

# Life & Health Insurance Advisor



3705-C W. Market Street • Greensboro, NC 27403  
Phone: (336) 230-0922 • Fax: (336) 275-8908



Medical Coverage

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## Critical Illness Insurance Can Fill a Financial Gap

You've probably seen collection jars for someone in your community who can't pay their medical bills. Maybe you even know someone whose cancer or other critical illness has left them bankrupt. Sadly, many of these people had medical insurance when they got sick. Critical illness coverage can provide additional protection from the costs of catastrophic illness. Here's how.

**A**s medical technologies and treatments improve, more people are surviving once-fatal forms of cancer, heart disease and other conditions. But surviving a critical illness can be very costly, and ongoing medical and non-medical expenses often

fall outside coverage by traditional health or disability insurance. These trends are creating a growing demand for supplemental health coverage such as critical illness policies. Here's what you need to know about critical illness coverage and benefits.

**Coverage.** A critical illness

policy pays a lump sum benefit if you are diagnosed with a serious health condition, such as cancer, heart attack or stroke. Illnesses covered under the policies vary, but can include a far longer list of ailments, including Alzheimer's, paralysis, coma, multiple sclerosis and loss of hearing. You can use these lump-sum payments for any expense—co-payments for doctor/hospital bills, travel costs, experimental treatments, or even to replace the wages of a family member leaving work to provide care.

Payouts for critical illness policies typically average around \$25,000, with premiums costing about \$300 to \$500 annually, depending on your age, gender, health and location. Higher-end policies covering a dozen or more conditions generally pay benefits of more than \$100,000 and cost about \$1,500 to \$2,000 a year.

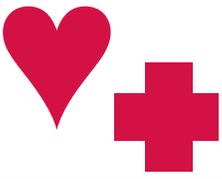
## This Just In

Individuals are buying life insurance policies with higher face values, according to research from LIMRA International. A LIMRA market study found that premium dollars sold grew 20 percent during the third quarter of 2007, although the number of individual life insurance policies sold dropped slightly during that period.

The premium growth reflects the fact that people are buying policies with higher face values. For the third quarter of 2007, face values grew an average of 6 percent.

Individuals need to periodically review their life insurance policies. As your circumstances change, you may need more insurance. Things that affect how much life insurance you need include the number of dependents you have, the amounts of your mortgage and other debt, and inflation.





## Protect Your Earning Power with LTD

What is your most valuable asset? Your home? Its contents? For most working individuals, their ability to earn an income is worth far more than these physical assets. You insure your home; do you also have coverage for your most valuable asset—your ability to earn an income?



**A**ccording to a U.S. Census report, the average high school graduate stands to earn \$1.2 million over a lifetime. Those with a bachelor's degree will earn \$2.1 million, while those with a professional degree will earn an average of \$4.4 million over a lifetime. And those estimates were based on 1999 dollars—your actual lifetime earnings could be higher.

However, one in seven American adults will be disabled and unable to work for five years or longer. Workers' compensation will pay benefits for work-related disabilities. But what if a non-work injury or illness causes your disability? Disability income insurance can pay a portion of your lost income while you are unable to work, giving you one less thing to worry about during recovery.

### Why LTD?

Your employer might provide paid sick leave or short-term disability insurance, which pays income replacement benefits for a maximum of six to 12 months. As the name implies, long-term disability (LTD) protects you from longer disabilities. An LTD policy will pay you a monthly benefit until you either return to gainful employment or reach the policy's maximum benefit period, whichever comes first. Most individual poli-

cies will pay benefits to age 65, but some will have shorter benefit periods, from five to 10 years.

When you buy an LTD policy, you elect the amount the policy will pay every month while you're disabled. Keep in mind that LTD policies will replace only a portion of your pre-disability pay, usually a maximum of 70 or 80 percent. This gives the disabled individual incentive to return to work. If you have some disability coverage through your employer, your insurer will generally coordinate your individual LTD insurance benefits with your group benefits so you won't receive more than 80 percent of pre-disability pay.

All types of disability insurance have an "elimination period" during which the insured must be disabled and unable to work (or partially disabled and suffering a loss of income) before benefits begin. For LTD policies, elimination periods range anywhere from three to six months of continuous total or partial disability. Generally, the longer the elimination period, the lower your premiums will be. If you have six months' worth of living expenses saved or short-term disability benefits through your employer, you can elect a longer elimination period to save money. If you tend to live paycheck to paycheck, you will likely want a policy with a shorter elimination period.

