United Policyholders
Empowering the Insured

[Four life insurance riders to consider – and two to avoid]

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If your life insurance policy seems inadequate, you can beef it up by adding optional life insurance riders. Riders are special features that can tack on benefits and bring flexibility to your coverage. However, not all life insurance riders are equally beneficial.

"Some riders can greatly benefit the consumer, while others cost more than they are worth," says Tony Steuer, United Policyholders' director of financial preparedness. "Customers need to educate themselves to be aware of the costs and benefits."

Here are four life insurance riders to ponder – and two to stay away from.

Waiver of premium waiver of cost of insurance)

This is one of the most common types of life insurance riders. If the policyholder becomes disabled, this rider will pay for the life insurance policy premium so that the policyholder can continue to have coverage for the duration of the policy.

On a term life policy, the rider pays the full premium for the duration of the policy – so if someone has a 20-year term life policy and becomes disabled with 10 years remaining on the policy, he would have his premiums covered for the final 10 years of the policy.

On a universal whole life policy, the rider is known as a "waiver of cost of insurance." The rider covers the cost of the insurance, but not the other portion of the premium that pays for the investment component of the whole life policy.

"If you're under 45, the waiver-of-premium rider can be a good buy, especially if you don't have individual disability coverage," says Stephen Rothschild, president of wealth management advisory firm M21 Consulting Inc.

However, Steuer says this rider might not be the best option for someone who has group long-term disability insurance through an employer, as it is expensive – costing at least 10 percent of the total premium of a term life insurance policy.

"The better plan is to make sure that you have sufficient disability insurance," Steuer says. "Three in 10 workers will become disabled at some point in their careers."

Disability insurance is designed to replace a policyholder's income in case he's unable to work because of serious illness or injury.

Accelerated death benefit

This rider gives a policyholder the option to receive part of the policy's death benefit if he becomes terminally ill. A typical example would be the policyholder receiving 75 percent of the face value of the policy, up to $1 million. The definition of terminal illness varies from policy to policy, but Steuer says that accelerated benefits often are given to policyholders who have less than a year to live.

Steuer says some policies automatically include this rider at no extra cost. He advises policyholders to read the fine print on their existing policies or to ask about this rider if they're buying new policies.

Term life rider on a whole life insurance policy

Some people buy whole life insurance, with coverage that lasts for the policyholder's entire life, instead of a limited term of 20 or 30 years. However, it costs more to buy a $250,000 whole life insurance policy than a $250,000 life insurance policy. But if a someone has a whole life insurance policy and wants to get more life insurance coverage, he can buy a term life insurance rider.

Why would you want to have term and whole life coverage? By adding a term life rider, the amount of death benefit goes up without a proportionate increase in the premium. For example, if you had a whole life policy with a $250,000 death benefit and added $500,000 worth of term life coverage, that would bring the total death benefit to $750,000 – at a lower cost than simply tripling the amount of whole life coverage.

If you’re thinking of adding this rider, compare the monthly premium with the total amount of coverage. Find out whether you’d be better off buying stand-alone term life insurance coverage without attaching it to your whole life policy.

Guaranteed-purchase-option rider guaranteed insurability)

With this rider, a policyholder can buy more life insurance in the future – for example, $20,000 or $25,000 worth of additional coverage – without having to take another medical exam.

“This rider is often a good choice for young people who believe that their income is going to grow and want to be able to buy more coverage in the future,” Rothschild says.

Extra benefits or unnecessary costs?

Not all life insurance riders make good financial sense for consumers.

Rothschild says he usually doesn’t recommend the “accidental death and dismemberment” rider, which provides a payout usually equal to the amount of the face value of the life insurance policy) if the policyholder dies in an accident or becomes seriously injured, such as losing a limb.

“The problem with this rider is that the benefit depends on how the policyholder dies,” Rothschild says. It pays out only for one type of death or injury, such as a car accident. As Rothschild says, “How do you know how you’re going to die?”

Instead, Rothschild advises his clients to consider buying extra coverage, rather than restricting a benefit to a certain cause of death.

“Most deaths are not accidental,” he says. “A policyholder’s odds of receiving the added benefit from this type of rider are very low.”

Another rider that Steuer generally doesn’t recommend is the long-term care insurance rider. With this rider, policyholders can add long-term care insurance to a life insurance policy, with the goal of helping pay for health care costs, such as home health aides and medical equipment, that may not be covered by health insurance or Medicare.

“These riders may be attractive to some customers, but they can also be complex,” Steuer says. “Compare different options, make sure you understand the rider and make sure you understand the terms of what would be required for you to qualify.”