, which can help insureds with the entire process of planning or preparing for a funeral, either in advance or at the time of need. Typically, there is no charge for such a rider.

Payment of the Death Benefit

Claims for payment of the death benefit from a final expense policy follow the same procedure as do claims for payment of the benefit from any life insurance policy.

A family member—the spouse or child—or the beneficiary or a representative from the funeral home completes and submits a claims form, along with a copy of the death certificate.

Many insurers allow the proceeds to be paid directly to a funeral home, cemetery, or other entity as long as the beneficiary executes and submits an **assignment of proceeds form**, which can be obtained from the insurance company or from the funeral entity (most have their own forms).

The insurer is likely to require that the assignment be notarized and the identity of the person executing the assignment be confirmed.

The assignor will have to provide a policy reference number and will have to specify the precise amount that is to be assigned.

Summary

- While final expense policies can be either permanent or term insurance, most are traditional (ordinary) whole life.
- Final expense insurance is usually underwritten as simplified issue or as guaranteed issue (guaranteed acceptance).
- If simplified issue underwriting is used, an applicant must complete an application and answer a few health-related questions, but no medical or paramedical exam is required.
- In the case of a guaranteed issue policy, all applicants for final expense insurance must be accepted and issued a policy—regardless of their health or underwriting status—as long as they meet the eligibility requirements and pay the policy’s premium.
- Under a graded death benefit final expense policy, the full death benefit is paid only after the policy has been in force for a certain period of time, such as two or three years; if the insured dies earlier, the insurer will pay a lesser amount, usually defined as a percentage of the face amount.
- Under a modified death benefit final expense policy, the full death benefit is paid only after the policy has been in force for a certain period of time; if the insured dies earlier, the insurer will pay the beneficiary the amount of premiums paid plus interest.
- Final expense coverage that is provided by a whole life policy will accumulate cash value, and the policyowner can use the cash value however he or she wishes.
- Final expense policies are typically marketed and issued to those between the ages of 50 and 85.
- The highest premium rates are associated with guaranteed issue final expense policies.

- Optional riders may be added at little or no cost to a final expense policy, including an accelerated death benefit rider, nursing facility waiver of premium rider, accidental death benefit rider, waiver of premium due to disability rider, and children's or grandchildren's rider.
- To receive the death benefit from a final expense policy, a family member, beneficiary, or representative from the funeral home must submit a claim form along with a copy of the death certificate.

Overview



Within the broad arena of life insurance and life insurance policies, final expense insurance is a “niche” product that is intended for a “niche” market.

In other words, it represents a narrow subset of a broad product line that primarily serves a distinct demographic group.

But in no way does that dry characterization limit or diminish the very real needs the product meets or the very real individuals it serves.

The Final Expense Market and Its Needs

Conceivably, the market for final expense insurance can include anyone who needs or wants to buy insurance to pay for final expenses and funeral costs at death.

Conceivably, any life insurance product can meet this need.

Conceivably, any producer who places a life insurance policy can cite coverage for final expenses as one of the benefits the policy provides.

However, in practice, the final expense market is more precisely defined, and is often best served by products expressly designed for its unique needs.

By most measures, the final expense market is characterized by older prospects and buyers with middle-to-low income levels, often fixed; the need is for funds to pay final expenses and debts at the insured's death; and the need is met with fairly modest amounts of coverage.

However, those are just basic parameters.

Individual candidates and prospects for final expense insurance are a diverse group who come to the need for this kind of coverage from many points.

For example:

- Joel, age 59, took the offer for early retirement when his company was in the process of downsizing.
- Joel had planned to continue working for a number of years, relying on his company's group life insurance coverage to provide for his family's security.
- He has no other insurance and his group coverage was terminated when he retired.
- Louise, age 70, just lost her husband of 45 years.
- He passed away unexpectedly, and had not prepared for it financially. Louise had to use the bulk of the couple's small savings to pay for her husband's funeral of the kind she thought her husband would want. Louise herself is not in the best of health, and she is concerned her passing and funeral will put a financial burden on her family.
- Barry and Danika are a married couple in their mid-60s.
- They have a small life insurance policy, which provides some peace of mind, but they're currently dealing with some consumer debt.

- They feel they need a bigger cushion to meet their final expenses, but Barry is recovering from a recent heart attack and they believe this will prevent Barry from being able to qualify for even a small policy.
- Amy, age 43, is a part-time caregiver for her mother, Janet, who is 70. Janet is still in relatively good health for her age, but she's a widow, lives alone, and can't do all of the things she used to do.
- In addition to seeing to her mother's weekly needs, Amy also takes care of her mother's finances.
- Knowing that Janet has no life insurance and lives primarily on Social Security, Amy is concerned she and her husband will ultimately be responsible for her mother's final expenses and funeral, which they can ill-afford.
- She feels her mother would be responsive to a discussion of final expense insurance.
- Alfred, age 71, has always prided himself on being financially responsible and independent.
- It hasn't always been easy, especially after he and his wife divorced, but he worked hard to pay his own way and accumulate a modest retirement fund.
- He believes his retirement savings plus his Social Security will enable him to live out his days in reasonable comfort, as long as he remains healthy.
- But since all of his income and assets will be devoted to his living expenses, he does regret he won't be able to leave any kind of legacy to his two children.
- Paul and Lucy, both age 58, are planners and doers: they planned for and purchased their home; they planned for and opened their own small business; they planned for and put their two children through college. Along the way, they realized they eventually would also need to plan for their own retirement.
- They're at that point now, and they understand that these plans should include coverage for their final expenses and funerals.
- Shirley, age 53, just buried her father.

