LESSON 3.3 POLICY EXCLUSIONS OF A LIFE INSURANCE POLICY

You are ready to move on to understanding exclusions and amendments that may be attached to a life insurance policy. Typically, a life insurance policy has no exclusions unless an endorsement for an exclusion is added at the time the policy is issued. An exclusion is a type of provision that narrows or restricts coverage.

We are going to cover three commonly found exclusions. The first is the war clause exclusion. At the time the policy is issued, the **war clause exclusion** states that no death benefit other than return of premium and interest will be paid. The exclusion must be in the original policy and cannot be added to an existing policy. An insurer has the right to invoke the clause if an insured is killed as a result of war or war-like action. The insurer may choose to refund the premium. The most common war clause excludes payment of certain riders, but will pay the basic death benefit.

Think about this exclusion or amendment to determine how you would, based on the information you have, talk to a client about this exclusion. Remember you are bound by law to provide accurate information. What would you be required to tell? What would you want to know about the client?

The second exclusion to note is the **cause-of-death exclusion.** A cause-of-death exclusion is usually reserved for an insured who has a hazardous job or engages in a dangerous sport or other activity. An amendment is added to a policy at the time it is issued, and the insured is required to sign an acknowledgement of the exclusion at this time as well. What jobs or activities might cause this exclusion to be added to a life insurance policy?

You should have listed risky hobbies like racing, skydiving, piloting a plane, deep-sea diving or hazardous jobs, such as ones that require travel to dangerous places, high-rise construction workers or window washers, veterinarians who work with wild animals, and so on.

Because the cause-of-death exclusion might not work for all people, a **flat extra premium amendment** may be used. The flat premium amendment is used in lieu of the cause-of-death exclusion. Based on the hazardous degree of an insured's job or activity, the insurer can charge an extra premium. If the insured changes jobs or stops the dangerous activity, the insured can apply to have the flat extra premium removed, although removal is not guaranteed.

Now that we have covered the exclusions, we're going to spend a little time going over common riders. Riders are provisions that can provide additional benefits or apply restrictions.

The first common rider we will look at is the **waiver of premium**. If an insured becomes disabled, as defined in the policy, the insurer will waive, or set aside, the payment of premiums. There is a three-to-six month waiting period, depending on the company. Once the waiting period is satisfied, and if the insured remains disabled, the company continues the policy in force until the insured is no longer disabled and begins paying premiums again, or until the insured dies and a claim is paid. This waiver of premium rider, if attached to a Universal Life policy, will waive only the mortality and expense charges sufficient to keep the policy in force. There will be no increase in cash value during the waiver period.

The next rider is the accidental death benefit. An **accidental death benefit rider** provides for the payment of a multiple of a policy's face value amount in the event of an insured's death resulting from accidental bodily injury. It applies if death is caused directly by an accident and independent of any other cause. And death must occur within a certain time frame following the accident, usually 90 – 180 days. For example, if Mark falls off his roof while cleaning his gutters, and dies as a result of the injuries sustained in the accident two months later, the accidental death benefit will kick in.

The **guaranteed insurability rider** gives an insured the right to purchase significantly more insurance at specific future intervals regardless of insurability. In other words, the rider allows an insured to purchase additional coverage even if the insured has developed a critical or even terminal illness that makes him or her uninsurable. Most companies use a schedule of purchase opportunities based on age, specifically ages 25, 28, 31, 34, 37, and 40. An insured may invoke an age-related opportunity to purchase additional coverage following a significant life event, such as a marriage or the birth or adoption of a child. Declining an option does not keep an insured from exercising future options when they become available.

For example, John has Term Life insurance. He marries Sue and becomes eligible to purchase additional coverage. He declines the option. A year later, his son is born, and at that point John decides to purchase additional coverage. Turning down the option at the time of marriage did not impact his option to purchase at the time of another significant event, the birth of his son.

A **living benefit rider** attached to a life insurance policy allows for the payment of a percentage of a death benefit to the insured should that insured be diagnosed with an irreversible medical condition or illness that will result in death within a specific time period. It allows the insured to access the death benefit while still living. Although most companies allot a one-year time period between diagnosis and death, the time varies by company.

Not all companies offer this rider, and those that do may word the benefit differently. In some cases, an insured can apply for and receive up to 90% of a policy's face value prior to death. Along with the death benefit, a contract generally makes three areas of money accessible if the insured has a qualifying event or meets the claims-trigger provision.

1. The first trigger is critical illness—an insured is required to undergo a defined medical procedure and receive physician certification.

   For example, what if Carrie is diagnosed with stage four cancer, and is told she only has six months to live. She has a living benefit rider on her life insurance policy. It allows her to access the death benefit while she is still living. It allows her to take advantage of funds from the policy for at least a year.

2. Another trigger of the living benefit is for chronic illness—an insured is required to provide physician certification showing an inability to perform any two of the six **Activities of Daily Living**, or ADLs, or showing a diagnosis of severe cognitive impairment. The ADLs are eating, bathing, dressing, toileting (or being able to get on and off the toilet and perform personal hygiene functions), transferring (being able to get in and out of bed or a chair without assistance), and maintaining continence (being able to control bladder and bowel functions).

3. The third trigger for the living benefit is terminal illness—an insured has a life expectancy of 12 months or less. This rider makes it possible for the insured to be able to use some of the benefit that would have been given to the beneficiary.

A **payor benefit rider** attached to a policy on a juvenile insured states that if the payor (usually a parent) dies or becomes disabled prior to the juvenile insured reaching a specific age (generally 18 – 25), future premiums will be waived until the juvenile insured reaches the specific age.

Rick purchases a life insurance policy on his daughter Raimey, who is fourteen. Unfortunately, Rick passes away. Raimey's premium payments are then deferred until she reaches the age of eighteen.

Family riders attached to the policy of an insured provide some additional coverage for spouses or children. A **family life rider** provides a death benefit to the insured if the family member named in the rider dies. A **family income rider** can provide a beneficiary with an amount of money equal to an insured's monthly income over a specified amount of time.

A **child protection rider** can be added to a term life policy to provide coverage for final expenses related to the death of a child. The rider is usually purchased in units such as $1,000, and the child's health information is required for underwriting. This insures children of the insured until they are age 25.

This next rider, you should remember. A **term rider** provides additional temporary term coverage for the insured and is typically attached to a permanent life policy. The rider allows for more coverage in cases when an insured wants some permanent insurance but cannot afford the full permanent premium. A common company practice allows conversion of all or a portion of this rider to a permanent life policy during the term if the insured desires.

A **return of premium rider** provides a return of a premium paid by a policy owner if the owner, or insured, outlives the length of a term policy. The rider adds considerable cost to the base term premium and can be considered a negative in terms of cost effectiveness. Although the returned premium is tax free, any additional fees may or may not be refunded. This is not often used. The premium is high enough to make this a rarely used option.

Before we go on to today's assignment, spend five minutes responding to the scenario and question on the screen. Listen carefully to the scenario and the question: A client is married with two children. Both children will be enrolled in college in three years. The client is concerned about not having any other life insurance other than the coverage provided by his employer. The amount of premium is a significant concern. What type of life insurance coverage would you offer the client?

You might have said that you would offer the client a term life insurance policy that would be in force just beyond the children's college years. The term life is usually less expensive than whole life and can be set in place for the number of years that it is needed.

You have looked at several exclusions or amendments and riders. Get ready to work in class on these same adjustments to coverage to understand more fully their uses and benefits to insureds.