As of September 4, 2013 North American’s Accelerated Death Benefit Endorsement now includes a new critical illness benefit in addition to the previously available terminal and chronic illness benefits. Get up to speed on the details of this new benefit with some Frequently Asked Questions.

FAQs

1. **What’s new?**

A portion of a death benefit can now be accelerated in the event of a qualifying critical illness. The Accelerated Death Benefit Endorsements still offer the terminal and chronic illness benefits as well.

2. **What conditions qualify as critical illnesses?**

Specified medical conditions that may qualify for the critical illness benefit include heart attack, cancer, stroke, major organ transplant, and kidney failure. For complete definitions of the Specified Medical Conditions, please refer to the Accelerated Death Benefit Endorsement marketing guide (NAM-2146), which can be found in the Riders and Endorsements section of www.NorthAmericanCompany.com. Keep in mind that the policyowner must file a claim within 12 months of the occurrence date of a specified medical condition.

3. **Why did North American develop this benefit?**

The frequency of critical illness conditions continues to increase. These conditions may also come with significant financial burdens – in some drastic cases the medical costs incurred could result in possible bankruptcy situations. With this in mind, we wanted to provide our policyowners with help when they may need it most. The money received from the critical illness benefit may be used for any purpose. Examples include health insurance deductibles, co-pays, transportation to and from treatments, life insurance premiums and childcare. This can provide the policy owner peace of mind, knowing they have flexibility to access a portion of the death benefit after experiencing a qualifying critical illness event.

4. **Is there a cost for this benefit?**

There is no additional premium cost to have this endorsement on a policy, it’s automatically included, subject to eligibility requirements. Nor is there an administration fee at time of claim. The accelerated death benefit payment will be 40% of the amount of death benefit accelerated.

5. **How much could be made available?**

The maximum amount of the death benefit that may be accelerated is the lesser of 25% of the death benefit at time of election or $50,000. So a $50,000 death benefit acceleration would result in a payment of up to $20,000 (50,000 x 40% = 20,000) because of the discount method that’s applied. A policyowner can elect to receive anywhere between $1,000 and $20,000 for a qualifying critical illness event. Note: The payment amount may be higher than $20,000 depending on the level of cash value in the policy.

If your client has a $1M policy and considers all three benefits – terminal, chronic and critical (subject to eligibility requirements), up to $950,000 of death benefit can be accelerated due to a combination of qualifying events. ($1M less a $50K residual death benefit, that’s required for the chronic illness acceleration, to keep the policy in force.)
6. Are the benefits taxable?

Generally, critical illness benefits are an acceleration of life insurance death benefits that are not currently subject to income tax. Keep in mind that critical illness benefits are paid to the policyowner, which may be different than either the insured or policy beneficiary. Ownership can complicate tax status so we recommend clients consult a tax advisor before any benefits are claimed.

7. Can someone apply for more than one critical illness claim?

The policyowner can file a critical illness claim for each qualifying event that the insured incurs. For example, if the insured has a heart attack and has an occurrence of breast cancer in the same year, the policyowner can file a claim for each qualifying critical illness event and receive up to a maximum of $20,000 for each approved claim.

8. How will electing to accelerate a portion of the death benefit affect the policy?

The death benefit will be reduced by the amount that is accelerated. The account value, cash value, and loan balance will be reduced by the same proportion as the death benefit. Policy deductions will then be based on the reduced amounts. The maximum amount of the death benefit that may be accelerated is the lesser of 25% of the death benefit at time of election or $50,000. If your client has a $500,000 policy, the maximum amount that we will allow he or she to accelerate is $50,000 (10%). The policyowner will receive a payment of $20,000 (50,000 x 40% = 20,000) once the claim is approved. The following chart shows the death benefit and cash value before and after the election. If there was an outstanding loan, a portion of the accelerated death benefit payment would be used to reduce the policy debt.

<table>
<thead>
<tr>
<th>Before Election</th>
<th>After Election</th>
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</thead>
<tbody>
<tr>
<td>Death Benefit</td>
<td>$500,000</td>
</tr>
<tr>
<td>Cash Value</td>
<td>$10,000</td>
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<tr>
<td></td>
<td>$450,000</td>
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<td>$9,000</td>
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9. Do other companies offer critical illness benefits?

There are a few life insurance companies that offer this benefit; however, it’s currently not a commonplace benefit in the life insurance industry.

