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Accelerated Death Benefit Endorsements

Financial protection against critical, chronic, and terminal illnesses





Financial Protection against Critical, Chronic and Terminal Illnesses

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 security. Life insurance provides a death benefit to beneficiaries when the insured passes away. But what kind of protection do you have while alive?

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 the insured is 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 qualifying critical, chronic or terminal illness. For those who qualify, these benefits are added to the policy at no additional premium at the time of issue.

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 – \$97,452 per year¹
- Licensed home health aide (non-Medicare certified) – \$49,188 per year¹
- Average out-of-pocket expenses for cancer patient – \$712 per month²

1. Source: Genworth 2017 Cost of Care Survey, June 2017. Median cost is quoted.

2. Source: “Even Insured Patients Are Overwhelmed by The Cost of Cancer Care” Forbes, August 10, 2017.

A Real-life **Example of Accelerated Death Benefits**

We never think the worst could happen to us, until it does. Mike Anderson* was a healthy, physically fit 63-year-old. Unexpectedly, Mike suffered a cerebral hemorrhage and was completely paralyzed. This life-threatening condition put his family into immediate shock, as he had been very active and had no history of health issues. Mike and his wife, Laurie*, had educated their four children and had recently purchased a high-priced home that came with a big mortgage. Clearly, Mike's health was the most important issue; however it was hard for Laurie and her family to ignore the medical costs that were ahead of them. "This came out of nowhere and we were going to need a miracle," said Laurie.

Fortunately, Mike had a Midland National life insurance policy that had an special feature that allows an eligible policyowner to "accelerate" a portion of the death benefit annually for a chronic illness. For the Andersons, the accelerated death benefit made a world of difference. After qualifying for the benefit, the family received a check for \$145,000 to help cover the expenses for Mike's care. "I believe we got the best of both worlds because we received a portion of the policy proceeds when we needed it most and still have the remainder of the death benefit. It was truly a gift that we were able to be helped," said Laurie.

*Based on a true story. Client names were changed to protect identity.



Frequently Asked Questions

How do I qualify for accelerated death benefits?

A physician must provide written certification that the insured is critically, chronically or terminally ill.

- **Critical Illness:** Conditions that may qualify for the critical illness benefit include heart attack, cancer, stroke, major organ transplant, and kidney failure. Please contact your agent for complete details and definitions of benefits and conditions pertaining to this endorsement. 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.
- **Chronic Illness:** One is considered chronically ill if he or she is unable to perform, for at least 90 consecutive days without substantial assistance from another person, at least two Activities of Daily Living (bathing, continence, dressing, eating, toileting and transferring) or requires substantial supervision by another person to protect against threats to health and safety due to severe cognitive impairment.
- **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.

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

How much of the policy death benefit can be accelerated?

The total amount of death benefit available for acceleration is \$1,000,000 per policy.

- **Critical Illness:**
 - The minimum accelerated amount is \$2,500 of the death benefit.
 - The maximum total election for each occurrence is the lesser of 25% of the death benefit or \$50,000.
 - All approved claims will receive a benefit payment guaranteed to be 40% of the death benefit amount accelerated regardless of the type of critical illness event, policy age, severity of illness, gender or underwriting class.
 - One election can be made for each different occurrence of a specified critical illness event.
- **Chronic Illness:** The minimum accelerated amount at each election, except the final election, is 5% of the death benefit or \$50,000, whichever is less. The maximum per election is 24% of the death benefit or \$240,000, whichever is less. One election is available every 12 months. A discount factor will be applied to the accelerated death benefit payment*.
- **Terminal Illness:** The minimum accelerated amount is 10% of the death benefit or \$100,000, whichever is less on the election date. The maximum that can be accelerated is 75% of the death benefit or \$750,000, whichever is less. Only one election per policy can be made for terminal illness. A discount factor will be applied to the accelerated death benefit payment.*

Did you know?

As a nation, **86%** of our health care dollars goes to treatment of chronic diseases.³

3. Source: Center for Disease Control. Retrieved July 1, 2016, from <http://www.cdc.gov/chronicdisease/index.htm>

* 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.

