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ACCELERATED DEATH BENEFITS

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EXECUTIVE SUMMARY

Accelerated death benefit provisions (also known as “living benefits”) allow policyholders to access the death benefits of their life insurance policies before they die under certain clearly defined circumstances. Introduced in the United States in the late 1980s, they were intended to protect policyholders against the devastating financial and emotional costs associated with catastrophic illness and long-term care. The features were applauded for the additional flexibility they lend to life insurance as well as the additional security they bring to policyholders.

Earlier studies conducted by ACLI and LIMRA in 1990, 1991, 1992 and 1994 documented a dramatic expansion in availability of the features as well as an evolution in product characteristics designed to make the benefit accessible to more people. The studies noted, however, that continued expansion was inhibited by the unclear tax status of accelerated payments. That status was clarified in 1996 with passage of the Health Insurance Portability and Accountability Act, which established that accelerated benefits paid to terminally or chronically ill policyholders are not subject to federal income taxes.

The 1998 study, undertaken jointly by ACLI and LIMRA, examined the status of accelerated death benefits in the United States in terms of availability and product design. The results indicate that, while growth has not been as dramatic as in earlier years, availability has continued to increase. More companies offering the benefit, combined with changes in product design, have led to a substantial increase in the number of life insurance policies containing accelerated death benefit provisions.

Companies Offering ADBs

In 1994, 215 companies were identified as offering accelerated death benefits (ADB). This year,

245 companies were so identified, an increase of 14 percent. While not as dramatic an increase as found in previous studies, it is notable for having occurred during a period of consolidation within the industry, in which the number of active companies fell by 25 percent. Companies offering the benefit include most major U.S. life insurers. Based on 1997 figures, the 245 companies hold almost four-fifths of the life insurance in force in the United States.

Changes in Product Design

Examining the characteristics of the accelerated death benefits currently available indicates a continuation of trends making the benefit more available to more people. Growth in the availability of the benefit with group products has been substantial. On the individual side, accelerated benefits are increasingly available with term policies. Fewer individual products restrict accelerated benefits to policies above a certain face amount, while more provide the benefit automatically rather than as an option. As in the past, most accelerated death benefit features on the market, both group and individual, are available on policies already in force as well as with newly issued policies.

Products that charge an additional premium for the benefit are continuing to give way to either products that charge only if the benefit is actually accelerated or those that do not charge at all. This is particularly true of products that accelerate for terminal illness.

In addition to changes that make the benefit more available and desirable to policyholders, recent years have seen a continued shift in the conditions under which acceleration can occur. In the earliest days of the product, most accelerated death benefit

provisions were triggered by the need for long-term care or the occurrence of a specified disease. Products triggered by a doctor's certification that the policyholder was terminally ill were in the minority. By 1994, however, products that accelerated for terminal illness clearly dominated the market. That trend has continued. Nonetheless, while fewer products that accelerate for the need for long-term care were reported this year than in 1994, a substantial number of those reported had been introduced in the past two years.

Policies With ADB Coverage

The number of policies and group certificates that include some type of accelerated death benefit has more than doubled since 1994, reflecting the larger number of companies offering ADBs, product changes that have made the benefit more available, and improved reporting. Based on partial data, a minimum of 39.9 million policies or certificates included an accelerated death benefit provision as of December 31, 1997, compared to 18.1 million in 1994. The number would have been larger still if all the companies providing ADBs had supplied data.

DETAILED FINDINGS

BACKGROUND

Accelerated death benefits or living benefits are features of life insurance policies that allow policyholders to tap the benefits of their policies before death under certain clearly defined circumstances. Originating in South Africa in the early 1980s, these features first arrived in the United States later in the decade.

Although there has been a shift in the relative prevalence of the circumstances under which policyholders can obtain accelerated payments, these circumstances typically involve one or more of the following:

- Diagnosis of a terminal illness or physical condition for which death is likely to occur within a specified number of months.
- Occurrence of one of a number of specified medical conditions (“dread diseases” or catastrophic illnesses) that would result in a drastically limited life span without extensive or extraordinary medical treatment.
- The need for extended long-term care in a nursing facility, at home, or in the community due to an inability to perform daily activities.
- Permanent confinement to a nursing home.

Introduction of these product features was greeted with enthusiasm both inside and outside the industry. The features make it possible for more people to cope with the often crushing financial burdens that come with terminal and catastrophic illness and extended long-term care, thereby reducing dependence on government programs like Medicare and Medicaid. Moreover, the additional flexibility they give to the life insurance product was particularly welcome during a period of lagging sales.

In 1990, 1991, 1992 and 1994, ACLI and LIMRA conducted studies of these features, developing

information about the number of insurers offering them, the number of policies having the features, and various aspects of product design. The 1994 survey, conducted jointly by ACLI and LIMRA, documented a dramatic increase in availability of the benefit, indicating that the number of companies offering it had risen by 90 percent since 1991. The survey noted, however, that the uncertain tax status of accelerated payments was inhibiting continued expansion and limiting the ability of the life insurance industry to respond fully to the needs of its customers.

Passage of the Health Insurance Portability and Accountability Act of 1996 clarified the tax status of the features. Under that act, which went into effect January 1, 1997, accelerated benefits paid to policyholders either terminally or chronically ill are not subject to federal income taxes. A terminally ill individual has been certified by a physician as having an illness or condition that can reasonably be expected to result in death in 24 months or less. Chronic illness is defined as being unable to perform at least two activities of daily living due to a loss of functional capacity, or requiring substantial supervision due to severe cognitive impairment. This conforms closely to the qualifying conditions set forth in most long-term care accelerated death benefit features.

Continued interest in accelerated benefits led ACLI and LIMRA to collaborate once again in 1998. To update information on availability of the benefit and various aspects of its design, questionnaires were mailed in April 1998 to 602 life insurance companies, including the combined memberships of ACLI and LIMRA as well as other companies believed to offer the product. The companies surveyed represented approximately 95 percent of the life insurance in force in the United States, according to ACLI’s *Life Insurance Fact Book 1998*.

