

Life



# Accelerated death benefit endorsement

Financial protection to help with critical, chronic, and terminal illness

Client brochure for use with universal life and indexed universal life insurance products

THIS IS NOT LONG-TERM CARE INSURANCE, HEALTH INSURANCE, OR DISABILITY INSURANCE, NOR IS IT INTENDED TO REPLACE THESE PRODUCTS.



## Coverage for your life.

As common as they seem to be, illnesses wreak havoc on the lives of Americans every day, disrupting both family life and financial plans. A life-changing ordeal, illnesses can often cause financial disruption—from paying medical expenses to covering child care and the mortgage.

There is a way, though, to help protect your financial stability. Life insurance provides a death benefit to beneficiaries when the insured passes away. But what kind of protection do you have while alive? North American offers an accelerated death benefit feature on many of our products.

## How it works

Accelerated death benefits attached to a life insurance policy allow the policyowner to accelerate a portion of the death benefit in order to use the benefit while still living. There can be several triggers for this to occur: the insured (the person whose life is covered under the policy) is diagnosed with a critical, chronic, or terminal illness. For those who qualify, this endorsement is added to your policy at no additional premium at the time of issue. The endorsement is subject to eligibility requirements. Availability varies by state and product, and we will not simultaneously accelerate any portion of the policy's death benefit for more than one qualifying event under this endorsement.

The death benefit will be reduced by the amount of the death benefit accelerated. Since benefits are paid prior to death, a discount will be applied to the death benefit accelerated. As a result, the actual amount received will be less than the amount of the death benefit accelerated. There is an administrative fee when the chronic or terminal illness benefit is elected. Talk to your agent for specific details.

### Prepare for the unexpected with living benefits

The unexpected can and does happen. How do you plan to pay for extended nursing care for a chronic condition or the high cost of treatment if you are diagnosed with a critical illness like cancer? If you plan to use your own funds, keep the potential costs in mind.

### Here are some of the costs you might expect to pay:

- Private room in a nursing home - **\$102,204 per year**<sup>1</sup>
- Licensed home health aide (non-Medicare certified) - **\$52,620 per year**<sup>1</sup>
- Cost of some medication used to treat cancer - **\$10,000 per month**<sup>2</sup>

## Frequently asked questions

### How do I qualify for an accelerated death benefit?

A physician must provide written certification that the insured meets the definition for a qualifying event which is a medical condition which results in a terminal, chronic, or critical illness. Please contact your agent for complete details and definitions of benefits and conditions pertaining to this endorsement.

**Critical illness:** Specified medical conditions that may qualify for the critical illness benefit include heart attack, cancer, stroke, major organ transplant, and kidney failure. The policyowner is allowed an election for each occurrence of a specified medical condition. The policyowner must file the claim within 12 months of the specified event occurrence.

1. Source: Genworth 2019 Cost of Care Survey, November 2019. Median cost is quoted.

2. Source: "Cancer treatments costs imperil patients" Forbes, March 25, 2019.

**Chronic illness:** One is considered chronically ill when the insured has been certified through a written certification by a physician within the last 12 months as: 1) being unable to perform, for at least 90 days without substantial assistance from another person, at least two activities of daily living; or 2) requiring substantial supervision by another person to protect oneself from threats to health and safety due to severe cognitive impairment.

**FOR FLORIDA RESIDENTS ONLY:**

A physician must provide written certification that within the last 12 months the insured is chronically ill. This medical certification is valid for 12 months. The insured is considered to be chronically ill if he or she:

- Is unable to perform, for at least 90 days without substantial assistance from another person, at least two activities of daily living (ADLs) due to loss of functional capacity; or
- Requires substantial supervision for protection from threats to health and safety due to severe cognitive impairment. Diagnosis of severe cognitive impairment must be made by a licensed medical practitioner.

Severe cognitive impairment means a deficiency in a person's short-term or long-term memory, orientation to person, place or time, deductive or abstract reasoning, or judgment as it relates to safety awareness.

**Terminal illness:** One is considered terminally ill when a physician provides written certification that the insured has been diagnosed with a medical condition which results in a life span of 24 months or less (12 months or less in Florida).

**For complete details regarding the definitions and qualifications of these benefits, please speak with your agent.**

### What tasks are considered activities of daily living?

The activities of daily living are bathing, continence, dressing, eating, toileting, and transferring.

