



RAYMOND J. PHILLIPS, JR.

CLU, LTCF, is president of The Brokers Source, Ltd./Plus Group Pennsylvania, a full-service, independent insurance brokerage firm.

Immediate past chairman of the National Association of Independent Life Brokerage Agencies (NAILBA), Phillips is past president of the Pittsburgh Chapter of National Association of Insurance and Financial Advisors, the Pittsburgh Association of Health Underwriters and the Society of Underwriting Brokers (SUB Centers). He has served on the board of the Pittsburgh chapter of the Society of Financial Service Professionals and is a member of International DI Society, The Plus Group, The Marketing Alliance, SUB Centers, and the Pittsburgh Estate Planning Council.

Phillips can be reached at The Brokers Source, Ltd., One Forestwood Drive, Suite 111, Pittsburgh, PA 15237. Telephone: 412-847-0770. Email: rphillips@brokerssource.com.

Situation Critical: Prepare For Increased Critical Illness Insurance Interest

I bought my family a very nice Christmas present last holiday season. I purchased a critical illness policy on my life. It just seemed to make sense to me, and I have a feeling that this reality might creep into the psyche of many insurance consumers in the upcoming years. Simply put, it provides funds for flexibility in the care setting, should a covered malady or condition occur.

Structure and Underwriting

An easy way to think of critical illness insurance (CII) relative to other fixed insurance products that have been sold is that it pays a claim like a life insurance policy would, and is underwritten in a similar fashion to how a disability policy would be processed.

As with a life insurance policy, benefits are payable in a lump sum when a claim occurs. There is a fairly broad menu of covered illnesses that trigger benefit payment, and there is some variation of that menu from carrier to carrier. But the general structure typically provides benefits for heart attacks, strokes and cancer diagnoses (though coverage often extends well beyond those ubiquitous situations).

Insureds purchase a benefit amount—much like a life insurance death benefit—that suits their desire and premium commitment. Policies can be purchased in smaller amounts or well into the six figure benefit amounts. Based on a schedule developed by the carrier, a percentage of the purchased benefit is payable at claim time

based on which condition has occurred. Most often this is 100 percent of benefit purchased, but it can vary by carrier and by lesser severity of condition.

There is no waiting period or elimination period for this claim to be paid, beyond typical processing and review. Effectively, it can provide funds in short order for the claimant and family.

This is a morbidity-based product, so it shares some of the underwriting traits with its morbidity sister product, disability income. But a very important difference is that there is not nearly as much emphasis on underwriting ambulatory conditions—back problems, etc.—with a critical illness policy. It can be a worthy consideration for those who have difficulty with disability income insurance underwriting because of conditions that might impact mobility or ability to work at a given occupation, but whose overall health is in good order.

Usage of Funds

When looked at in the context of the black-and-white reality of a major health event, CII can provide flexibility in care options as well as peace of mind. It affords policyholders confidence that funds will be there for strategies and comforts that health insurance might not provide, and for which disability benefits are not earmarked.

Most apparent is the opportunity to provide funds for the shortfalls that might be inherent in a person's health insurance plan. Consumers with high-deductible health

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insurance plans can use funds to offset their deductible requirement. Likewise, those who have had a major health insurance claim often find there are co-pays or limitations in coverage that they did not anticipate. CII provides dollars that allow an insured to postpone dipping into savings when those deficits occur.

Look beyond just the opportunity to help relieve any structural insufficiencies in the makeup of a health insurance plan. Suppose the individual wants to receive care or treatment in a specialized facility—the Mayo Clinic or similar institution. While perhaps a health insurance policy provides care in such settings, it will not pay for things such as travel, lodging or meals for the insured or loved ones who accompany them on such quests. CII provides a pleasant cushion for these types of expenses to be addressed.

Similarly, concerns about whether second (or third) opinions or experimental treatments are covered can be alleviated by the funds provided by a CII plan.

Funds can be used “just to make someone’s life a little easier and more pleasant.” Cancer treatments can be grueling. Cardiac recovery can be frustrating. A debilitating disease can be depressing. Critical illness funds can provide help in caregiving or even mental relief.

A person can use these dollars to hire someone to help with housework or cooking. Or, for that matter, they can be used for a brief getaway—a sojourn from the reality of the difficult situation they are facing. The concept of CII as “comfort insurance” is valid and allows the insured “fun money” with which to enhance their quality of life and do things they might not otherwise experience if relying solely on savings.

Flexibility in a health care setting and the peace of mind this insurance brings to a claimant are valid, positive reasons for an insurance professional to include this in discussions with clients and prospects.

Strategies for Client Discussions and Sales Approach Health Insurance High-Deductible Self-Insureds and National Health Care Clients. A logical segment to approach

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on the subject of critical illness coverage are those who are maintaining high-deductible health insurance plans and/or participating in one of the national health care options that are now available.