Figure 1

Life Insurance Companies Offering Accelerated Death Benefit Products

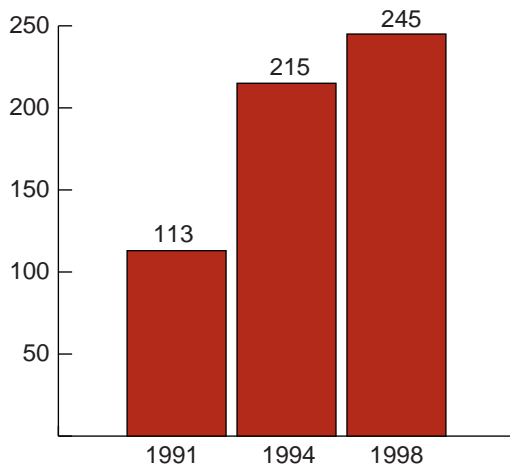
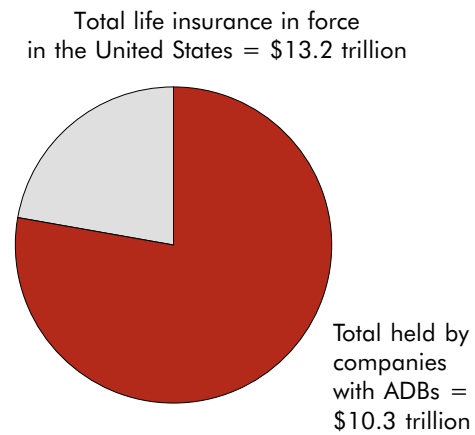


Figure 2

Life Insurance Market Share of Companies Offering ADBs



Of the 602 companies, 361 responded to the survey. The following results are based on their responses.

COMPANIES OFFERING BENEFIT

Of the 361 companies responding, 245 make some type of accelerated death benefit available with life insurance policies. In terms of policy type, 216 companies offer at least one accelerated death benefit feature with individual policies, and 77 offer the feature with group policies. (Forty-eight make it available with both individual and group policies.)

In addition, three companies indicated plans to introduce the benefit as of June 30, 1998. Another 30 did not offer the benefit but were considering doing so. Eleven companies had offered some type of accelerated benefit in the past but no longer did so.

Although not as dramatic an increase as from 1991 to 1994, the 245 companies offering an accelerated death benefit constitute a steady increase over 1994. During a period of consolidation in which the number of active companies fell by 25 percent, the

number of companies reporting an accelerated death benefit increased by 14 percent (Figure 1).

Increased availability of ADBs is more pronounced on the group side than on the individual side. The 77 companies offering the benefit with group products reflect a 33 percent increase over the 58 reported in 1994. Companies reporting the benefit with individual products have increased by 16 percent since 1994—from 187 to 216.

The share of the life insurance in force which these companies represent has increased as well. Companies offering ADBs include most of the country's largest insurers, holding about 78 percent of the life insurance in force in the United States, up from 71 percent in 1994 (Figure 2).

It should be recognized that the actual number of life insurers offering accelerated death benefit features is more than 245. No doubt there are companies offering the benefit among those that did not respond to the survey or were not included in it. Similarly, the actual proportion of life insurance in force held by companies offering an accelerated death benefit is undoubtedly larger than the figure cited.

Table 1

Introduction of ADB Features, Individual Products

| | Products | Percent |
|-----------------|----------|---------|
| 1990 or earlier | 28 | 12 |
| 1991–92 | 69 | 29 |
| 1993–94 | 68 | 28 |
| 1995–96 | 40 | 17 |
| 1997–98 | 34 | 14 |
| No answer | 1 | — |
| Total | (240) | (100) |

Table 2

Conditions for Making Accelerated Payments, Individual Products

| | Products | Percent |
|-----------------------|----------|---------|
| Terminal illness | 214 | 89 |
| Permanent confinement | 28 | 12 |
| Long-term care | 17 | 7 |
| Dread disease | 17 | 7 |
| Other | 2 | 1 |
| Total | (240) | (**) |

**Total is greater than 100% because 35 products can be accelerated by more than one condition.

PRODUCT FEATURES

Provisions With Individual Policies

The 216 companies offering individual accelerated death benefit provisions reported 240 such features. A number of companies make ADBs available to individual policyholders in more than one way—for instance, through a rider that accelerates for terminal illness as well as a rider that accelerates for the need for long-term care.

Dates of Introduction

Reflecting the relative newness of the benefit, only a small portion (12%) of the individual features reported was available before 1991. Most were introduced between 1991 and 1994 (57%). Three in 10 (31%), however, have become available since 1994 (Table 1).

Conditions for Making Accelerated Payments

Of the individual ADB features available today, 205 specify just one circumstance for which they will accelerate: terminal illness, dread disease, the need for long-term care, or permanent confinement to a nursing home. The remaining 35 features are combination products with more than one triggering event—these accelerate under more than one

condition. The most common combinations are terminal illness and permanent confinement to a nursing home (20 products), and terminal illness and dread disease (seven products).

Among the individual accelerated death benefit features now available, diagnosis of a terminal illness or condition is by far the most common triggering event. Almost 90 percent of the individual features reported specify terminal illness as a qualifying condition. In addition to 182 products with terminal illness as their only triggering event, 32 of the 35 combination benefits include it as a qualifying condition. Features that accelerate for permanent confinement, need for long-term care, and dread disease are much fewer (Table 2).

The proportion of individual ADB provisions that accelerate for terminal illness has grown steadily over the past eight years. The nearly 90 percent of products that specify terminal illness as a qualifying condition this year compare to 54 percent in a 1992 study and only 24 percent in 1990. Four years ago, the comparable figure was 83 percent. At the same time, features that accelerate for long-term care and dread disease have decreased, both relatively and in absolute numbers.

