

Understanding the Two-Year Contestability Period for Life Insurance

If you pass away in the first two years of your life insurance coverage, the insurance company has a right to contest or question your claim. This means that the insurance company may investigate the details of your medical history to make sure you didn't misrepresent information on your application — for example, stating that you don't smoke when, in fact, you do ... and have for many years.

Misleading an insurance company by providing inaccurate information on your application to obtain better rates or approval for coverage is known as material misrepresentation. If evidence of this emerges, the insurance company can cancel your coverage or deny a claim. In some cases, they may withhold some or all of the benefit payment to your beneficiary.

Also, in many cases, insurance companies reserve the right to deny a claim if the insured commits suicide within the first two years of coverage.

Why does a contestability period exist?

The two-year contestability period begins on the issue date of your coverage, and it protects insurance companies from financial losses due to fraudulent claims. Because the cost of premiums for life insurance is typically based on a buyer's age and medical history, some people may try to minimize their monthly premiums by intentionally misrepresenting certain aspects of their health and lifestyle, such as hiding facts related to a hazardous occupation, risky hobbies or unhealthy habits.

How does a company contest a claim?

When an insurance company investigates a claim, the process may involve a request to evaluate the medical records and other documents. The company is looking for information that reveals evidence of misrepresentation or dishonesty in the initial insurance coverage application.

How does coverage change after the two-year contestability period?

After the contestability period ends, life insurance coverage is usually considered incontestable. This means your beneficiary will usually receive the coverage amount as

long as the coverage was in force. Some policies have exclusions, or situations in which a benefit may not be paid.

Also, be aware that if your coverage lapses, a new contestability period will go into effect when you reinstate or purchase a new life insurance policy. The most important thing to remember is to be sure that you fully understand the terms of your coverage before you purchase a life insurance policy.

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