

Life



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# Accelerated death benefit endorsements for term life

Life insurance endorsements for chronic and terminal illness

*Marketing guide*

Insurance products are issued by North American Company for Life and Health Insurance®



North American automatically includes an accelerated death benefit feature at policy issue for no additional premium on all applicable ADDvantage® Term policies. This feature pays benefits if the owner elects to accelerate the face amount and the insured qualifies for the benefit, as described in this brochure and in the endorsement form. The Accelerated Death Benefit Endorsements for Term Life may cover chronic and terminal illness as outlined below.

## Chronic illness

Coverage for chronic illness allows the owner to accelerate a portion of the face amount when the insured is diagnosed with a chronic illness as defined below.

### Eligibility

All of the following criteria must be met for the proposed insured to qualify for the chronic illness benefit to be attached to the policy:

- Maximum issue age of 80 or less (see product marketing guides for details); and
- Insured is rated at Table 4 or better; and
- No medical flat extras (non-medical flat extras are acceptable).
- Receive completed supplement to life application (see details below)
- Eligibility is also subject to individual underwriting consideration. Underwriting can choose to not offer the benefit based on health history of client even if rating threshold has not been met.

### Supplement to life application

The supplement to life application will be used to determine eligibility for the chronic illness endorsement, in addition to the application, paramedical exam (if required) and medical records (if needed). This form is required to be completed, signed and submitted with the general purpose application. In addition to medical questions, the supplement application contains a question regarding replacement of long-term care insurance. Concerning long-term care insurance: the chronic illness accelerated death benefit is not intended to provide, and does not provide, the same benefits for services as long-term care insurance. It is not long-term care insurance, and is not intended to replace long-term care insurance, and does not eliminate the need for long-term care coverage. If it is indicated on the supplement application that the insured is intending to replace existing long-term care insurance with a life insurance policy, the application will be considered “not in good order” and coverage for the chronic illness endorsement will be denied.

### Qualifications

A licensed health care practitioner must provide written certification that within the last 12 months the insured is chronically ill. This medical certification is valid for 12 months. The insured is considered to be chronically ill if he or she is:

- Being expected to be unable to perform, for at least 90 days without substantial assistance from another person, at least two activities of daily living; or
- Requiring substantial supervision by another person to protect oneself from threats to health and safety due to severe cognitive impairment.

The activities of daily living are bathing, continence, dressing, eating, toileting, and transferring. Activities of daily living are those basic human functional abilities, which measure the insured's ability for self care, to live independently without substantial assistance from another person as described below.

1. **Bathing**—the ability to wash oneself by sponge bath, or in either a tub or shower, including the task of getting into or out of the tub or shower;
2. **Continence**—the ability to maintain control of bowel and bladder function; or, when unable to maintain control of bowel or bladder function, the ability to perform associated personal hygiene (including caring for catheter or colostomy bag);
3. **Dressing**—the ability to put on and take off all items of clothing and any necessary braces, fasteners, or artificial limbs;
4. **Eating**—the ability to feed oneself by getting food into the body from a receptacle (such as a plate, cup, or table) or by a feeding tube or intravenously;
5. **Toileting**—the ability to get to and from the toilet, getting on and off the toilet, and performing associated personal hygiene; and
6. **Transferring**—the ability to move into or out of a bed, chair, or wheelchair.

**Severe cognitive impairment** means deterioration or loss of intellectual capacity that is (a) comparable to (and includes) Alzheimer's disease and similar forms of irreversible dementia, and (b) measured by clinical evidence and standardized tests that reliably measure impairment in the individual's:

- Short-term or long-term memory;
- Orientation to people, places, or time; and
- Deductive or abstract reasoning.

## Benefit amount

**Accelerated death benefit amount**—The total amount of death benefit available for acceleration is \$2,000,000 per policy. This amount includes this endorsement and any other accelerated death benefit attached to the policy. The minimum accelerated death benefit for each claim, except the final election, is the smaller of 5% of the policy death benefit on the initial election date or \$50,000. The maximum accelerated death benefit for each claim is the smaller of 24% of the policy death benefit on the initial election date, or \$480,000. This amount may be smaller for a final election. The accelerated death benefit may be limited when policy changes are made.