The vast majority of companies offering a benefit that advances the payment because of terminal

Table 3

**Presumed Life Expectancy
in Individual Terminal
Illness Products**

| | Products | Percent |
|-------------------|----------|---------|
| 24 months or less | 5 | 2 |
| 12 months or less | 157 | 73 |
| 6 months or less | 45 | 21 |
| Other/varies | 7 | 3 |
| Total | (214) | (100) |

Table 4

**How ADBs Are Available,
Individual Products**

| | Products | Percent |
|---------------------------|----------|---------|
| Rider | 184 | 77 |
| Policy provision | 28 | 12 |
| Non-contractual provision | 12 | 5 |
| Other | 10 | 4 |
| Varies | 6 | 3 |
| Total | (240) | (100) |

illness require certification of pending death by only one physician. Many, however, retain the option of obtaining a second opinion from a doctor of their choosing and at their own expense.

Almost three-quarters (73%) of the individual terminal illness features included in the survey specify that death must be expected to occur within 12 months or less for benefits to accelerate. One in five (21%) provide for an even shorter life expectancy—six months. Only a handful specify a period longer than 12 months. A few companies report that the period varies, depending on the state in which the policyholder lives (Table 3).

Features that accelerate for dread disease or catastrophic illness specify a broad range of conditions. Most frequently cited are heart attack, life-threatening cancer, stroke, coronary artery bypass surgery, and kidney failure. Other conditions included in more than one feature are major organ transplant, AIDS, paraplegia, and loss of limb or eyesight.

While fewer long-term care features were reported this year than in 1994, a substantial portion of those reported has been introduced since 1997. Thirteen of the 17 individual long-term care accelerated benefit provisions cover both nursing home care and care at home or in

the community, while three provide only for home or community-based care.

How Benefits Are Available

Since their introduction, most accelerated death benefit features available on individual policies have been offered through riders—special provisions that can be added to policies, in this case to expand the benefits otherwise payable. Of the 240 individual ADB features examined in the survey, 184 (77%) make benefits available in this way. In a much smaller number of cases (12%), the benefits are an intrinsic part of the policy. An even smaller proportion are non-contractual arrangements made available by company policy rather than more formal mechanisms. A handful of benefits are made available through other means, with policy endorsements being the most common. A small number are available through more than one mechanism, depending, for instance, on whether the policy is new business or in-force business (Table 4).

In a shift from four years ago, a majority (53%) of the ADB features available with individual policies today are offered automatically to holders of the types of policies offering the benefits. In most of the remaining cases, the benefit is optional and the

Table 5

**Types of Policies Offering ADBs,
Individual Products**

| | Products | Percent |
|-------------------------|----------|---------|
| Variable universal life | 57 | 24 |
| Other universal life | 135 | 56 |
| Other variable life | 8 | 3 |
| Traditional whole life | 136 | 57 |
| Single-premium life | 55 | 23 |
| Other permanent life | 32 | 13 |
| Term life | 120 | 50 |
| Other individual | 16 | 7 |
| Total | (240) | (**) |

**Total is greater than 100% because of multiple responses. If, for instance, an accelerated death benefit feature offered by one company is available with universal life, traditional whole life, and term life insurance policies sold by that company, it is counted with all three policy types.

policyholder must request it. In a few cases, the situation is more complex, depending on state regulations, size of the policy, or whether it is new issue or in-force business. Features that accelerate for terminal illness are much more apt to be added automatically than those that accelerate for other reasons.

Policies Offering ADBs

Accelerated death benefit features currently on the market come with a wide array of individual policies. Approximately one-quarter (24%) are offered with variable universal life policies, while more than half (56%) are available with other types of universal life policies. Almost the same proportion (57%) are offered with traditional whole life policies. Just less than one in four (23%) can be obtained with single-premium policies. Over one in 10 are available with other types of permanent policies—interest-sensitive whole life and various types of survivorship policies are mentioned frequently (Table 5).

Half of the accelerated death benefit features (50%) currently available with individual policies can be obtained with term policies, a notable increase from 1992 and 1994 when only 28 percent and

36 percent, respectively, were offered with term policies.

Similar to previous studies, almost three-fifths (57%) of the individual ADB provisions on the market are available with both newly issued policies and policies already in force. Most of the rest (41%) are available only with new policies. A very few (2%) are available only on in-force policies. In several cases, the benefit does not become part of the contract until the need to accelerate the death benefit arises.

Approximately two-fifths of the individual accelerated death benefit features on the market restrict their availability to policies above certain face amounts. Most (56%) do not specify minimum face amounts, an increase over the comparable proportion in 1994 (48%). Several products without minimum face amounts, however, will not make accelerated payments below specified levels (Table 6).

Minimum face amounts, where they exist, tend to be relatively low. None are greater than \$100,000 while most are below \$50,000. In at least one instance, the aggregate total of several policies can be used to reach the minimum. In some cases, the minimum varies depending on the type of policy to which the feature is attached.

Table 6

**Minimum Face Amounts for Newly Issued Policies,
Individual Products by Type (percent)**

| | Total | Terminal illness | Long-term care | Dread disease | Permanent confinement | Multiple triggers |
|-------------------|-------|------------------|----------------|---------------|-----------------------|-------------------|
| No minimum | 56 | 53 | 64 | 67 | 100 | 63 |
| Under \$25,000 | 15 | 19 | — | 11 | — | 3 |
| \$25,000–\$49,999 | 13 | 13 | 18 | 11 | — | 14 |
| \$50,000 and over | 9 | 7 | 18 | 11 | — | 17 |
| No answer | 6 | 8 | — | — | — | 3 |
| Base | (240) | (182) | (11) | (9) | (3) | (35) |

Note: The numbers shown as bases are different from the numbers of products shown accelerating under different conditions in Table 2 because products that accelerate under more than one circumstance are counted as a separate category here. Thus, the 11 cases shown under long-term care here include only those products that accelerate solely for long-term care and not six others for which long-term care is one of several qualifying conditions. Similarly, only three permanent confinement products are shown here because the 25 others are included in products with multiple triggers.