- He had no life insurance of any kind—he didn’t believe in it. The burden of planning and paying for his funeral fell to Shirley who, in her confusion and grief, had to make all of the final arrangements.
- Shirley quickly came to understand that even a small final expense policy would have eased both her financial and emotional burdens, and she vows that her children will not be forced to go through the same experience.

As these examples show, the final expense market is diverse.

From a high (and very general) level, let’s take a closer look at those who compose the market for this kind of insurance.

Obviously, some prospects will naturally fall into more than one group. The more overlap, the more likely the individual is a prospect for final expense insurance.

Baby Boomers and Seniors

That the market for final expense is considerable—and growing—is due in large part to two demographic groups: baby boomers and their predecessors, seniors. Baby boomers (those born between 1946 and 1964) are now in their 50s, 60s, and 70s; “seniors” are generally considered to be the oldest group: those in their 70s and beyond. Regarding these two groups as a whole, consider these statistics from AARP³ :

- There are 108.7 million people age 50+.
- This includes 76.4 million baby boomers.
- The 50+ population will continue to grow over the next decade by 19 million (vs. growth of only 6 million for the 18 to 49 population).
- Not surprisingly, 53.5 percent of the 50+ population are women (who still tend to live longer than men).
- The median household income for adults 50+ is \$56,710.

- For the entire 50+ segment, income levels break down as follows:

Less than \$10,000	5.1%
\$10,000–\$29,999	19.7%
\$30,000–\$49,999	18.4%
\$50,000–\$74,999	18.0%
\$75,000–\$99,999	12.1%
\$100,000– \$149,999	13.2%
\$150,000+	11.3%

- Social Security accounts for about \$4 out of every \$5 of income for older people with low to moderate incomes.
- The percentage of those 50+ who are employed is 44.8; 51.6 percent are not in the labor force.

Although the number of baby boomers and seniors will eventually decline through mortality, the shift toward an increasingly older population is expected to endure for quite some time.

Every day, more and more people cross the threshold into these prime age groups.

These people have most likely been thinking about their own mortality.

They may have buried their parents and are beginning to attend funerals of their friends.

They are familiar with, or can surmise, the high cost of dying.

They wonder how they will cover their final expenses so as not to burden their families.

This is the most significant group inclined to want and need final expense insurance.

They do not anticipate significant financial need at the time of death in terms of providing for their grown children.

They may also be in a prime position to start the conversation with their parents or grandparents about final needs planning and final expense coverage.

Those Without an Adequate Retirement Fund

For most people, receiving a company pension that provides monthly income beyond their working years is no longer a reality.

These types of benefit packages are usually bestowed on top executives, tenured professors, public sector employees, and members of labor unions.

Of course, many people are given the opportunity to participate in their companies' 401(k), employee stock ownership, profit sharing, and other retirement plans.

But other companies, especially small businesses, do not have the resources to offer such benefits.

Some people are able to comfortably self-fund their retirements, but many are forced to rely on Social Security for the bulk of their retirement income.

Some people do not comprehend what it will take to see them through retirement.

Others understand the issue but simply do not have the ability, financial or otherwise, to make it happen.

There are many obstacles that prevent people properly planning for their retirement: low wages, debt, child rearing, college funding, and health conditions are only a few.

Not only do these things place a strain on the current budget, they make it very difficult to save for future needs.

So, if folks are not able to save for their retirement, how do they expect to pay for their *after*-retirement needs—final expenses?

Final expense insurance may be the answer to this question and solution to this problem.

Those Without Life Insurance

Life insurance is not a given. In fact, less than half of American households own life insurance.

If they do not own traditional life insurance, they are not likely to own a final expense policy—unless the product is presented to them.

A lack of life insurance may have come about from having lost employer-sponsored coverage at retirement.

It may have come about even sooner as the result of a job change.

Self-employed people and those outside mainstream employment may never have been introduced to the product.

While at first this circumstance may seem alarming, it also presents opportunity.

It is important to note that not everyone is a candidate for comprehensive cash value life insurance, or even term coverage.

Many people lead simple lives, are without children, and have managed not to accumulate debt.

Perhaps they have no close family to leave any accumulation of assets. Full-featured, traditional life insurance policies often exceed an individual's needs.

However, just because these folks have not—until now—had a need for life insurance does not preclude them from benefitting from their first life insurance policy, a final expense policy.

