Life

North American Company
for Life and Health Insurance
Since 1886

Accelerated Death Benefit – Chronic Illness

Long-term Care Comparison

This comparison outlines the differences between chronic illness benefits provided by the Accelerated Death Benefit Endorsement for Chronic Illness that is issued with a life insurance policy by North American Company® and benefits provided by a typical qualified long-term care insurance policy. This overview is intended to help you understand these differences so you and your life insurance agent can determine which may be right for you.

NORTH AMERICAN'S ENDORSEMENT IS NOT INTENDED TO PROVIDE, AND NEVER WILL PROVIDE, LONG-TERM CARE (LTC) INSURANCE AND SHOULD NOT BE USED TO REPLACE LONG-TERM CARE INSURANCE.

	North American's Accelerated Death Benefit Endorsement for Chronic Illness	Typical Qualified LTC Insurance Policy (Not Provided in Connection with Life Insurance)
Description of Benefits	North American's endorsement advances payment of a portion of the Policy Death Benefit if the insured becomes chronically ill (as defined in the tax law) and satisfies other qualifying conditions. The Accelerated Death Benefit Payment is paid in a lump sum or periodic payments, as chosen by the policyowner, for the 12 month period of the insured's chronic illness. The Accelerated Death Benefit Payment will be less than the portion of the Policy Death Benefit that is accelerated (i.e., the Accelerated Death Benefit) due to the imposition of an actuarial discount and administrative fee.	The typical qualified LTC policy (as defined in section 7702B of the Internal Revenue Code) provides LTC benefits upon the insured's chronic illness. Most qualified LTC policies are designed to pay or reimburse only qualified LTC services.3 Also, such policies generally pay LTC Benefits only if the insured is confined in certain types of facilities (such as a nursing home or assisted living facility) or is receiving home care from providers that satisfy criteria set forth in the policies.
Qualifying Conditions for Benefit Payment	A Licensed Health Care Practitioner (as defined in the tax law) must certify that: (1) The insured is expected to be permanently unable to perform for at least 90 consecutive days, without Substantial Assistance4 from another person, at least two Activities of Daily Living5 (ADLs); OR (2) The insured requires Substantial Supervision6 by another person to protect oneself from threats to health and safety due to Severe Cognitive Impairment.7	The qualifying event for receipt of benefits under typical qualified LTC insurance policies is similar to that described for the Accelerated Death Benefit Endorsement. Such policies usually do not require the condition to be permanent. However, they typically provide benefits only to the extent of expenses actually incurred for qualified LTC services. Also, benefits generally are available only if the insured is confined to certain facilities or receiving home care from providers that satisfy criteria set forth in the policies. It is necessary for the policy owner to submit proof with respect to these costs. (Some qualified LTC policies pay an indemnity benefit that does not reimburse specified costs for qualified LTC services, but such policies are less common and generally more costly.)
Underwriting	North American Company will only issue the life insurance policy based on an acceptable underwriting record with respect to the insured's health. Also, a supplemental application relating to coverage of chronic illness will be required to determine eligibility for this benefit at the time of the application for life insurance.	The insured's health is underwritten specifically for factors that might affect LTC need. Results can affect premiums or cause the insurer to decline to issue the coverage.

Amount of Benefits	The maximum Accelerated Death Benefit for each claim (based on a certification of chronic illness) is the smaller of 24% of the Policy Death Benefit on the Initial Election Date or $240,000. The Accelerated Death Benefit Payment is the present value of the Accelerated Death Benefit (i.e., Policy Death Benefit that is being accelerated). An actuarial discount based on mortality, interest and other factors will be applied, so that the amount of the Accelerated Death Benefit Payment will be less than the reduction in Policy Death Benefit resulting from such payment. The maximum Accelerated Death Benefit that can be requested is $1,000,000.	Under typical qualified LTC policies, a daily maximum benefit amount and maximum lifetime benefit for coverage may be selected at the issuance of the policy, and the policy is priced accordingly. For example: a policy may provide a daily benefit of $150/day for 36 months. Prospective policy owners must be offered an inflation protection option for a separate charge that, if selected, increases daily and lifetime benefit maximums to keep up with increases in the cost of care.
Elimination Period	A claim may be filed after 90 consecutive days have elapsed from the date on which the insured was certified as chronically ill and otherwise satisfied the Qualifying Event criteria set forth in the endorsement.	Qualified LTC policies vary with respect to whether they impose an elimination period requirement. An elimination period or "waiting period" is the period of time you must wait before receiving benefits after you qualify for care and otherwise are eligible to receive benefits. Elimination period options are generally 0, 30, 90 or 100 days. For policies that include elimination periods, expenses incurred during the elimination period are not reimbursable.
Cost	There is no additional premium to have the endorsement available on your life insurance policy. If you choose to elect an Accelerated Death Benefit, an administrative fee will apply when the Accelerated Death Benefit Payment is made. Also, the actual benefit payment received in connection with any acceleration (i.e., the Accelerated Death Benefit Payment) will be reduced by an actuarial discount and thus will be lower than the amount by which the Policy Death Benefit is reduced.	Premiums vary widely based on the daily maximum benefit, maximum benefit coverage period, inflation protection, or other options.
Taxation of Benefits	Under Section 101(g) of the Internal Revenue Code (26 U.S.C. Sec. 101(g)), accelerated benefits due to an insured's chronic illness generally are excludable from income for federal tax purposes, and thus such benefits generally are not subject to income tax8. This favorable income tax treatment applies only to the extent of the tax law's "per diem limitation," which typically equals an inflation-indexed amount published by the IRS each year. (For 2014, this amount was $330/day or the equivalent amount in the case of payments made on another basis, i.e., $120,450/year.) The endorsement provides Accelerated Death Benefit Payments that generally are intended to receive favorable tax treatment to the extent of the per diem limitation under Section 101(g). Certain exceptions apply, however, where this favorable treatment does not apply (e.g., in the case of certain policies purchased in a business context or where a policy has been sold).	Where a qualified LTC policy reimburses expenses incurred for qualified LTC services, benefits usually will be excludable from income under Section 104(a)(3) of the Internal Revenue Code (26 U.S.C. Sec. 104(a)(3)). Where a policy provides indemnity benefits (i.e., that do not reimburse specific expenses), benefits generally are excludable from income to the extent of the per diem limitation.
Effect on Death Benefit and Other Policy Values	The Policy Death Benefit is reduced by the Accelerated Death Benefit that is requested. Since the death benefit is being paid early, the portion of the Policy Death Benefit that is accelerated will be discounted and reduced, so that the Accelerated Death Benefit Payment paid will be less than the reduction in the Policy Death Benefit that occurs due to such payment. The Policy's cash value and loan balance will be reduced on a pro rata basis (based on the percentage reduction in the Policy Death Benefit). If the Policy remains in force, any remaining Policy Death Benefit that is not accelerated will be paid to the beneficiary upon due proof of death of the insured. For example, if a Final Election of an Accelerated Death Benefit under the endorsement occurs, a residual Death Benefit will be paid to the beneficiary in a lump sum upon due proof of death of the insured.	Qualified LTC policies usually have no death benefit or cash value. For an additional premium charge, some policies provide a return of premium benefit upon the insured's death (and in rare cases upon policy surrender).