AmWINS Group Benefits

CLIENT ADVISORY

What is Critical Illness Insurance?

Over the past few years, voluntary benefits have emerged as a way for employers to enhance their overall benefits package in an efficient and cost-effective manner. Most people are familiar with offerings such as dental, vision, life and disability insurance, but critical illness insurance is now emerging as the most popular voluntary benefit in the marketplace, primarily due to the increasing costs of medical expenses and employers' need to shift more of that cost to the employee.

What exactly is critical illness insurance? A common misconception is that critical illness insurance is enhanced or supplemental medical coverage for when an individual is diagnosed with a condition such as cancer. In reality, the coverage is a financial benefit, typically designed to pay a lump sum directly to the insured – not to hospitals or doctors – upon diagnosis of a covered critical illness. Funds from the policy can be used to pay for crisis-related bills not covered by major medical insurance, including co-payments, loans, mortgage payments, childcare and daily living expenses. Benefits are paid directly to the policy owner, who decides how to best spend the money depending on his or her individual situation.

In a recent study conducted jointly by researchers at Harvard Law School and Harvard Medical School, 60 percent of individuals who filed for bankruptcy in the United States cited out-of-pocket medical expenses as the reason, with the average bankruptcy filed at around $13,000. Of those individuals, 75 percent had major medical insurance, representing the need for critical illness insurance as a financial safety net to protect against non-medical expenses associated with a diagnosis.

Though policies vary, typical critical illnesses covered include cancer, heart attack, end stage renal (kidney) failure, paralysis, coma, stroke, coronary artery bypass surgery and major organ transplant. Depending on the carrier, other conditions may be covered, including loss of hearing or vision, Alzheimer's disease and Parkinson's disease. Policies can also provide annual health screening benefits to aid early detection and treatment of the aforementioned illnesses.

Many employers see the importance and need critical illness coverage fulfills for their employees and have incorporated the plan as part of their benefits, with offerings that include:

- Allocating a portion of employer HSA contributions toward a base critical illness and buying the policy for employees
- Packaging stop-loss and critical illness together to negotiate better stop rates or longer renewal periods
- Using critical illness plans to further wellness initiatives and encourage early detection and prevention of critical illnesses; some critical illness policies will pay a cash benefit each year to encourage wellness exams

The time is now for brokers to introduce critical illness insurance to clients. Premiums are age-based and will not generally increase once the policy is purchased. Brokers can also negotiate guaranteed issue underwriting for clients, providing the opportunity for all employees to participate despite any pre-existing medical conditions. Additionally, policies can typically be purchased whether or not the individual is covered under a major medical plan.

With change comes new opportunity. Healthcare reform has altered the structure of employers' traditional benefit offerings, but brokers who can bring new solutions to clients, such as voluntary benefit packages featuring critical illness insurance, will be positioned for continued success in the new benefit landscape.

For more information, please reach out to your local AmWINS Broker. If you do not have a contact at AmWINS, contact marketing@amwins.com.

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