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## How Safe Is Your Life Insurance Policy?

- ▶ You purchase life insurance to reduce the financial risk of your passing. Given the long time horizon that policies may run, the financial health of the life insurance company issuing the policy is a key factor to consider.
- ▶ Thankfully, each state maintains basic guarantee levels for its residents in case an insurance company becomes insolvent.

So you've finally sat down with your financial advisor and answered important questions, such as do you need life insurance, how big of a policy do you need, and what type makes the most sense for you. One thing you don't want to happen after purchasing your life insurance policy is to find out the company that sold you the policy has run into financial trouble. If your insurer went out of business, not only would you be uninsured, but you would also have to reapply for a new policy at a potentially more expensive rate due to your age and health.

Fortunately, there is a system in place to ensure that policies remain in force even after the issuing companies become insolvent. All 50 states, plus the District of Columbia and Puerto Rico, have life and health insurance guaranty associations that step in to make sure that policyholders aren't left holding the bag if their insurance company becomes insolvent. In nearly all states, the limits of coverage are \$300,000 for

life insurance death benefits and \$100,000 for the net cash value of the policy. Some states even have limits as high as \$500,000 for both. Coverage is provided by the guaranty association in the state in which the policyholder resides, even if he or she purchased the policy elsewhere.

For customers who hold policies worth more than their state guaranty limits, one option is to buy multiple policies within those limits from different companies to reach the desired total amount. So, instead of buying a \$1 million policy from a single company, you could buy \$250,000 policies from four different companies. The downside is that not only is this somewhat inconvenient, but it also might result in paying more than you would for a single policy because of the additional fees involved, not to mention different premium rates. Consult your financial advisor to explore all your options.



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### More about COMPASS Wealth Management, LLC

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