Those Who Do Not Qualify for Traditional Life Policies

Of course, there are many people who recognize the need for life insurance and would like to own it, but they cannot meet the underwriting standards of traditional life due to age or health reasons.

The simplified (or guaranteed) issue aspect of final expense insurance overcomes this obstacle.

The product's underwriting guidelines are liberal, allowing many people to qualify for coverage who otherwise would not.

There are health questions asked, but they do not stand up to the analysis or scrutiny of the questions asked on traditional life insurance applications.

And while the maximum amount of final expense insurance that will be issued (\$25,000 to \$50,000) is much lower than that offered by traditional policies, the amount is certainly sufficient to meet most final expenses with a little left over.

Those Who Are Concerned About Running Out of Money

Life can sometimes get in the way of saving money for any goal.

People always think there is plenty of time later on for saving.

In the meantime, they are confronted with auto repairs, medical bills, children's needs, and other ordinary expenses.

Still, many people manage to feather their nest eggs.

Some nests are bigger than others, but it never seems to be enough.

The worry about running out of money stems from one of two things—unexpected or ongoing expenses *or* disappointing investment returns.

Regardless of the cause of anxiety, the ultimate fear is the same—running out of money before running out of time.

How does one pay for the last of life's expenses? Fortunately, these expenses do not need to be paid in advance.

They need only be insured.

Those Who Are Looking for Security

In this context, "security" means peace of mind.

Final expense insurance can provide this security for the insured and the insured's family members in the same way.

Once a policy has been purchased, the insured can rest knowing that final burial or cremation costs will be paid.

Family members who perhaps are not financially fit to cover these expenses will not be expected to come up with the money.

Those Who May Outlive Their Term Insurance

With increased longevity, many people are concerned about outliving their term insurance policies.

Final expense insurance gives these people the opportunity to fund their final expenses while, at the same time, allowing them to continue to rely on their term policies for their intended benefits—providing for the ongoing financial needs of surviving loved ones. In case of an early death, both policies will respond.

But in the event that death does not occur during the term policy's period of coverage, it's possible that the policy may expire.

Though the need to provide for survivors may have also passed, the need to cover final expenses has not.

Once the term policy has expired, the final expense policy remains poised to pay out.

Those Who Want to Supplement Existing Coverage

A final expense policy can be used by those who foresee their existing term or permanent life insurance policies falling short.

Perhaps their policies' face amounts are already committed for other needs such as funding college tuition, paying off a mortgage, or replacing income.

The small, additional amount of coverage provided by a final expense policy may be just enough to meet all needs comfortably.

Supplementing existing coverage is also an important benefit if the insured has health concerns that might prevent him or her from otherwise obtaining additional traditional coverage.

Those Who Are Risk Averse

In the truest sense, people who are risk averse are unwilling to accept any risk. They want a sure thing.

They do not want to call on their retirement savings or otherwise allocated life insurance dollars to fund their final expenses.

They do not want to hope that someday, somehow, they will have accumulated enough money to pay for their funerals.

They certainly do not want to depend on someone else to come up with the money.

They want a guaranteed payout of sufficient amount to provide for a graceful exit.

With only a small additional outlay to their monthly or annual insurance premium expenses, final expense coverage can meet this particular objective.

Common Thread: The Need

Though the market for final expense insurance comprises many different types of individuals with many different characteristics, there tends to be two common traits shared by all:

- They do not want to burden their loved ones with their final expenses (regardless of whether their loved ones can afford the burden).
- The final expenses that will likely occur at their death are beyond their current means.

When these two attributes are apparent, the individual is likely a prospect for final expense insurance.

How Final Expense Insurance Is Distributed

Final expense insurance is sold by all manner of life insurance companies.

Some companies specialize in final expense products; others offer final expense insurance as one of many types of coverages in their product portfolios.

Final expense insurers must be authorized by the state or states in which they conduct business and their policies must be approved by the state or states in which they are sold.

Just as there are many carriers that sell this product, there are many ways in which it is marketed and distributed.

Direct Response Marketing

Final expense insurance carriers make heavy use of **direct response marketing**: a marketing method that strives to reach a large number of consumers with a targeted message about the use, application, and need for final expense insurance, and prompts the consumer to take some action.

For example, TV commercials for final expense insurance are common; obviously, they are delivered to all who see the commercial, but the message is actually aimed at a targeted demographic (e.g., those age 50 to 85).

The objective is to evoke a response from prospective buyers and encourage them to take some kind of action: call the insurance company directly, visit the insurer's website, or request an information packet, for example.

In addition to television, common direct response marketing channels include radio and print advertisements, mass mailings, and Web sites. Again, the message is intended to induce a response from prospective buyers and encourage some action on their part that will ultimately lead to the purchase or placement of the product.

Many final expense insurers have call centers staffed by licensed producers who can work directly with individuals who respond to the company's direct marketing efforts. In other cases, customers who respond to the company's marketing efforts will first be screened by a service representative for interest level and quality; these leads will then be passed on to licensed producers.