Activities of daily living are those basic human functional abilities, which measure the insured's ability for self care, to live independently without substantial assistance from another person as described below.

**Bathing** – the ability to wash oneself by sponge bath, or in either a tub or shower, including the task of getting into or out of the tub or shower

**Continence** – the ability to maintain control of bowel and bladder function; or, when unable to maintain control of bowel or bladder function, the ability to perform associated personal hygiene (including caring for catheter or colostomy bag)

**Dressing** – the ability to put on and take off all items of clothing and any necessary braces, fasteners, or artificial limbs

**Eating** – the ability to feed oneself by getting food into the body from a receptacle (such as a plate, cup, or table) or by a feeding tube or intravenously

**Toileting** – the ability to get to and from the toilet, getting on and off the toilet, and performing associated personal hygiene

**Transferring** – the ability to move into or out of a bed, chair, or wheelchair.

## Did you know?

Individuals with chronic and mental health conditions make up **90%** of health care expenses in the United States each year.<sup>3</sup>

3. Source: Center for Disease Control. Retrieved June 13, 2019, from <https://www.cdc.gov/chronicdisease/about/costs/index.htm>

## How much of the policy death benefit can be accelerated?

The total amount of death benefit available for acceleration is \$2,000,000 per policy.

**Critical illness:** The maximum amount of the death benefit that may be accelerated is 25% of the death benefit at the time of each election or \$50,000, whichever is less. The minimum at each election is \$2,500. Only one election can be made for each occurrence of a specified medical condition.

**Chronic illness:** The minimum amount of the death benefit that can be accelerated per election, except the final election, is 5% of the death benefit on the initial election date or \$50,000, whichever is less. The maximum amount per election is 24% of the death benefit on the initial election date or \$480,000, whichever is less. One election is available every 12 months.

**Terminal illness:** The minimum amount of the death benefit that can be accelerated is 10% of the death benefit or \$100,000, whichever is less on the election date. The maximum amount that can be accelerated is 90% of the death benefit on the election date or \$1,000,000, whichever is less. Only one election can be made for terminal illness per policy.

## Did you know?

More than **5 million** Americans have Alzheimer's disease.<sup>4</sup>

## How much does the accelerated death benefit cost?

There is no additional premium at time of issue for the accelerated death benefit feature. However, for chronic and terminal illness elections, we charge an administrative fee (maximum of \$200; maximum of \$100 in Florida) for each election. There is no administrative fee for a critical illness election.

## How can these benefits be offered with no additional premium charge?

A payment the policyowner may receive will be less than the amount of death benefit accelerated because the benefit is paid prior to death. Because of the time value of money (present money has a higher value than future money), an actual payment made is discounted from the full death benefit accelerated. An actual payment depends on a number of factors such as life expectancy and the interest rate environment at the time of election. A shorter life expectancy and/or a lower interest rate will lead to a higher payment.

- For a critical illness election, any payment a policyowner receives will be less than the amount of the death benefit that is accelerated – because the benefit is paid prior to the insured's death. All approved claims will receive a payment guaranteed to be 40% of the death benefit amount accelerated (for example, 40% of \$50,000 = \$20,000), less any amounts needed for debt repayments regardless of the type of specified medical condition, policy age, gender, or underwriting class.
- For a chronic illness election, a payment is discounted based on current interest rates, age at election, death benefit, the fund value at election, and the expected mortality for the chronically ill insured.
- For a terminal illness election, a payment is discounted based on current interest rates using an 18-month time period.

4. Source: Center for Disease Control. Retrieved August 21, 2019, <https://www.cdc.gov/aging/caregiving/alzheimer.htm>

## What effect does acceleration of the death benefit have on the life insurance policy?

The death benefit of the life insurance policy will be reduced by the full amount that is accelerated, prior to the discount. The account value, cash value, and loan balance will be reduced by the same proportion as the death benefit. If the policy contains a Premium Recovery Endorsement, the total premiums paid that are used in the determination of the premium recovery value will be also reduced by the same proportion as the death benefit.

Please note that if the policy has policy debt (i.e., loans against the policy), policy debt must be reduced in the same proportion to the amount of death benefit accelerated with a portion of the accelerated death benefit payment used to pay down policy debt. Since benefits are paid prior to death, a discount will be applied to the death benefit accelerated. As a result, the actual amount received will be less than the amount of the death benefit accelerated.

