

Life



FOR USE IN CALIFORNIA ONLY.

# Accelerated Death Benefit Endorsement

Life insurance endorsements for critical, chronic, and terminal illness for universal life and indexed universal life insurance products

*Marketing guide*

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



North American includes an accelerated death benefit feature at policy issue for no additional premium on all applicable policies subject to eligibility. These endorsements pay benefits if the policyowner elects to accelerate the death benefit and the insured qualifies for the benefit, as described in this brochure and in the endorsement forms. The **Accelerated Death Benefit Endorsements** may cover critical, chronic and terminal illness as outlined below.

## Critical illness

Coverage for a critical illness allows the owner to accelerate a portion of the death benefit when the insured is diagnosed with a qualifying critical illness. Specific medical conditions that may qualify for the critical illness benefit include heart attack, different types of cancer, stroke, major organ transplant, and kidney failure.

### Eligibility

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

- Maximum issue age of 75 or less (see product marketing guides for details); and
- Insured is rated at Table 2 or better; and
- No medical flat extras (non-medical flat extras are acceptable).
- The insured must be covered under an individual, group health insurance policy, or an HMO or employer plan providing essential benefits in order to be eligible for the Accelerated Death Benefit Endorsement for Critical Illness.

### Qualifications

A licensed health care practitioner must provide written certification that the insured has incurred one of these specified medical conditions. Please keep in mind that the owner must file the claim within 12 months of a qualifying event:

1. **Heart attack** – defined as death of heart muscle due to inadequate blood supply that has resulted in evidence of myocardial infarction based on typical rise and gradual fall of Troponin or more rapid rise and fall of isoenzyme of creatine kinase with muscle and brain subunits (CK-MB) and other biochemical markers of myocardial necrosis with at least one of the following:

- a. Typical clinical symptoms (chest pain may or may not be present);
- b. Characteristic electrocardiogram (ECG or EKG) changes indicating ischemia; or
- c. Coronary artery intervention.

#### 2. **Cancer** – The following cancers are covered:

- a. Any malignant tumor positively diagnosed with histological confirmation and characterized by the uncontrolled growth of malignant cells and invasion of tissue. The term malignant tumor includes leukemia, lymphoma and sarcoma.
- b. Malignant melanoma skin cancer.
- c. All tumors of the breast whether malignant or benign.
- d. All tumors of the prostate histologically classified as having a Gleason score greater than 6 or having progressed to at least clinical TNM classification T2N0M0.

The following are not covered:

- a. All cancers which are histologically classified as any of the following:
  - Premalignant (for example essential thrombocythemia and polycythemia rubra vera);
  - A cancerous disease that does not spread or damage other organs and tissues;
  - A cancerous disease that is not life threatening or localized non-invasive tumors showing only malignant changes; or
  - A surface tumor in which the growth pattern is intermediate between benign and malignant; highly curable but may recur after surgical removal.
- b. Any skin cancer that has been histologically classified as having caused invasion beyond the epidermis (outer skin layer).
- c. Thyroid cancer classified as T1N0M0.

- d. All tumors of the prostate histologically classified as having a Gleason score of 6 or less or not having progressed to at least clinical TNM classification T2N0M0.
- 3. **Stroke** – defined as death of brain tissue due to inadequate blood supply or hemorrhage within the skull resulting in permanent neurological deficit with persisting clinical symptoms or traumatic brain injury or persistent, disabling clinical symptoms still present more than 30 days after the initial event. Transient Ischemic Attack (TIA) is not covered.
- 4. **Major organ transplant** – defined as the undergoing as a recipient of a transplant of bone marrow or a complete heart, kidney, liver, lung, small intestine or pancreas, or inclusion on the United Network of Organ Sharing (UNOS) waiting list. Transplant of any other organs, parts of organs, tissues or cells is not covered.
- 5. **Kidney Failure** – defined as chronic and end stage renal failure (failure of both kidneys to function effectively) diagnosed and managed by a nephrologist, as a result of which regular dialysis is necessary.

View the complete specimen endorsement form for more details.

## Benefit amount

**Accelerated death benefit amount** — The minimum accelerated death benefit amount is \$2,500. The maximum amount per election is 25% of the death benefit at the time of election or \$50,000, whichever is less.

**Payment amount** — Any payment an owner receives will be less than the amount of the death benefit that is accelerated because the benefit is paid prior to the insured's death. The payment will be made in a lump sum. See the discounting method section on page five for additional information.

