

## Accident and critical illness insurance: the financial problem-solvers

HERE ARE THE EIGHT THINGS to talk to clients and prospects about.

**F**or the last several years, employers have struggled to control rising benefit costs amid very difficult economic and competitive pressures. Escalating medical claims costs have been particularly tough on bottom lines. Employers have responded by redesigning their medical plans to keep them affordable — usually by removing more expensive plan options, raising deductibles and co-payments, or limiting eligibility. One major trend has been to replace traditional major medical plans with high-deductible plans, which have shown promise in managing rising medical cost trends for employers.

The consequences of these trends are not surprising. From 1999 to 2008, the average annual employee contribution for family health insurance coverage went up 81%, according to the Robert Wood Johnson Foundation. Meanwhile, a 2009 study by the Na-

tional Opinion Research Center and Watson Wyatt Worldwide reported that adults with employer coverage shouldered an average of \$729 annually in out-of-pocket medical costs in 2007 — which represented a 34% increase from just three years earlier.

The bottom line: Employees pay higher premiums and out-of-pocket medical expenses. Among other things, this means they are exposed to potentially significant financial strain if they or their family members are involved in an accident or suffer a life-threatening medical problem.

Two voluntary group insurance products are ideally equipped to address this benefits gap — accident and critical illness — yet many employers either don't know about them or simply haven't taken a close enough look. As an adviser, now might be a great time to bring these products forward with clients for consideration since they are timely, relevant and help the employer add new company benefits *without a bottom-line impact* in an era of continual benefits erosion. They can also be positioned as a way to soften the impact of a transition to high-deductible (HSA or HRA) plans.

Taken together, accident and critical illness insurance perform much like an extended warranty that supplements medical coverage in important and attractive ways. When discussing these policies with a client, you will want to reinforce these key features:

- Payment, not reimbursement. With these two products, the insured does not have to spend money up front, in terms of a deductible, in order to get the benefit. Having an accident or being diagnosed with a specific illness, such as cancer, triggers the payout. The employee doesn't have to incur an expense and then wait for reimbursement. This is important because employees may be

### It's as easy as ... falling off a bike

Imagine that a 35-year-old employee takes a tumble and is injured — with a fractured wrist and torn knee ligament — while bicycling on a family outing. Here's how quickly costs might accumulate, and how an accident policy might theoretically respond to cover those costs.\*

**Out-of-pocket expenses incurred:**

- \$100 emergency room copay
- \$250 deductible
- \$750 copay for knee surgery (\$3,750 x 20%)
- \$150 copay for eight physical therapy visits
- Total out-of-pocket expenses: \$1,250
- \$150 emergency room co-pay
- \$50 appliance (knee brace)
- \$300 fractured wrist
- \$400 surgical ligament tear repair
- \$50 follow-up appointment
- \$150 for six physical therapy sessions

**Benefits paid by typical accident insurance policy:**

Total benefit paid: \$1,100

\*Cost of treatment and benefit amounts are representative only; amounts will vary by cost of care in various locations and richness of benefits offered by carrier.



# Voluntary

facing high deductibles in their medical plan coverage, so having the ready cash is a major help.

- Not tied to medical plan. A common point of confusion with both accident and critical illness products is that their benefits are somehow “offset” by medical plan benefits. It’s important that the employee and the employer alike understand that these limited benefit policies perform as supplements to medical coverage, but are not in any way linked to them and their benefits are delivered with no offsets or reductions once policy requirements are met.

- Use money in any way. The nature of medical plans is that insureds only get reimbursed for “qualified expenses,” which the insurer details within the program. With both accident and critical illness, since insureds receive a lump sum for particular injuries or diseases, they have no such restrictions on how they use the money. For example, a person who loses the use of a limb might use the accident policy’s payout to make home modifications that make life easier. Someone with a cancer diagnosis might wish to consult with a specialist across the country, and can use the critical illness policy’s payout for travel and lodging expenses. If an experimental treatment is not covered by a medical plan, the insured can use the critical illness policy’s payout to spend the \$10,000 or more to pay for the treatment.

- Direct and transparent. For most people, a glance at the list of potential injuries on an accident policy, or taking on the topic of dread diseases, can generate queasiness. Who really wants to think about winding up in a coma or fighting cancer? But the policy benefits are clear and transparent, unlike the sometimes-mystifying coverage rules in medical policies. Employees will get the message that, by offering these voluntary benefits, the employer is raising important financial-security issues and providing affordable solutions to address them.

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- Simplified claims. In most cases, to receive a benefit the insured simply provides the insurer with a claim form and applicable paperwork from a care provider that documents the injury or diagnosis of disease. With accident insurance, additional paperwork might be required to determine whether the claim stems from the insured taking part in certain inherently dangerous activities, such as bungee jumping or car racing, in which case benefits might be denied. Such restrictions will be clearly stated in the policy.

- Ready availability. Generally, accident insurance payments are issued to employees without any pre-existing condition limitations. Critical illness insurance might require the employee to fill out questions on an application for coverage, although under certain conditions, employees may be eligible for a guaranteed issue offer without requiring answers to health questions. Regardless, employees would have a hard time finding either of these coverage options at such affordable prices outside of the group voluntary benefits context. Premiums of only \$20 or \$30 a month for each insured are common in these worksite products.

- Family coverage. Depending on the carrier, the employee can opt to get coverage for a spouse and dependent children (up to a certain age) as well. This is a real advantage if a working spouse does not have coverage through his or her employer. But, this is equally important for spouses who work in the home, because household finances might be more constrained and thus make the additional policy benefits even more critical. In the case of children, the accident coverage usually pays benefits for non-professional

sports injuries, a common occurrence. Depending on the injury, the out-of-pocket costs for emergency room services, copays and deductibles for medical care and follow-up physical therapy can quickly exceed \$1,000. An accident policy typically would provide benefits to cover the lion’s share of those costs.

- Portability. In most cases, accident insurance allows employees and dependents to continue the coverage after leaving the employer or retiring. For critical illness, there may be certain conditions involved, but the key is that most policies allow employees and dependents to continue enjoying these coverage options at group rates wherever life might lead them next.

In presenting accident and critical illness insurance options to the client, ensure that you read the fine print in the carriers’ offerings. In the descriptions above, you see many uses of “typically” or “in some cases” or similar phrases. This is because rules, payout amounts and exclusions can vary from carrier to carrier.

For example, some carriers’ critical illness policies may make multiple partial or full payments for certain diagnoses while others may not. Similarly, riders for spouses and children might have specific rules that make one more desirable than another.

Your client will appreciate your diligence and foresight in illuminating the importance of these “twin voluntary benefits” at a time when funding an employee benefit package is such a difficult financial challenge. **EBA**

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