During a critical illness or chronic illness election period, the policyowner may not increase or decrease the specified death benefit amount, change the death benefit option, or take withdrawals; however, loans are available.

## Did you know?

**One-third** of all deaths in the United States are caused by heart disease, stroke, and cardiovascular diseases.<sup>5</sup>

5. Source: Centers for Disease Control and Prevention. Retrieved August 21, 2019, from <https://www.cdc.gov/chronicdisease/resources/publications/factsheets/heart-disease-stroke.htm>





**Chronic illness final election** – The final election occurs if all of the eligible death benefit minus the residual death benefit is accelerated. The residual death benefit is the greater of 5% of the death benefit on the initial election date or \$10,000. At the time of a final election, the benefit payment must first be applied to pay off any outstanding policy debt as loans are no longer available. All riders and endorsements, except this endorsement, attached to the policy will terminate, however, the Accidental Death Benefit, if any, will not be affected by the acceleration of death benefits under this endorsement.

**Terminal illness** – After a terminal illness election, the policyowner is allowed to increase or decrease the specified death benefit amount or change the death benefit option and take withdrawals and/or loans.

### Do I have to pay premiums after electing a benefit?

For terminal illness accelerated death benefits, we waive all premium requirements after we pay an accelerated death benefit.

When the chronic illness benefit is elected we waive monthly deductions (i.e., cost of insurance and other fees) after paying an accelerated death benefit for a chronic illness. We waive monthly deductions if the death benefit immediately prior to the initial election date does not exceed \$2,000,000 while a chronic illness election is in effect. Monthly deductions will stop being waived after the chronic illness election period.

## Did you know?

In the United States, **60 percent** of adults have a chronic disease and **40 percent** have multiple chronic diseases.<sup>6</sup>

6. Source: Centers for Disease Control and Prevention. Retrieved June 13, 2019, from <https://www.cdc.gov/chronicdisease/about/index.htm>

Although we don't waive monthly deductions for the critical illness accelerated death benefit, we will not allow the policy to lapse for the six months immediately following each election. This gives the policyowner time to review finances and make decisions to fit his or her needs. Ongoing premiums will be reduced and would be based on the new, lower death benefit amount.

### **May I elect to receive an accelerated death benefit right away?**

There is no waiting period after you elect to accelerate the death benefit, as long as a physician certifies that the insured meets the qualifications for the benefit as defined in the endorsement.

### **Do I have to spend the money on medical-related expenses?**

North American does not require you to submit receipts or use the benefit to cover specific costs. Generally, the accelerated benefit payment can be used for any purpose with few limitations or restrictions on benefits.

### **Is it possible to qualify for a life insurance policy, but not the accelerated death benefit feature?**

Yes. You will not qualify for critical or chronic illness coverage if your health is rated too far below a "standard" rating, or if you have a specific health condition that requires an extra premium charge known as a "medical flat extra." If you qualify for life insurance coverage, then the terminal illness accelerated death benefit endorsement will be issued on the policy.

### **Are these endorsements the same as long-term care insurance?**

No. Accelerated death benefits for critical, chronic, and terminal illness provide a portion of the life insurance policy's death benefit in advance, so the ultimate policy death benefit paid to the beneficiary is reduced. Traditional long-term care insurance can be a stand-alone policy or optional rider with its own premiums. Please keep in mind that these benefits are not intended to replace health or disability insurance. As a reminder, this is not long-term care insurance and it is not intended to replace long-term care insurance.

### **Are there tax consequences?**

Since the accelerated benefits are life insurance proceeds, they are generally tax-free, however, there may be circumstances that can make them taxable. North American does not give legal or tax advice. Please consult with and rely on a qualified legal or tax advisor.

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**Talk to your financial professional today  
about these valuable features for your policy!**

Texas applicants: Receipt of acceleration-of-life-insurance benefits may affect your, your spouse's, or your family's eligibility for public assistance programs such as medical assistance (Medicaid), Aid to Families with Dependent Children (AFDC), supplementary social security income (SSI), and drug assistance programs. You are advised to consult with a qualified tax advisor and with social service agencies concerning how receipt of such a payment will affect your, your spouse's, and your family's eligibility for public assistance.

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