Insurance Marketing Organizations

Final expense insurance is also frequently sold through **insurance marketing organizations**, or **IMOs**. An IMO is a third-party intermediary that operates between insurance company home offices and independent licensed insurance producers.

It contracts with a number of insurance companies to distribute the companies' products and to provide certain marketing functions, and then presents these products for distribution to its affiliated producers.

Through the IMO, producers have access to a number of insurance company products and policies, which is often key to being able to select and place a policy that represents the best match—in price, coverage, and underwriting requirements—for an individual consumer.

Producers associated with IMOs are often supported by marketing, training, mentoring, and back-office services offered by the IMO.

Some IMOs (and some carriers as well) have developed relationships with organizations that specialize in helping consumers with funeral and final disposition planning.

IMO-affiliated producers must be licensed.

They can work in the organization's telesales department and sell and service policies over the phone, or they can work directly, face-to-face, with prospects and buyers in the field.

Field Producers

By far, most final expense policies are sold by field producers; the majority of those are independent producers who represent a number of different insurance companies' policies.⁴

In many ways, the final expense market offers a great deal of opportunity:

- The product and the need it serves are easily understood and accepted.
- The individuals that producers call on have likely responded to some kind of marketing message and, thus, are interested in and receptive to learning about final expense insurance.
- The need for the product does not require lengthy or complicated analysis or fact-finding.
- In most cases, the producer can position the product as a way to complement—not compete with or replace—other insurance the buyer may own.
- Buyers in the targeted market are usually not financially sophisticated, and most welcome the opportunity to meet with a financial professional who wants to help them.
- The product's design and pricing per coverage unit enables producers to easily determine how much the prospect can afford, which can eliminate a number of objections (and pinpoint those who truly cannot afford any coverage).
- There are numerous organizations that provide service and support for final expense producers, including IMOs and lead generation companies.
- The market for final expense insurance is large and growing, yet it remains underserved by producers, many of whom prefer to focus on more affluent buyers and markets.
- Many sales are opened and closed in one meeting with the buyer; in many cases, a prospect can be approved for policy issue with a telephone conversation with an underwriter.
- Prospects who would not qualify for a simplified issue final expense policy may still qualify for a guaranteed issue product.

Simple Product Meets Basic Need

Though final expense insurance is a fairly simple product that serves a fairly basic need, this does not mean that producers can discount the importance of working with potential buyers—attentively and carefully—to determine their objectives, goals, and available resources.

Final expense producers are not order-takers; they are sales professionals. They need to know the products they represent—their features and benefits, pros and cons—and help consumers select the plan that will best meet the need.

They recognize that, for many buyers, a final expense policy will be the only life insurance coverage they will have.

Producers focus first on the prospect, and match the product to the prospect.

They are motivators, who can inspire a prospect to take action.

⁴ “Who Pays Your Last Credit Card Bill? Final Expense Insurance 101,” Society of Actuaries Life & Annuity Meeting, May 4, 2015.

Summary

- The market for final expense is growing, due in large part to the large number of baby boomers and seniors.
- Final expense policies are also appropriate for other demographic groups, including individuals who have not saved much for retirement, low-to-average income earners who are middle aged, individuals who own term policies that may expire before death, and those who do not own any life insurance whatsoever.
- Many people who want to purchase life insurance but cannot meet the underwriting standards of traditional life insurance due to age or health reasons are good candidates for final expense policies due to the simplified (or guaranteed) issue aspect of such insurance.
- Final expense insurance carriers often use direct response marketing to reach large numbers of consumers with a targeted message about the use, application, and need for final expense insurance.

- Television commercials, radio and print advertisements, mass mailings, and Web sites are common types of direct response marketing methods.
- Final expense insurance is also frequently sold through insurance marketing organizations (IMOs), which are third-party intermediaries that operate between insurance company home offices and independent licensed insurance producers.
- Most final expense policies are sold by field producers, the majority of whom are independent producers who represent a number of different insurance companies' policies.

Overview



The fact that final expense insurance is a simple product that serves a basic need does not release the producer from any ethical duty owed to prospects and clients. In fact, given the product's targeted market—older individuals with moderate to low income levels—the producer's ethical responsibilities are, in many ways, elevated.

Final expense insurance prospects and buyers often share very personal and intimate information about their lives with their producer, expecting that the product or products presented to them will meet their needs in the ways they've expressed.

At the same time, producers who follow ethical and suitable sales practices and write business that reflects the wishes of their clients and their ability to pay will likely find that their cases are solid and remain on the books.

Producer Responsibilities

The work of all life insurance producers engages the public trust.

After all, the products they provide represent future promises, and the public must trust that those promises will be kept.

In this respect, the public is well served: most life insurance producers take seriously their responsibilities to existing and prospective insureds and to their profession.

The role of final expense insurance producers is no different: they help consumers recognize their need for the product, determine how much they can afford, and then recommend the most appropriate product and benefit amount.

They ensure that their customers have peace of mind in knowing that the funds for their final disposition wishes will be available.