10. How is North American’s critical illness benefit different than other companies?

- **Fast:** We have no additional underwriting at the time of the claim, so approved claims can be processed quickly and the policyowner will generally receive the payment within a few days, providing help when they may need it most. Generally, other carriers may take additional time to process a critical illness claim.

- **Guaranteed:** We guarantee that approved critical illness claims will receive a payment of 40% of the accelerated death benefit amount regardless of the insured’s age, gender or severity of illness.

- **Simple:** The policyowner will know the payment amount up front so he or she can plan ahead for how to use the benefit.

11. How long will it take to get the payment?

We don't require additional underwriting at the time of the claim, so approved claims can be paid out within a few days.
12. Why can’t the policy owner accelerate a larger amount of the death benefit?

It’s important to remember that this benefit is not a substitute for health or disability insurance; it isn’t intended to completely cover a qualifying critical illness event. The life insurance policy was purchased for death benefit protection and other important reasons. Limiting critical illness benefits allows us to help simplify the claims process and leaves the majority of the death benefit for its intended purposes. The accelerated death benefit endorsement is a supplemental benefit that can provide funds when policyowner may need it most.

When comparing benefits between carriers, take into consideration how much is taken from the policy’s own cash value. Keep in mind that there are circumstances where taking policy withdrawals and loans5 maybe be preferable to electing an accelerated death benefit because the full death benefit can be preserved. Depending on the cash value in the policy, however, the accelerated death benefit may be very helpful in situations where the policy has little cash value– giving the policyowner access to funds regardless of the amount of cash value in the policy.

13. Will North American suspend lapse checking during a claim?

Unlike the terminal and chronic illness benefits, policy deductions are not waived while the critical illness benefit is in use. However, North American will suspend lapse checking for six months. This prevents the policy from lapsing during this period and gives the policyowner time to review finances and make decisions to fit his or her needs.

14. Who is eligible for the critical illness benefit?

The maximum issue age for this benefit is 75. The insured must be rated at a Table 2 or better with no medical flat extras. Keep in mind that if the insured is not eligible for the critical illness benefit, he or she may still qualify for the chronic and/or terminal illness benefit subject to eligibility requirements.

15. What products will include this critical illness benefit?

As of September 4, 2013, North American’s Builder IUL®, Guarantee Builder IUL®, and Custom Guarantee® include the critical illness benefit.

16. What states have approved the critical illness benefit?

As of September 4, 2013, the critical illness benefit is available in all states except Florida, Connecticut, California, and New York (we are not licensed to sell in the state of New York).

17. Will the benefit be added to in-force policies?

No, the benefit will only be included with eligible new policies as they are announced.

18. Is the critical Illness benefit available with term conversions?

Yes, if a term policy is converted to a permanent policy within the first five policy years, we will add the critical benefit without any additional underwriting requirements as long as the policy meets certain eligibility requirements. It is still possible to get the benefit upon conversion after the 5th year with proof of insurability. A change in health will not affect base policy rates; only availability of the Accelerated Death Benefit Endorsements.
1. Subject to eligibility requirements.

2. The dollar amount accelerated for critical illness assumes the policy has no outstanding loans. A portion of the accelerated death benefit payment will be used to reduce the outstanding loan.

3. Claims incurred during the contestable period will be subject to the Company's standard contestable claim review. Refer to the policy and endorsement form for details.

4. Subject to premium payment requirements.

5. In some situations loans and withdrawals may be subject to federal taxes. North American does not give tax or legal advice. Clients should be instructed to consult with and rely on their own tax advisor or attorney for advice on their specific situation.

Accelerated Death Benefit Endorsement for Critical, Chronic and Terminal Illness is issued on form series LR477; Accelerated Death Benefit Endorsement for Chronic and Terminal Illness is issued on form series LR465, or form series LR487 for Custom Guarantee; and Accelerated Death Benefit Endorsement for Terminal Illness is issued on form series LR466, forms series LR488 for Custom Guarantee and form series LR464 for Survivorship GIUL, Custom Guarantee is issued on policy form series LS170, Builder IUL is issued on policy form series LS172, Guarantee Builder IUL is issued on policy form series LS175, or state version by North American Company for Life and Health Insurance, Administrative Office, Sioux Falls, SD. Products, features, riders, endorsements or issue ages may not be available in all jurisdictions. Limitations or restrictions may apply.