

NOT FOR USE IN CALIFORNIA

# Accelerated Death Benefit Endorsements for Term Life

Financial protection against critical, chronic, and terminal illnesses

*Client Brochure*

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



**North American Company**  
for Life and Health Insurance  
Since 1886

| *Life*



## Financial protection against critical, chronic and terminal illnesses

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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? Unlike many other carriers, North American offers accelerated death benefit endorsements for critical, chronic and terminal illnesses with the purchase of our ADDvantage® term life insurance product, at no additional premium.

### 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 year<sup>1</sup>
- Licensed home health aide (non-Medicare certified) – \$49,188 per year<sup>1</sup>
- Average out-of-pocket expenses for cancer patient – \$703 per month<sup>2</sup>

\* Throughout this document, “death benefit” means the face amount or proceeds payable to the beneficiary upon proof of insured’s death.

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

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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 life insurance policy that had a 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

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## 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 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.
- **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.

## Does the severity of the illness affect the benefit payment amount?

Yes. While the Chronic and Critical Illness benefits provided by our Premier Term Life Insurance may provide valuable benefits, it is also important to remember that whether benefits are payable, as well as the amount of any benefit, will depend on the impact an illness has on future mortality. Many illnesses, even certain forms of cancer, actually have a minimal impact on future mortality. This means that while your illness may be serious, it could be of a nature that would result in either a small benefit or even no benefit at all. If you make a claim to receive these benefits, we will assess mortality and other factors in determining the amount of any benefit that may be payable. We may also determine that a minimum impact to mortality or another factor results in no benefit being payable.

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

The maximum amount of death benefit available for acceleration is \$2,000,000 per policy\*, however, the actual amount you would receive for a critical or chronic illness would depend on the time you elect the benefit. Additionally, the final payment amount we determine for you will be reduced by two factors:

1. An actuarial discount, which is essentially a discount based on our evaluation of your life expectancy. The shorter the life expectancy, the larger your payment, and the longer the life expectancy, the smaller the payments.
2. An administrative fee of \$500 or less.

\*Policies receiving the terminal illness only endorsement can accelerate up to \$1,000,000 per policy.

## Did you know?

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

- **Critical illness:** The minimum accelerated amount at each election, except the final election, is 10% of the death benefit on the election date or \$100,000, whichever is less. The maximum per election is 90% of the death benefit on the initial election date or \$1,000,000, whichever is less. One election can be made for each different occurrence of a specified critical illness event. A discount factor will be applied to the accelerated death benefit payment.<sup>4</sup>
- **Chronic illness:** The minimum accelerated amount at each election, except the final election, is 5% of the death benefit on the election date or \$50,000, whichever is less. The maximum 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. A discount factor will be applied to the accelerated death benefit payment.<sup>4</sup>
- **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 90% of the death benefit on the election date or \$1,000,000, 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.<sup>4</sup>

### How much does the accelerated death benefit cost?

There is no additional premium at issue for the accelerated death benefit feature. However, we charge an administrative fee for each election, after applying the discount to the accelerated death benefit amount. The current and maximum administrative fee for a terminal illness election is \$200 (\$100 in Florida). The current administrative fee for each critical and chronic illness election is \$250, and the maximum is \$500. The administrative fee may vary by jurisdiction.

### 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.

### 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.

## Did you know?

**15.4%** of nursing home residents have Alzheimer's Disease.<sup>3</sup>

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

4. 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.

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

For a terminal illness election, North American waives all premiums after paying the benefit. For chronic and critical illness elections, premiums are not waived. However, future premium payment amounts are reduced because they will be based upon a lower remaining death benefit amount. The policy fee will remain the same.

## 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 days in order to qualify for a chronic illness benefit.

## 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.**<sup>5</sup>



## **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. See the “Are there tax consequences?” question below 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 North American 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.

## **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. North American does not give legal or tax advice. Please consult with and rely on a qualified legal representative or tax advisor.

## **Did you know?**

In 2012, **117 million Americans** had at least one chronic illness. One in four had two or more.<sup>5</sup>

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

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.

ADDvantage Term (policy form series LS174), Accelerated Death Benefit Endorsement for Critical, Chronic, and Terminal Illness for Term Life (form series LR508), Accelerated Death Benefit Endorsement for Chronic and Terminal Illness for Term Life (form series TR507), and Accelerated Death Benefit Endorsement for Terminal Illness for Term Life (form series TR506) are issued by North American Company for Life and Health Insurance Administrative Office, One Sammons Plaza, Sioux Falls, SD 57193. Products, features, endorsements, riders or issue ages may not be available in all states and jurisdictions. Limitations or restrictions may apply.

North American Company does not give legal or tax advice. Please consult with and rely upon a qualified legal or tax advisor.

**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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