Method of Charging for ADB Provision

How a policyholder is charged for having an accelerated death benefit has changed dramatically. Almost 90 percent of the products included in the first survey in 1990 required an additional premium or cost of insurance. By 1994, that proportion had dropped to 25 percent. This year only 13 percent involve an additional premium or cost of insurance. Almost three times that number (36%) levy no charge other than a possible administrative fee if the benefit is accelerated. Another 46 percent do not require any additional premium but charge if an accelerated payment is made, either by discounting the amount advanced to reflect interest lost due to the early payment (26%), or by treating the advanced payments as liens against the policy and charging interest on the amount advanced (20%) (Table 7).

Similar to findings in 1994, how or whether the policyholder is charged varies according to the conditions that trigger acceleration. While additional premiums are the norm for features that accelerate solely for long-term care (82%), dread disease (89%), and permanent confinement to a nursing home (67%), only a negligible number of features that accelerate for

terminal illness require an additional premium or cost of insurance. Instead, most either involve no charge or charge only if the benefit is accelerated.

Irrespective of other methods of charging for the benefit, three of five ADB features available (60%) provide, where states allow, for nominal administrative fees when accelerated payments are made. While common with features that accelerate for terminal illness (67%), these provisions are infrequent among features that accelerate for other conditions. Even where companies reserve the right to charge these fees, many now waive them.

Limitations on Amount Accelerated

Continuing the practice documented in earlier studies, most of the individual ADB features available today limit either the proportion or the amount of the death benefit that can be accelerated, with the remainder paid to the beneficiary when the insured dies. Similar to 1994, 63 percent limit both the proportion and the dollar amount, while 27 percent limit one but not the other. Tables 8 and 9 provide additional detail about these limitations.

Table 7

Method of Charging Policyholders for ADBs, Individual Products by Type (percent)

| | Total | Terminal illness | Long-term care | Dread disease | Permanent confinement | Multiple triggers |
|--------------------|-------|------------------|----------------|---------------|-----------------------|-------------------|
| No charge | 36 | 41 | 18 | 11 | 33 | 23 |
| Additional premium | 13 | 2 | 82 | 89 | 67 | 23 |
| Discounted benefit | 26 | 27 | — | — | — | 34 |
| Lien approach | 20 | 24 | — | — | — | 14 |
| Other/combination | 5 | 5 | — | — | — | 6 |
| No answer | * | 1 | — | — | — | — |
| Base | (240) | (182) | (11) | (9) | (3) | (35) |

*Less than 0.05 percent

Note: See note for Table 6.

As shown in Table 8, only 25 percent of available ADB features place no restriction on the proportion of the face amount that can be accelerated. Absence of a restriction is much more common among those products that accelerate for the need for long-term care (73%) and permanent confinement in a nursing home (100%) than for those that accelerate for terminal illness (17%), dread disease (22%), or multiple triggers (43%). Among the majority of products with restrictions, most will accelerate 50 percent or more of the face amount. The maximum percentage varies for a number of products, depending on the type, size or age of the underlying policy or, for some products providing multiple triggers, the basis for acceleration.

The existence of ceilings on the dollar amounts that can be accelerated also varies by accelerating condition, although not as markedly as limits on proportions. Products that accelerate only for terminal illness are more apt to restrict the dollar amounts that can be accelerated than are the other types of products. Similar to 1994, most of the ceilings specified are at least \$250,000. Very few are below \$50,000, while a handful are as high as \$1 million. As with maximum percentages, maximum dollar amounts for some products vary,

depending on the type or age of the underlying policy or, for products providing multiple triggers, the basis for acceleration (Table 9).

Distribution of Accelerated Death Benefits

Lump sum payments are standard practice for two-thirds (66%) of the individual accelerated death benefit features available today, although exceptions are made in states that require them. Slightly less than one-quarter of the features (23%) provide a choice between lump sum or periodic payments. Fewer than one in 10 pay out solely in installments. Among a small number of other responses, several companies report distributions can be made through retained asset accounts as well as in lump sum payments (Table 10).

As found in earlier studies, variations in methods of distribution are closely related to the conditions under which the product will accelerate. All of the products that accelerate only for long-term care and permanent confinement provide for periodic payments, while lump sum payments are the prevailing method of payment for those products that accelerate only for terminal illness or dread disease. Products with multiple triggers tend to provide for both methods of distribution.

Table 8

Limitations on Percentage of Face Amount Accelerated, Individual Products by Type (percent)

| | Total | Terminal illness | Long-term care | Dread disease | Permanent confinement | Multiple triggers |
|-------------|-------|------------------|----------------|---------------|-----------------------|-------------------|
| 25% or less | 8 | 6 | 9 | 67 | — | 6 |
| 26%–49% | 1 | 1 | — | — | — | 3 |
| 50% | 44 | 53 | 18 | 11 | — | 17 |
| Over 50% | 20 | 21 | — | — | — | 29 |
| No limit | 25 | 17 | 73 | 22 | 100 | 43 |
| No answer | 2 | 2 | — | — | — | 3 |
| Base | (240) | (182) | (11) | (9) | (3) | (35) |

Note: See note for Table 6.

Table 9

Maximum Dollar Amount for Acceleration, Individual Products by Type (percent)

| | Total | Terminal illness | Long-term care | Dread disease | Permanent confinement | Multiple triggers |
|---------------------|-------|------------------|----------------|---------------|-----------------------|-------------------|
| Under \$250,000 | 24 | 27 | — | 22 | — | 17 |
| \$250,000–\$499,999 | 40 | 41 | 36 | 22 | 67 | 34 |
| \$500,000 and over | 11 | 13 | 18 | 11 | — | — |
| No limit | 23 | 18 | 45 | 33 | 33 | 43 |
| No answer | 2 | 1 | — | 11 | — | 6 |
| Base | (240) | (182) | (11) | (9) | (3) | (35) |

Note: See note for Table 6.

