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Life Insurance Tips – Premiums Must Be Paid

As we enter the New Year, it is important to review your life insurance policies to ensure that your premiums are timely paid in full. Following a recent New Jersey court decision, it is particularly important that you do not allow your life insurance policy to lapse for failure to pay your premium. It is a reminder to us all that if your premium lapses after the reinstatement period and you pass away, your insurance provider is under no obligation to pay the policy's benefits.

In Nationwide Life Ins. v. Thompson, the New Jersey Appellate Division held that the life insurance provider had no obligation to pay the benefits on a lapsed life insurance policy after the policyholder failed to reinstate the policy's premium prior to the reinstatement date. After notice from the insurance company that reinstatement was due and the reinstatement grace period was set to expire, the policyholder failed to pay the premium in full. The policyholder died two days after the grace period expired. Despite the policyholder's wife mailing a check for the lapsed premium after the policyholder's death, the Appellate Division held that the life insurance policy had lapsed and no benefits were payable to the policyholder's widow.

Life insurance policies are often an integral part of an individual's estate plan. The purpose of having a life insurance policy is to provide a benefit to your designated beneficiaries in the event that you pass away. Life insurance policies are "non-probate" assets that will transfer on the death of the policyholder and under current law in New Jersey provide tax free transfers upon the death of the decedent (on estates under eleven million). The policyholder may also designate his or her estate as the named beneficiary, thus allowing the benefit to be distributed in accordance with the policyholder's will. Either way, life insurance policies are a common and useful estate planning tool.

If you have a life insurance policy, the Nationwide case presents a helpful reminder that insurance policy premiums must be paid because they are time sensitive. If premiums are not timely paid, the insurance company is under no obligation to pay the benefits to the policy's beneficiaries. Accordingly, the law firm of Puff & Cockerill reminds all individuals with an insurance policy to review their policy premium due dates to make sure payments are timely.