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INSURANCE

You may have a secret life insurance policy

By Michael Evans • Bankrate.com



Highlights

- Experts say life insurance may have been bought for you as a kid, then forgotten.
- Beware of taxes if you cash in a long-lost insurance policy taken out on you.
- Your state may be holding an old life insurance policy purchased in your name.

When you start digging through the records of a deceased parent or other older relative, you may stumble upon a few surprises.

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You might uncover old photos of yourself sporting an unfortunate hair or clothing style, but you might be even more shocked to find a life insurance policy that insures you -- one you didn't even know existed.

"Sometimes people just forget about policies," says Mike Gowrylow, a spokesman for Washington state's Department of Revenue, which handles unclaimed insurance policies and other property. "They took out policies when they had little kids at home. Then, once the policies were paid up, they forget about them."

If you find a policy that covers your life, experts say you can't afford to take action too slowly, but you shouldn't make hasty decisions either.

Where did this come from?

First, you'll probably want to know why your dad, grandmother or kindly, old aunt would have taken out life insurance on you.

After the Great Depression, parents often bought life insurance policies for their children as a way to get them started in a savings plan, explains Paul Andrus, a Fremont, Calif., financial adviser with Eagle Strategies, a division of New York Life Insurance Co.

So-called juvenile life insurance is still marketed to families, typically via permanent, whole life policies, which build up "cash value," or a savings reserve. After 30 or 40 years of payments, a policy can hold a sizable chunk of change, which the owner can borrow from or cash out.

Some parents purchased policies through employee plans that allowed members to buy low-cost coverage for their families. In other cases, folks bought juvenile policies from the same agent who sold them car or homeowners coverage. So, it's probably worth it to ask your aging parents or other elderly relatives to try to remember if it's possible they ever purchased life insurance on you.

"Very few people would call and ask for life insurance (for their children). But we would approach parents and encourage them to take out coverage on their entire family," says Jim Beck, a retired Allstate insurance agent in Germantown, Tenn.

If it's a policy on your head, it's yours

If you find a policy insuring you, and the owner is deceased, you can take over the policy.

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"When people take out a life insurance policy, they often don't fill out what's called a 'successor owner' form. That covers the steps that should happen in case the owner of the policy dies," Andrus says. However, "If the owner of the policy passes away, the insured becomes the automatic owner of the policy."

When you discover a policy that insures you, you should contact the insurance company right away, especially if premium payments have lapsed. "You could actually lose the money, because the company is using the cash in the policy for payments until it just crashes," says Andrus. "So this is a good reason to take action."

Keep it or cash it?

Deciding whether to maintain the life insurance policy or surrender it for its cash value may depend on whether you're loaded with money or just scraping by.

"Most people cash it in. I don't recommend it, but they do," says Andrus. "But most of the time, the person just needs it now."

If you do redeem the policy, you'll lose the death benefit coverage and could face tax consequences. "My advice is to seek the advice of a CPA and call the insurance company, just so you know what's going on," he says.

If the policy has enough cash value built up, you may be able to keep the coverage without continuing payments. "You can call the company and ask them if the policy is self-supporting or if you need to keep paying," says Andrus. Self-supporting policies use the accumulated cash to pay premiums.

Where else to find a long-lost policy

Even if nothing happens to turn up when you're going through the papers of a departed loved one, there could still be a life insurance policy out there with your name on it. That's one reason why it's good to look periodically on the website of your state's unclaimed property department, the office where banks, insurance companies and other financial institutions send money when they can't find the rightful owner.

"There are some databases that we use to help people find their money," says Gowrylow, with the Washington state revenue department. "Plus, we employ a finder, who contacts people at large to let them know about unclaimed property."

Laws vary, but financial institutions typically hold unclaimed accounts for years before sending it to the state. Usually after five years, a forgotten insurance policy will go to a state's unclaimed property division, says Michael Barry, a spokesman for the Insurance Information Institute, a trade group.

It's best to check the unclaimed property department in your state at least once a year, because funds are turned over periodically. You should also check the databases in every state where you and other family members have lived.

If you find an unclaimed life insurance policy that belongs to you, you'll have to file a claim to get it.

A Social Security number and address is often all the proof you'll need, but not always. "Claims with a high-dollar amount might require more documentation," says Gowrylow.

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