

Recommended practices on living benefits ("accelerated death benefits" or ADBs)

The Ontario Insurance Commission has – through an extensive consultation process with the life insurance companies and other interested parties – examined the issues around living benefits, or accelerated death benefits, and recommends that insurance companies adopt the following practices.

Recommendations

Types of policies to be eligible

1. Insurance companies are encouraged to offer accelerated death benefits with respect to most types of life insurance policies. Exceptions may occur in cases where the insured is not the owner of the policy. This situation arises with group creditor life coverage, where the policyholder is typically the institution that has made a loan, with the proceeds of the policy being for the purpose of paying off the loan in the event of the death of the borrower. One further exception would be the case where policy proceeds are paid on a "last to die" basis.

Where the policy is term insurance and the policy may expire prior to the death of the insured person, an insurer would not be expected to make accelerated death benefits available. However, any convertible portion of a term policy should be treated like permanent insurance.

Who should be eligible

2. Eligibility for living benefits would be based on the life expectancy of an insured person as well as the underlying epidemiology of the disease that the individual has. Eligibility would not be based on the person's financial need or possible use of the money that may be payable as living benefits. This would not prevent an insurance company from enquiring about whether the insured person is of sound mind and capable of making a reasoned decision.
3. Living benefits would at the minimum be made available to persons with a life expectancy of less than two years. Where these benefits are being paid with more than two years life expectancy, it would be acceptable to pay the benefits in instalments on a graduated scale basis with larger payments being made in the earlier years and lower payments in the later years. This approach recognizes that when a person reaches the late stages of a terminal illness, the value of living benefits may become limited.

Amount of payment

4. Although policy size and medical circumstances will be taken into account in specific cases, companies are encouraged to make available as living benefits at least 50 per cent of the face value of the policy. The amount would be reduced to take account of any existing policy loans or amounts for which the policy has been assigned as collateral.

Administration

It is recommended that insurance companies:

5. handle applications for living benefits as expeditiously as possible;
6. not require beneficiaries to sign off except where there are irrevocable designations of beneficiaries or other special circumstances;
7. make available to persons enquiring about living benefits, the name and telephone number of a contact person. This person should be able to answer questions in confidence.

Administrative fees, interest charges and future premiums

8. Insurance companies may charge a reasonable administrative fee to cover any demonstrable necessary expenses when granting living benefits. They may also charge appropriate rates of interest on amounts advanced. Where there is no waiver of premium, it is also appropriate to arrange for premium payments to keep the policy in force. Such premiums and charges may be deducted from the death benefit of the policy.

Disclosure

It is recommended that insurance companies:

9. advise interested insured persons on how to apply for living benefits, the methods by which these benefits and interest are calculated, the existence of any additional premiums and/or administrative fees, the method of payment and expected processing time;
10. indicate whether consent of a group policyholder/employer or of irrevocable beneficiaries will be required;
11. encourage insured persons to consult legal and financial advisors. For example, an insured person's entitlement to social assistance may be affected by the payment of a living benefit or receipt of these benefits may have tax implications;
12. provide clients with a disclosure document in plain language containing the information under this disclosure heading.

Internal Communication

13. Insurance companies would take steps to ensure that employees, agents, underwriters and others who may have dealings with insureds, are able to speak knowledgeably to clients about the company's living benefits program.

External Communication

14. Insurance companies would advise all purchasers of new policies of the existence of their living benefits program.