

## Understanding Life Insurance Underwriting

Do I need life insurance?

If you have dependents, your likely answer is *YES*.

Determining your need and the amount of coverage is the first step. Then, there are two important follow up questions:

*Do I qualify to obtain a meaningful life insurance policy?*

*If so, what will be my cost?*

In order to start making sense of these two questions, you need to understand life insurance underwriting.

Before any insurance policy is issued, the insurance company needs to evaluate the chance of having to make payments related to claims. In life insurance, the claim happens when the insured individual dies while the policy is in force. So, the insurance company needs to evaluate how likely it is that the insured individual will die during a given period.

Depending on the result of this risk evaluation, the insurance company may accept or deny coverage. If coverage is denied, the applicant is considered uninsurable. If the coverage is accepted, a rating will be assigned. The lower the risk, the higher the rating, and the cheaper the insurance premium cost. The main factors affecting coverage and ratings are tobacco use, current health, family health history, occupation, hobbies, and traveling.

When a licensed life insurance agent takes an application for [life insurance, the underwriting](#) process can begin. After the application is submitted to the company, a phone interview is scheduled and conducted. In the interview, the facts disclosed in the application are verified, and other relevant questions are asked. The underwriters collect all these facts and will use them to start the process of determining insurability (whether, or not issue the policy) and the policy rating.

Then, a paramedic will perform the physical exam. Vital signs, blood, urine, or saliva samples are collected, and lab tests of these samples are performed. You will also sign a release for your medical records. Depending on the results of this medical investigation, there may be additional questions and requests to contact health care providers like doctors' offices. The entire process can feel intrusive and uncomfortable. You should remember that it is this way for everyone applying for any significant individual coverage!

There may be some additional follow up questions not related to medical matters. In assessing the risk, insurance companies review occupations, hobbies, and traveling. If an applicant

practices base jumping regularly, he may not be insurable. Regular trips to conflict zones may also compromise insurability.

For example, if a journalist covering the conflict in Syria, she is unlikely to be able to obtain any meaningful amount of life insurance coverage. If the same journalist quits her job and becomes a book author that rarely travels outside the United States, the chances of qualifying for life insurance are greatly improved!

The underwriting process is not a pleasant experience for many people, but it is a necessary function that insurance companies must perform in order to be solvent. If there were no underwriting, there would be a strong bias for people with serious medical or other risks to obtain insurance when they don't expect to live much longer. Then the numbers would not work out, and the policies would not be affordable to the general public. This effect is a well - documented fact in insurance – [adverse selection](#).

When the underwriting is complete, if the life insurance company decides to accept the risk, there are several levels of risk – the life insurance ratings. They are typically the following;

**Non-Smokers**

Best  
Preferred  
Standard Plus  
Standard

**Smokers**

Preferred  
Standard

In case an individual does not qualify for any of these standard rating categories due to a health conditions, a risky job or a dangerous hobby, there is a more involved process that can result in premium increases.

There are some situations that the concerns are severe enough that the insurance company refuses to issue a policy altogether. The applicant is then considered uninsurable. In such circumstances, an applicant can look for coverage with an employer or union group policy that bypasses the individual underwriting. Some low death benefit policies do not perform individual underwriting.

In certain situations when behaviors, traveling, or health changes meaningfully and become less risky, an applicant can reapply, typically after two years from the original application. The applicant could become insurable or could obtain a better rating (and a lower premium).

When the underwriting is complete, the insurance company or one of its agents delivers the policy to the policy owner. When the policy owner accepts the policy and pays the initial premium, the policy becomes entirely in force, and the regular coverage starts. You then will have the peace of mind that your family is protected!