

## **Protecting Middle Income Clients**

*Expand Your Sales With Critical Illness*

*By Dave Keller*

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The landscape of health insurance and health care financing is undergoing immense change. The number of workers at small businesses who get their medical coverage through work continues to decline, which is driving an increase in individual medical sales.<sup>1</sup> And, according to Milliman Medical Index 2007, businesses that provide employer-sponsored coverage are offsetting premium increases by requiring more cost-sharing from employees.

While part of that cost-sharing comes from employees paying a greater share of premium, cost-sharing can also be a function of higher deductibles and out-of-pocket limits. According to a 2008 survey by America's Health Insurance Plans (AHIP), there are over 3.3 million Americans covered under an HSA-qualified high deductible health plan (HDHP), an increase of more than one million since 2007.<sup>2</sup> The AHIP survey also reports that the average annual deductible for individual policies is \$2,600 and more than \$4,800 for a family policy. Small group HDHPs have an average deductible of \$2,244 for a single and \$4,356 for a family.

### **A New Class: Underinsured Consumers**

The growth of HDHP and limited benefit medical plans has created a new class of insured consumers known as the underinsured. One definition of an underinsured consumer is a person whose major medical deductible is more than five percent of his or her annual income (\$2,500 on a \$50,000 annual income). While this may be a conservative definition, it has been estimated that there may be as many as 25 million people in the U.S. who can be classified as underinsured.<sup>3</sup>

As more consumers are driven to individual plans and small businesses increase cost-sharing with employees, the demand for products that help lessen the impact of a major illness or injury has also increased. One example is critical illness coverage (CI). CI is a lump-sum payment to covered individuals who experience a qualifying event such as the diagnosis of certain types of cancer, heart disease or kidney failure. CI coverage generally provides a payout of between \$2,500 and \$25,000 depending on the contract level and the diagnosis.

CI is paid directly to the covered individual and can be used to pay for out-of-pocket medical costs or experimental treatment that is not covered by insurance; however, CI funds do not have to be used to pay medical costs. Since the money is being paid directly to the covered person, in most instances the funds may be used to pay for household expenses such as mortgage payments and groceries. A 2006 bankrate.com survey indicated that 40 percent of Americans do not have enough in savings to pay bills for three months in the event of lost income. Having a CI policy can help lessen the impact of lost income due to a covered illness.

When faced with higher premiums, many consumers opt to increase their deductible in order to save cost. In his blog, economics professor and researcher David Cutler indicates that medical spending in the first few months after a heart attack is expected to be approximately \$25,000.<sup>4</sup> While major medical coverage will assume most of the cost, consumers with a high-deductible plan will still have significant out-of-pocket expenses.

Many people are unprepared for these additional out-of-pocket expenses, resulting in a financial hardship when they occur.

### **The Market for CI**

The primary market for CI is middle-income earners between the ages of 35 and 50 who have access to health insurance either through an individual policy or through an employer plan. According to the Kaiser Family Foundation, 28 percent of people surveyed who earned between \$30,000 and \$75,000 annually indicated that paying for health insurance and health care was a serious financial burden.<sup>5</sup> These middle-income earners often do not have disability insurance or the savings to help offset a large medical expense.

For consumers who do not have a financial safety net of savings, home equity or family resources, a prolonged absence from work coupled with an unexpected out-of-pocket medical expense can cause a significant financial setback.

Bob Stubbe, executive vice president of Madison National Life Insurance Company, believes that the U.S. market is on the verge of an explosion in CI sales. "Our research at Madison National suggests that critical illness sales in the U.S. are poised to explode. While the growth of the product up until now has been weaker than expected, we are looking at a perfect storm of rising medical deductibles, a soft economy and a declining savings rate. I expect that 2009 will be a very big year for critical illness sales."

### **Making the CI Sale**

CI can provide an agent with a differentiator from the competition. Agents who arm themselves with a strong case for selling CI and a system to do so can create value for a client. As more carriers aggressively market HDHPs—especially directly to consumers on the carrier Web site—the product becomes more commoditized. Agents can stand out from the crowd by providing additional benefits such as CI that help a client prepare for a high-dollar claim.

The key to marketing CI coverage is to demonstrate the need, and then make it easy for consumers to fulfill the need. While large groups are prime candidates for work-site marketing, smaller businesses and individuals are more likely to purchase CI when it is a part of the life insurance offering on a health insurance plan.

Offering CI through a term-life policy is generally provided through either acceleration of the life benefit or through a rider attached to the life policy that does not reduce the life insurance benefit when a CI claim is paid. The advantage to the acceleration of the life benefit is that the cost of the CI benefit may be lower than the cost associated with a rider to the life insurance. Naturally, this savings is offset by the decrease in the face amount of the life policy.

In today's marketplace, recognizing that premium increases in recent years have created a surge in sales of HDHPs is just the beginning. The next step is to inform consumers who are focusing solely on the premium savings of HDHPs that they are potentially leaving themselves open to large financial liability due to the increase in out-of-pocket expenses associated with these plans.

Agents who are looking to build a book of business based on consultative selling, as opposed to simply being conduits in a transaction, have the opportunity to differentiate

themselves by promoting CI as a way to protect their clients from the high costs associated with certain diseases such as cancer and heart conditions. In order to successfully market CI coverage, agents need to make it easy for individual and small group employers to purchase the coverage.

*Madison National Life Insurance Company, Inc., a member of the IHC Group and affiliate of IHC Health Solutions, underwrites critical illness insurance coverage.*

**Author's Bio:**

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**Potential Sidebar:**

**Common Critical Illness Conditions**

Heart Attack  
Stroke  
Invasive Cancer  
Blindness  
Coma  
Paralysis  
ALS

**Sources:**

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2. AHIP Center for Policy and Research, January 2008
3. Wall Street Journal, June 10, 2008
4. [www.cato-unbound.org/2007/09/12/david-m-cutler/use-a-scalpel-not-a-meat-cleaver/](http://www.cato-unbound.org/2007/09/12/david-m-cutler/use-a-scalpel-not-a-meat-cleaver/)
5. Kaiser Family Foundation: Americans Rank Health Care Near The Top Of Their Economic Woes, April 29, 2008