

How Life Insurance Policy Riders Work for You

There are a number of interesting and worthwhile riders that owners of life insurance should consider. Riders essentially allow policy owners to customize their policies to give themselves and their beneficiaries added protection if certain events happen. There is a surprisingly large number of riders that life insurance companies offer. Two of the more frequently discussed riders are "waiver of premium" and "accidental death benefit."

Waiver of Premium to the Rescue

The waiver of premium rider protects you in the event that you are disabled and can no longer afford to pay your life insurance premiums. This rider has been compared to having a miniature disability policy on your life insurance contract. Not only does the insurance company pay your premiums, but if you own a whole life policy, the policy cash values and dividends can continue to grow. These increasing policy values are a ready source of income that you can use to help pay your expenses if you are disabled and can no longer work. You can access these values through loans or surrenders.

Waiver of premium riders on permanent life insurance policies can vary greatly. In fact, the Consumers Union, the group that publishes "Consumer Reports," found that waiver of premium charges typically cost between 1 and 12 per cent of the policy's premium, depending on the age of the insured. For term policies, the waiver of premium rider usually costs more, particularly where the term rider permits you to convert to a permanent policy.

For universal life policies, the waiver of premium rider can work a little differently. Unlike term and whole life where the entire policy premium is waived, the waiver of premium rider available on universal life policies usually waives only the cost of the insurance coverage, commonly referred to as the "mortality charges," which your insurance company deducts from your cash value side fund. Your universal life policy may have a more generous waiver of premium provision, so it would be wise to read your policy carefully. For example, some universal life policies will have a "super waiver" rider that pays not only the cost of the insurance coverage, but increases your cash value as well. On the other hand, some universal life policies will add to cash value according to a predetermined formula.

Eligibility Requirements

Most policies contain important eligibility requirements with which you must comply before the waiver of premium rider will take effect. For example, policies generally contain a standard 60-day waiting period before the premiums begin to be paid under the rider. Some policies require that illness or injury occur before the insured becomes age 60. In other cases, the policy may pay reduced benefits if the illness or injury occurs prior to age 60.

The definition of "disability" in your policy is crucial because it determines when your obligation to pay premiums ends. The key is usually whether you are "totally disabled" under your policy's definition. While some policies consider you totally disabled when an illness or injury leaves you unfit for the type of work that you have always done, other policies may contain a clause that says you must be unfit for *any* type of work.

Double Your Coverage

Another common rider is the accidental death benefit. This rider is like the waiver of premium rider in that it can be purchased for a cost over and above your base premium. In return, your insurance company agrees to pay your beneficiaries twice your policy's death benefit if you should die in an accident. Your group term coverage may also contain a double indemnity feature like this. In some instances, you may be able to purchase a triple indemnity rider that pays your beneficiaries triple the policy's death benefit should you die in an accident involving a common carrier such as an airplane, bus, or train.

Plan your life insurance need first. If it falls beyond what you can afford, consider the double indemnity rider to carry you through the lower probability of accidental death.

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