



Now Available in New York!

Chronic Illness Benefit Rider



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We introduced Security Mutual's Customized UL4U™ universal life policy in the July/August issue of *Marketing Update*, and now we are excited to report the approval of the Chronic Illness Benefit Rider (CIBR) in New York State.

The CIBR is a living benefit policy enhancement that may now be used with the Customized UL4U™ universal life insurance policy in the state of New York. It provides living benefits in the event the insured becomes chronically ill.

Chronic illness often comes with high expenses for treatment, medication and care. A family can face financial hardships when battling a chronic illness. The CIBR permits the policyowner to accelerate a portion of the policy's death benefit, the proceeds of which can be used for any purpose, including to help cover health-care expenses.

The Living Benefits Rider must be added to any policy in which the Chronic Illness Benefits Rider has been

requested. There are no additional premiums for these riders. There is, however, an impact to the death benefit and cash value when a chronic illness rider benefit is paid.

The CIBR is available to be included with the base UL4U life insurance policy at policy issue. Satisfactory evidence of insurability including a supplemental application is required. In addition, those applicants whose insurance age is 66 or older must undergo cognitive screening.

Chronic Illness Defined

- A chronically ill individual is unable to perform at least two of the six Activities of Daily Living (ADL)—bathing, continence, dressing, eating, toileting and transferring—without substantial assistance from another individual.
- Chronic illness can also include someone who suffers from severe cognitive impairment. This is defined as a severe deterioration or loss of intellectual capacity that

requires substantial supervision by another person to protect himself or herself from threats to health and safety.

- A chronically ill person is expected to require continuous care for the remainder of his/her life.



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(continued)

Benefit Payments*

If the insured becomes chronically ill, a Chronic Illness Benefit payment becomes available under the terms of the rider. The accelerated benefit payment will be paid after medical verification and a continuous period of 90 days of chronic illness immediately preceding the date of payment.

An accelerated benefit may be elected once every calendar year and will be paid as a single lump sum portion of the policy death benefits subject to Internal Revenue Code (IRC) and rider limits.

The maximum annual benefit for acceleration is set at 25 percent of the policy's specified amount.

The Internal Revenue Service establishes a limit for each calendar year. The IRC limit for 2012 is \$310 per diem with an annualized limit of \$113,150. The accelerated benefit will be reduced by an actuarial discount as prescribed by the rider, and an administrative charge will be deducted from each benefit payment made. Accelerated benefit payments can be made until such time that benefits are no longer available as stated in the rider.

Accelerated benefit payments will be limited so that a residual death benefit remains following a payment. The minimum residual death benefit is \$25,000. The policyowner may return any net chronic illness accelerated benefit payment to the Company within 30 days of receipt, thus voiding the claim election. The maximum cumulative accelerated benefits available during the life of the insured under all policies issued by the Company is \$1,000,000.

CIBR in an ILIT

One of the most common estate-planning devices is the irrevocable life insurance trust (ILIT). The principal advantage of naming an ILIT as the life insurance policyowner is the ability to exclude the life insurance proceeds from the estates of the insured and the insured's spouse for federal and state estate and inheritance tax purposes, while allowing the insured's surviving spouse to enjoy the benefit of the proceeds as a trust beneficiary.

In order to obtain the favorable estate and inheritance tax treatment, the insured as the grantor must divest himself of any economic benefits in the life insurance policy.

In situations where Security Mutual's Customized UL4U™ policy is owned by a life insurance trust, the policy may include a Chronic Illness Benefit Rider. Security Mutual's Chronic Illness Benefit Rider is an indemnity-type rider, meaning that if the insured qualifies for acceleration pursuant to the terms of the Rider, the insurer pays the requested benefit directly to the policyowner, in this case, the trustee.

Contrast this to reimbursement-type riders issued by other insurers. Reimbursement-type riders require the insured to submit bills from the nursing home or other agency providing care. The benefit is then paid directly to the health-care provider. Since this provides a direct benefit to the insured, the result would be inclusion of all of the policy death benefit in the insured's estate. For this reason, reimbursement-type riders are not generally recommended for use in a life insurance trust.

The trustee may not distribute the accelerated death benefits directly to the insured grantor, since that would require inclusion of all of the policy's death benefits in the insured's estate for estate tax purposes.

When a trust is the policyowner and the grantor insured's medical condition qualifies for chronic illness accelerated death benefits, the trustee should carefully consider whether acceleration of the death benefit makes sense in the context of the grantor's overall estate plan.

Underwriting Requirements

The Chronic Illness Benefit Rider will be issued on new business only, subject to satisfactory review of evidence of insurability, issuable through Table 4 (prior to any substandard table rating rules), or standard or better cases with a flat extra rating up to \$10.00 per thousand. In addition to age/amount requirements on the base UL4U policy, the following requirements are specific to the Chronic Illness Benefit Rider:

- Supplemental Application for Chronic Illness Accelerated Death Benefit Rider, Form Number 0012952NY.
- Cognitive Screen (Enhanced Mental Skills Test – "EMST") for proposed insureds insurance age 66 and above.

WinFlex and WinFlex Web

Illustrations for Customized UL4U™ including the Chronic Illness Benefit Rider may be generated with WinFlex. These illustrations will include a generic Chronic Illness Accelerated Death Benefit illustration showing a hypothetical policy and an acceleration of the death benefits based on the rider's provisions.

In addition, it will show hypothetical policy values before and after acceleration.

For detailed information regarding the Chronic Illness Benefit Rider and/or the Customized UL4U™ life insurance policy, including product marketing guides, please refer to the following Field Bulletins:

- Form No. 0013094XX – *Customized UL4U™—Universal Life Customized with Legacy and Living Benefits Providing Flexibility You Can Choose! Now Available in New York*
- Form No. 0013111XX – *Customized UL4U™—Universal Life Customized with Legacy and Living Benefits Providing Flexibility You Can Choose! Now Available in 40 States*
- Form No. 0013126XX – *Customized UL4U™—Now Featuring the Chronic Illness Benefit Rider in New York*
- Form No. 0013123XX – *Ownership of a Security Mutual Life Insurance Policy with a Chronic Illness Benefit Rider by an Irrevocable Life Insurance Trust*

You may also refer to the “Product Info” section of SecurityLink, or contact the Marketing Department.

*The payments under the Chronic Illness Benefit Rider are intended to qualify for favorable tax treatment under Section 101(g) of the Internal Revenue Code. However, payments made under the rider may be taxable depending upon specific facts and circumstances. Accordingly, the policyowner should consult with his or her tax advisor to determine the tax consequences before requesting the payment of an accelerated benefit under the rider. Receipt of accelerated death benefits may affect eligibility for public assistance programs.

The information in this document represents our understanding of estate tax laws and regulations, but does not constitute tax advice. It does not purport to be complete or to describe the consequences that may apply to your client given their particular situation. Clients should consult their own tax advisor regarding the applicability of various tax laws.

This product is a life insurance policy and rider that accelerates the death benefit on account of chronic illness and is not a health insurance policy and rider providing long-term care insurance subject to the minimum requirements of New York Law, does not qualify for the New York State Long-Term Care Partnership program and is not a Medicare supplement policy and rider.

Policy Form Nos. 2110-NY (UL4U); IO-9334-NY (CIBR)



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