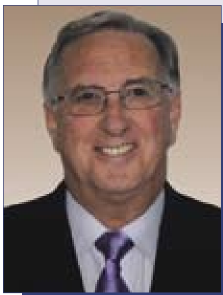

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Death Insurance Or Living Benefits Life Insurance

What Is More Appropriate For Your Clients?

Imagine that your client has suffered a crippling stroke or heart attack or has been diagnosed with cancer. Further imagine *(and this will not be difficult)* that your client's medical and/or disability insurance are woefully inadequate and the bills begin to pile up like snow in a nor'easter.

Medical co-pays and deductibles must be met, as well as many things which, frankly, are not covered by medical insurance. Income is reduced or eliminated for your stricken client and possibly for the caretaker spouse. Credit cards are leveraged to the hilt. Savings have evaporated. Now it's time to begin shredding IRAs, 401(k)s and other pension assets, as well as mutual funds or stock portfolios.

Good news is on the horizon! Due to advances in medical and rehabilitative care your client's health is fully restored in three years. The bad news is that he is three years older, broke, bankrupt, and may have lost his home and/or business. *Could a properly designed life insurance policy with the right features have prevented this financial catastrophe?*

Very possibly! Living benefit life insurance could have played a (no pun intended) critical role in preserving financial security for your client and his family. *Life insurance you don't have to die to use* can deliver financial utility during your client's lifetime if he were to suffer a chronic, critical or terminal illness.

- ✔ In "Get Sick, Get Out: The Medical Causes of Home Foreclosures," Christopher Robertson, Harvard Law School, writes that 49 percent of all home foreclosures were caused in part by a medical problem. *Only 4 percent of foreclosures were due to death.*
- ✔ In 2009, the *American Journal of Medicine* reported that 62 percent of bankruptcies are due to a critical illness. Of those bankruptcies, *75 percent of the families had health insurance!*

Life Insurance as Asset Protection

For hundreds of years life insurance policies were written primarily to protect the families of the insured. Life insurance was really "death insurance" with little to no concern paid to living benefits, save the policy's cash value. The introduction of living benefit life insurance has changed the dynamics and the usefulness of the product.

We can best illustrate how life insurance can be viewed as an asset protection product by reviewing the evolution of life insurance products. Initially the death benefit could only be paid out at the death of the insured. Companies then introduced terminal illness riders, which meant that a terminally ill insured could accelerate a portion of the death benefit to either offset some of the costs associated with a terminal illness or to put their own affairs in order.

Over the past few years, many carriers have added chronic illness riders which allow insureds to accelerate the death benefit in the event of the loss of two or more activities of daily living (ADL) or for cognitive impairment. While this is not long term care insurance, it acts much the same.

More recently a few carriers have introduced critical illness riders to their policies. This was a major breakthrough for the industry! Life insurance policies that allow insureds to accelerate a discounted portion of the death benefit if they suffer a critical illness such as heart attack, stroke or the diagnosis of cancer, in addition to other types of critical illness as outlined in the contract. Now, life insurance policies can be used during the insured's lifetime to offset the enormous cost of a terminal, chronic or critical illness.

There are no new fundamentals. Whether the markets are up or down we protect people with guaranteed, predictable solutions to the problems of dying too soon, living too long, or becoming ill and needing extended medical care. It is this writer's opinion that living benefits life insurance should be viewed through the prism of asset protection.

Let's examine how properly designed life insurance policies can act as asset protection.

Other than losing one's job, what are the biggest threats to a person's financial wellbeing? In reviewing the statistics cited above we learned that 49 percent of all home foreclosures were caused in part by a medical problem and that fully 62 percent of bankruptcies are due to a critical illness. I don't need a house to fall on me to come to the conclusion that had these people had some form of asset protection against the advent of a critical or chronic illness they might have been able to survive financially.

What better than the bucket of cash offered by the death benefit of a properly designed life insurance contract? Does anyone reading this article not know someone who has suffered a stroke, heart attack or been diagnosed with cancer? The Center for Disease Control (CDC) reported that the top three causes of death in the United States in 2009 were heart disease 631,636, cancer 599, 888 and stroke 137,119.

How better can we serve our clients than by recommending an asset that can provide financial protection against the advent of dying too soon, living too long, or becoming ill and needing extended medical care? It is time for all of us as advisors to consider recommending life insurance that has financial utility during the lifetime of our clients, rather than offering cheap term or inexpensive death-benefit-only universal life products.

Ask yourself and your clients the following questions.

- *Are we more likely to die suddenly or suffer a critical or chronic illness, years or perhaps even decades before we die?*
- *Could we financially withstand the enormous cost associated with a critical, chronic or terminal illness?*
- *Would I prefer to liquidate savings, assets or pension assets in such an event, or would I rather accelerate a portion of my life insurance policy's death benefit?*

The rise in popularity of life settlements lends further support to the proposition that living benefits life insurance is the right thing to do for our clients. The costs associated with terminal, chronic and critical illness means that many clients cannot afford to continue paying the premiums on their life insurance policies. Instead, in an all-or-nothing transaction, clients are forced to accept a steeply discounted payment in exchange for their life insurance policy.

In addition to the death benefit, living benefits life insurance policies offer the trifecta of terminal, chronic and critical illness financial protection for insureds and their families. Used as an alternative to traditional long term care insurance, indexed universal life insurance products with living benefits can provide dollars for chronic illness with the added benefit of cash value buildup. Clients who balk at paying a hefty LTC insurance premium may be more than willing to purchase a living benefits index universal life policy as it can provide significant cash value if the policy is surrendered.

As I have said on many occasions, we do not live in an abstract or theoretical world. We live in a world in which our clients face very real threats to their health and financial well-being. I believe that we have an obligation to have frank discussions with our clients about life insurance products that can have a meaningful impact during their lifetime, as well as at their death.