At the same time, final expense producers have ethical responsibilities to the company or companies they represent and to themselves.

The final expense insurance market is very competitive; if producers want to place quality business that stays on the books, they must be self-motivated to approach their daily tasks with:

- a strong work ethic
- thorough understanding of the products they represent
- a commitment to presenting and placing products that match the consumer's needs and ability to pay

Challenges

Of course, a producer can be challenged every day, given the circumstances and the facts, to make the right decision.

For example, suppose a prospect tells a producer he or she is interested in a policy that will provide a full benefit immediately upon issue—no graded or modified death benefit.

Having talked with the prospect and having completed the application, the producer realizes the prospect, having suffered a serious heart attack only four months earlier, would not qualify for a simplified level benefit policy, even though the producer represents a number of such policies.

When the producer explains this, the prospect suggests that the producer simply mark “No” to the question that asks whether the applicant has been treated for a heart attack within the past 24 months.

How should this producer respond?

Actually, the producer has a number of options that will call on his or her skills as a professional advisor and salesperson; perhaps the producer can present another product that will provide needed coverage despite the prospect’s health history.

However, there is one option the producer does *not* have: he or she cannot, professionally or ethically, agree to the prospect’s suggestion.

Principles of Ethical Conduct

Principles of ethical conduct apply to all insurance producers, regardless of the products they represent.

Some ethical practices to keep in mind include:

- conducting business with clients, prospects, and other industry professionals according to high standards of honesty and fairness
- providing efficient handling of business, including complaints and disputes
- providing informed and consumer-focused service
- engaging in fair competition

For consumers, the producer represents a much needed, much relied upon source of information and advice.

Though final expense policies are fairly simple, straightforward products, their features, options, and limitations may not always be understood.

Consumers rely on their producer's advice and recommendations, expecting that the guidance will be in their best interest.

This is a tremendous responsibility, but one that the professional producer embraces.

Ethics of Selling to Seniors

Producers who work the final expense market must develop awareness and understanding of the special considerations necessary when working with senior prospects and clients.

Seniors represent a significant portion of this market and producers who sell final expense insurance will undoubtedly encounter a large number of older prospects.

Whereas seniors are among the most obvious of buyers for final expense coverage, they are also among the most vulnerable for unsuitable or inappropriate product sales.

These distinguished customers should be treated with extra care and producers should:

- strive to develop a peer-level relationship
- ask them what they think and how they feel; listen to their answers
- be a resource for their questions and a sounding board for their concerns
- be sensitive to the issues—and emotions—involved with end-of-life discussions

Red Flags

Seniors tend to trust others but may lack the capacity to manage their personal financial affairs or make decisions that are in line with their interests and needs.

They also may not be able to grasp the product's requirements.

At the same time, they might not be aware that their financial skills have diminished.

They may have hearing impairments or may be beginning to experience a decline in cognitive skills and have not accepted these facts.

Though by no means complete, the following are common indicators that an elderly consumer may be suffering from some form of diminished capacity and thus, may not be in a position to knowingly make appropriate decisions about purchasing a final expense insurance product. The individual may:

- have trouble planning or problem solving
- have difficulty remembering or concentrating
- be unable to perform simple financial calculations
- have difficulty understanding comparisons or alternative options
- respond to basic fact finding questions with answers such as "I don't know," or "I don't remember"
- be unable to describe or explain basic facts or circumstances related to his or her financial situation
- repeatedly ask the same question or questions
- have trouble focusing on a single topic
- be unable to process information
- defer questions to another, such as a family member
- have difficulty hearing or speaking
- be unable to provide feedback that confirms understanding

Producers face unique ethical issues when dealing with seniors and have a duty to be mindful of prospects and clients who may lack the ability to make informed decisions due to some kind of diminished capacity. When forced to make financial decisions, many seniors find themselves entirely dependent on the advice of

others. Unfortunately, they simply do not have time to recover from bad insurance advice, although careless advice can be harmful to anyone at any age.

In some cases, the producer may have to ask the senior if he or she is open to including children, a close relative, or a trusted advisor in conversations about final expense needs and solutions, or ultimately, may have to disengage completely from the prospect and forego pursuing a sale.

Cross-Selling Final Expense Insurance

In the senior market, there are many opportunities for cross-selling—presenting related or complementary insurance products that, combined, can address a broader range of a consumer’s financial needs.

For example, final expense insurance can be cross-sold with long-term care insurance or annuities.

Producers who have an existing book of Medicare-related business—clients who have enrolled in a Medicare Advantage or Medicare Part D plan, or who have purchased a Medicare supplement plan—may find final expense insurance to be a natural extension of their practice with an existing client base.

It provides a reason to call, a reason to reconnect, a reason to stay in touch—and another opportunity to position oneself as a trusted advisor.

Though any discussion or presentation of Medicare Advantage or Part D plans cannot be combined with any discussion or presentation of final expense insurance (and vice versa), these products naturally share the same client base.

When a client considers his or her agent an advisor, not merely a salesperson, persistency increases, as do referrals.

