

# Supplemental health insurance: A 'must' for Americans in a changing economy

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## INTRODUCTION

In the last few years, economic concerns in the U. S. have been as numerous as they are serious. Rising national debt, high unemployment, record home foreclosures, a weak dollar and a negative savings rate have created a “perfect storm” in our economy.

At the individual level, more Americans are struggling to manage their household's economy. Many are battling stagnant wages, mortgage debt, credit card debt and unpaid medical bills. Medical debt is, in fact, a leading cause of personal bankruptcies nationwide.<sup>1</sup>

People who have no health insurance are at risk of financial difficulty with even a minor medical problem. And those who do have individual or employer-provided health insurance may struggle to pay premiums, copays, deductibles and coinsurance.

Some have looked to the federal government to offer relief from the high cost of healthcare. The Patient Protection and Affordable Care Act (PPACA) was signed into law in 2010. Its various provisions are scheduled to be implemented in phases through 2020. However, PPACA remains the target of political pressures and public opinion. In addition, the implementation of some key provisions—including federally run small-business insurance exchanges—is being delayed by administrative obstacles.

All Americans should anticipate paying premiums and out-of-pocket medical costs,

along with common nonmedical expenses.

## A PRACTICAL SOLUTION

For help paying medical and nonmedical costs, supplemental health insurance is—and will continue to be—a practical solution for consumers. With supplemental coverage, individuals and families can gain better access to quality care, more easily manage their personal healthcare costs and protect their hard-earned assets.

The value of supplemental health insurance becomes apparent when factoring in the risks and costs of common illnesses and injuries.

## U.S. HEALTH RISKS

Many of us, at some point in life, will hear from our physician the words we most fear: Cancer. Heart disease. Stroke. Those who don't may have to support a family member or good friend through treatment for one of these illnesses.

According to an Eastbridge Consulting Group study, in a typical year 1-in-6 Americans is hospitalized due to sickness or an accident.<sup>2</sup> The average hospital stay is four to five days, which includes hospitalizations for everything from minor broken bones to major organ transplants.<sup>3</sup>

Medical care from hospitals and other providers is more extensive when certain health conditions—namely injuries, heart disease, stroke and cancer—are the cause.

The American Cancer Society reports men have nearly a 1-in-2 lifetime risk of developing cancer, while 1-in-3 women likely will develop cancer at some point in their lives.<sup>8</sup>

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### *Injuries*

The National Safety Council reports that a disabling injury occurs once every second, and every four minutes a person dies from an injury.<sup>4</sup> In one year, 1-in-8 Americans—about 37.9 million people—receive medical attention for a nonfatal injury.<sup>5</sup>

### *Heart disease*

About 83.6 million people in the U.S. currently have one or more types of cardiovascular disease, according to the American Heart Association.<sup>6</sup> Even the most extreme heart-care scenario—a transplant—is becoming more common. In 2011, 2,322 heart transplants were performed in the U.S.<sup>7</sup>

### *Cancer*

As the average lifespan has increased, so has each person's risk of developing cancer. The American Cancer Society reports that men have nearly a 1-in-2 lifetime risk of developing cancer, while 1-in-3 women likely will develop cancer at some point.<sup>8</sup> In 2012 alone, more than 1.6 million new cases of cancer were diagnosed.<sup>9</sup>

Given the prevalence of accidental injuries and catastrophic illnesses like heart disease and cancer, individuals should evaluate their personal health risks and prepare for the costs associated with treatment and recovery.

## HIGH COST OF MEDICAL CARE

Paying for medical care is a separate challenge, as costs continue to climb steadily. Nationwide, healthcare spending has grown faster than the overall economy every year since the 1960s. Annual healthcare spending is projected to reach \$2.9 trillion in 2013—17.8% of the U.S. GDP—a total of \$2.6 trillion. That amounts to \$9,214 per capita this year alone.<sup>10</sup>

Of all healthcare expenditures, the largest portion—more than 31%—goes to pay hospital costs.<sup>11</sup> That's not surprising considering that the average per-patient amount charged by U.S. hospitals—which includes care for everything from stitched-up cuts to open-heart surgery—is \$14,000 for adults.<sup>12</sup> Another 19% of healthcare expenditures goes toward physician and clinical services.<sup>13</sup>

Naturally, when people think about the high cost of healthcare, many imagine expensive hospital stays and pricey doctor bills. Yet these costs combined represent just half of an individual's total potential healthcare liability. A nearly equal amount goes toward additional medical and nonmedical expenditures related to care.<sup>14</sup>

Nonmedical costs are much harder for consumers to anticipate. Patients may not be financially prepared to pay for transportation to and from medical facilities, or for additional child or family care expenses during treatment. At the same time, their income may suffer when their health keeps them from working.

