# What is an Accelerated Death Benefit Rider?

A group of people sitting on a beach

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Don’t you love those rare moments when you buy something and then find out a bonus item comes free with the purchase? This happens with life insurance too.

Most term life insurance policies automatically come with some free add-ons called riders. One of these life insurance riders that we’re going to discuss today is called an accelerated death benefit rider.

## What is an accelerated death benefit rider?

Not all term policies, but most, have an accelerated death benefit rider automatically included. An accelerated death benefit rider allows the policyowner to receive a portion of the death benefit early when the insured individual is diagnosed with a terminal illness.

Some companies allow an individual to claim the full death benefit amount. In this case, the policy is terminated once the insurance company makes the payment.

If a partial benefit payment is claimed, the life insurance policy can continue with a reduced death benefit and lower premiums.

This rider is not advertised enough. Many individuals have an accelerated death benefit rider included in their policy and don’t even know it.

If you had one year or less to live, wouldn’t you be glad to know that you can immediately receive a portion of your policy’s death benefit to spend in any way you wish?

**Example:**

*After a few weeks of not having an appetite, Jane Smith went to her doctor to get checked out. She was diagnosed with stage IV pancreatic cancer, which often is detected far too late. At stage IV, surgery is no longer an option.* *It’s a fast-moving cancer and her doctor gave her eight months to live.*

*Jane has a $500,000 term life insurance policy through Banner Life. Banner Life’s term policy includes an accelerated death benefit rider and allows an individual to cash out up to 75% of the death benefit if you are diagnosed with a life expectancy of 12 months or less.*

*This gives Jane the option of taking up to $375,000 and using it in any way she wishes, and it still leaves her beneficiaries approximately $125,000 upon her death.*

*Jane can use the accelerated benefit cash in any way she wants. Some common options include:*

* *Paying off medical bills*
* *Trying experimental treatments her health insurance would not cover*
* *Taking her family on a vacation*
* *Completing her bucket list*

While they vary by the life insurance company, there are certain eligibility requirements that need to be met before this rider can be used.

Requirements such as:

* The insured must have a terminal illness.
* The insured must have a life expectancy of 6, 12, or 24 months or less (not only does the carrier make a difference, but the state the insured lives in makes a difference as well).

Typically, the policy must have been in force for more than two years.

Accelerated death benefits are also known as “living benefits” since you can use portions of your policy’s death benefit while you are still alive.

## Why is an accelerated death benefit rider automatically included on most policies?

Life insurance companies are in the industry to help those when they need it most, essentially, when death is on the horizon.

Before these accelerated benefits were an option, desperate insured individuals began selling their policies to the highest bidder.

Basically, someone with a terminal disease would sell his or her life insurance policy at a discount so they could have money to pay medical bills and provide for their families. Then when that individual died, the buyer would cash in the full amount of the policy. This arrangement is called a viatical settlement.

**Example:**

*Let’s say* *it’s the year 1980 and Jane Smith has a $500,000 life insurance policy, but accelerated death benefit riders* *weren’t created yet.*

*She is diagnosed with stage IV pancreatic cancer and has been given eight months to live. She needs money to pay medical bills and would like to go on a vacation to enjoy the remainder of her life as much as she can.*

*John Doe agrees to purchase Jane’s $500,000 policy for $150,000 cash and will keep paying her premiums. He is investing in her short life expectancy.*

*When Jane does die, John will receive the full $500,000 death benefit. Jane’s original beneficiaries receive nothing.*

These viatical settlements were rare in the United States up until the late 1980s, when the AIDS epidemic peaked. Many terminally ill AIDS patients needed money for treatment.

In 1993, the National Association of Insurance Commissioners (NAIC) developed the Living Benefits Model Act. In the creation of this act, it was suggested that insurers should be able to offer accelerated benefits to policy owners if they discover the policy owner plans on viaticating, or selling, his or her policy. It was, however, deemed unfair not to offer this option to all policyholders.

It was then determined that these accelerated benefit options be added to the contracts. This made it possible for insured individuals to use a portion of their policy’s death benefit when it was needed most without selling it off at a discount.

Some insurance companies forgo riders in order to make their process faster and premiums a little cheaper.

**Click here to learn more.**

**Contact me today at [phone or email] to learn more about accelerated death benefit riders and what life insurance policy might be right for you.**