

Guide To Life Insurance Riders



Life Insurance Riders are an often overlooked way to add value to your clients' policies. They can provide additional coverage for a variety of situations and offer protection both during the insured's lifetime and at death. Below is a brief description of some of the more common types of life insurance riders – educating yourself on these options can help you when designing a policy to best meet your clients' needs.

ACCELERATED DEATH BENEFIT RIDERS

Long Term Care

- An acceleration of death benefit to be used for long term care expenses that pays if the insured is unable to perform two of six activities of daily living (ADLs) or has a severe cognitive impairment and has met the required elimination period
- Reduces both the death benefit and cash surrender values
- Reimbursement or indemnity versions available
- Pays permanent and temporary claims
- Amount available for acceleration is limited to a carrier-stipulated amount such as a monthly benefit equal to 2% of LTC specified amount, HIPAA per diem limits, etc.

Chronic Illness

- An acceleration of death benefit to be used for chronic illness expenses that pays if the insured is unable to perform two of six ADLs or has a severe cognitive impairment and has met the required elimination period
- Indemnity version only
- Most only pay permanent claims, while others pay permanent and temporary claims
- Methods of paying for the rider:
 - » Additional cost of insurance (COI) is charged for some chronic illness riders
 - » Riders built-in to the policy with no upfront costs impose back-end charges (discounts) when rider is exercised
 - » Riders built-in to the policy with no upfront costs put a lien on the policy when the rider is exercised
- Amount available for acceleration is limited to a carrier-stipulated amount such as lump sum payout up to \$1M, monthly benefit equal to 2% of DB, HIPAA per diem limits, etc.

Critical Illness

- An acceleration of death benefit to be used if the insured is certified with a critical illness that the carrier includes in its list of covered conditions
- Amount available for acceleration is limited to a carrier-stipulated amount

Terminal Illness

- An acceleration of death benefit to be used if the insured is certified to be terminally ill with a life expectancy usually of one year or less
- Amount available for acceleration is limited to a carrier-stipulated amount

ACCIDENTAL DEATH BENEFIT (ADB) RIDER

- Provides an additional death benefit to be paid to the beneficiary should the insured die as the result of an accident

ENHANCED CASH VALUE RIDER

- Enhances the cash surrender value by waiving or reducing the surrender charge if a policy is surrendered during the surrender charge period
- Often used in business situations or premium finance cases when clients need to show higher cash values on the balance sheet
- Compensation is often spread while the rider is in effect

INCOME RIDERS

- There are two types of Income Riders available:
 - » Acceleration of death benefit subject to maximum number of years payments are available, or
 - » Income via withdrawals and policy loans at an additional charge with income guaranteed for life

LIQUIDITY/ROP RIDER

- Allows for opportunities in years 15, 20, 25 and beyond to surrender the policy for Return of Premium or the policy's surrender value (subject to carrier limitations)

OVERLOAN PROTECTION RIDER

- Converts the policy to a paid-up policy to prevent a heavily loaned policy from lapsing and triggering a taxable event
- Typically free of charge at issue, a one-time charge may be applied when exercised

TERM INSURANCE RIDERS

Primary Insured

- Provides level term insurance on the primary insured
- When combined with base coverage, it can reduce premium costs for the amount of coverage as compared to the cost of a permanent life insurance plan of the same face amount

Additional/Other Insured

- Provides a fixed amount of term insurance on a family member or an associate for a specified period of time

Child Term

- Provides term insurance on the insured's dependent children
- Usually purchased in units of \$1,000 up to a carrier's stated maximum amount available
- Usually convertible to permanent insurance

WAIVER OF PREMIUM RIDER

Monthly Deductions

- Provides for a waiver of monthly policy charges if the insured becomes disabled (as defined by the carrier)

Specified Premium

- Pays a specific premium amount chosen by the applicant (up to certain maximum amounts) if the insured satisfies a stated disability elimination period
- Each premium waived will be credited to the policy as a paid premium

Full Premium

- Pays the full premium if the insured satisfies a stated disability elimination period

All guarantees subject to the claims paying ability of the issuing insurer.

Policy riders are available at an additional cost and may not be available for all products. Terms and conditions apply.

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