The living benefits of life insurance: Eye on 2 riders

Life insurance can provide much more than a death benefit. With a chronic illness rider, it can also help to pay for expenses resulting from a long-term illness.

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Seven in 10 people age 65-plus will need chronic illness care later in life. And most are unprepared for the financial cost.

Most people have a basic understanding of life insurance: as a product that provides a death benefit for loved ones left behind. But what about using life insurance to protect against other financial risks?

The chances of a long-term illness, for instance, are greater than many people realize. More than one out of every four of today's 20-year-olds will become disabled before they retire. And, seven out of 10 people age 65 and older will need chronic illness care later in life.

Most Americans are unprepared for the financial costs of a long-term illness. Two-thirds of people surveyed by Bankrate in 2014 said they have less than six months' worth of living expenses in emergency savings. And half have set aside less than three months' worth of expenses. It's no surprise, then, that medical bills are the leading cause of U.S. bankruptcies.

Three to four times more advisors are placing hybrid products as are writing stand-alone long-term care solutions.

While it may surprise many of your clients, life insurance can help them overcome this challenge by integrating a chronic illness rider, which offers some important benefits over a **long-term care (LTC) rider**.

A chronic illness rider is an accelerated benefit rider. Unlike an LTC rider, the insured only pays for the rider when used. It allows the insured to access a portion of their death benefit early if he or she is diagnosed with a chronic illness and eligibility requirements are met.

<u>Chronic illness rider vs. an LTC rider. Understand the key differences:</u>

	Chronic Illness Rider	**Long-Term Care Rider**
Internal Revenue Code (IRC) Tax Status	Typically qualifies for tax-beneficial treatment as life insurance under 101(g) tax code	Typically qualifies for tax-beneficial treatment as health benefits under 7702(b) tax code
Cost	Often has no up-front charge; an administrative charge may be applied if a claim is made	Generally has an annual charge
Benefit Payment	Indemnity – benefits are paid regardless of expense	Typically reimbursement – Receipts must be shown to prove qualifying LTC expense
Underwriting Requirements	Often requires no additional underwriting	Additional underwriting often required
Health License Required to Sell?	No	Yes
Permanent Condition Needed to Qualify?	Yes	No
Benefit Duration	Annual benefit – Can typically be used multiple times as lifetime maximum allows	Generally paid out over a period of years, on a monthly, quarterly, semi-annual or annual basis
Benefit Calculation	Benefit is generally calculated at the time of claim – A discount factor is applied to determine the actual payment amount	Benefit determined at issue –Typically a percentage of face amount (e.g., 1%, 2% or 4%)
Death Benefit	Benefits paid usually reduce the death benefit amount	Often has a residual death benefit

Prospecting tips

- Which clients might need a chronic illness rider? Look for those who fit any of these criteria:
- Have a family history of longevity
- Have experienced a recent care event with a family member or friend
- Are concerned about outliving their spouse
- Have a family history of chronic illness
- Would need income for expenses if they became chronically ill

Add value and build relationships

Your clients count on you for protection against a variety of financial risks. By helping them understand the need for protection against chronic illness expenses and determining which approach is best for them, you can provide a much-needed service while building relationships and enhancing your credibility.