

## **Critical Illness Insurance**

### *Why Employers Need to Offer Critical Illness Coverage:*

- In an environment in which the labor force is shrinking and becoming more diverse, employers need a well-rounded benefit package to attract and retain top talent, and stay competitive
- Critical Illness policies are generally pre-tax eligible when offered voluntarily to employees. Employers receive both the good will associated with a more comprehensive benefit package and tax saving from employee deductions
- Americans are not prepared financially for the loss of income and out-of-pocket expenses from a critical illness. Employers need to ensure workers are able to return to work without outside distractions after treatment of a critical illness
- Baby boomers are growing older, and the incidence of critical illness increases with age

### *Why Employees Need Critical Illness Coverage:*

- Major Medical Insurance and Disability Insurance combined are not enough to cover out-of-pocket expenses caused by treatment of a critical illness
- Studies have shown up to 50% of bankruptcies are caused by medical events due to high medical bills combined with a loss of income
- Medical insurance does not cover any expense other than medical bills. 76% of people experiencing “medical” bankruptcies had medical insurance at onset of medical event
- Cancer, heart attack, and stroke continue to lead the list of most common and costly critical illness occurrences
- Critical Illness insurance is an important component of any insurance portfolio to ensure protection against some of your biggest exposures

## **Critical Illness Definitions and Policy Features**

- *Coordination of Benefits*-Coordination of benefits refers to the practice of two or more insurance policies splitting portions of a claim. Critical Illness policies do not coordinate with any other insurance. This means as the policyholder you will receive full benefits due without any reduction in the critical illness benefits or your major medical benefits.

- *Health Supplement*-A critical illness policy is defined as a health supplement. This allows the absence of a coordination of benefit clause (as discussed above). It also results in benefit checks being sent directly to the policyholder as opposed to the doctor or hospital.
- *Indemnity*- Health supplements generally pay benefits on an indemnity basis. This means that claim dollar amounts are based on a benefit schedule rather than the actual charges for services. Dollar amounts are fixed, and benefit checks generally go directly to you to be spent as you see fit. See your product brochure for specific benefit schedules.
- *Portability*-Most critical illness policies are fully portable. This means that even though an employee may purchase a policy at the workplace, they can maintain the coverage if they leave employment. There is generally no premium increase to the policyholder.
- *Pre-Tax Deduction*-Critical illness policies are generally eligible for pre-tax deductions. The premiums are deducted from your pay before the taxes are calculated and deducted. This results in a savings of approximately a quarter of your premium.

### **Funding Options**

- *100% Employer Paid*-This is generally handled through a benefit bank. The employer provides an amount equal to the premium for the employee to purchase the policy. With pre-tax deductions the dollars spend further for the employee and avoid FICA taxes for the employer.
- *100% Employee Paid*-Critical illness policies can be offered at no cost to employers with generally very low participation requirements. Every dollar spent pre-tax will create savings for the employer.
- *Partial Employer Paid*-An employer may also fund a flat dollar amount to a benefit bank. An employee can offset their premium cost or choose between multiple benefit options to apply the benefit bank dollars.