Table 10

Method of Paying Accelerated Benefits, Individual Products by Type (percent)

| | Total | Terminal illness | Long-term care | Dread disease | Permanent confinement | Multiple triggers |
|------------------------------|-------|------------------|----------------|---------------|-----------------------|-------------------|
| Lump sum | 66 | 78 | — | 100 | — | 23 |
| Periodic payments | 8 | 1 | 100 | — | 100 | 9 |
| Lump sum or periodic payment | 23 | 18 | — | — | — | 63 |
| Other | 3 | 3 | — | — | — | 6 |
| Base | (240) | (182) | (11) | (9) | (3) | (35) |

Note: See note for Table 6.

Table 11

Introduction of ADB Features, Group Products

| | Products | Percent |
|-----------------|----------|---------|
| 1990 or earlier | 8 | 10 |
| 1991–92 | 33 | 39 |
| 1993–94 | 22 | 26 |
| 1995–96 | 14 | 17 |
| 1997–98 | 7 | 8 |
| Total | (84) | (100) |

Table 12

Conditions for Making Accelerated Payments, Group Products

| | Products | Percent |
|-----------------------|----------|---------|
| Terminal illness | 79 | 94 |
| Permanent confinement | 3 | 4 |
| Long-term care | 3 | 4 |
| Dread disease | 6 | 7 |
| Other | 1 | 1 |
| Total | (84) | (**) |

**Total is greater than 100% because six products can be accelerated by more than one condition.

Provisions With Group Policies

The continued increase in accelerated death benefit features available with group products has been one of the most notable aspects of the evolution of these features. Only 24 group products were included in the 1991 survey; that number had risen to 65 in 1994. This year, 77 companies report 84 group products.

Dates of Introduction

Similar to individual accelerated death benefits, the dates of introduction of ADBs available with group products reflect their relative newness. Just less than half (49%) of the group products included in this year's survey were on the market before 1993. Fifty-one percent have become available since 1993, with one in four having been introduced since 1995 (Table 11).

Conditions for Making Accelerated Payments

The vast majority (93%) of group accelerated death benefit features included in the survey have only one qualifying condition. Only six of the 84 provide for more than one triggering condition.

Similar to four years ago, terminal illness provisions dominate among the accelerated death benefit

features available with group products. Seventy-nine of the 84 group ADB features (94%) include diagnosis of a terminal illness or condition as a basis for acceleration, either alone or as one of several qualifying conditions. Other accelerating conditions are rare. Only six products accelerate for dread disease, while three will advance payments for the need for long-term care and three for permanent confinement in a nursing home (Table 12).

Like the terminal illness ADB features available with individual policies, the vast majority of those available with group products require certification of pending death by only one physician, although many reserve the right to obtain a second opinion from a physician of their own choosing. Twelve months or less is the most common life expectancy specified by these features (70%), while one in five (22%) provide a shorter time frame—six months or less. Only one of the features specifies a longer life expectancy. In a small number of cases, the life expectancy varies, depending on state requirements, or the employer can choose among various time frames (Table 13).

Kidney failure, cancer, heart attacks, and certain types of heart surgery are the conditions most often specified by group “dread disease” products. Each of the group long-term care ADBs provides for

Table 13

Presumed Life Expectancy in Group Terminal Illness Products

| | Products | Percent |
|-------------------|----------|---------|
| 24 months or less | 1 | 1 |
| 12 months or less | 55 | 70 |
| 6 months or less | 17 | 22 |
| Other/varies | 6 | 8 |
| Total | (79) | (100) |

Table 14

How ADBs Are Available, Group Products

| | Products | Percent |
|---------------------------|----------|---------|
| Rider | 47 | 56 |
| Policy provision | 27 | 32 |
| Non-contractual provision | 1 | 1 |
| Other | 1 | 1 |
| Varies | 8 | 10 |
| Total | (84) | (100) |

both nursing home care and care at home or in the community.

How Benefits Are Available

Although riders do not predominate to the extent they do in individual policies, most (56%) of the accelerated death benefit provisions offered with group policies are made available as riders. One-third (32%) are included as intrinsic parts of policies. The situation varies for one in 10 of the group features, depending, for instance, on the type of underlying policy or the state in which it is sold, or whether it is an existing policy or new business (Table 14).

Similar to four years ago, a majority (55%) of the group ADB features available are provided automatically. Most of the remainder (37%) are optional and must be requested. In a few cases, the situation varies, depending, for example, on the number of lives covered or whether it is new issue or existing business.

Policies Offering ADBs

Reflecting the most common type of coverage available on a group basis, nine of 10 group

accelerated death benefit features on the market are available with group term policies. Over half (54%) can be obtained with supplemental and voluntary group term life policies. Approximately one-fifth (19%) are available with group universal life policies. A handful are available with other types of permanent group life policies (Table 15).

Little changed from 1994, five of six group ADB provisions (85%) now on the market are available both with policies already in force as well as with new policies. The remaining 15 percent are available only with newly issued policies.

Also showing little change since 1994, most of the group ADB provisions currently offered (58%) do not restrict availability to policies or certificates above a minimum face value. Where such minimums exist, they tend to be low—most are below \$25,000 (Table 16).

Method of Charging for ADB Provision

As with features available with individual policies, the process by which policyholders or insureds are charged for group accelerated death benefit features has evolved. In 1992, almost half of the ADB features available with group policies entailed an

Table 15

**Types of Policies Offering ADBs,
Group Products**

| | Products | Percent |
|--|----------|---------|
| Group term life | 76 | 90 |
| Supplemental and voluntary group term life | 45 | 54 |
| Group universal life | 16 | 19 |
| Other group permanent life | 6 | 7 |
| Other group life | 5 | 6 |
| Total | (84) | (**) |

**Total is greater than 100% because of multiple responses. If, for instance, an accelerated death benefit feature offered by one company is available with group universal life, group term life, and supplemental and voluntary group term life policies sold by that company, it is counted with all three policy types.