The more products—and knowledge—the producer has to offer, the greater the likelihood of building stronger client relationships.

Do Well by Doing Good

As many producers have discovered, the final expense market can be very rewarding.

The market is dynamic, presenting the opportunity to serve large numbers of consumers who can benefit from this unique product.

It is also a market replete with certain challenges and hurdles.

Diligent and conscientious final expense producers refine their business practices to take advantage of the market's many opportunities and overcome its obstacles.

In doing so, they are able to help consumers meet a very real and pressing financial need.

For better or worse, success in the final expense market is often dependent on numbers: producers need qualified leads, referrals, and prospects on an ongoing basis.

Given that, some producers might narrow their thinking—and their activity—to the simple idea that the more people they contact, the more sales they will make; once a sale is made, it's time to move on.

For some, that may be sufficient. However, it's more likely that true, long-term, sustained success will find those producers who elevate their thinking and activity to a higher level: "The more people I see, the more people I'll get to know.

And the more people I get to know, the more clients I'll be able to serve."

Summary

- Insurance consumers must be able to rely on their insurance producers to act ethically.
- The marketing and sale of final expense insurance involves properly educating consumers about the need for the product and knowing how much coverage to recommend.
- The amount of recommended coverage should be based on a prospect's individual needs and desires at the time of death.
- A needs-based selling approach that involves fact-finding and needs analysis will help ensure that a proper recommendation is made.
- Producers face unique ethical issues and challenges when dealing with seniors and have a duty to be mindful of those who exhibit a diminished mental capacity.
- The use of "senior designations" is controlled by state regulators; producers are prohibited from using any certification or professional designation in a manner that misleads a consumer into thinking that the producer has special certification or training in advising or servicing seniors when, in fact, this is not the case.
- Producers may find that they have a ready-made prospect base for final expense insurance from their existing Medicare clients, though they must follow very strict rules regarding how Medicare beneficiaries can be approached about selling other insurance products, including final expense.

Appendix

Following is an abbreviated version of the Federal Trade Commission's Funeral Rule, which sets forth consumer rights and protections with regard to the sale and purchase of funeral goods and services.

Producers who work the final expense market should become familiar with its provisions.

The Funeral Rule, enforced by the Federal Trade Commission (FTC), makes it possible for you to choose only those goods and services you want or need and to pay only for those you select, whether you are making arrangements when a death occurs or in advance. The Rule allows you to compare prices among funeral homes, and makes it possible for you to select the funeral arrangements you want at the home you use. (The Rule does not apply to third-party sellers, such as casket and monument dealers, or to cemeteries that lack an on-site funeral home.)

Your Rights Under the Funeral Rule

The Funeral Rule gives you the right to:

- **Buy only the funeral arrangements you want.** You have the right to buy separate goods (such as caskets) and services (such as embalming or a memorial service).
- You do not have to accept a package that may include items you do not want.
- **Get price information on the telephone.** Funeral directors must give you price information on the telephone if you ask for it.
- You don't have to give them your name, address, or telephone number first.
- Although they are not required to do so, many funeral homes mail their price lists, and some post them online.
- **Get a written, itemized price list when you visit a funeral home.**
- The funeral home must give you a General Price List (GPL) that is yours to keep.
- It lists all the items and services the home offers, and the cost of each one.
- **See a written casket price list before you see the actual caskets.** Sometimes, detailed casket price information is included on the funeral home's GPL.
- More often, though, it's provided on a separate casket price list.
- Get the price information before you see the caskets, so that you can ask about lower-priced products that may not be on display.
- **See a written outer burial container price list.**
- Outer burial containers are not required by state law anywhere in the U.S., but many cemeteries require them to prevent the grave from caving in.

- If the funeral home sells containers, but doesn't list their prices on the GPL, you have the right to look at a separate container price list before you see the containers.
- If you don't see the lower-priced containers listed, ask about them.
- **Receive a written statement after you decide what you want, and before you pay.**
- It should show exactly what you are buying and the cost of each item.
- The funeral home must give you a statement listing every good and service you have selected, the price of each, and the total cost immediately after you make the arrangements.
- **Get an explanation in the written statement from the funeral home that describes any legal cemetery or crematory requirement** that requires you to buy any funeral goods or services.
- **Use an "alternative container" instead of a casket for cremation.**
- No state or local law requires the use of a casket for cremation.
- A funeral home that offers cremations must tell you that alternative containers are available, and must make them available.
- They might be made of unfinished wood, pressed wood, fiberboard, or cardboard.
- **Provide the funeral home with a casket or urn you buy elsewhere.**
- The funeral provider cannot refuse to handle a casket or urn you bought online, at a local casket store, or somewhere else — or charge you a fee to do it.
- The funeral home cannot require you to be there when the casket or urn is delivered to them.
- **Make funeral arrangements without embalming.**
- No state law requires routine embalming for every death. Some states require embalming or refrigeration if the body is not buried or cremated within a certain time; some states don't require it at all.
- In most cases, refrigeration is an acceptable alternative.
- In addition, you may choose services like direct cremation and immediate burial, which don't require any form of preservation.
- Many funeral homes have a policy requiring embalming if the body is to be publicly viewed, but this is not required by law in most states.
- Ask if the funeral home offers private family viewing without embalming.
- If some form of preservation is a practical necessity, ask the funeral home if refrigeration is available.

