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Supplemental Health Insurance: A ‘Must’ for Americans in the Current Economy

By Ryan Berry, Connie Burgess and Kate Nelson

Introduction

Economic concerns in the United States today are as numerous as they are serious. National debt, falling stock prices, record home foreclosures, a weak U.S. dollar and a negative savings rate have come together to create a “perfect storm” in our economy.

Americans are struggling to manage their family economies. Many are battling stagnant wages, overwhelming mortgage debt, crippling credit card debt and unpaid medical bills.

Medical debt is, in fact, a leading cause of personal bankruptcies in the U.S. today.¹

Sensible solutions are needed to help consumers control their health care expenditures and protect their hard-earned assets now and in the long term.

Supplemental health insurance is a practical solution. Due to the risk of incurring illnesses or injuries, and the high cost of medical care, the protection afforded by these products has never been more important to American families.

Risk of Illness and Injury

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

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

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

Injuries

The National Safety Council reports that a disabling injury occurs once every 1.6 seconds in the U.S.⁴ Nearly 2-in-3 disabling injuries among American workers occur off the job, and therefore are not covered by workers’ compensation.⁵

Heart disease

According to the American Heart Association and American Stroke Association, about 80.7 million Americans currently have cardiovascular disease.⁶ Even the

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most extreme heart-care scenario—a heart transplant—is becoming more common. There were 2,192 heart transplants performed in the United States in 2006 and 2,125 in 2005.⁷

Cancer

“Cancer” is the word patients fear hearing. As the average life span of Americans has increased, so has the 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 in their lives.⁸ In 2008 alone, more than 1.4 million new cases of cancer are expected to be diagnosed.⁹

Given the prevalence of accidents and injuries, as well as catastrophic illnesses like heart disease and cancer, individuals are right to be concerned about their personal health risks and the costs associated with treatment and recovery.

High Cost of Medical Care

Health care spending has consistently grown faster than the overall economy since the 1960s. In 2007, spending on health care was about 16.2% of the U.S. GDP.¹⁰

The largest chunk of overall health care expenditures—nearly 31%—goes to pay hospital costs.¹¹ 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 an adult.¹² Another 21% of health care expenditures goes toward physician and clinical services.¹³

When most people think about the high cost of health care in the U.S., they imagine expensive hospital stays and pricey doctor bills. Yet these costs represent just half of the individual’s total potential health care liability. A nearly equal amount goes toward additional medical and nonmedical expenditures related to care.¹⁴ These nonmedical costs are harder to anticipate. Most people aren’t prepared for costs such as transportation to and from medical facilities, lost wages from extra sick days and additional child or family care expenses.

Who Bears the Burden?

As health care costs have increased, so have health insurance premiums. From 2002 to 2007, health premiums grew 78%.¹⁵

America’s employers are facing rising costs for insurance and total benefits—while they struggle to remain profitable in a difficult economy. In response, they’re reducing operating expenses by cutting benefits and eliminating employee benefit options—leaving their workers responsible for a greater share of insurance costs. Nearly 3.7 million fewer people had employer-provided insurance in 2004 than in 2000.¹⁶ In 2007, the percentage of people covered by employer-funded health insurance fell for the fourth year in a row.¹⁷

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As shown below,¹⁸ due to reductions in employer-provided benefits, individuals are paying higher out-of-pocket costs for medical care, including premium expenses, copays, coinsurance and more.¹⁹

	2004	2006
Increased copays	38%	44%
Increased deductibles	25%	37%
Decreased coverage levels	12%	13%
Fewer plan options	10%	9%

Implications

Many Americans are struggling to make ends meet. The last thing they need is an illness or injury to further stress their resources, especially when so many are battling personal debt.

After adjusting for inflation, the indebtedness of U.S. households has risen 42% over the last five years alone.²⁰ As a result, families are more vulnerable to financial difficulty and a deteriorating quality of life if an injury or illness occurs.

One-third of Americans report they have had problems paying medical bills in the past year, up from about one-quarter of the population two years ago.²¹ Between 2000 and 2003, family health costs rose about 45%.²² Among low- and middle-income households with credit card debt,

29% reported that medical expenses contributed to their current level of credit card debt.²³

Not surprisingly, about half of all personal bankruptcies are attributed in part to medical problems.²⁴

In an attempt to reduce household expenses, more Americans are making poor health care decisions. In an October 2008 study by the Kaiser Family Foundation, 31% of surveyed respondents said they skipped recommended medical tests or treatments to save money.²⁵

This problem is even more marked in rural areas. In small towns and sparsely populated communities, residents are more likely to suffer certain types of chronic conditions, such as diabetes,²⁶ and are more likely to die from heart disease.²⁷

Because they tend to have fewer options of health care providers—and often must travel some distance to receive quality care—people in rural areas are less likely to seek regular preventive care. As a result, they are more likely diagnosed with a major illness requiring advanced treatment.²⁸

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A Solution

American families have a choice: They can be victims of circumstance, or they can find solutions that can help them maintain their standard of living in the event of a major illness or accident. Supplemental health insurance is a viable solution, providing policyholders the financial assistance to pay bills and maintain their household’s solvency through periods of illness.

