Life Policy Riders

This section takes an in-depth look at various riders available in life insurance policies issued in this state. You will learn about riders that offer benefits in case of the insured's disability, such as waiver of premium, disability income, living need, and accidental death and dismemberment riders. You will also learn about riders that provide protection from inflation or offer additional coverage based on the insured's needs. Finally, you will review riders available in variable annuities.

TERMS TO KNOW

Activities of daily living (ADLs) — a person's essential activities that include bathing, dressing, eating, transferring, toileting, continence
Indemnity — a principle of reimbursement on which insurance is based; in the event of loss, an insurer reimburses the insureds or beneficiaries for the loss
Lump sum — payment of the entire benefit in one sum
Principal amount — the face value of the policy; the original amount invested before the earnings
Terminal illness — disease that cannot be cured or treated, often resulting in death
Waiver — the relinquishment or surrender of some known right or privilege

A. Waiver Of Premium And Waiver Of Monthly Deduction

Educational Objective:

III.1. Be able to identify which of an applicant's needs may be fulfilled by each of the following policy riders or clauses:

a. Disability income
b. Waiver of premium or waiver of monthly deduction in universal life policies
c. Accidental death
d. Cost of living
e. Accelerated death benefits (living need rider, terminal illness rider and/or critical illness rider)
f. Guaranteed insurability
g. Long-term care
h. No-lapse guarantees (universal life policies)
i. Guaranteed minimum income and guaranteed minimum withdrawal riders in life and annuity contracts

The **waiver of premium** rider waives the premium for the policy if the insured becomes totally disabled. Coverage remains in force until the insured is able to return to work. If the insured is never able to return to work, the premiums will continue to be waived by the insurance company. Most insurers impose a 6-month **waiting period** from the time of disability until the first premium is waived. If the insured is still disabled after this waiting period, the insurer will refund the premium paid by the insured from the start of the disability. This rider usually expires when the insured reaches age 65.

Know This! Waiver of premium rider waives the premium for a total disability after a waiting period.

The **waiver of cost of insurance** (or waiver of monthly deductions) rider is found in Universal Life Insurance. In the event of disability of the insured, this rider waives the cost of the insurance and other expenses, but does not waive the cost of premiums necessary to accumulate cash values.

B. Disability Income

With the **disability income** rider, in the event of disability the insurer will waive the policy premiums *and* pay a monthly income to the insured. The amount paid is normally based on a percentage of the face amount of the policy to which it is attached.

C. Accidental Death And Dismemberment

The **accidental death rider** pays some multiple of the face amount if death is the result of an accident as defined in the policy. Death must usually occur within 90 days of such an accident. The benefit is normally two times (**double indemnity**) the face amount. Some policies pay triple the face amount (**triple indemnity**) for accidental death.

Each policy specifies what will be considered *accidental death*. Accidental death does not include death that results from any health problem or disability. In addition, deaths that result from self-inflicted injuries, war, or hazardous hobbies or avocations are usually not covered. They would be covered under the base policy unless specifically excluded.

This rider often expires at the insured's age 65. No additional cash value is accumulated as a result of this rider. The accidental death benefits apply only to the policy's base face amount, and not to any additional benefits that may be purchased from policy dividends.

The **accidental death and dismemberment rider (AD&D)** pays the **principal** (face amount) for accidental death, and pays a percentage of that amount, or a **capital sum**, for accidental dismemberment. The accidental death portion is the same as that already discussed with the accidental death rider. The dismemberment portion of the rider will usually determine the amount of the benefit according to the severity of the injury. The full principal amount will usually be paid for loss of two hands, two arms, two legs or the loss of vision in both eyes. A capital amount is usually limited to half the face value and is payable in the event of the loss of one hand, arm, leg, or eye. The dismemberment can be defined differently by insurance companies, from the actual severance of the limb to the loss of use.

D. Cost Of Living

The **cost of living** rider addresses the inflation factor by automatically increasing the amount of insurance *without evidence of insurability* from the insured. The face value of the policy may be increased by a cost of living factor tied to an inflation index such as the Consumer Price Index (CPI).

E. Accelerated Death Benefits

The **Accelerated Benefit** or **Living Needs Rider** provides for an early payment of part of the policy death benefit if the insured is diagnosed with a terminal illness that will result in death within 2 years, or has other qualifying conditions. It does not cover disability. The purpose of this rider is to provide the insured with the necessary funds to take care of necessary medical and nursing home expenses that incur as a result of the terminal illness. Many insurance companies do not charge for this rider since it is simply an advance payment of the death benefit. The remainder of the policy proceeds are payable to the beneficiary at the time of the insured's death.

