SHAW AMERICAN
FINANCIAL CORPORATION

OPTIONAL BENEFIT RIDERS

Get In Touch

800-626-5888 or 502-583-5527
email@shawamerican.com

Prepared for:

Presented by:

Get In Touch
800-626-5888 or 502-583-5527
email@shawamerican.com

The Options

- Many life insurance policies—both term and permanent—can be enhanced by the addition of optional benefit riders, usually for an additional charge.
- Many options exist. Some of the most common are waiver of premium and monthly deduction waiver, accidental death benefit, future purchase or guaranteed insurability option, accelerated benefits (also called living benefits), and family riders.
- The terms governing these options are added to the base policy (usually as a separate document) so they are called "riders" or "endorsements."

Waiver of Premium

- A waiver of premium option provides that when an insured becomes totally and permanently disabled the policy will remain in force and the insurance company will waive the premiums.
- Typically, the disability must occur before the insured reaches a certain age—usually 60 or 65.
- In universal and variable life policies, the amount waived includes the monthly insurance fees, administrative costs and rider charge.
- While no premium is due, no additional funds are added to the cash value, either.
- For the waiver to apply, the insured must be disabled for a period of time (customarily six months, although an insurer may use a different waiting period).
- All premiums are waived during disability, including those due during the waiting period.
- In some universal life policies, the policyowner can elect to waive a specific amount, even if it's in excess of the current premium. The election is generally available for up to one-twelfth (the monthly equivalent) of the guideline annual premium.

Accidental Death Benefit

- An accidental death benefit rider pays an additional amount of insurance over and above the policy's face amount if the insured dies as the result of an accident.
- Although some riders pay triple the amount, a typical accidental death benefit is double the amount of the policy's death benefit, which is why this rider is sometimes called double indemnity.

Get In Touch
800-626-5888 or 502-583-5527
email@shawamerican.com

- The cost to add this rider is very small since the risk of accidental death isn't great for most people.
- Accidental death benefit riders include a very specific definition of what constitutes an accidental death that will trigger payment under the rider, so it's important to fully understand the definition used by a particular rider.

Future Purchase Option

- A future purchase option—also called a guaranteed insurability option—lets an insured purchase additional insurance at designated times without proving insurability.
- This is a valuable option since none of us can know if and when we might become uninsurable. When it's added to a policy, the insured's health no longer matters, because the option may be exercised in any event.
- The intervals indicating when the insured may buy more coverage are specified in the rider. Common intervals are every three years between the insured's age at purchase and another specified age—most often age 40.
- The insured needn't exercise the option every time it becomes available. Future options may still remain available.
- The rider outlines the amount of additional insurance that can be purchased.
- The premium for the added insurance depends on the insured's age when the rider is exercised.

Accelerated Death Benefit

- Accelerated death benefits—sometimes called living benefits—involve using part of a life insurance policy's death benefit to pay for expenses resulting from a terminal illness.
- Insurers stipulate how much of the death benefit may be used for this purpose, either as a percentage or a specific dollar amount.
- The rider defines the circumstances allowing accelerated benefits to be paid to the insured.
- There is typically no charge for adding this rider to a life insurance policy since the insurer's exposure to the risk that the insured will die has already been considered in calculating the premium.

Get In Touch

800-626-5888 or 502-583-5527
email@shawamerican.com

Family Rider

- Family riders are added to an insured's policy to provide coverage for the insured's spouse and/or children.
- While there are many variations, family coverage is usually provided through term insurance attached to a permanent policy. Some riders provide permanent insurance for the spouse and term insurance for the children.
- The insurance company determines the amounts of coverage permitted for the spouse and children.
- All children in the home are covered under the same premium, even if born or adopted after the policy's effective date.
- At a specified age (usually 18, 21 or 25), children's coverage either ends or becomes convertible to permanent insurance without evidence of insurability.

