WAEPA CHECKLIST

Life Insurance Claims: 7 Questions, Answered

Life insurance helps to provide peace of mind in knowing that your financial future is secure. However, the life insurance claims process may be confusing, adding further stress after a loved one has passed away. Here, you'll find answers to seven common questions about life insurance payouts. Hopefully, these answers will bring clarity to an otherwise challenging and overwhelming time.

1 How Do I File a Claim?

The death of a loved one brings about emotional, mental, and logistical stress. Going through the life insurance claims process while handling a variety of other end-of-life details may seem overwhelming. You might, however, find the life insurance claims process more straightforward than expected.

If you are the claimant, you will need to notify the life insurance company of the insured's death and submit a copy of the Certificate of Death. Other specific information such as beneficiary information and tax information may also be required.

See more information about WAEPA's claims process >

2 When Do I Get Life Insurance Money?

The timeframe of when a beneficiary receives a life insurance payout depends on the type of policy.

Term life insurance lasts for a specific amount of time and the death benefit is only available if the insured passes away during the policy's term.

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Meanwhile, whole life insurance is permanent coverage to cover an insured during their entire life. If an insured has whole life coverage when they pass away, the beneficiary is guaranteed to receive the death benefit. A whole life insurance policy can build cash value that a policyholder can borrow against. If there is money that has been borrowed and not repaid, this amount will be subtracted from the final death benefit.

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3 How is Life Insurance Money Paid?

Once a life insurance claim is approved, the beneficiaries can decide how they would like to receive the payment. There are multiple options for a life insurance payout that allow a beneficiary to assess what works best for their needs.

The first option is a **lump sum payment**. This is the most common and consists of a single, one-time payment to the beneficiary of the entire death benefit. This is the only payment option for coverage offered by WAEPA.

EXAMPLE

Lisa is a beneficiary of her mother's $500,000 life insurance policy. With a lump sum payment, she will receive the entire $500,000 at once.

For some life insurance policies, beneficiary can also choose to use an **annuity**, or receive payment in installments. Some annuity options include:

- A **lifetime annuity** where the beneficiary is guaranteed recurring payment for the rest of their life.
- A **fixed period annuity**, where the beneficiary receives recurring payments for a predetermined timeframe, such as 10 or 20 years.

EXAMPLE

If Lisa chooses to receive the $500,000 over a fixed period annuity of 10 years, she will receive $50,000 from the insurance year for the next decade.

4 Who Receives Life Insurance Money?

Any death benefit from a life insurance policy is payable to the beneficiary(ies). More specifically, the listed **primary beneficiary**. If there are multiple primary beneficiaries included, the death benefit is allocated to each based on a percentage chosen by the policyholder.

If the primary beneficiary is no longer alive or cannot be located, the death benefit may be then payable to the **contingent**, or secondary, **beneficiary**. If there is no listed beneficiary, or none can be located, the death benefit will be added to the insured's estate.

5 Is the Money from Life Insurance Taxable?

Typically, a life insurance benefit is not taxable when it's paid in a lump sum. However, if a beneficiary has a life insurance policy that offers annuity payments, and elects this option, the benefit is placed into an account that can accrue interest. The beneficiary will in turn be responsible for paying income taxes on any interest accrued, but not the benefit itself.

Another factor to consider is estate tax and whether a life insurance payout is above Federal and state tax exemption amounts. If the death benefit exceeds the exception, any amount above the threshold would be subject to estate taxes. You should always consult with a qualified tax advisor to review your specific circumstances.

- The Federal exemption[1] is currently $12.92 million for a single person, and nearly $26 million for a married couple.
- About a dozen states have state estate taxes[2] with exemptions varying between $1 million and $9.1 million.

Learn more about life insurance and taxes >

6 How Long Does a Life Insurance Claim Take?

Fulfilment of claims is the most important function of any insurer. Life insurance providers have an obligation to do so within a specific timeframe. Each state has its own laws mandating this timeline – typically 30 to 60 days – and may penalize companies for delays.

WAEPA remains committed to our members and their families during life's biggest moments, including the passing of a loved one. We are proud to be underwritten by New York Life Insurance Company, who brings more than 175 years of experience. If you've filed a claim with WAEPA, New York Life Insurance will process this claim on WAEPA's behalf. You can generally expect to receive your benefit **10 business days** after New York Life receives all completed documents.

7 What Could Delay a Life Insurance Payout?

As mentioned, life insurance companies are incentivized to fulfill a claims payment in a timely manner. However, there are a few factors that could delay this process that you should be aware of. Find a short list of examples below:

1. **The policy purchase date.** If a claim is filed within two years of the policy being purchased, the insurer is likely to investigate. This timeframe is called the contestability period and helps prevent fraudulent claims.

   The timing of the policy can also be important to the cause of death and any exceptions. For example, most life insurance policies have a two-year exclusion for suicide, where if the insured takes their own life within two years, the death benefit will not be paid.

2. **Overdue premiums.** If the policy is not in good standing at the time that an insured has passed away, this could delay payment. Often, a provider will deduct any outstanding premiums due from the overall death benefit that a beneficiary will receive.

3. **Misrepresentation.** If an insured lies on a life insurance application or fails to disclose critical information, such as a pre-existing health condition, this is known as misrepresentation. If this information is discovered during the claims process, the provider can deny payment.

A life insurance policy can't replace a loved one. It can, however, be used to cover a variety of expenses and help bring financial stability after their death. Being able to receive a life insurance payment in the aftermath of losing a loved one can provide welcome reprieve. Hopefully, understanding more about the life insurance claims process will make navigating an otherwise overwhelming time slightly easier.