## WHO BEARS THE BURDEN?

As healthcare costs have increased, so have health insurance premiums. Between 2001 and 2012, the average amount employers paid to provide health insurance for each worker increased 95%, from \$5,866 to \$11,429.<sup>15</sup> To remain profitable in a challenging economy, companies had to reduce benefits and eliminated employee options.

As a result, workers took on a greater share of insurance costs. In the last decade, employee contributions to employer-sponsored health insurance rose 102%, from \$2,137 to \$4,316 per year.<sup>16</sup>

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“The biggest change...has been the increase in cost-sharing with employees,” said Michael Thompson, of Pricewaterhouse, in an interview with *Workforce Management*. This trend emerged, he noted, when increases in healthcare costs began to outpace growth in corporate profits and employee wages.<sup>17</sup>

### IMPLICATIONS FOR INDIVIDUALS

A large number of Americans have trouble keeping up with healthcare costs, reports the Kaiser Family Foundation. In a recent poll, 26% of those surveyed acknowledged problems paying medical bills.<sup>18</sup>

To cut household costs, more individuals are avoiding or delaying medical care. The Kaiser study indicates 60% of poll participants have put off or gone without care in the past year—choosing instead to use home remedies and over-the-counter drugs, give up dental care and skip recommended tests, treatments and prescriptions.<sup>19</sup>

### A SOLUTION

Individuals concerned about healthcare costs now have a choice: They can be victims of current circumstances, or they can seek out solutions to help maintain their standard of living if a major illness or accidental injury occurs.

One such solution is supplemental health insurance, which provides cash benefits policyholders can use to pay bills and maintain their household through medical issues.

#### *Cheaper than fast food?*

Supplemental health insurance is affordable for many budgets. While premiums vary, the average annual cost is on par with many nonessential expenses people willingly incur on a regular basis.

### COMPARE THE COST:

Two lattes a week for one year	\$442
Going to a movie twice a month with your spouse—including popcorn and sodas	\$670
Two fast-food meals a week for one year	\$725
Half a pack of cigarettes a day	\$820

### BUYERS' GUIDE TO SUPPLEMENTAL INSURANCE

Any individual in the market for supplemental health insurance should look for:

- Lump-sum benefits**, paid when the insured person is diagnosed with a common catastrophic illness.

*Example: A supplemental cancer plan agrees to pay an insured single mother a \$10,000 cash benefit if she is diagnosed with breast cancer.*

- Indemnity benefits** to offset the medical costs for hospital and ICU stays, chemotherapy, radiation and corrective or preventive surgery.

*Example: An insured factory worker who undergoes an appendectomy uses his supplemental policy's daily \$200 hospitalization benefit to help pay expenses associated with his hospital stay. With this benefit, he is able to keep his emergency savings intact.*

- Transportation benefits** to help the insured person afford to travel to and from a medical center for treatment.

Families have a choice: They can be victims of current circumstances, or they seek out solutions to help maintain their standard of living if a major illness or accidental injury occurs. Supplemental health insurance is a viable solution.

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This benefit is especially important for residents in rural areas, who must travel—and pay for transportation and lodging—when receiving medical care.

*Example: The parents of an insured 9-year-old have to drive 350 miles to get specialized treatment. Their supplemental plan's transportation benefit helps offset those travel and hotel costs.*

- **Coverage for regular diagnostic tests**, such as mammograms, Pap smears and colon screenings. This option makes it easier to afford preventive care and detect diseases when they're easiest to treat.

*Example: A 44-year-old mother has a family history of breast cancer, so she purchases a supplemental cancer policy with wellness benefits. Her policy pays for an annual mammogram, giving her the assurance that cancer cells would likely be detected early.*

- **Premium-return feature**, also known as a "cash value" or "return of premium" rider. As the name implies, the benefit literally can return premiums to the policyholder if coverage is maintained for a certain period of time. It assures buyers that they'll get premiums back if they don't need the insurance coverage.