Term Insurance Rider

- Term insurance riders add flexibility to a whole life policy by letting policyowners pay less than the scheduled annual premium by blending whole life and term coverage.
- For example, if the whole life policy's scheduled premium would be burdensome in a particular year, the term rider may let the policyowner maintain level insurance protection in that year with a lower premium outlay.
- The blending that is possible with term insurance riders is subject to premium minimums specified by the insurance company and maximums mandated by federal tax law.

The Bottom Line

Policyowners can utilize these and other optional benefit riders to personalize their life insurance protection to meet a number of personal and family needs. Riders can help ensure that life insurance protection adapts to changing needs and circumstances over a lifetime.

Get In Touch
800-626-5888 or 502-583-5527
email@shawamerican.com

SUMMARY

What Are Optional Benefits?

Optional benefits are coverages that policyowners may add to life insurance policies, usually for an additional premium. They represent benefits over and above the base policy, described in a document that's usually attached to the policy as a rider or endorsement.

How Does Waiver of Premium Work?

If an insured becomes totally and permanently disabled for a specified period (usually six months), the waiver of premium rider allows the policyowner to stop paying premiums. The disability must begin before the insured reaches a certain age—commonly 60 or 65. All premiums are waived during disability, including those falling due during the waiting period.

How Does the Accidental Death Benefit Work?

An accidental death benefit rider allows the policy to pay an additional amount of insurance if the insured dies from an accident. It does not apply to sickness or other natural causes. The benefit is often double the policy's face amount, and is frequently called double indemnity.

How Does the Future Purchase Option Work?

When a future purchase option—also referred to as guaranteed insurability—is added to a policy, the insured is guaranteed the right to purchase additional protection at certain times in the future without proving insurability. The rider specifies the amount of insurance that can be added, and the premium is based on the insured's attained age when the option is exercised.

The option to purchase is typically offered every three years until the insured reaches age 40. If the insured skips an option, that option is lost, but any remaining options are still available.

How Do Accelerated Death Benefits Work?

An accelerated death benefit provision lets the insured use a portion of a life insurance policy's death benefit to pay for expenses associated with a terminal illness. These benefits (also called living benefits) may be accessed only under the precise circumstances described in the rider.

The maximum amount that may be used for this purpose is either a percentage of the death benefit or a specified dollar amount.

Get In Touch
800-626-5888 or 502-583-5527
email@shawamerican.com

How Do Family Riders Work?

Family riders provide insurance protection for an insured's spouse and/or children, usually in the form of term insurance added to the insured's permanent policy (although sometimes the spouse has permanent insurance and the children have term insurance). All children are covered under one premium—even those born or adopted after the policy is in effect.

At a specified age, the children's coverage either ends or becomes convertible to permanent life insurance without proof of insurability.

How Do Term Insurance Riders Work?

Term insurance riders can add flexibility to a whole life policy by allowing policyowners to pay less than the scheduled annual premium by blending whole life and term coverage. For example, if the scheduled premium on the whole life policy would be burdensome in a particular year, the term insurance rider may allow the policyowner to maintain level protection in that year with a lower premium outlay. The blending possible with term insurance riders is subject to premium minimums specified by the insurance company and maximums mandated by federal tax law.

Life insurance policyowners can utilize these and other optional benefit riders to personalize their life insurance protection to suit a number of personal and family needs. This helps make life insurance adaptable to changing needs and circumstances over a lifetime.

Get In Touch
800-626-5888 or 502-583-5527
email@shawamerican.com

Copyright © 2004-2021, Pentera Group, Inc. 921 E. 86th Street, Suite 100, Indianapolis, Indiana 46240.
All rights reserved.

This service is designed to provide accurate and authoritative information in regard to the subject matter covered. It is provided with the understanding that neither the publisher nor any of its licensees or their distributees intend to, or are engaged in, rendering legal, accounting, or tax advice. If legal or tax advice or other expert assistance is required, the services of a competent professional should be sought.

While the publisher has been diligent in attempting to provide accurate information, the accuracy of the information cannot be guaranteed. Laws and regulations change frequently, and are subject to differing legal interpretations. Accordingly, neither the publisher nor any of its licensees or their distributees shall be liable for any loss or damage caused, or alleged to have been caused, by the use of or reliance upon this service.