4 most common reasons why insurers deny life insurance claims

Insurance Quotes

When you buy a life insurance policy, there's a chance your beneficiary's claim may be denied – and it's important for you to know how this can happen.

Insurers examine the terms of policies carefully before paying claims, to make sure policyholders have fulfilled their obligations, says Amy Bach, executive director of the United Policyholders consumer group in San Francisco.

If a carrier determines that you violated your policy terms, it can refund your premiums to your estate and pay your beneficiaries nothing.

"Don't give insurers an excuse to reject your claim," Bach says.

Here are four things that can lead to the denial of a life insurance claim.

1. The death happened during the contestability period.

Policies have contestability periods that typically remain in effect for two years after they're purchased, says Glenn Kantor, a life insurance attorney in San Diego.

If you die within the contestability period, which typically lasts two years from date you purchased your policy, your insurer can investigate whether you wrote correct information on your life insurance application.

If you lied about something on your application, the carrier may refuse to pay the death benefit, even if the cause of death had nothing to do with the misrepresentation.

For example, if you lied about a medical condition, but died in a car accident that wasn't related to that condition, your insurer could still deny the death benefit.

However, a minor omission, such as not reporting that you've visited the doctor in the past year, probably won't cause a denial.

If you survive the contestability period, such misrepresentations normally don't prevent benefits from being paid.

However, if the insurer believes a policy was purchased in a plot to murder the insured and collect the benefit, the claim will be denied, even when the contestability period has passed, says Steven Weisbart, chief economist for the nonprofit Insurance Information Institute.

In April 2014, a Florida man was convicted of murdering his newlywed wife in order to collect on her $1 million life insurance policy.

Surprisingly, plots to collect life insurance benefits by murdering the insured aren't unusual, Weisbart says.

2. The type of death wasn't covered in the policy.

Life insurers once used a variety of exclusions that focused on type of death, Weisbart says.

For example, if the insured died while engaging in a dangerous hobby, such as skydiving or scuba diving, insurers typically refused to pay the claim. Dying in a war also was a common exclusion.

According to Weisbart, that's no longer true. The only life insurance policy exclusion that's widely used today is death by suicide. However, even the suicide exclusion typically will be waived if the death occurred after the contestability period, he adds.

3. You failed to disclose relevant personal information.

Kantor says the most common reason insurers give for denying life benefits is if you fail to disclose information needed to accurately measure the risk of a policy payout.

"If you applied for coverage and) you didn't honestly answer the questions, that's grounds for them to deny your claim," Kantor says.

Not all inaccurate information is grounds for denial, such as writing an incorrect address or driver's license number, Kantor adds. These would be considered errors, not intentional misrepresentations.

However, if you failed to disclose convictions for driving while intoxicated, that could be grounds for denial, but only if it's discovered during the contestability period. After the contestability period ends, these convictions typically would not be used to deny the claim, Weisbart says.

There are some misrepresentations of facts that are grounds for denying or reducing a death benefit, even if they're discovered after the contestability period has ended, Weisbart says.

For example, if the insurer learned that you convinced a physician to provide false information to hide a medical condition, this would be grounds for denying a death benefit claim.

4. You failed to keep up with policy premiums.

Insurers strictly hold policyholders to the terms of policies. Weisbart says you won't be able to collect on a life insurance policy if the premium was allowed to lapse.

Los Angeles attorney Benjamin Blakeman says elderly policyholders often develop memory problems that cause them to miss payments, which results in policy cancellations. Policies typically have a grace period of at least 30 days, during which you can pay the premium due and not be charged interest.

One way to avoid having your policy lapse is to have your premium payments deducted automatically from your checking account, Weisbart says.

Policies with a cash value, such as whole life insurance, often have a provision that allows the carrier to borrow from the policy value to pay overdue premiums. This protects the policy only as long as sufficient cash value remains, however.

Contesting decisions to deny life insurance claims

If you're a beneficiary who believes you improperly were denied a life insurance claim, your first step should be to contact the insurer, says Brian Ashe, treasurer at life insurance advocacy nonprofit, Life Happens. Each carrier has an appeals process.

If you can show your insurer that the decision was incorrect, the matter may be handled administratively, without going to court, Ashe adds.

Kantor recommends you seek professional legal advice to make sure you understand your rights before you contest a claim denial.

Convincing insurers to reverse a decision is difficult, Blakeman says. He says carriers take appeals more seriously when an attorney is involved in the case.