How much does the accelerated death benefit cost?

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

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

The payment is designed to be actuarially equivalent to the death benefit that would have been paid at the time of death. Because of the time value of money (present money has a higher value than future money) we discount the actual payment made from the full death benefit accelerated.

A payment the policyowner may receive will be less than the amount of death benefit accelerated because the benefit is paid prior to death. 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 accelerated death benefit payment.

- For critical illness, all approved claims will receive an accelerated death benefit payment that is 40% of the death benefit amount accelerated, less any amounts needed for debt repayments. So a \$50,000 death benefit acceleration would result in a payment of up to \$20,000 ($50,000 \times 40\% = 20,000$) because of the discount method that's applied.
- For a chronic illness election, a payment is discounted based on current interest rates, age at election, death benefit, the account 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.

What affect 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.

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. So a portion of the accelerated death benefit payment will be 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.

Did you know?

15.4% of nursing home residents have Alzheimer's Disease.³

3. Source: Center for Disease Control. Updated June 28, 2017 from <https://www.cdc.gov/chronicdisease/overview/index.htm>

Do I have to pay premiums after electing a benefit?

This mainly relates to term life insurance products which involve a specified required premium. For terminal illness accelerated death benefits, we waive all premium requirements after we pay an accelerated death benefit. Chronic and critical illness accelerated death benefits are not available on term products.

The chronic illness accelerated death benefit is available on our permanent life insurance products. 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 for the first \$1,000,000 of the policy's death benefit while a chronic illness election is in effect.

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.

Did you know?

Seven of the top 10 causes of death in 2010 were chronic diseases. Two of these chronic diseases—heart disease and cancer—
together accounted for nearly
48% of all deaths.⁴



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. Please note that the physician must certify that the insured has been chronically ill for at least the previous 90 consecutive days in order to qualify for a chronic illness benefit.

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

Midland National 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. See the “Are there tax consequences?” question on the next page for details on tax treatment.

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 accelerated death benefits if your health is rated too far below a certain underwriting risk classification 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 with the policy. Ask your Midland National agent to help determine which benefit is available in your case. Benefit availability differs by state and type of life insurance policy.

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

No. The Accelerated Death Benefit Endorsement for critical, chronic and terminal illness provides 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 are circumstances that can make them taxable. Midland National does not give legal or tax advice. Please consult with and rely on a qualified legal or tax advisor.

Did you know?

In 2012, **117 million Americans** had at least one chronic illness. One in four has two or more.⁴

4. Source: Centers for Disease Control and Prevention. Updated June 28, 2017 from <https://www.cdc.gov/chronicdisease/overview/index.htm>

Critical Illness is not available in Connecticut. Midland National is not licensed in the state of New York. Other state availability restrictions may apply. Talk to your Midland National agent about what's available by product in your state.

Texas Residents: Receipt of acceleration-of-life-insurance benefits may affect you, your spouse 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 you, your spouse and your family's eligibility for public assistance.

Accelerated Death Benefit Endorsement for Critical, Chronic and Terminal Illness (form series TR169), the Accelerated Death Benefit Endorsement for Chronic and Terminal Illness (form series TR153, TR155 and TR184), Accelerated Death Benefit Endorsement for Terminal Illness (form series TR154, TR156 and TR185), are issued by Midland National Life Insurance Company, Administrative Office, One Sammons Plaza, Sioux Falls, SD. Products, features, riders, endorsements or issue ages may not be available in all jurisdictions. Limitations or restrictions may apply.

Midland National does not give legal or tax advice. Please consult with and rely upon a qualified legal or tax advisor.

Accelerated Death Benefits are subject to eligibility requirements.

ACCELERATED DEATH BENEFITS ARE NOT HEALTH, DISABILITY OR LONG TERM CARE INSURANCE NOR ARE THEY INTENDED TO REPLACE HEALTH, DISABILITY, OR LONG TERM HEALTH INSURANCE.



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