Critical Illness Riders: Life Insurance Protection for the Living

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A new twist on the traditional life insurance policy that protects against expenses incurred because of critical illnesses is attracting clients’ interest once again. Critical illness benefits that are attached to a traditional life insurance policy could encourage the purchase of life insurance by clients who do not want to lock funds into a contract that pays no benefits until after death. Adding benefits that can be used during life places the traditional life insurance policy in a new light and is sure to increase the appeal of these products for clients who are on the fence regarding the value of life insurance.

# The Basics of Critical Illness Protection

A critical illness rider essentially allows a client to accelerate a portion of the death benefit he would realize on the life insurance policy. Instead of paying out only upon death, these policies provide a benefit if the insured is diagnosed with one of several specified critical illnesses. Typically, the specified illnesses are either terminal diseases or chronic illness that will require continuous care over an extended period. The enumerated diseases often include illnesses such as heart attacks, strokes, and cancer.

Unlike traditional health insurance, the insured can use the critical illness benefits to pay for anything he chooses—the proceeds are paid directly to the insured and there are no spending limits. Therefore, a client can use the insurance proceeds to pay for basic living expenses that are not directly related to the medical care he receives, or for medical care not covered by health insurance.

Further, when the client is diagnosed, he has the *option* of accelerating benefits under the policy. This allows the client to choose whether the proceeds are needed to fund current living expenses or whether he would prefer that the entire benefit remain available to the policy beneficiaries as a traditional death benefit.

# What to Watch For

The amount of the accelerated benefit that will be made available depends upon a number of factors, including the diagnosis and the insured’s life expectancy at the time of the diagnosis.

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The insurance company providing the policy formulates an accelerated benefit offer based on medical information provided by the insured’s physicians.

Typically, the accelerated benefit is calculated as a percentage of the eventual death benefit that would be available under the policy—likely in the range of 40 to 70 percent. Some policies also require that the policy be in effect for a period of time before the accelerated benefit becomes available.

Importantly, the client should be advised that if he chooses to receive the entire accelerated benefit, the policy will terminate upon receipt. However, if he chooses to receive only a portion of the accelerated benefit, the policy can continue and provide an eventual death benefit in addition to the fraction of the accelerated benefit that the insured accepts.

If the insured is fortunate enough to never need the accelerated benefits, the policy continues as any other life insurance policy and will eventually provide a full death benefit to the beneficiaries.

# Conclusion

Adding a critical illness rider to a traditional life insurance contract can provide extra security to clients who are worried about being unable to support their families in the event of illness. This added benefit is sure to increase the value of these policies in the eyes of many of the life insurance skeptics in your client base.