In the "old days" of health insurance it was not unusual for an individual to find surprise out-of-pocket costs on their health insurance plans during a major health episode. This is a given on high-deductible plans and on plans offered through the new national health care exchange. Critical illness coverage provides for these shortfalls, as well as providing additional flexibility of funds for experimental care, second opinions or travel to preferred facilities that may not be covered in their basic health plan.

Discuss with those who have experienced a family member or close friend with a covered illness—those who have seen the costs of a major health claim will be more in tune with the costs of care and the benefits that can be derived from a CII plan.

Again, the potential flexibility of health care is obvious, but a secondary effect is the "comfort insurance" aspect of CII coverage. Using the funds to provide meals or house cleaning can be a tremendous emotional lift to a claimant. Access to excess funds for a weekend getaway or vacation can provide huge emotional return to those who are experiencing a major health problem covered by the critical illness coverage.

Disability Income Supplement, Alternative or Supercharger. Another client base that needs to be aware of critical illness coverage is those with existing disability income (DI) plans. First, it can be used as "waiver of elimination period" coverage. The funds from a CII plan can be used to spell a client during the existing DI's elimination period in which no benefits are paid. Likewise, it can be a consideration for an alternative to short term DI coverage. In fact, there are times when a major health event takes place—think of a heart attack—where the insured is recovered and back at work before a DI plan even pays any benefits at all. It is especially prudent for those with a long elimination period on a group or individual DI plan to consider. CII can provide morbidity coverage

for those occupational classes that are underserved by the DI markets: government workers; policemen and firemen; public school teachers, etc. These and others often have limitations on how much DI monthly benefit can be provided. CII can help with that shortfall.

CII is also something that can be considered for those who perhaps cannot get DI coverage due to their occupations, or even because of their income status: homemakers, part-time workers or self-employed individuals with extensive write-offs.

CII can also serve to provide those with large income coverage additional morbidity insurance beyond what can be provided in the DI markets. While the client needs to be made blatantly aware of the shortcomings of a CII plan compared to a regular DI plan—specifically, no coverage for degenerative claims, mental/nervous issues, accidents, etc.—it is, nevertheless, a way for those with large incomes who are maxed out in the DI markets to address some of their excess exposure.

We are at the ground floor of a new era of health insurance planning. Critical illness coverage will likely experience heightened interest. It provides funds for flexibility in the health care planning process as well as providing funds for those with in-force DI plans and those who may not have access to a robust disability income plan due to occupation. The prudent planner will make this product part of his insurance portfolio. ☺

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as the monthly mortgage or rent, utility bills, car or credit card payments, or even grocery costs.

These benefits are crucial, especially when you consider that medical costs are a major cause of bankruptcy in the United States. A recent analysis of records from sources including the U.S. Census Bureau, Centers for Disease Control and the federal court system predicted bankruptcies result-

ing from unpaid medical bills would affect nearly 2 million people in 2013—making health care costs the number one cause of such filings. The analysis also predicted that 15 million Americans would empty their savings accounts to cover medical bills, while another 10 million would not have the money needed to pay for rent, food or utilities because of those bills.⁴

When speaking with clients about critical care insurance, keep in mind that 60 percent of employees surveyed as part of the Aflac study said they would be interested in applying for voluntary insurance if it were offered by their employers.⁵ Here are several other reasons companies should consider offering critical care insurance:

- Employees are provided with a financial safety net that helps keep their minds on their jobs and not on money concerns.
- There is little or no cost to employers offering the product.
- Workers get cash benefits that can be used to help pay unexpected health care costs that aren't covered by major medical insurance.
- Benefits are paid regardless of any other insurance coverage employees have in place, including policies available through state health care exchanges.
- Employees who are offered and enrolled in voluntary insurance plans feel more empowered at work, report increased job satisfaction and believe they're more financially prepared to cope with unexpected medical expenses.⁶ ☺

Footnotes:

1. "Critical Care Statistics," Society of Critical Care Management, accessed January 17, 2014, www.sccm.org/Communications/Pages/CriticalCareStats.aspx
2. "Financially Fragile Households: Evidence and Implications," National Bureau of Economic Research Working Paper 17072, accessed January 15, 2014, www.brookings.edu/~media/projects/bpeal/spring%202011/2011a_bpea_lusardi.pdf
3. The 2013 Aflac WorkForces Report, accessed January 15, 2014, www.aflacworkforcesreport.com
4. NerdWallet Health, "NerdWallet Health Estimates 56 Million Americans Under 65 Will Struggle with Medical Bills in 2013," accessed January 15, 2014, www.nerdwallet.com/blog/health/2013/06/19/nerdwallet-health-study-estimates-56-million-americans-65-struggle-medical-bills-2013/
5. *Op. cit.*
6. *Ibid.*

