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Whole LIFE: Out of the Dog House & Back in Business— Learn why some sectors of the market still prefer this once-scorned product!

An Accelerated Death Benefit Option – A Real Lifeline in Times of Need

by Robert Lehmert

Whole life insurance continues to evolve to meet the needs of clients as they deal with the many challenges and uncertainties of life. Accelerated death benefit riders exemplify how life insurance can uniquely address a broad spectrum of client needs over their lifetime.

You've probably heard that, last year, the U.S. savings rate dipped to its lowest level since the Great Depression. Many American households are living paycheck to paycheck. Consequently, they don't have a financial safety net to deal with a health crisis. Many of the families that are living with a financial deficit and no savings are middle income and affluent. In addition, people are living longer, but not necessarily healthier lives. Ailments that were once terminal can now leave us permanently incapacitated – both physically and financially. Healthcare costs and long-term care costs continue to outpace inflation.

The situation is likely to worsen in coming decades due to demographic conditions. Last year, the federal government predicted that Medicare costs would inflate by 331% between 2006 and 2030. That's almost four and a half times the anticipated growth of the general economy. Another recent study, conducted by the Employee Benefits Research Institute, estimated the out-of-pocket cost of healthcare and health insurance premiums would total nearly \$300,000 for a couple retiring at 65 and surviving to life expectancy. This is a very serious retirement challenge for many Americans.

Many people are financially overwhelmed and they are concerned about stretching their pensions and Social Security to cover living and medical expenses. This is where acceleration of life insurance proceeds can come in to provide a critical pool of cash.

There is a growing market for life settlements and viatical settlements, which allow whole life policyholders to sell their policies for a lump sum. However, the buyer's profit motive is not aligned with the continued survival of the insured since commercial entities, fees, and costs can be very substantial. The negotiation between policy sellers and buyers is a stressful part of the life settlement process. According to the NASD, it is hard for sellers to know if they are getting a fair price. Policyholders were willing to sell off policies with a combined face value of \$5.5 billion in 2005 and some sources estimate the potential market exceeds \$100 billion, according to the NASD.

As a simpler and less costly alternative, accelerated death benefit riders can offer a much better way for policyholders to secure needed funds in the event of a terminal illness. Acceleration pays a portion of the life insurance proceeds before the insured's death. Interest accrues on the lien. The contract is fully satisfied when the lien equals the full value of the death benefit. The death benefit is reduced by the amount of the lien. The policyholder does not have to pay back the amount received from the accelerated benefit. Unlike a life settlement or viatical, heirs or beneficiaries are in line to receive the remaining benefits. If the rider is on a policy, the terms and conditions of accelerated death benefits are straightforward and are set in advance. Often, there is no extra premium for the rider. Calculations don't require bargaining or negotiations when an insured needs to exercise the option. This is a decided plus for families in the throes of a crisis.

Recently, some companies have offered accelerated death benefit riders that pay out if the insured is permanently chronically ill. This is defined as the permanent inability to perform two or more activities of daily living or a permanent cognitive impairment that requires supervised care. This offers a new dimension to these riders, which can be extremely useful as a backstop to long-term care insurance benefits.

Payment is typically quick and easy and proceeds from a distribution can be used for any purpose. Recipients do not submit bills or receipts and there is no wait for benefit payments for terminally ill patients. The period before chronically ill policyholders receive benefits varies according to the state. But, it is usually 90 days or less. In some instances, they can receive funds immediately.

There are still other reasons for clients to choose whole life insurance with accelerated benefits including the following:

- Tax-free – Accelerated benefits paid in connection with terminal illness are generally tax-free if received by an individual taxpayer or trust. Benefits paid in connection with business owned life insurance don't qualify for this favorable taxation. Likewise, chronic illness benefits are intended for use by individual taxpayers. They benefit from tax-free distributions up to the annual limits set by the IRS (\$94,900 in 2007 indexed for inflation). In contrast, gains from life settlements or viatical settlements are generally taxable.
- Extra flexibility – A life insurance policy with an accelerated benefits rider can be an

important supplement to a long-term care policy. In fact, with the modern riders' chronic illness benefits, an insured can use a distribution to help pay for extended nursing or supervisory care. Accelerated death benefits are not meant to replace long-term care coverage. But, the benefit can transform whole life coverage into a bonus layer of coverage for policyholders who need extra assistance or have yet to sign on for long-term care insurance.

Accelerated death benefit options make whole life insurance an even more valuable planning tool for today's consumers. The rider provides an important lifeline, which isn't characteristic of other types of coverage. It is an emergency store of cash for policyholders in times of extraordinary need.

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