Table 16

**Minimum Face Amounts for Newly Issued
Policies, Group Products**

| | Products | Percent |
|-------------------|----------|---------|
| No minimum | 49 | 58 |
| Under \$25,000 | 29 | 34 |
| \$25,000–\$49,999 | 3 | 4 |
| \$50,000 and over | 3 | 4 |
| Total | (84) | (100) |

additional premium or cost of insurance. This year, only 17 percent do so. Twice as many—36 percent—involve no charge, other than a possible administrative fee at the time of acceleration. Another 38 percent charge only if the benefit is used, either through discounting the amount accelerated (18%) or treating the advance payment as a lien and charging interest on the amount advanced (20%). A small number of products provide for several different payment options from which the policyholder or insured can choose, or which apply in different circumstances (Table 17).

In addition to any other method of charging, two-fifths (42%) of the group accelerated death benefit features provide for levying a small administrative fee when an advance payment is made. In contrast to individual accelerated death benefits, most group benefits (58%) do not provide for such a fee. Moreover, a number of companies with provisions for such a fee with their group products note they are currently waiving it.

Limitations on Amount Accelerated

As with the individual features surveyed, most group ADBs restrict the amount that can be paid

out in advance by limiting the proportion of the face amount that can be paid, or by placing a ceiling on the dollar amount. (The remainder is paid to the beneficiary upon the death of the insured.) Three-quarters limit both proportion and dollar amount, while an additional 15 percent limit one but not the other. Fifty percent is the norm among those that restrict the proportion. Most dollar limits are under \$250,000. The most common ceilings are \$50,000 (nine products), \$100,000 (17 products), and \$250,000 (21 products). Maximum percentages and dollar amounts vary for some of the products, depending on the type and age of the underlying policy and, for some products with multiple triggers, the basis for acceleration (Tables 18 and 19).

Distribution of Accelerated Death Benefits

Unless state laws require otherwise, three-quarters of group ADB features available today provide for lump sum distributions. Most of the rest provide a choice between lump sum and periodic payments. Like individual accelerated death benefit features, several provide for distribution through retained asset accounts as well as lump sum payments (Table 20).

Table 17

Method of Charging Policyholders for ADBs, Group Products by Type (percent)

| | Total | Terminal illness | Long-term care | Dread disease | Multiple triggers |
|--------------------|-------|------------------|----------------|---------------|-------------------|
| No charge | 36 | 37 | — | — | 50 |
| Additional premium | 17 | 12 | 100 | 100 | — |
| Discounted benefit | 18 | 19 | — | — | 17 |
| Lien approach | 20 | 22 | — | — | 17 |
| Other/combination | 10 | 10 | — | — | 17 |
| Base | (84) | (73) | (2) | (3) | (6) |

Note: These bases differ from the numbers of products shown as accelerating under different conditions in Table 12 because products that accelerate under more than one circumstance are counted as a separate category here. Thus, the 73 cases shown under terminal illness include only those products that accelerate solely for terminal illness and not six others for which terminal illness is one of several qualifying conditions. There is no separate permanent confinement column because all three group products that accelerate for permanent confinement include it as one of several qualifying conditions.

Table 18

Limitations on Percentage of Face Amount Accelerated, Group Products by Type (percent)

| | Total | Terminal illness | Long-term care | Dread disease | Multiple triggers |
|-------------|-------|------------------|----------------|---------------|-------------------|
| 25% or less | 6 | 3 | — | 100 | — |
| 26%–49% | 1 | 1 | — | — | — |
| 50% | 58 | 64 | — | — | 33 |
| Over 50% | 15 | 15 | — | — | 33 |
| No limit | 15 | 14 | 100 | — | 17 |
| No answer | 4 | 3 | — | — | 17 |
| Base | (84) | (73) | (2) | (3) | (6) |

Note: See note for Table 17.

Table 19

Maximum Dollar Amount for Acceleration, Group Products by Type (percent)

| | Total | Terminal illness | Long-term care | Dread disease | Multiple triggers |
|---------------------|-------|------------------|----------------|---------------|-------------------|
| Under \$250,000 | 43 | 42 | — | 67 | 50 |
| \$250,000–\$499,999 | 26 | 29 | — | — | 17 |
| \$500,000 and over | 6 | 7 | — | — | — |
| No limit | 23 | 21 | 100 | 33 | 17 |
| No answer | 2 | 1 | — | — | 17 |
| Base | (84) | (73) | (2) | (3) | (6) |

Note: See note for Table 17.

Table 20

Method of Paying Accelerated Benefits, Group Products by Type (percent)

| | Total | Terminal illness | Long-term care | Dread disease | Multiple triggers |
|------------------------------|-------|------------------|----------------|---------------|-------------------|
| Lump sum | 76 | 79 | — | 100 | 50 |
| Periodic payments | 4 | 1 | 100 | — | — |
| Lump sum or periodic payment | 15 | 14 | — | — | 50 |
| Other | 5 | 5 | — | — | — |
| Base | (84) | (73) | (2) | (3) | (6) |

Note: See note for Table 17.

COVERAGE OF ACCELERATED DEATH BENEFIT PROVISIONS

Policies or Certificates With ADB Provisions

Data on the number of policies or certificates in force which contain accelerated death benefit provisions were available for 182 of the 240 individual products and 56 of the 84 group products. These partial results indicate that a minimum of 39.9 million policies or certificates contain some type of accelerated death benefit provision. This number is more than twice that reported in 1994. While the number of individual policies reported to contain the feature has increased by 76 percent (from 13,077,322 to 23,070,045), the reported number of certificates under group policies with the feature has increased more than threefold—from 5,032,987 to 16,820,079. These figures are substantial undercounts, since they are missing not only data from those surveyed companies that were unable to provide numbers, but also from those companies offering ADB provisions that did not respond to the survey. Moreover, the figures do not include

policies or certificates including the feature that are still in force with companies that once marketed the feature but no longer do so (Figure 3).

