

# Discussing Living Benefits

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Terminal Illness, Critical Illness, Chronic Illness, and even Critical Injury are triggering events in companies' Accelerated Living Benefit Riders (ALBRs) or Accelerated Death Benefit Riders (ADBRs) that allow the owner of a life insurance policy to accelerate a portion of the death benefit prior to the actual death of the insured, subject to the provisions of the rider. There are many versions of these riders in the industry, varying by company design and varying due to state regulation. But there is one consistent element amongst all the different riders – the benefit payment will not be equal to the accelerated amount.

Say what?

I've heard the sales pitch: "Life insurance can prepare your family for financial loss if you die, but what if you live? What if you're critically or chronically ill and your income is no longer available? This rider will allow you to get 90% of your death benefit if you have one of these conditions." WRONG. Not only have you inadvertently mislead the consumer, you've left yourself open for lawsuit. What were the offending words? "allow you to get . . ."



Let's define some terms for use throughout the remaining document. Accelerated Amount will mean the dollar amount of the death benefit that is elected for acceleration. With consideration to the GPM Life riders, this may be up to 100% if the trigger is a terminal illness, a critical illness, or 24% per year to a maximum of 100% if the trigger is a chronic illness, as defined in the riders and subject to specific state regulations. Benefit Payment will mean the actual amount the Owner of the policy will receive. Also, for the remainder of this article I will refer to the GPM Life riders.



Under the provisions of the rider, if a triggering event occurs after the policy is issued, the Owner of the policy can request to accelerate a portion of the current death benefit, subject to minimums and maximums specified in the rider form. The death benefit will be reduced by this full Accelerated Amount. For example, assume the current death benefit is 100,000 and the Owner requests an Accelerated Amount of 90,000. The remaining life insurance and death benefit in-force will be 10,000.

If all requirements and conditions set forth in the rider are met and the claim is approved, a Benefit Payment offer will be calculated. This payment is dependent upon

- the elected death benefit amount,
- an administrative fee,
- the present value of future premiums (this varies greatly between permanent and term insurance),
- the adjusted life expectancy of the insured,
- its effect on the present value of the death benefit,
- calculated using an interest rate determined as set-forth in the rider.

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Let's say that an insured had an eligible triggering event; a mild heart attack or early stage, non-invasive cancer. Both are scary and eye-opening for the patient and family, but with prudent and reasonable medical intervention will probably have limited impact on the patient's life expectancy. In our example above, the Owner may have requested an Accelerated Amount of 90,000, but the Benefit Payment is likely to be very low due to the negligible change in the life expectancy. Let's assume the calculated Benefit Payment is \$5,000. If accepted, the Owner will receive a check for \$5,000 and have a life insurance policy with a remaining death benefit of \$10,000. To make the math simple for me, assume the monthly premium was \$100, the new premium would be \$10.

Obviously and conversely, if the insured was diagnosed with a stage 4 cancer that was non-treatable, the likelihood is that the life expectancy is severely impaired and the Benefit Payment will be much closer to the Accelerated Amount.

Chronic Illness is a lot muddier. "Chronic" by its nature is "persisting for a long time or constantly recurring". Many chronic illnesses have a significant impact on the quality of life while having minimal change to life expectancy.

I've heard a number of agents present the Chronic Illness ALBR as an alternative to long-term care (LTC) insurance. Because of similar prerequisites around Activities of Daily Living (ADLs), comparisons were drawn. But while the Chronic Illness ALBR might provide some financial relief through a Benefit Payment, remember that LTC has both morbidity and mortality components while life insurance is strictly mortality based. The ALBR Benefit Payment calculation is heavily dependent upon the change in

the insured's life expectancy from what was anticipated based on the life insurance policy's risk class, and the new life expectancy, impacted by the critical or chronic illness. LTC has health insurance components which include recurring benefit payments, benefit periods, and care requirements.

Looking back at that initial sales pitch, how do we fix the presentation? First, let's make an easy fix to the earlier statement. Instead say, "This rider will allow you to access up to 100% of your death benefit if you have one of these conditions." But don't stop there. "The actual Benefit Payment will be less. Let's briefly review this Disclosure that is a part of the application package. I will leave you a signed copy, and you will get a copy of the Rider as a part of the life insurance policy."

The ALBR Disclosure is a part of every application where the rider is approved. It's a state requirement that the Disclosure be reviewed with the applicant and a signed copy left behind. This is reference for the consumer, but a protection for you. A copy must be sent in with the application for life insurance.

Living Benefits have revitalized our industry. These benefits have given additional relevance in a "what's in it for me" society. But, BE A PRO. Know your stuff. If you sell it, know it. Cliché, cliché. In World War II the phrase "loose lips might sink ships" was on propaganda posters everywhere. It meant, beware of unguarded talk. Don't let loose lips, and a lack of knowledge sink your business. Read the ALBR Disclosure that is on Agent Access, it mimics the rider. State variations are abundant. If you write in several states, don't assume the riders work the same. Ask questions. Let's talk about Living Benefits!



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