

Delivering Retirement Security ▼

## LIVING BENEFIT LIFE INSURANCE

*Finally! Life insurance with financial utility during the insured's lifetime*



by *robert* **LaBonte, CFP®**

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Let's begin by calling traditional life insurance what it really was at its inception: death insurance. For decades individuals and families purchased life insurance to protect loved ones and to provide financial security in the event of the death of

the insured. Permanent insurance also provided access to the cash value during the insured's lifetime and could provide guaranteed income at retirement.

Eventually, terminal illness riders were attached to policies to enable insureds to accelerate a discounted portion of the death benefit for terminal illness. Insurance carriers rightly concluded that financial strain was often the kin of terminal illness. Terminal illness riders afford clients the opportunity to put their own financial affairs in order prior to their death.

More recently, carriers added chronic illness riders which allow clients to accelerate a portion of the death benefit on a monthly basis for insured's that lose two or more activities of daily living (ADL) or for cognitive impairment. This was another important step in product evolution but it misses the main event - the financial crippler of families - critical illness!

**Life Insurance for life – because life happens!**

Imagine selling life insurance policies with broad financial utility during a client's lifetime. Let's explore the value of life insurance contracts that include advance benefit riders for terminal, critical

AND chronic illness events by examining some key statistics.

In *Get Sick, Get Out: The Medical Causes of Home Foreclosures.*, Christopher Robertson, of Harvard Law School, writes that 49% of all home foreclosures were caused in part by a medical problem.

Only 3% of foreclosures were due to death.

In *Critical Illness Insurance 101* by Mark Goldstein we learn that 48% of businesses that fail are a result of a critical illness. In 2009, the American Journal of medicine reported that 62% of bankruptcies are due to a critical illness. Of those bankruptcies, 75% of them had health insurance!

Need more fuel on why living benefit life insurance should be in the portfolio of every client and dare I say investor? In 2007 the American Heart Association reported that someone suffers a heart attack every 26 seconds and that 45% of heart attack victims are under age 45. In 2010 the American Heart association reported that someone suffers a stroke every 40 seconds. The Center for Disease Control reported in 2009 that 75% of people over aged 40 will experience a critical illness at some point in their future.

LIMRA, in a 2007 report, "Cancer Facts & the War on Cancer" indicated that every 30 seconds a new cancer is diagnosed in the U.S. and that 1 in 2 men and 1 in 3 women will be diagnosed with cancer in their lifetime. Finally, USA Today reported on 10/31/2008 and 3/18/2010 that one in eight people with advance cancer turned down recommended care because of cost.

Fortunately, medical advances have made it possible for many people to survive a critical illness event. Unfortunately, medical and disability insurance are often not enough to ensure financial survival. People are often faced with mounting medical bills, loss of income and even loss of spousal income for the caretaker spouse. People must invade savings; liquidate investments and finally pensions, IRAs and 401Ks. The good news is that people often regain their health. The bad news is many are broke, bankrupt and may have lost their home and/or business to bankruptcy or foreclosure.

### Enter “living Benefit” life insurance!

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 health care. The previous two statements should be the credo of all financial advisors and insurance professionals. How could we better 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? There are painfully few life insurance companies offering products that offer the full array of living benefit riders. The few carriers that offer these benefits have truly changed death insurance into “life insurance”. One such claim paid in March of 2009 was on a 66 year old business owner who had a severe heart attack. He was not considered terminally ill and therefore would not qualify under the terms of a standard terminal illness rider. Thinking that he was going to lose his business which comprised most of his estate, he contacted the agent who sold him his living benefit life insurance policy.

He had a death benefit of \$862,000 and he could accelerate any portion of the death benefit up to 100% of the policy on a discounted basis. After evaluating all of his options he elected to advance 100% of the policy to pay medical expenses, replace lost income and financially support his business until he was well. He received a check for \$584,000.

In another case a 39 year old woman was diagnosed with breast cancer. She accelerated a portion of her policy’s death benefit and received a check for \$21,728, which she used to pay medical bills which her health insurance did not cover. These are real life answers to real life financial issues.

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 a moral and professional responsibility to provide solutions that not only take into account the death of the insured but other financially devastating events such as a chronic or critical illness.

For far too long the industry has promoted “cheap term’ life insurance, the cheaper the better. Financial professionals began selling life insurance as if it were a commodity. We adopted a spreadsheet

mentality as proof of our professional acumen in terms of the products we place in front of our clients.

It’s time to go back to promoting value in the products we recommend to our clients. Let’s begin having frank discussions with our clients about life insurance products that can have a meaningful impact during the lifetime of a client as well as at his or her death. The Center for Disease Control (CDC) reported the top three causes of death in the United States in 2009 were heart disease 631,636, cancer 599,888 and stroke 137,119. That’s 1,368,643 deaths from the “big three”, more than the next 20 causes of death combined. It doesn’t take a math major to estimate that the total number of critical illnesses attributed to heart attacks, strokes and cancer is a staggering number.

Armed with this knowledge it is incumbent on financial professionals to recommend that living benefits products be included in the insurance or investment portfolio of every client. It’s simply the right thing to do. ❖

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