Cheaper than fast food?

Health insurance is more affordable than you might think. While premiums vary, the average annual cost of supplemental health insurance is on par with many non-essential 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

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

- Lump-sum benefits, which are paid when the consumer is diagnosed with a common catastrophic illness.

EXAMPLE: A supplemental cancer plan would pay an insured single mother a \$10,000 cash benefit if she were diagnosed with breast cancer.

- Indemnity benefits, which offset medical costs associated with hospital and ICU stays, chemotherapy, radiation and corrective or preventive surgery.

EXAMPLE: An insured factory worker who is hospitalized with an appendectomy could use his daily \$200 hospitalization benefit to help pay for expenses associated with a stay in the hospital. This could eliminate the possibility of using his hard-earned savings as a safety net.

- Transportation benefits, which help insured persons cover the cost of travel to and from a medical center for treatment. This benefit is especially important for those who live in rural areas, where transportation and lodging expenses typically accompany medical care and treatment procedures.

EXAMPLE: The parents of an insured nine-year-old child who must travel 350 miles to receive specialized treatment could use their plan’s transportation benefit to offset the cost of travel and overnight stays.

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- Coverage for regular diagnostic tests, such as mammograms, Pap smears and colon screenings. This option makes it easier to afford preventive care and detect any disease when it’s easiest to treat.

EXAMPLE: A 44-year-old mother has a family history of breast cancer, so she purchased a supplemental cancer policy with wellness benefits. Her coverage pays for an annual mammogram, which provides assurance that any cancerous cells likely will be detected at an early stage.

- Premium-return feature, also known as a “cash value” or “return of premium” rider. As the name implies, this benefit can return premium to the policyholder if coverage is kept for a certain period of time. It gives the buyer assurance that they will get their premiums returned to them if the insurance coverage is not needed.

EXAMPLE: A couple in their 60s have had their supplemental cancer insurance for 20 years. They bought their policy with a 100% return of premium rider attached. Because they haven’t had to file a claim, they recently received a check for their entire paid premium and decided to continue their coverage.

Delores Shileny of New Hampton, Iowa can attest to the value of supplemental coverage with the premium-return feature. “We took out

this coverage for the extra insurance on top of our military and work benefits because cancer is terribly expensive. The return-of-premium feature made it a win-win situation,” she stated. “The following year during a mammogram, I was told of a lump. They removed 25 lymph nodes and performed a mastectomy. Now I have been taking cancer medication for several years. Conseco has paid directly to us and the money has helped—so we have had no out-of-pocket expenses.”

Summary

By having the financial “safety net” of supplemental health insurance, more people can avoid the too-common circumstance of having to choose between obtaining needed medical care and paying necessary household expenses. Supplemental health insurance protects against the potentially high personal costs of an accident or major illness, and its cost is comparable with common household expenses.

With most supplemental plans, benefits are paid directly to insureds or their beneficiaries, giving them the freedom to use their insurance benefits however they choose. Benefits from supplemental policies are paid regardless of any other insurance already in place, including employer-sponsored major medical, for extra assurance.

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Ardel Fugleberg and her husband, Randy, of Hope, North Dakota, thought to supplement their major medical insurance with a cancer plan—and they’re glad they did.

“We always think it would only happen to others, but in a split second many lives are changed with a diagnosis of cancer,” Fugleberg stated. “Having our Conseco cancer insurance helped with many of those additional financial concerns. Even with medical insurance, the expenses added up quickly. It helped with lodging and travel expenses at a time when many family members had to take off from work. With the illness and transplant, almost a year of work was missed to help with his care. Our agent was very helpful and really worked hard for us when we were going through the worst time of our lives.”

People like the Fuglebergs made the choice to protect their own health and their finances by purchasing supplemental cancer insurance. They are among thousands each year who receive cash benefits to help offset the cost of life-saving care. In fact, in 2007, Conseco Insurance Company—a national insurer based in Carmel, Indiana—paid out more than \$85 million in medical claims related to cancer care and treatment.

Supplemental health insurance products pay lump-sum and/or indemnity benefits. These benefits are flexible enough to be used however the insured person chooses—to pay medical bills through a lengthy course of treatment or to cover

the many nonmedical costs so they can focus on their health.

Now more than ever—in a climate marked by an unstable economy, rising medical costs and increasing personal health care expenses—individuals should take steps to protect themselves and their families with supplemental health insurance products.

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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.

These policies have limitations and exclusions. For costs and complete details of coverage, contact an agent. 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; a nursing home; an extended care facility; a convalescent home; a rest home or a home for the aged; a sanatorium; a rehabilitation center; a place primarily for providing care for alcoholics or drug addicts; or a facility for the care and treatment of mental disease or mental disorders.

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