In California, the accelerated death benefit is fixed at the time the insurer approves the request for the accelerated death benefit. The insured has an option to take the accelerated death benefits **in a lump sum** upon a qualifying event, or to receive the benefit **in periodic payments** for a specified period of time only. *(CIC 10295.1)*

F. No-Lapse Guaranteed Rider

As the name implies, the no-lapse guarantee rider prevents policy from lapsing even if the cash surrender value is not sufficient to cover the policy's monthly charges. It is usually available in **universal life policies**, and while it limits the policyowner's flexibility in premium payments, it eliminates the risk of policy lapsing.

G. Option To Purchase Other Insurance (Guaranteed Insurability)

The **guaranteed insurability** rider allows the insured to purchase additional coverage at specified future dates (usually every 3 years) or events (such as marriage or birth of a child), without evidence of insurability, for an additional premium. When this option is exercised, the insured purchases the additional coverage at his or her attained age. This rider usually expires at the insured's age 40.

The guaranteed insurability rider is not modified or defeated by the existence of other riders.

Example:

Alan's life insurance policy contains both guaranteed insurability and waiver of premium rider. Three years after the policy was issued, Alan was totally and permanently disabled. Not only are Alan's life insurance premiums waived, but at the specified times or events stated in the policy, Alan may purchase additional amount of insurance with the premiums on those increases also waived.

H. Long-Term Care

Long-Term Care (LTC) coverage, which is often purchased as a separate policy, can also be marketed as a rider to a life insurance policy. These riders provide for the payment of part of the death benefit (called accelerated benefits) in order to take care of the insured’s health care expenses, which are incurred in a nursing or convalescent home. As with the living needs rider, payment of LTC benefits will reduce the amount payable to the beneficiary upon the insured’s death.

Benefits from an LTC policy or rider are often triggered by an impairment of activities of daily living (ADLs) regardless of the cause. ADLs include bathing, dressing, toileting, transferring positions (also called mobility), continence, and eating. Once the insured has passed the elimination period, benefits are then paid from the policy.

1. State Requirements for Insurers and Agents

The law requires that every insurer of long-term care in California establishes marketing procedures to avoid unfair comparison of policies by the agents, and to prevent the sale of excessive insurance. The insurers must also submit a list of all agents authorized to transact long-term care insurance to the Commissioner. These lists must be updated at least **semiannually.**

It is the insurer's responsibility to ensure that its licensees have completed the initial training requirements prior to being authorized to transact individual long-term care insurance. The required training must cover the topic related to long-term care insurance and services, including, but not limited to, state regulations and requirements, available long-term care services and facilities, changes or improvements in long-term care insurance, and alternatives to purchasing of private long-term care insurance.

Each agent authorized to solicit long-term care insurance **must satisfy the training and continuing education requirements**. The training requirements are as follows:

- 8 hours of LTC training annually for the first 4 years after the original license is issued; and
- 8 hours of training every 2-year license term thereafter.

The required LTC training is **included** in the hours required for overall continuing education, not added to them. Note that long-term care training is **not required** when an agent is transacting accelerated death benefit provisions or riders that do not require services.

LTC training is not required when transacting accelerated death benefit provisions or riders.

I. Annuity Riders (Guaranteed Minimum Income And Withdrawal)

Annuity riders are features that allow annuity investors to obtain additional benefit not offered with the original annuity product. Several of the more common riders available for variable annuities are listed below:

- **Guaranteed Lifetime Withdrawal Benefit** – allows the annuity owner to withdraw from the annuity over his or her lifetime that will at least equal the amount paid for the annuity. This rider protects the annuity owners against losing their investments if the value of the annuity drops.
- **Guaranteed Minimum Income Benefit** – allows investors to receive at least a set amount of income annually, regardless of how the underlying investments are performing. This rider provides the same income guarantee to the annuity owner as a fixed annuity would.

J. Chapter Recap

In this chapter, you learned about riders available in life insurance policies. Remember that riders modify policy provisions. Let's recap the major points of this chapter:

RIDERS	
Disability	• *Waiver of premium* - waives the premium if the insured becomes totally disabled; 6 months waiting period before benefits begin • *Waiver of monthly deductions* - waives the cost of insurance in the event of the insured's disability • *Disability income* - waives the premium and pays monthly income
Accelerated Benefit	• Early payment if insured is diagnosed with a specified catastrophic illness • A portion of the death benefit • Death benefit is reduced by the amount paid plus earnings lost by the insurer
Riders that affect the Death Benefit	• *Accidental death* - pays double or triple indemnity if accidental death occurs as defined in the policy; death must occur within 90 days of accident • *Guaranteed insurability* - allows for purchase of additional insurance at specified times without evidence of insurability, at the insured's attained age • *Cost of living* - increases the face amount by a cost of living factor died to inflation
Long-Term Care	• Pays part of death benefit to pay for health care expenses • Reduce amount payable upon death • Producers must complete an 8-hour LTC training annually for 4 years; 8 hours every 2 years thereafter