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HEALTH

Critical Care, the Insurance Industry's Latest Push

As Health Costs Rise,
Companies Market Policies
Tied to Specific Illnesses

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The insurance industry is rolling out a new breed of products designed to lessen the financial blow of serious or life-threatening illnesses.

A growing number of insurers, including **MetLife Inc.**, **American International Group Inc.** and **UnumProvident Corp.**, have recently introduced new or expanded policies that pay a lump sum that you can use however you want if you're diagnosed with a covered health condition -- such as cancer, heart attack or stroke.

The illnesses covered under the policies vary. Policies typically insure for certain forms of cancer, heart disease and stroke, but some cover a far longer list of ailments, including coma, paralysis, Alzheimer's, multiple sclerosis and loss of hearing. (Certain conditions, such as benign tumors, may not be covered in all policies.)

The policies provide lump-sum payments that can be used to cover many costs related to illness -- including copayments, travel expenses, experimental treatments or wages of a family member leaving work to help -- that often aren't covered by health or disability insurance.

Insurers say payouts for their critical-illness policies typically average about \$25,000, which can cost about \$300 to \$500 a year, depending on the health, gender, age and location of the insured. Some insurers are now offering higher-end versions, such as AIG's new "CriticalCare MVP" insurance, that pay benefits of more than \$100,000. (A policy with a \$100,000 benefit might cost about \$1,500 to \$2,000 a year.)

Another high-end product, from Assurity Life Insurance Co. in Lincoln, Neb., pays out benefits of \$50,000 to \$500,000 and covers some 21 conditions, including Lou Gehrig's Disease and loss of limbs. In contrast, the company's lower-end product, which pays benefits from \$5,000 to \$50,000, covers 12 conditions.

HOW CRITICAL?

The pros and cons of critical-care insurance:

- Covers a wider range of illnesses than older policies;
- Benefits can be helpful paying for expenses not covered by health insurance or disability, such as copayments or travel expenses;
- May be unnecessary for those who have adequate health and disability insurance;
- Some financial experts say money would be better spent on investments or fitness programs to improve health.


CRITICAL COVERAGE

See a list of sellers of [critical-illness](#)

These policies come at a time when many employers are curtailing health-insurance benefits or moving toward consumer-driven health care, which often means that individuals pay more costs out-of-pocket. More people are also surviving once-fatal forms of cancer, heart disease and other conditions. But surviving a critical illness often comes at a high cost. Nearly half of all personal bankruptcies were due to medical expenses -- and most of those individuals had health insurance at the onset of illness, according to a study of bankruptcy filers by researchers at Harvard's medical and law schools.

Insurers say these trends are creating a growing demand for supplemental health-care benefits, and critical-care policies are filling that gap. While relatively new in the U.S. -- they've long been popular in Canada, England

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insurance policies⁰, some conditions covered and price examples.

and South Africa -- critical-illness policies have been catching on. In 2003, the latest year for which data are available, there was some \$123 million in lump-sum, critical-illness insurance in force in the U.S., compared with about \$100 million in 2002, according to the National Association for Critical Illness Insurance, an industry trade group.

The new products promise to help insurers' bottom line. "If we didn't think we were going to be making a profit at this, we wouldn't be doing this," says Ken Smith, director of critical illness and disability income at Assurity, which began rolling out critical-illness insurance late last year.

Critics of the policies, including some financial advisers and consumer advocates, say that aggressive marketing by insurers might be scaring some individuals into buying them unnecessarily, and that consumers would be better off devoting the premium dollars to savings, investments, or even to fitness programs to help reduce the risk of illness.

"It's marketing and a little bit of paranoia that drives an awful lot of these insurance products," says Errold Moody, a San Leandro, Calif., financial planner. "I'd rather see them pay for a personal trainer to get them in good health."

How Much Insurance?

Some advisers say that comprehensive health and disability coverage might be enough for many people. "People should be looking at 'Do I have good health insurance and good disability insurance?' and if the answer is yes, forget about it," says Bob Hunter, director of insurance at the Consumer Federation of America and the former Texas insurance commissioner.

Erik Gray, a 33-year-old client-services manager at UnumProvident in Chattanooga, Tenn., decided to buy a critical-illness policy two years ago when his wife was pregnant. "Even though my wife and I both work, if I were to go out with a critical illness, my short-term disability would only cover 60%," he says.

Other insurers offering lump-sum critical-illness policies directly to individuals or through employers include Mutual of Omaha Insurance Co. and **Allstate** Corp. **Aflac** Inc. also sells critical-illness coverage, although its policies are "indemnity" policies, which pay for specific treatment costs, such as hospital stays or radiation treatments.

Critical-illness insurance differs from "cancer insurance," which has been around for a while, in that the newer policies cover common illnesses in addition to cancer. What's more, cancer policies are typically indemnity insurance plans, which can mean sending in lots of receipts. In contrast, most critical-care policies pay out a larger lump sum that can be used for anything.

To get a critical-illness policy, you usually have to answer a small questionnaire with a few questions about your medical condition and background. Some insurers might also ask about smoking or family medical history, and policyholders might be denied coverage if they already have a covered illness or if several direct relatives have had one. Policies under \$100,000 generally don't require a medical exam.

The Fine Print

There are several catches with the policies, so make sure to read the fine print. For one, most policies have age limitations. New policies often can't be issued after ages 59 or 65, although the age cutoffs vary by insurer. (The policies are typically marketed to people in their 30s and 40s.) What's more, after the cut-off age, many policies reduce the lump-sum payout by half, but don't reduce the premiums. That means if you have a stroke when you're 75, you might only get half the benefit.

Some insurers offer a "return of premium" feature. That means that if the insured dies of something that's not covered by the policy -- say, a car accident or a very rare disease -- the companies will give back all of the premiums, minus any benefits already paid.

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Critical Coverage

Sellers of critical-illness insurance policies, some conditions covered and price examples.

| COMPANY | SOME CONDITIONS | PRICING* |
|------------------------|--|--|
| MetLife | heart attack, stroke, kidney failure | \$350 to \$500 a year for a 40 year old with \$25,000 policy |
| UnumProvident | heart attack, stroke, organ transplant | \$425 a year for a 40 year old with \$25,000 policy |
| Assurity Life | heart attack, certain cancers, coma | \$280 to \$380 a year for a 40 year old with \$25,000 policy |
| Mutual of Omaha | Alzheimer's, blindness, organ transplant | \$375 to \$400 a year for a 40 year old man with \$25,000 policy |

*Prices might vary depending on the health, gender, age and location of the insured.

Source: The companies

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