

# What is Credit Life & Credit Disability Insurance and Should You Buy?



Consumers 1-800-686-1526 • OSHIIP 1-800-686-1578 • Fraud & Enforcement 1-800-686-1527

## Why might you consider credit insurance?

If you're like many people, you need a loan to make certain major purchases, such as a car, a truck, a boat, appliances, furniture, etc. The loan can be through the company selling the goods or an outside financial institution such as a bank.

When you apply for this type of loan, the lender may want you to buy an insurance policy that protects the lender's investment. There may be good reasons for buying or not buying a policy. For example, you might decide not to buy if you already have life insurance in a sufficient amount to pay back the loan if you die before the money is repaid. But the choice is yours.

Insurance that covers such a loan is known as credit life/credit disability. Some policies cover only life, some cover only disabilities, and others cover both. Credit disability is often called credit accident and health insurance.

## Credit life insurance = decreasing term insurance

Credit life is similar to a special type of life insurance called "decreasing term" insurance.

- A credit life policy is issued for an amount equal to how much you owe.
- As your loan balance decreases, so does the face amount of the credit life policy.
- If you die before the loan is fully repaid, the policy pays the lender an amount equal to what you still owe at that time.

**Consumer Tip:** Younger people usually can buy decreasing term life insurance for much less than a credit life policy costs. The decreasing term policy will meet the lender's requirement for protection on the loan.

As you get older, the cost of buying regular life insurance rises. However, in most cases, it is very expensive to buy a small credit life policy as a substitute for regular life insurance protection.

## Credit disability insurance

Credit disability is a health insurance policy. It makes payments to your lender if you become sick or disabled and are unable to work. There may be a limit on the number of payments or the total dollar amount the policy will pay. Credit disability normally is more expensive than credit life insurance.

You may be eligible for some type of disability coverage through your employer. Find out if you qualify before buying credit disability insurance. You may not need it.

## What does credit insurance cover and who is protected?

Credit life and credit disability pay on your loan if you die or cannot work due to becoming disabled.

- Credit life pays the remainder of your loan in the event you die before the loan is repaid.
- Credit disability makes payments if you become sick or disabled and are unable to work.

The two types of credit insurance policies protect both you and the lender.

- You are protected from losing your savings or other property if you cannot repay the loan due to death or a disabling accident or illness.
- The lender is protected from losing the money you borrowed.

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## **How Ohio law protects you**

Any time you are offered credit life and/or credit disability insurance, you are protected by the state. Ohio credit insurance law requires the lender or seller to give you a copy of the state's disclosure form. This standard form explains credit life insurance and your rights about buying a policy.

The lender is required to get your signature on the form. Your signing will show that you have either accepted or declined buying credit life and/or credit disability insurance.

## **Must I buy credit life or credit disability insurance?**

Credit insurance raises the total you owe because the policy premium usually is added to the loan amount. Interest is applied to the entire amount (the loan plus the cost of the insurance) so credit life/credit disability coverage can be expensive.

If the lender requires insurance protection for your loan, you do not have to buy a policy from the lender or from any particular agent or company. Where you buy is your decision. And if the lender requires insurance, you may not need credit life at all — as long as you already have enough life insurance or you can purchase life insurance. The lender must accept an assignment of benefits under your life policy instead of making you purchase credit life. This means you agree to name the lender as beneficiary under your existing life insurance policy.

If you buy credit life without realizing you could use your existing life insurance, you may be able to stop your credit life coverage and get a refund credited toward the balance of your loan.

## **Other credit insurance**

Other kinds of credit insurance may be offered when you finance items. Credit unemployment is usually a high-cost policy. It makes limited payments on your loan if you become involuntarily unemployed. Credit property insurance covers only the financed item. If you have homeowner or renter insurance, you are already covered and you should not buy credit property insurance.

## **Other things you should know about credit life & credit disability**

- You have the right to receive your policy within 30 days of purchase.
- You might not be eligible for credit disability insurance unless you now work at least 30 hours per week.
- Some policies will not pay disability benefits unless you are disabled for 14 days or more.
- Some policies will not pay if you have a pre-existing condition (a health problem that has been treated or diagnosed within 6 months before you applied for the insurance).
- Some policies will not provide coverage if you are age 65 or older.
- The policy is your contract with the insurance company. Read it carefully and ask your agent to explain anything you don't understand. The policy explains how your coverage works, when it starts, and what is not covered.

## **Questions or concerns**

The Ohio Department of Insurance Consumer Services can answer your questions about credit life and disability insurance. Consumer Services will also investigate your written complaints about an insurance company or agent. If you have a question or you feel a company or its agent has done something wrong, call Consumer Services at **1-800-686-1526**.