



Don Boozer & Associates

The Long, Slow Fade – Another Reason for Living Benefits



Last year, a claims specialist at a major reinsurance company, wrote a good article on terminal illness riders. The article noted how often death is no longer a sudden event. Instead it is a long slow fade.

As a result, terminal illness riders on life policies are just not enough in the real world. Here's why.

Terminal Illness is a rider to a life policy that can accelerate the death benefit when a policyholder is terminally diagnosed -- and this language allows him or her to access a portion, or the entire value, in that short period before they die.

The proceeds can be used for any purpose including access to experimental treatment or palliative care. Even experimental treatment in other countries.

Riders like this have been offered by insurers since the late 1980s, usually at no additional cost. They are pretty common now, and apparently they are pretty revenue neutral for the companies that offer them. State insurance departments need to approve them, of course.

Putting Your finger on it

We tend to think of "terminal illness" as giving no hope of long term survival. Certainly doctors use the term to describe progressive incurable diseases that they expect to be fatal soon – an inoperable cancer, for example. And as the article points out, cancers account for most terminal diagnoses. Others arise from progressive (non-malignant) diseases of the circulatory, respiratory or nervous systems; infectious diseases such as HIV; and hereditary conditions, including muscular dystrophy and cystic fibrosis.

A diagnosis of any one of these doesn't automatically mean that death is imminent. Medical advances mean patients may experience that long, slow fade instead of quickly crashing. It's the uncertainty about "how long" the patient could live that creates a difficulty for life company claims departments. The problem is --- it's really hard to put your finger on it.

As a result, insurers' definitions usually presume that death will occur within 12 months of a diagnosis (24 months in some products and companies). Insurers generally make 'terminal' claims conditional on this prognosis being confirmed by their own Chief Medical Officer or an independent medical specialist.

However, there is a problem. Doctors have found that three months seems to be the real duration against which they can predict survival with a real degree of certainty, according to studies evaluating survival estimations. (according to Gen Re). Another problem is that longer life expectancies under our tax code might easily negate the tax free nature of life insurance death claims advanced for terminal illness. So there are limits for life expectancy even involving our politicians and tax police.

Doctors will use survival statistics for guidance in each case. However, these are not always a reliable indicator of an individual's prognosis. Each patient has unique circumstances and will respond to the illness and treatments in his or her own way.

One thing we all recognize is that some doctors tend to overstate life expectancy or avoid discussing it to protect patients and especially their families from the grim reality of a terminal prognosis.

And many if not most doctors also choose to focus on treatment options, success rates and special or innovative action plans --- anything that can support the patient's determination to live. The result is that a doctor's prediction is more likely to be overly optimistic than flatly negative

Claims people know well the inaccuracy of survival estimates, and they don't want a reputation for declining terminal illness claims, but as the article points out, it's still a challenge.

The real issue is whether, as professional insurance agents, you'll be satisfied morally and ethically to only offer policies with only terminal illness riders.

Policies in the marketplace can also be sold off for life settlements, you know. And there is little that your insurer can do about it if your client takes that path. Other than making term policy conversion options so stinky that it affects life settlement prices in the open market. We know the companies that have done this. And more conversion tightening is on the way. Shouldn't every client have additional options?

Policies, even low cost term, can offer nearly 20 medical triggers for accelerated death benefits including critical (heart attack, stroke, cancer, ALS, renal failure and more) – or chronic (Alzheimer's, dementia, and frailty). And that's on top of terminal.

Get with it. Join the professional crowd that has already been doing this for ten years. Or you could wait another ten years and watch your clients and their families suffer financially as they slowly exit, which would not be anything to be proud of. Not to mention what you'll tell them when they or their family calls you.

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