As shown in Table 21, virtually all the policies and certificates reported as including an accelerated death benefit provision include protection against diagnosis of a terminal illness or condition. Protection against other conditions is much less common (Table 21).

Claims Experience

Although, predictably, the number of accelerated payments reported for this study is greater than in 1994 when most products had five or fewer, claims experience continues to be quite limited. Among the 200 individual and 62 group products for which information was available, relatively few have made more than 25 accelerated payments since their introduction. These 262 products accounted for fewer than 10,000 accelerated payments as of December 31, 1997 (Table 22).

Figure 3

Policies Including Accelerated Death Benefit Provisions

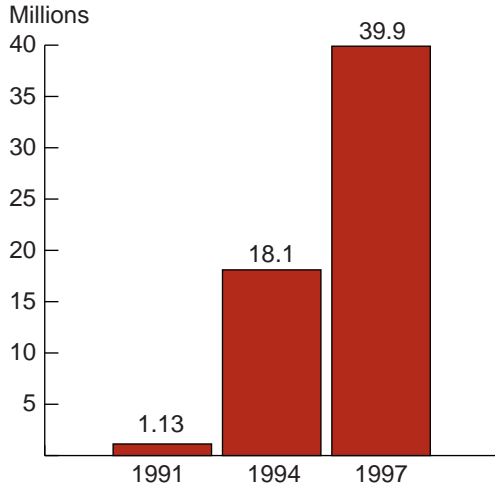


Table 21

Policies/Certificates Including ADB Provision as of December 31, 1997, by Triggering Condition

| | Individual products | Group products |
|---------------------------------------|---------------------|----------------|
| Terminal illness | 23,010,130 | 16,819,379 |
| Permanent confinement in nursing home | 3,060,528 | ** |
| Dread disease | 209,444 | ** |
| Long-term care | 212,537 | 700 |
| Total covered by any ADB product | 23,070,045* | 16,820,079 |

*Policies with a feature that accelerates under more than one condition are "double-counted" (i.e., included with each triggering condition), giving a total smaller than that which would be obtained by adding up the policies reported for each type of accelerating condition.

**Insignificant due to the small number of companies reporting.

Table 22

Accelerated Payments Made as of December 31, 1997

| | Individual | | Group | |
|----------|------------|---------|----------|---------|
| | Products | Percent | Products | Percent |
| 0 | 89 | 45 | 13 | 21 |
| 1-5 | 40 | 20 | 12 | 19 |
| 6-25 | 37 | 18 | 19 | 31 |
| 26-100 | 22 | 11 | 7 | 11 |
| Over 100 | 12 | 6 | 11 | 18 |
| Total | (200) | (100) | (62) | (100) |

COMPANIES OFFERING ACCELERATED DEATH BENEFITS

Academy Life Insurance Company
Advance Insurance Company
Aetna Health and Life Insurance Company
AIG Life Insurance Company
Alexander Hamilton Life Insurance Company of America
All American Life Insurance Company
Allianz Life Insurance Company of North America
ALLIED Life Insurance Company
Allmerica Financial Life Insurance and Annuity Company
Allstate Life Insurance Company
American Community Mutual Insurance Company
American Founders Life Insurance Company
The American Franklin Life Insurance Company
American Heritage Life Insurance Company
The American Home Life Insurance Company
American International Life Assurance Company of
New York
The American Life Insurance Company of New York
American National Insurance Group
American National Life Insurance Company of Texas
American Pioneer Life Insurance Company
American Republic Insurance Company
American Skandia Life Assurance Corporation
Ameritas Life Insurance Corporation
Ameritas Variable Life Insurance Company
AmerUs Life Insurance Company
Amica Life Insurance Company
Anthem Life Insurance Company of California
Anthem Life Insurance Company of Indiana
Auto Club Life Insurance Company
The Baltimore Life Insurance Company
Bankers Fidelity Life Insurance Company
Bankers Life and Casualty Company
Bankers United Life Assurance Company
Beneficial Life Insurance Company
Business Men's Assurance Company of America
Carolina Continental Insurance Company
Catholic Fraternal Life Insurance Company
The Cincinnati Life Insurance Company
Colorado Bankers Life Insurance Company
Columbia Universal Life Insurance Company
Columbus Life Insurance Company
Combined Insurance Company of America
Combined Insurance Company of New York
Concord General Life Insurance Company, Inc.
Connecticut General Life Insurance Company
Conseco Life Insurance Company
Continental Assurance Company
Continental Life Insurance Company of Brentwood,
Tennessee
Cotton States Life Insurance Company
Country Investors Life Assurance Company
Country Life Insurance Company
Cova Financial Services Life Insurance Company

