

## **LIVING BENEFITS OF LIFE INSURANCE**

Question : I understand that if I become sick (*terminally ill*), I can collect from my life insurance's death benefit while still living.

Answer: You may be correct. This process is called living benefits. One of the typical deterrents to buying insurance is that people simply don't like to contemplate their own deaths. The idea of living benefits is changing the way people think about life insurance and giving them additional reasons to buy it.

Traditionally, people buy life insurance to provide for their survivors with financial security when they die. They expect a death benefit to cover such liabilities as taxes, debts, accounting, funeral and probate fees, as well as helping to pay for their families' living expenses and perhaps their children's education after they are gone. They might also wish to leave an inheritance to their survivors through the proceeds of their life insurance policies. In most cases, people don't consider that they may need money from their life insurance when they're still alive.

Recognizing that Canadians are living longer and may suffer from some form of critical illness, an increasing number of life insurance companies now have provisions in their policies that entitle policyholders to a living benefit, sometimes called an advance death benefit.

The advance death benefit is an administrative practice in considering requests for the early payout of death benefits for insured people in financial need. The provision that a policyholder be declared terminally ill by his or her doctor and given a life expectancy of less than 24 months. In this case, the insurance company could pay a certain percentage of the face value of the policy, possibly as much as 50 per cent, to help meet expenses associated with the illness.

Conditions may also be attached to the types of illness covered and all requests are usually considered on a case to case basis and must meet strict criteria. The policy may have to be in force for at least two years or some other specified period before the client qualifies for an advance death benefit. You will have to provide documented medical evidence that you are terminally ill in order to receive the advance.

The benefit is paid directly to the owner and may be used at his or her discretion. It is designed to provide you with money to pay for medical expenses, special care and drugs, or to make up for loss of income, easing unexpected financial difficulty and allowing one to die with dignity.

What happens if a living benefit is paid, but the insured manages to outlive the specified period? The amount does not have to be paid back. The amount advanced is simply subtracted from the ultimate death benefit and the remainder is paid to the beneficiary upon death (less any accumulated interest on the advanced proceeds). Such cases are not that unusual, thanks to improvements in technology, medical care and drugs, which are helping people outlive doctors' predictions.

The living benefit provision in a life insurance policy shouldn't be confused with the benefits by a critical illness insurance policy. Critical illness insurance is a form of term insurance that pays a tax-free lump-sum living benefit to those diagnosed with an illness specified by the policy. These policies cover a pre-defined range of illnesses and fill the gap between disability and life insurance.

On the other hand, the advanced death benefit of a life insurance policy will normally cover a much broader range of illnesses and not have certain exclusions associated with a critical illness insurance policy. Living benefits from life insurance policies can make a substantial difference in the quality of life in your final days. It will help benefit you if you become terminally ill and need money, while benefiting your survivors when you die.

### **Caution**

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