**Payment amount**—Any payment the owner may receive will be less than the face amount accelerated. See the discounting method section on page five. A payment is reduced by a discounting method and an administrative fee. The payment will be made in a lump sum or periodic payments.

**Final election**—A final election occurs if all of the available face amount in the policy is accelerated, excluding the residual death benefit. The residual death benefit is equal to 5% of the face amount on the initial election date, or \$10,000 if greater. The residual death benefit only applies to accelerated death benefits for chronic illness.

## Recertification requirements

To comply with federal income tax requirements, a licensed health care practitioner must recertify that the insured is chronically ill if there has not been a certification or recertification within the last 12 months. If no recertification is made, the insured will no longer be considered chronically ill, but will continue to receive any remaining periodic payments for a previously approved election.

## Replacements

When purchasing a life insurance policy with accelerated death benefits for chronic illness, clients may want to replace an existing policy. We will not be accepting replacements of certain products. Below is a list of replacements that will NOT be accepted:

- Life Insurance policy with Accelerated Death Benefits for Chronic Illness
- Life Insurance policy with long-term care rider that provides long term care services
- Stand-alone long-term care policy
- Long-term care partnership insurance policy
- Hybrid policy that includes both a life insurance benefit and long-term benefit where the long-term care benefit is not optional

## Terminal illness

Coverage for a terminal illness allows the owner to accelerate a portion of the face amount when the insured is diagnosed with a terminal illness.

### Eligibility

Terminal illness coverage has the same criteria as the life insurance policy issued, with the maximum issue age of 85. The proposed insured will be eligible for terminal illness coverage even if the insured is ineligible for chronic coverage.

### Qualification

For terminal illness, the licensed health care practitioner must provide written certification that the insured has been diagnosed with a medical condition that is reasonably expected to result in the insured's death within 24 months or less.

### Benefit amount

The minimum accelerated death benefit amount is 10% of the face amount or \$100,000, whichever is less on the election date. The maximum the owner may accelerate is 90% of the face amount or \$1,000,000, whichever is less. We allow only one election per policy for terminal illness. The payment will be paid in a lump sum.

## Licensed Health Care Practitioner certification

In order to qualify for benefits, a licensed health care practitioner or physician must provide written certification that the insured is chronically or terminally ill. A licensed health care practitioner is a physician (within the meaning of section 1861(r)(1) of the Social Security Act), registered nurse, licensed social worker, or other individual whom the United States Secretary of the Treasury may prescribe by regulation.

A Licensed Health Care Practitioner cannot be you, the insured, a member of your immediate family, or a member of the insured's or owner's immediate family, or an employee of the Company. A licensed health care practitioner cannot be compensated in any manner linked to the outcome of a written notice for proof of a qualifying event.

## Electing benefits

To elect benefits under these endorsements, the owner must complete an Application for Election of Accelerated Benefits form, which includes a section for the licensed health care practitioner/physician certification mentioned above. The Application for Election also allows the owner to choose the amount of the death benefit to accelerate, subject to the minimum and maximum election amounts listed for each benefit. The total amount of death benefits accelerated under the policy, including accelerations made under the accelerated death benefit for chronic/terminal illness endorsement and any other riders or endorsements attached to the policy, cannot exceed the lifetime maximum accelerated death benefit.

- If a person qualifies for the Chronic and Terminal Illness endorsement, the lifetime policy maximum is \$2,000,000.
- If a person qualifies for the Terminal Illness endorsement only, the lifetime policy maximum is \$1,000,000.

### Chronic Illness Only:

Two options are available for election of benefits for chronic illness. The insured must complete and submit a benefit application and either provide a written certification from a licensed health care practitioner (LHCP) that the insured is chronically ill or request that North American provide an independent LHCP to conduct the assessment and provide written certification that the insured is chronically ill. We may request additional information if the LHCP's certification and any documentation submitted in support of the benefit application are not sufficient to establish that the insured is chronically ill. At our expense, we have the right to request a physical exam of the insured when and as often as it may reasonably be necessary during the claim review process.

