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WHY IS MY PREMIUM SO HIGH?: WHAT YOU NEED TO KNOW ABOUT LIFE INSURANCE UNDERWRITING



By: Alice Stevens - March 16, 2020

No one wants their friends and family to inherit financial difficulty. Life insurance can go a long way in alleviating financial stress, from paying for a funeral to replacing a lifetime of income.

You want to leave your family financially secure at an affordable price. Premiums and coverage are what you'll look at as you compare policy options from trusted life insurers.

First, we'll take a quick look at life insurance rate classes, then move on to cover some of the biggest things that can affect your premium rate, and finish with additional advice from experts.

Rate classes

Life insurers have 14 to 16 classification levels that determine premium rates. The rate classes with the lowest risk include the following:

- Preferred Plus or Preferred Best
- Preferred
- Standard Plus or Standard Select
- Standard

If you have a higher than standard risk, the rate classes extend into tiered tables that are either numbered or lettered in order. Table 1 is the least amount of additional risk.

"Some companies go down to a table 12, while most will decline after table 10.

The closer you are to Preferred Best, the lower the premium you will pay. Every table rating increases your premium by 25 percent. For example, a table 1 will be standard + 25 percent, table 2 will be standard + 50 percent, etc." says Chris Abrams, Abrams Insurance Solutions owner.

Your premium rate is determined based on what classification you reach based on underwriting.

Through the underwriting process, the insurance company will review your application, health, lifestyle, and a few other factors to determine the risk of insuring you. Once the underwriting is complete, you'll know whether your application has been approved or declined. If you've been approved, you'll also get the final premium rate.

If you think you may have higher than standard risk, don't worry. You may be able to find an insurer that handles your situation well.

"Some companies offer 'table shaving' which means they will reduce the amount of tables if you have other favorable

underwriting factors," says Abrams.

Premium rate factors

There are many things that affect your premium rate. Before even getting to the underwriting process, the amount of coverage and policy type affect the rates you'll see and the level of underwriting you can expect.

"The death benefit amount you choose and the duration of your policy both materially impact your premium level. The greater your death benefit and the longer your policy period, the higher your premium will be," says Andrew Chen, Hack Your Wealth founder.

Longer policies aren't just likely to cost more. They're also likely to have more rigorous underwriting.

"Whole or permanent life insurance policies tend to be more expensive and an insurance carrier is going to want to know about more aspects of a person's life. Short term policies for a lower amount may not require as much information. It really depends upon the carrier and the type of policy," says Walt Capell, Workers Compensation Shop founder.

Another factor that can affect what you spend on premiums that isn't part of underwriting is the payment schedule.

"Most people pay monthly or quarterly premiums for their life insurance. Insurers typically charge a fee for the premium modes. Pay annually and it could reduce your cost by as much as 10 percent," says Richard Best, Don'tPayFull.com personal finance expert.

Some insurers may offer some flexibility on premium payment schedules. If you are a disciplined budgeter, opting for a bi-annual or annual payment schedule can make a lot of sense.

Underwriting factors

If you've done some shopping around, you've probably found that you have to provide some information about yourself before you can see a premium quote.

"Life insurance rates are initially driven by three factors: age, gender, and tobacco usage," says Doug Mitchell, CLU, Ogletree Financial Services owner.

Once those factors are considered, more health, lifestyle, and criminal record information will be considered.

"An applicant's age, answers to health and lifestyle questions and their financial well-being are the biggest influencers in the underwriting process and will determine what the premium will be," says Manny Lirio, Vantis Life Insurance Company, AVP of direct to consumer marketing.

Here's what experts had to say about

- age

- gender
- tobacco and other drugs
- driving and criminal record
- health
- lifestyle

For more information on how life insurers find information on you, read Cameron Huddleston's Forbes article "How Life Insurance Companies Get Intel On You."

Age

Katia Iervasi, Finder.com insurance writer

"Younger people almost always pay less for life insurance. The reason isn't subtle: As you age, your life expectancy goes down, and the likelihood of your insurance company having to pay out your policy goes up."

John Holloway, NoExam.com founder and licensed agent "In 2019, NoExam.com conducted a life insurance pricing study. The study recorded the results of over 100,000 life insurance quotes, and it shows that the price of life insurance increases with age. On average, the price of life insurance is 65 percent more expensive at age 40 than it is at age 30, and it is 96 percent more expensive at age 50 than it is at age 40. The good news is that you usually require a shorter term policy at age 50 than at age 30. The bad news is that you will have a bigger payment to budget for each month."

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Completing underwriting

Scott Butler, Klauenberg Retirement Solutions financial planner

"People should know that underwriting is usually, at worst, a very mild inconvenience. You may have to do a paramedical exam, but the insurance company will pay for it. Think of it as a free health check-up. The examiners usually have flexible appointment times and will usually come right out to you.

When you are being asked questions about your medical history, pay attention to each question, answer truthfully and do not volunteer any extra information that is not asked for. If they want to know if your mother had a medical condition before age 65, there is no obligation or benefit for you to tell them about conditions your mother had after 65 or about conditions of your sibling."

Walt Capell

"Each carrier has their own formula for how they determine if they are going to offer coverage and how much to charge for that coverage. For most people, making small changes such as losing weight, quitting smoking or adopting a healthy lifestyle to lower your blood pressure and cholesterol can help lower premium when quoting a life insurance policy."

Read the whole article at <https://bit.ly/393ogsN>

Scott Butler, CRC, is a financial planner with Klauenberg Retirement Solutions. Using his background as a former teacher, Scott breaks down financial topics to levels that clients can more easily understand, believing each person should have a basic understanding of the wealth strategies and products that work for them.

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