The owner may file a claim for each qualifying specified medical condition that the insured incurs, and receive up to a maximum amount of \$20,000 for each approved claim. The dollar amount accelerated for critical illness assumes the policy has no outstanding loans. A portion of the accelerated death benefit payment will be used to reduce an outstanding loan. There can only be one election made for each occurrence of a specified medical condition.

## Chronic illness

Coverage for a chronic illness allows the owner to accelerate a portion of the death benefit when the insured is diagnosed with a qualifying chronic illness.

### 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).
- Completion of the chronic illness supplemental application form. Any "yes" responses will disqualify the insured from receiving this benefit.

### 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.

Severe cognitive impairment — means a loss or deterioration in 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 as to people, places, or time, and deductive or abstract reasoning.

### Benefit amount

**Accelerated death benefit amount** — The minimum accelerated death benefit amount per election, except the final election, is 5% of the death benefit on the initial

election date or \$50,000, whichever is less. The maximum amount per election is 24% of the death benefit or \$480,000, whichever is less. A new application for election of accelerated benefits must be completed for each election.

**Recertification for Chronic Illness** — 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.

**Payment amount** — A payment the owner may receive will be less than the amount of the death benefit accelerated. See the discounting method section on page five. A payment is reduced by a discounting method, an administrative fee (if applicable), and any applicable policy debt repayment. The payment will be paid in a lump sum or periodic payments.

**Final election** — A final election occurs if all of the available death benefit in the policy is accelerated, excluding the residual death benefit. The payment must first be applied to pay off any policy debt to us. Upon a final election, all riders and endorsements attached to the policy, except the chronic/terminal illness (combo) endorsement, will terminate on the final election date. Policy loans are not available after a final election. The payment will be paid in a lump sum or periodic payments.

**Residual death benefit** — If a Final Election has occurred, and payment is made, the residual death benefit will be paid to the beneficiary in a lump sum upon due proof of death of the insured. It is equal to 5% of the death benefit on the initial election date, or \$10,000 if greater.

## Terminal illness

Coverage for terminal illness allows the owner to accelerate a portion of the death benefit should the insured be diagnosed with a medical condition that is reasonably expected to result in the insured's death within 24 months or less.

### Eligibility

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

## Qualification

For terminal illness, the physician must provide written certification that the insured has a life expectancy of 24 months or less.

## Benefit amount

The minimum accelerated death benefit amount is 10% of the death benefit or \$100,000, whichever is less on the election date. The maximum the owner may accelerate is 90% of the death benefit or \$1,000,000, whichever is less. We allow only one election per policy for terminal illness. A payment the owner may receive will be less than the amount of the death benefit accelerated. See the discounting method section on page five. A payment is reduced by a discounting method, an administrative fee (if applicable), and any applicable policy debt repayment. The payment will be paid in a lump sum.

## Licensed health care practitioner or physician certification

In order to qualify for benefits, a licensed health care practitioner or physician must provide written certification that the insured is critically, chronically or terminally ill. A licensed health care practitioner is (within the meaning of section 1861(r)(1) of the Social Security Act) a 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.

### Chronic Illness Only:

Two options are available for election of benefits for chronic illness. The owner 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 Licensed Health Care Practitioner'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.

#### **Terminal Illness Only:**

We may request additional information if the physician's certification and any documentation submitted in support of the benefit application are not sufficient to establish that the insured is terminally 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.

## **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's certification. 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 above.

Subject to the lifetime maximum accelerated death benefit, the owner may elect the accelerated death benefits for chronic illness more than once, the accelerated death benefits for terminal illness after having elected the accelerated death benefits for chronic illness; and the accelerated death benefits for chronic illness after having elected the accelerated death benefits for terminal illness.

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 Critical Illness endorsement and the Chronic and Terminal Illness endorsement, the lifetime policy maximum is \$2,000,000.
- 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.

## **Discounting method**

For a critical illness election, the accelerated amount is discounted by a set percentage. Currently, the rate is 60%.

For a chronic illness election, a payment is discounted based on the account value, the guaranteed maximum cost of insurance rates, impact to life expectancy, and the interest rate currently in effect for accelerated benefit.

For a terminal illness election, 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 when an accelerated death benefit payment is made after applying the discount to the accelerated death benefit amount. The maximum administrative fee is \$200. There is no administrative fee when the critical illness benefit is elected.

### **Debt repayment amount**

Policy debt must be reduced in the same proportion to the amount of death benefit accelerated. A portion of the accelerated death benefit proceeds (after discounting) will be used to pay down policy debt.

## **Monthly deductions**

**Critical illness** — For a critical illness election, monthly deductions are NOT waived. However, we will suspend lapse checking for the six months following each election.