Written consent of any assignee and any irrevocable beneficiaries will be required upon election of benefits for chronic illness and submitted with the application prior to processing.

## Discounting method

An accelerated death benefit payment (the payment) the owner may receive will be less than the face amount accelerated. This payment is reduced by a discounting method and an administrative fee.

### Reduced policy face amount

The policy face amount will be reduced by the face amount accelerated.

### Discounting method for chronic illness

The accelerated amount is discounted. Inputs that may be used in the calculation include:

- Underwriting completed by North American to determine the impact to life expectancy
- The policy's guaranteed annual premiums
- The interest rate currently in effect for accelerated benefit

### Impact of illness on mortality

It is important to remember that many factors will determine whether a Chronic Illness benefit is payable as well as the amount of any benefit payable. The impact an illness has on future mortality is one of the key factors in determining the amount and availability of benefits along with other factors such as age, and the amount of the death benefit and premiums normally payable under the policy. We assess the impact of an illness to mortality in our sole discretion using our established underwriting guidelines.

## Quotes – Accelerated Benefit Summary report

North American's Web Illustration platform provides theoretical benefit payments for chronic illness accelerated death benefit elections according to three generic impacts to the insured's life expectancy. They are described as minor, moderate, and severe impact on future mortality. It is important to note that the actual result of the time of election underwriting process may fall anywhere within this range (i.e. anywhere between minor to severe). With minor to moderate impact on future mortality, the accelerated benefit payment may be zero or minimal.

- **Minor:** Based on health conditions that are reasonably expected to have very little or no effect on the insured's lifespan.
- **Moderate:** Based on health conditions that are reasonably expected to shorten the insured's lifespan by a meaningful amount.
- **Severe:** Based on health conditions that are reasonably expected to shorten the insured's lifespan.

## Hypothetical Example

The hypothetical example below assumes \$24,000 is accelerated. It is representative of various products and ages and is intended to show how the benefit payment can vary across the severity of future mortality impact due to chronic conditions. Please run an actual illustration to obtain sample payouts for a particular product and insured.

Attained age at acceleration	Minor impact on future mortality	Moderate impact on future mortality	Severe impact on future mortality
60	\$0	\$12,000	\$20,000
70	\$0	\$13,000	\$21,000
80	\$0	\$14,000	\$22,000

## Benefit payment amount

An accelerated death benefit payment the owner may receive will be less than the face amount accelerated. The following occurs when a policyowner elects to accelerate the death benefit.

1. The policy face amount is reduced by the accelerated amount.
2. The benefit payment is determined by reducing the accelerated amount by:
  - a. An actuarial discount.
    - For terminal illness elections, the discount is based on current interest rates using an 18-month time period.
    - For chronic illness elections, the discount amount is determined through an underwriting process at the time of election. See the Underwriting at time of election section below.
  - b. An administrative fee. See the administrative fee section below.

## Underwriting at time of election

For a chronic illness election, the actuarial discount is based primarily upon our evaluation of the insured's life expectancy. A shorter life expectancy will result in a larger payment and a longer life expectancy will result in a smaller payment which may be as low as zero dollars (please see Impact of illness on mortality section above). Our evaluation of the insured's health may be based upon several sources including our underwriting manual, published survival rates from medical data, reinsurer review, medical records, and any other underwriting techniques in use at the time of election. The benefit payment will be reduced by the value of all future premiums the company expected to receive on the accelerated amount prior to the death of the insured, as well as lost investment income.

## Discounting method for terminal illness

A payment is discounted based on the interest rate currently in effect for accelerated benefit for a life expectancy of 18 months.

## Administrative fee

We charge an administrative fee for a terminal illness election and for each chronic illness election.



## Premiums

For a terminal illness election, we waive all premiums after paying the benefit. For chronic illness elections, we do NOT waive premiums, nor suspend lapse checking. However, future premium payments are reduced because they are based upon the reduced face amount. Premiums for riders, other than a Waiver of Premium rider, and any policy fee referenced on the Schedule of Policy Benefits, will not be reduced.