- **1. What restrictions are placed on the use of a final expense policy's benefits once they are paid to the named beneficiary?**

[\(Search Chapter 1\)](#)

- a. The funds must be assigned to the funeral home that has been contracted to provide funeral services to the deceased insured.
- b. The funds must be assigned by the beneficiary to the administrator of the insured's estate.
- c. The funds must be deposited into a special trust account set up exclusively to pay the costs of insured's funeral.
- d. There are no restrictions.

- **2. With regard to final expense insurance, which of the following statements is true?**

[\(Search Chapter 1\)](#)

- a. The policy expressly covers the cost of funeral or cremation goods and services.
- b. The policy guarantees delivery of pre-arranged funeral or cremation goods and services.
- c. The policy guarantees full coverage for the cost of the insured's funeral.
- d. The policy guarantees payment of a set sum of money upon the insured's death.

- **3. Typically, what is the maximum amount of final expense insurance that can be issued under a single policy?**

[\(Search Chapter 1\)](#)

- a. \$5,000
- b. \$10,000
- c. \$20,000
- d. \$50,000

- **4. Which of the following best describes "final expense insurance"?**

[\(Search Chapter 1\)](#)

- a. life insurance coverage intended to cover the expenses that occur at or around the time of death
- b. any term life insurance policy that provides \$2,000 or less of coverage
- c. a form of property insurance that covers the replacement cost for materials and supplies purchased for one's funeral
- d. a rider attached to a life insurance policy that provides additional proceeds if death occurs due to an accident

- **5. Sue purchases a final expense policy, names her son as beneficiary, and attaches a statement to the policy that describes how she wants her funeral to be arranged. What will happen at Sue's death?**

[\(Search Chapter 1\)](#)

- a. The use of the death benefit will be dictated by the insurer.
- b. The policy's benefit will be paid to her son as beneficiary, and the use of the funds is left to her son.
- c. Sue's wishes are guaranteed to be carried out.
- d. The funeral home Sue selected will determine how to best use the policy's proceeds.

- **6. With regard to final expense insurance, three of the following statements are true; one is false. Which statement is false?**

[\(Search Chapter 1\)](#)

- a. Qualifying for final expense life insurance is typically easier than qualifying for more traditional forms of life insurance coverage.
- b. The target market for final expense insurance is characterized by average to less-than-average insurability due to age and health.
- c. Measured in terms of the number of potential buyers, the market for final expense insurance is shrinking.
- d. Buyers of final expense policies are motivated by the desire to avoid burdening their loved ones.

- **7. Eleanor owns a final expense insurance policy issued by Long Life Insurance Company. Of the following, who is most likely to be named beneficiary under this policy?**

[\(Search Chapter 2\)](#)

- a. her daughter
- b. a trust set up by a funeral home
- c. a funeral home
- d. a cemetery

- **8. At the age of 58, Amos purchases a final expense policy on his own life, funded with permanent life insurance. He names his grandson, Hal, as beneficiary. For which of the following reasons could the insurer cancel Amos' policy?**

[\(Search Chapter 2\)](#)

- a. Amos reaches the age of 85.
- b. Amos does not pay the policy's premium.
- c. Hal dies before Amos.
- d. Amos is diagnosed with a terminal illness.

- **9. How do simplified issue life insurance policies differ from traditional life insurance policies?**

[\(Search Chapter 2\)](#)

- a. Simplified issue policies are issued to anyone who applies for them.
- b. Simplified issue policies cannot be written for more than \$10,000 of coverage.
- c. Simplified issue policies require single premium payments.
- d. Simplified issue policies require less rigorous underwriting.

- **10. With regard to simplified issue policies, which of the following statements is true?**

[\(Search Chapter 2\)](#)

- a. Applicants do not have to take a medical exam.
- b. Simplified issue policies do not contain contestable periods.
- c. There is no underwriting or verification of the applicant's health status.
- d. All applicants are guaranteed issue of a policy.

[Questions 11 - 20 »](#)

Please answer all questions to grade the exam.

- **11. Charlie is the owner and insured under a \$20,000 final expense policy that uses the form of life insurance most commonly employed for this purpose. For what reason can the insurer cancel Charlie's policy?**

[\(Search Chapter 2\)](#)

- a. Charlie reaches a certain age.
- b. Charlie's health declines.
- c. Charlie changes his beneficiary.
- d. Charlie does not pay the policy's premium.

- **12. Donna wants to apply for a simplified issue, level benefit final expense policy. What can she expect?**

[\(Search Chapter 2\)](#)

- a. She will have to take a medical exam.
- b. She will be guaranteed issue of a policy.
- c. Her application will be subject to some level of underwriting.
- d. She will likely be rejected if she reveals she takes prescriptive medicine for high cholesterol.