| | |
|---|--|
| Crown Life Insurance Company | Government Personnel Mutual Life Insurance Company |
| CUNA Mutual Insurance Society | Grange Life Insurance Company |
| CUNA Mutual Life Insurance Company | Great-West Life & Annuity Insurance Company |
| Employers Life Insurance Company of Wausau | Greater Georgia Life Insurance Company |
| Employers Modern Life Company | Group Life and Health Insurance Company |
| The Equitable Life Assurance Society of the United States | Guarantee Life Insurance Company |
| Equitable Life Insurance Company of Iowa | Guarantee Trust Life Insurance Company |
| The Equitable of Colorado, Inc. | The Guardian Life Insurance Company of America |
| Equitable Reserve Association | Guidant Life Insurance Company |
| Erie Family Life Insurance Company | Hartford Life and Annuity Insurance Company |
| Farm Bureau Life Insurance Company | Hartford Life Insurance Company |
| Farm Family Life Insurance Company | The Home Mutual Life Insurance Company |
| Farmers and Traders Life Insurance Company | IDS Life Insurance Company |
| Farmers New World Life Insurance Company | Indianapolis Life Insurance Company |
| Federal Home Life Insurance Company | Inter-State Assurance Company |
| Federal Kemper Life Assurance Company | Jackson National Life Insurance Company |
| Fidelity and Guaranty Life Insurance Company | Jefferson Pilot Financial Insurance Company |
| Fidelity Life Association, A Mutual Legal Reserve Company | Jefferson-Pilot Life Insurance Company |
| Fidelity Security Life Insurance Company | John Hancock Mutual Life Insurance Company |
| First Ameritas Life Insurance Corp. of New York | John Hancock Variable Life Insurance Company |
| First Colony Life Insurance Company | Kanawha Insurance Company |
| First Fortis Life Insurance Company | Kansas City Life Insurance Company |
| First National Life Insurance Company of the U.S.A. | Kansas Farm Bureau Life Insurance Company, Inc. |
| First Penn-Pacific Life Insurance Company | Kemper Investors Life Insurance Company |
| First UNUM Life Insurance Company | Kentucky Home Mutual Life Insurance Company |
| Florida Combined Life Insurance Company | The Lafayette Life Insurance Company |
| Fort Dearborn Life Insurance Company | Leaders Life Insurance Company |
| Fortis Benefits Insurance Company | Liberty Life Assurance Company of Boston |
| Fortis Insurance Company | Liberty Life Insurance Company |
| The Franklin Life Insurance Company | Life Investors Insurance Company of America |
| General American Life Insurance Company | LifeUSA Insurance Company |
| Golden Rule Insurance Company | Lincoln Benefit Life Company |
| Golden State Mutual Life Insurance Company | Lincoln Mutual Life and Casualty Insurance Company |
| | Lincoln Mutual Life Insurance Company |

The Lincoln National Life Insurance Company
 Lutheran Brotherhood Variable Insurance Products Company
 Manhattan National Life Insurance Company
 The Manufacturers Life Insurance Company (USA)
 The Manufacturers Life Insurance Company of America
 Massachusetts Mutual Life Insurance Company
 Medico Life Insurance Company
 Metropolitan Life Insurance Company
 The Midland Life Insurance Company
 Midland National Life Insurance Company
 The Minnesota Life Insurance Company
 Modern Woodmen of America
 Monitor Life Insurance Company of New York
 Monumental Life Insurance Company
 Motorists Life Insurance Company
 MSI Insurance Company
 Mutual of Omaha Insurance Company
 Mutual Savings Life Insurance Company
 National Guardian Life Insurance Company
 National Life Insurance Company
 National Teachers Associates Life Insurance Company
 National Travelers Life Company
 New England Life Insurance Company
 New York Life Insurance and Annuity Corporation
 New York Life Insurance Company
 North Coast Life Insurance Company
 The Northwestern Mutual Life Insurance Company
 NYLCare Health Plans of the Southwest
 NYLIFE Insurance Company of Arizona
 Occidental Life Insurance Company of North Carolina
 Old American Insurance Company
 The Old Line Life Insurance Company of America
 Pacific Guardian Life Insurance Company, Ltd.
 Pacific Life Insurance Company
 Pan-American Life Insurance Company
 Paragon Life Insurance Company
 Pekin Life Insurance Company
 Peoples Benefit Life Insurance Company
 Peoples Security Life Insurance Company
 PFL Life Insurance Company
 Phoenix Home Life Mutual Insurance Company
 Pioneer Life Insurance Company
 Pioneer Mutual Life Insurance Company
 Primerica Life Insurance Company
 Principal Life Insurance Company
 Professional Insurance Corporation
 Protective Life Insurance Corporation of Alabama
 Provident Indemnity Life Insurance Company
 Provident Life and Accident Insurance Company
 Provident Mutual Life and Annuity Company of America
 Pruco Life Insurance Company of New Jersey
 The Prudential Insurance Company of America
 Prudential Life Insurance Company of Arizona
 Reliance Standard Life Insurance Company
 ReliaStar Life Insurance Company
 ReliaStar Life Insurance Company of New York
 Rocky Mountain Life Insurance Company
 Royal Maccabees Life Insurance Company
 Royal Neighbors of America
 SAFECO Life Insurance Company
 Security Life and Trust Insurance Company
 The Security Mutual Life Insurance Company
 Security Mutual Life Insurance Company of New York
 Security-Connecticut Life Insurance Company
 Sentry Life Insurance Company
 Slovene National Benefit Society
 Southern Farm Bureau Life Insurance Company

| | |
|---|---|
| Southwestern Life Insurance Company | United of Omaha Life Insurance Company |
| Standard Insurance Company | United Presidential Life Insurance Company |
| State Mutual Insurance Company | The United States Life Insurance Company in the City of New York |
| Sun Life Assurance Company of Canada (U.S.) | United Wisconsin Life Insurance Company |
| Sunset Life Insurance Company of America | UNUM Life Insurance Company of America |
| Surety American Life Insurance Company | USAA Life Insurance Company |
| Tennessee Farmers Life Insurance Company | USAble Life Insurance Company |
| Tennessee Farmers Life Reassurance Company | Utica National Life Insurance Company |
| Teachers Insurance and Annuity Association of America | Valley Forge Life Insurance Company |
| TMG Life Insurance Company | Veterans Life Insurance Company |
| Trans-General Life Insurance Company | Washington Life Insurance Company of America |
| Transamerica Assurance Company | West Coast Life Insurance Company |
| Transamerica Occidental Life Insurance Company | Western and Southern Life Insurance Company |
| Travelers Insurance Company | Western Farm Bureau Life Insurance Company |
| The Travelers Life and Annuity Company | Western Reserve Life Assurance Company of Ohio |
| Trustmark Insurance Company (Mutual) | The Western-Southern Life Insurance Company |
| The Union Central Life Insurance Company | Woodmen Accident and Life Company |
| United Farm Family Life Insurance Company | Woodmen of the World Life Insurance Society |
| United Heritage Mutual Life Insurance Company | Zurich Life Insurance Company of America |
| United Home Life Insurance Company | |
| United Insurance Company of America | |

In addition to the companies listed, a small number reported that they offer the benefit but requested that they not be identified.