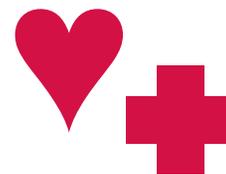
### It's all in how you define "disability"

How your policy defines disability will determine when—or if—you receive benefits. The most comprehensive policies have an "own occupation" of disability. Such a definition considers an insured totally disabled when "...unable to perform the material and substantial duties of your regular occupation..."

Individuals with highly specialized skills, such as surgeons, might want to buy an own occupation policy. If they suffer a disability that prevents them from performing surgery, but they could still see patients and make diagnoses, their policy would consider them totally disabled and still pay benefits, making up for any lost income.

However, "own occupation" policies are becoming harder to find. Some insurers will offer own-occupation coverage for a limited period only, say two to five years. After this, the policy would consider you totally disabled only if "unable to perform the duties of an occupation to which you are suited by education and experience." Others are writing policies with this type of definition at the outset. A policy that defines disability as being unable to work in any paid occupation provides the most restrictive coverage.

Sometimes a disability will make it im-



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record, you may save money. Many health plans encourage insureds to use formulary drugs by lowering copayments for them.

**4** Many mail-order pharmacies offer substantial discounts on drugs, particularly when you buy a supply for several months. Many health plans encourage the use of mail-order pharmacies by lowering copayments for mail-order drugs; if you have no prescription coverage, you will pocket any savings. Of course, if you need medication for an acute condition, you can't wait for it to arrive in the mail. But if you have a chronic condition that requires prescription drugs, you can use the Internet to compare pricing at several mail-order pharmacies.

Many health plans available to individuals include prescription drug benefits. For a review of your plan or information on prescription drug benefits, please call us. ■

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possible to return to a full-time schedule, although you can work. Look for a policy that provides partial disability benefits — it will make pro-rated payments based on the portion of income you lose due to disability.

### Renewal provisions

The other most important thing to look at is your policy's renewal provisions. A non-cancelable policy provides the best protection. Your benefits and premiums remain the same as long as you keep the policy in force—the insurer cannot change or cancel your policy for any reason except for non-payment of premiums. Even if you develop a serious health condition after buying the policy, the insurer cannot cancel your policy or raise your premiums. A guaranteed renewable policy gives you the right to renew your policy with the same benefits. However, the insurer can raise your premiums, if it raises premiums for all policyholders in your same rating class. ■

*In an upcoming issue: Individual disability income insurance vs. employer-provided and other disability benefits.*

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Some insurers offer a “return of premium” feature. If the insured dies of something that's not covered by the policy — say, a car accident or a very rare disease — the provider will give back all of the premiums, minus any benefits already paid.

**Eligibility and enrollment.** To buy critical illness coverage, you must complete a detailed medical questionnaire. An insurer will likely deny coverage if you already have a covered illness or if several blood relatives have had one. Policies under \$100,000 often don't require a medical exam. Some plans require waiting periods of 30 days or even several months before coverage begins. Others stop paying benefits after a fixed period of two or three years.

**Limitations.** Most policies have age limitations. New policies often can't be issued after ages 59 or 65, although the age cut-offs vary by insurer. After the cut-off age, many policies reduce the lump-sum payout by half, but don't reduce the premiums. In other words, if a policyholder has a stroke at age 75, she might only get half the benefit.

Critical illness policies have fixed dollar limits, which limit your total benefits to a fixed amount. Limits usually range from a minimum of \$10,000 to a maximum of \$500,000, although some insurers will write policies with up to \$1 million in coverage.

Some financial advisors and consumer advocates claim that aggressive marketing by insurers might be scaring some individuals into purchasing coverage unnecessarily. They believe consumers would be better off devoting the premium dollars to savings, investments, or even to fitness programs to help reduce the risk of illness. However, if you lack the discipline to keep thousands of dollars in reserve for catastrophic expenses due to a critical illness, this coverage might provide you and your family with needed peace of mind.