**Chronic illness** — We will waive the monthly deductions during the chronic illness election period if the death benefit immediately prior to the initial election date does not exceed the lifetime maximum accelerated death benefit. If the death benefit immediately prior to the initial election date exceeds the lifetime maximum accelerated death benefit, during the chronic illness election period, the monthly deductions will be multiplied by the ratio of (a) divided by (b), where (a) is the specified amount immediately prior to the initial election date minus the lifetime maximum accelerated death benefit and (b) is the specified amount on the election date

We will stop waiving monthly deductions after the chronic illness election period.. However, we will suspend lapse checking if at least 50% of the death benefit on the initial election date has been accelerated (which means the policy is in Protected Status). Protected Status only applies if the chronic illness benefit is attached to a policy.

**Terminal illness** — For a terminal illness election, we waive monthly deductions following the election of Accelerated Death Benefits for Terminal Illness.

## Withdrawals and policy loans<sup>1</sup>

### Critical illness

Withdrawals are not available during a critical illness election period. The critical illness election period is defined as the period of time from the election date to the next policy anniversary date. The election of a critical illness benefit does not impact the ability to take policy loans.

### Chronic illness

While a chronic illness election is in effect or if the policy is in protected status, the owner cannot take withdrawals. Policy loans may be taken during an election period – except after a final election. Availability of withdrawals resumes after the 12-month election period is over and the policy is not in protected status.

### Terminal illness

Withdrawals and policy loans remain available after electing to accelerate the death benefit for terminal illness.

## Impacts to policy provisions

### Impact to death benefit, specified amount and account value

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

While a critical or chronic illness election is in effect or the policy is in protected status, the owner may not increase or decrease the specified face amount of death benefit or change the death benefit option.

Prior to the election of accelerated death benefits for critical or chronic illness, the owner can elect to increase the specified amount or change from a level death benefit option to an increasing death benefit option while this endorsement is in effect. However, if the evidence of insurability is no longer satisfactory to qualify for this endorsement, the total policy death benefit eligible for acceleration will be limited to the death benefit amount before the increase or change in death benefit option.

### Impact to death benefit guarantees<sup>2</sup>

If the policy or any rider includes an additional account used to determine whether the policy will lapse, the additional account will be reduced in proportion to the

death benefit accelerated. The specified amount used in the calculation of the additional account will also be reduced by the same percentage.

For periodic payments, the reduction to the additional account will be divided equally among the periodic payments and made at the time of each periodic payment. During the chronic illness election period, we will waive any items deducted from the additional account. We will also waive these items after a final election.

## 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 (except for the chronic/terminal illness endorsement) attached to the policy will terminate on the final election date. However, any accidental death benefit rider on the policy, if any, will not be affected by the accelerated death benefits under these endorsements. In the case of the chronic and critical illness benefits, after the initial election date, no additional endorsements or riders can be added if this benefit endorsement is attached to the policy.

### Provisions, riders or endorsements that restrict changes to the death benefit (Critical illness only)

If the owner has elected a policy provision, endorsement, or rider that restricts making any changes to the death benefit, the owner may not elect accelerated death benefits under these endorsements. This includes any restrictions specified by a policy provision, endorsement, or rider providing overloan protection. If the overloan protection benefit is in effect, the owner cannot accelerate the death benefit.

## 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(s) is made, the election will be cancelled and the death benefit will be paid as described in the policy.

## Reinstatement

The endorsement may be reinstated following a policy lapse unless the maximum accelerated death benefit has

been paid under this endorsement. Reinstatement of this endorsement shall be on the same or more favorable terms as reinstatement of the underlying life insurance policy. If this endorsement is reinstated, the policyowner will have the same rights under reinstatement as he or she had 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.

and critical illness benefits will not be available on the permanent policy if the policyowner has already exercised the chronic illness benefit on the term policy.

## 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 accelerated 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 Supplemental 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 Supplemental 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 endorsements. The following items are required for conversion:

- Application for Internal Exchange form (fully complete medical questions and replacement section)
- Signed ADBE Chronic Illness Supplemental 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

**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. .**

**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.**

1. In some situations loans and withdrawals may be subject to federal taxes. North American Company does not give tax or legal advice. Clients should be instructed to consult with and rely on their own tax advisor or attorney for advice on their specific situation. Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to surrender charges and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.

2. Death benefit guarantees are subject to premium payment requirements.

Payment of Accelerated Death Benefits for critical, chronic, or terminal illness paid under these endorsements are 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.

Accelerated Death Benefit Endorsement for Terminal Illness LR50604, Accelerated Death Benefit Endorsement for Terminal and Chronic Illness LR50704, 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. Limitations or restrictions may apply.

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