- **13. What is the process of assessing a life insurance applicant's insurability and health history in order to determine whether coverage will be issued?**

[\(Search Chapter 2\)](#)

- a. rate making
- b. underwriting
- c. adjusting
- d. fact-finding

- **14. "A life insurance policy that covers the life of an individual, paying a set sum of money to a named beneficiary when the insured individual dies" describes what kind of plan?**

[\(Search Chapter 2\)](#)

- a. pre-need funeral insurance
- b. funeral trust
- c. final expense insurance
- d. pre-paid funeral insurance

- **15. Gillian purchased a level benefit final expense policy with a death benefit of \$15,000. Her monthly premiums are \$45; she named her son, Frank, as beneficiary. Fourteen months after the policy was purchased, Gillian died, and the insurer did not contest the claim. How much will Frank receive?**

[\(Search Chapter 2\)](#)

- a. \$0
- b. \$630
- c. \$725
- d. \$15,000

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- **16. Mega Mutual Life Insurance Company issues simplified issue final expense insurance. Which of the following practices would Mega Mutual follow?**

[\(Search Chapter 2\)](#)

- a. Require all of its applicants to undergo a medical exam prior to policy issue.
- b. Require all of its applicants to answer some health-related questions on their applications.
- c. Limit issue of its policies to those who are younger than age 40.
- d. Provide cash value policy loans for its term insurance owners.

- **17. For what condition do graded and modified benefit policies commonly pay 100 percent of the death benefit during the first few years after issue?**

[\(Search Chapter 2\)](#)

- a. for death due to illness
- b. for death due to accident
- c. for death due to a prolonged disability of at least six months
- d. for death due to cognitive impairment

- **18. What kind of insurance is most commonly used to fund final expense policies?**

[\(Search Chapter 2\)](#)

- a. one-year renewable term
- b. five-year renewable term
- c. variable life insurance
- d. traditional whole life insurance

- **19. Dean and Don both own a final expense insurance policy. Dean's policy was simplified issue; Don's policy was guaranteed issue. What did Dean have to do that Don did *not*?**

[\(Search Chapter 2\)](#)

- a. answer some health-related questions on the policy application
- b. name a funeral home as beneficiary of the policy's proceeds
- c. pay the policy's full premium at once, upon policy issue
- d. purchase at least \$50,000 in coverage

- **20. Generally speaking, all of the following are attributes of the typical buyer of final expense insurance EXCEPT:**

[\(Search Chapter 3\)](#)

- a. aged 50 or older
- b. middle-to-low income
- c. a desire not to burden loved ones with final expenses at death
- d. a desire to provide ongoing income for loved ones after death

[« Questions 1 - 10](#)

[Questions 21 - 25 »](#)

Please answer all questions to grade the exam.

- **21. Which of the following individuals would most likely be the best candidate for final expense insurance?**

[\(Search Chapter 3\)](#)

- a. Toby, age 62, who is married and has set aside funds in a savings account to pay for his funeral
- b. Amelia, age 38, who is married and just inherited \$1 million from her father
- c. Ava, age 30, who is single and is a successful entrepreneur
- d. Dean, age 58, who is a mid-level earner and has no life insurance coverage

- **22. Three months ago, Tyler, age 58, purchased a ten-year standard term life insurance policy and is now thinking about buying a permanent life final expense policy. What is he likely to find when he meets with a producer to discuss this matter?**

[\(Search Chapter 3\)](#)

- a. Tyler does not need final expense insurance because he already has term coverage.
- b. The producer is prohibited from selling Tyler another life insurance policy within such a short time frame.
- c. A final expense policy would provide duplicative coverage; any producer who sells a policy to Tyler could be charged with coercion.
- d. A permanent life final expense policy can ensure that Tyler has funds to pay his final expenses, in case he dies after the ten-year term.

- **23. With respect to the market for final expense insurance, which statement is true?**

[\(Search Chapter 3\)](#)

- a. The market for final expense insurance is growing primarily among 30- to 40-year-old individuals.
- b. The market for final expense insurance is decreasing due to increases in mortality among the U.S. population.
- c. The market for final expense insurance is growing, due in large part to the number of baby boomers and seniors.
- d. There is a small and limited group for whom final expense insurance is suitable.

- **24. A needs-based final expense presentation and sale incorporates all of the following EXCEPT:**
[\(Search Chapter 4\)](#)
 - a. educating the prospect about the need
 - b. determining how much insurance is appropriate for the prospect
 - c. ensuring the prospect understands the product's features, benefits, and drawbacks
 - d. recommending a specific funeral home, type of funeral service, and funeral merchandise for the prospect

- **25. Which of the following should occur before a final expense producer recommends a specific policy?**
[\(Search Chapter 4\)](#)
 - a. identification of the prospect's need
 - b. gaining the prospect's agreement to undergo a medical exam
 - c. a review of the prospect's will
 - d. third-party verification of the prospect's income