Critical illness insurance offers features other types of medical insurance lack. Most importantly, benefits are flexible—instead of going directly to medical providers, you can

## Critical illness insurance vs. cancer insurance.

**C**ritical illness insurance differs from cancer insurance and other so-called “dread disease” coverages, which have been available for some time. First, critical illness policies cover illnesses in addition to cancer. What's more, cancer policies are typically indemnity plans that pay for specific treatment costs, such as hospital stays or radiation treatments. For an additional premium, riders may be added to cover emergency room visits, certain inpatient and outpatient procedures, and other disability benefits.

While cancer treatment accounts for about 10 percent of U.S. health expenses, no single disease accounts for more than a small proportion of the overall national health care bill. That's why it is essential to offer coverage for all conditions, not just cancer. And because cancer patients often face large non-medical expenses, such as home care, transportation and rehabilitation costs, many prefer the flexibility of critical illness coverage. ■

use them however you choose. You can use a critical illness policy to supplement disability coverage as well as your medical coverage. Business owners who suffer a critical illness can use policy benefits to supplement any lost income or operating expenses — they can even help cover the lost income of a person who acts as your caretaker during your illness. Because you don't have to prove disability, only illness, to collect benefits, it may offer more flexible coverage than many disability policies.

For more information, please contact us. ■



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# Managing Prescription Drug Costs

According to the Kaiser Family Foundation, between 1990 and 2005, annual spending to prescription drugs in the U.S. grew nearly five times, from \$40.3 billion to \$200.7 billion. Here are some suggestions to minimize the impact of increasing prescription drug costs.

**T**hree factors contribute to prescription drug cost inflation. First, we're consuming more prescription drugs. Between 1993 and 2003, the number of prescriptions per person increased from an average of 7.8 per year to 11.8 per year. Second, retail prescription drug costs have experienced greater cost inflation than the general economy—7.4 percent per year, versus an average of 2.5 percent. This stems from price increases for existing drugs and increased use of new, higher-priced drugs. Third, more people are using new, brand-name drugs. These cost more than older drugs due to research and development costs, advertising expenses and lack of competition from generics.

Regardless of what type of medical coverage you have, prescription drugs are affecting your healthcare costs. Here are some things you can do to lower those costs:

**1 Ask if an over-the-counter remedy will work.** Over-the-counter remedies exist for many common, non-life threaten-

ing conditions, such as pain, heartburn, yeast infections and the like. In fact, many medications formerly available only by prescription are now available over the counter, such as Prilosec, a heartburn medication. Even so, you can still buy prescription drugs for many of these conditions—at much higher prices.

**2 Ask for generics.** When your doctor gives you a prescription for a brand-name drug, ask if there is a generic equivalent. Generics usually cost far less than their brand-name counterparts and are therapeutically equivalent. There may be reasons for your physician to prescribe a brand-name drug, however. Many newer drugs are still protected by patents that prohibit other manufacturers from creating generic equivalents, or there may be a medical reason why your doctor prefers the brand-name drug. If so, ask why.

**3 Ask for a formulary drug.** Newer and more expensive drugs are supplanting older, cheaper drugs as a first line of care. These drugs account for around 28 percent



of the increase in the cost of prescription drug benefits. And often, the newer drugs are no more effective than older, proven medications.

To prevent this problem, some health plans have formularies, or lists of drugs approved for specific conditions. When your physician selects a drug from a formulary, not only are you using a drug with a proven track

*DRUG COSTS—continued on Page 3*

## Many Factors Determine the Cost of Disability Insurance

**H**ow much does a disability income policy cost? According to JHA, Inc., the research and consulting branch of a leading disability income reinsurer, the average non-cancellable disability income policy premium sold in 2006 cost \$1,577 and paid an average maximum monthly benefit of \$3,554. During the same period, the average guaranteed renewable policy cost \$908 and paid an average maximum monthly benefit of \$2,152. Your actual cost for a disability income policy will vary greatly depending on your age, gender, health and occupation along with the benefits and features you choose, such as monthly benefit, elimination period and policy riders.

Riders, or additions to your policy, provide extra

coverages for an extra premium. These include:

- ✱ partial disability or residual benefits, which will pay benefits proportionate to the drop in your income if you can return to work part-time but not full-time due to your disability. For example, if you could return to work half-time and your income dropped by half, you would receive half your monthly benefit.
- ✱ a cost of living adjustment, which will increase the amount of your monthly benefit on either a flat percentage basis or according to increases in the Consumer Price Index.
- ✱ waiver of premium, which allows you to stop paying premiums if your disability lasts longer than a specified period, such as 90 days. ■