*Example: A couple in their 60s have had a supplemental cancer policy for 20 years. They bought the policy with a 100% return of premium rider. They've enjoyed great health and haven't had to file a claim, so they received a check for their entire paid premium and decided to continue their coverage.*

## SUPPLEMENTAL INSURANCE IN REAL LIFE

In late 2002 Janice Mason, a teacher, purchased a Washington National supplemental insurance policy through the elementary school where she worked. Her agent explained that the policy would pay her certain benefits in cash if she developed cancer—and would return all of her premiums if she didn't use those benefits.

Janice's husband, Dave, was surprised to learn she'd purchased supplemental insurance for herself.

***"She was the good apple who never did any of the bad little things. She was always the great patient who did what she was supposed to,"*** Dave said. ***"I never watched myself like she did."***

Not long after buying the policy, Janice developed leukemia. And for the next three years, she waged a long, painful and costly battle with Dave by her side. The out-of-pocket medical bills and associated nonmedical costs were steep. But the supplemental benefits paid by Washington National helped keep the Mason family afloat and their life savings intact.

More than seven years have passed since Janice lost her battle with leukemia and Dave lost the "rock" in his life. Dave offers advice for people like him: ***"You never know what tomorrow brings. Don't put off until tomorrow what you can get done today."***

That includes obtaining supplemental health insurance, he said. ***"What you're going to get back is, when you lay down at night, the ease you'll have in your mind."***

By having the financial safety net of supplemental health insurance, more people can avoid the too-common circumstance of having to choose between receiving needed medical care and paying household bills.

**“We decided on a cancer policy because we would get the premium returned. And we were hoping that in 10 years (of coverage) nobody would get cancer.”**

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### SUMMARY

Supplemental health insurance helps protect against the potentially high personal costs of injuries and major illnesses, at a rate that compares to common household expenses. With most supplemental policies, benefits are paid directly to insured persons or their beneficiaries, regardless of any other insurance already in place.

Supplemental products may pay lump-sum and/or indemnity benefits. Recipients can use their benefits to pay medical bills throughout treatment, cover nonmedical costs or meet other needs. Whatever they decide, individuals can worry less about the cost of care and focus solely on their own health and well-being.

Several years ago, Nancy Inman and her husband purchased a supplemental health insurance policy with a premium-return benefit.

**“We decided on a cancer policy because we would get the premium returned. And we were hoping that in 10 years (of coverage) nobody would get cancer,”** she said.

Unfortunately, that was not the case.

**“I was diagnosed March 16, 2005, which happened to be my husband’s birthday,”** Nancy said. **“We called the kids and asked them to come over. And I said, ‘Now don’t anybody get upset or you’ll upset me. This is the way it is, and we’ll do what we’ve got to do.’”**

With her family’s support, Nancy persevered. She was able to use her supplemental policy’s cash benefits to pay for car expenses, gasoline and overnight stays when traveling to receive treatment.

**“It helped with all of the little things that really add up. And the money comes directly to you, not to the hospital,”** she said. **“We feel relieved to know that no matter what’s down the road, we have the money we’ve already received, and it’s still coming if we have (more) claims.”**

Despite having overcome cancer, Nancy said, **“Our experience has been wonderful.”**

Every day, people like the Masons and Inmans choose to protect their health and finances by purchasing supplemental insurance. They are among thousands who receive cash benefits to help offset the cost of life-saving care. Many other policyholders—the ones who avoid critical diagnoses—receive premium-return checks.

Now more than ever—in a climate of rising medical costs and increasing personal healthcare expenses—consumers should take steps to protect themselves and their families with supplemental health insurance. By having this type of coverage, more people can avoid the too-common circumstance of choosing between receiving needed medical care and paying household bills.

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LIMITED-BENEFIT POLICIES: These policies have limitations and exclusions. For costs and complete details of coverage, contact an agent. The benefits described in these policies do not cover all nonmedical expenses. However, the benefit payment you receive can be used to pay any of your medical or nonmedical costs not paid by any other insurance.

Certain policy benefits, riders and features may vary by state. A hospital is not a bed, unit or facility that functions as a skilled nursing facility, nursing home, extended care facility, convalescent home, rest home, home for the aged, sanatorium, rehabilitation center, place primarily for providing care for alcoholics or drug addicts, or facility for the care and treatment of mental disease or mental disorders.

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