Let's talk about Living Benefits

By Tonya Carroll, CLU, CSA, FLMI

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?

First, let's define some terms. **Accelerated Amount** will mean the dollar amount of the death benefit that is elected for acceleration. With the GPM Life riders, this may be up to 100% if the trigger is a terminal illness, 90% if the trigger is a critical illness, or 24% per year to a maximum of 90% if the trigger is a chronic illness, as defined in the riders and subject to specific state regulations. (Whew!) **Benefit Payment** will mean the actual amount the Owner of the policy will receive. For the remainder of this article I will refer only to the GPM Life riders. *It is important to remember that this is a general overview and not an inclusive description. Always refer to the rider document that is included with your policy, and call the company if you have any questions.*

Under the provisions of the riders, if a triggering event occurs and after any waiting periods have been met, 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.

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

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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 the Chronic Illness ALBR presented as an alternative to long-term care (LTC) insurance. Because of similar Activities of Daily Living (ADLs) requirements, comparisons were drawn. But while the Chronic Illness ALBR might provide some financial relief through a Benefit Payment, LTC has both morbidity (the state of health) and mortality (the incidence of death) 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.

You should receive an ALBR Disclosure when you sign your application. The information provided is similar to what you will receive in the Rider if the life insurance policy is issued. You should review the Disclosure closely and ask any questions you might have.

The access to your life insurance benefits provided through the living benefits rider is a valuable addition to your life insurance policy. The riders provide an additional security in knowing that you could accelerate some of your life insurance coverage during your lifetime if a defined triggering event occurs. However, it is always important to make informed decisions, and to understand the impact on your family's financial well-being before and after your death.