## Impact to face amount

The face amount will be reduced in proportion to the face amount that is accelerated. For example, if the face amount before election is \$100,000 and the accelerated death benefit is \$20,000, the face amount will be reduced by 20 percent ( $\$20,000/\$100,000$ ).

## Other riders and endorsements

Upon election of accelerated death benefits, all existing riders and endorsements will continue to be effective, subject to the terms and conditions of each rider or endorsement. The exception is under a final election for chronic illness; in this case, all other riders and endorsements attached to the policy will terminate. However, any accidental death benefit rider on the policy, if any, will not be affected by the accelerated death benefits under the Accelerated Death Benefit Endorsement for Terminal and Chronic Illness.

After the initial election of a chronic illness accelerated death benefit, no additional endorsements or riders may be added to the policy.

## Cancellation in case of death

If the insured dies after the owner elects to receive an accelerated death benefit, but before the accelerated death benefit payment is made, the election will be canceled and the face amount will be paid as described in the policy.

## Reinstatement

Reinstatement of this endorsement will be on the same or more favorable terms as reinstatement of the underlying life insurance policy. If this endorsement is reinstated, the owner will have the same rights under reinstatement as under the endorsement immediately before the due date of the defaulted premium, subject to any provisions endorsed in the endorsement or attached to the endorsement in connection with the reinstatement.

## Limitations

Accelerated death benefits are not available if the law requires the benefit to meet the claims of creditors, whether in bankruptcy or otherwise, or a government agency requires the benefit in order to apply for, obtain, or keep a government benefit or entitlement.

## Term conversions

By current company practice, when a term policy is converted to a permanent policy within the first five policy years, your client may request to add the chronic and/or critical illness benefit without any additional underwriting requirements as long as the policy meets the qualifications listed in the eligibility section of each benefit. The following items are required for conversion:

- Request for conversion or guaranteed exchange form
- Signed Accelerated Death Benefit Endorsement (ADBE) chronic illness supplement application form
- Signed accelerated death benefit summary and disclosure statement, and CA ADBE critical illness summary (if requesting chronic or critical illness on the new policy)
- Please make sure that question one regarding long-term care on the ADBE chronic illness supplement application form is completed. Questions two through nine do not need to be answered.

For converted policies beyond the fifth policy year, the insured can submit evidence of insurability to apply for both the chronic and critical illness accelerated benefit. A change in health will not affect base policy rates; only the availability of the accelerated death benefit endorsement. The following items are required for conversion:

- Application for Internal Exchange form (fully complete medical questions and replacement section)
- Signed ADBE chronic illness supplement application form
- Signed accelerated death benefit summary and disclosure statement and CA ADBE critical illness summary (if requesting chronic or critical illness on the new policy)

These conversion privileges are current company practice and not a guaranteed feature or benefit. For both conversions within or after the first five years, the chronic and critical illness benefits will not be available on the permanent policy if the owner has already exercised the chronic illness benefit on the term policy.

Payment of Accelerated Death Benefits for chronic illness paid under [the] [this] Endorsement is intended for favorable tax treatment under Section 101(g) of the Internal Revenue Code. Accelerated death benefit payments due to chronic illness are subject to limits imposed by the federal government and any amounts received in excess of these limits are includible in gross income. Clients should seek assistance from a qualified tax adviser for assistance with any questions they may have.

**Agents offering, marketing, or selling accelerated death benefits for chronic illness in California must be able to describe the differences between benefits provided under an accelerated death benefit for chronic illness and benefits provided under long-term care insurance to clients. You must provide clients with the ADBE Consumer Brochure for California that includes this comparison. Comparison is for solicitation purpose only, not for conversions.**

**This is not Long Term Care Insurance, nor is it intended to replace Long Term Care Insurance.**

ADDvantage Term (policy form series LS174), Accelerated Death Benefit Endorsement for Chronic and Terminal Illness for Term Life (LR50704), Accelerated Death Benefit Endorsement for Terminal Illness for Term Life (LR50604), and Accelerated Death Benefit Endorsement for Critical Illness (LR498) are issued by North American Company for Life and Health Insurance, West Des Moines, IA. Products, features, endorsements, riders or issue ages may not be available in all states and jurisdictions. Limitations or restrictions may apply.

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