Assurity®
Life Insurance Company

Why Your Customers Need
Critical Illness Insurance

It’s not unusual for insurance products to have stories.

Everyone knows of the widow who would have nothing without the life insurance proceeds of her husband’s policy, the construction worker who would be destitute without his disability payments, and the elderly lady who would be forced to leave her home and enter a nursing home if not for her home health care policy. These stories are important. They serve as reminders to us all that our jobs really do make a difference in the lives of others.

Critical illness insurance has stories too—stories about how this product made a difference in the lives that it has touched. But it’s much more than that. The inception of Critical illness insurance is “its own” story. It is a story about a man who saw that science and medicine were keeping people alive, only to have them become financially destitute as a result of their illnesses.

The Story Behind Critical Illness

The story begins on the morning of December 2, 1967 as a small South African family leaves home to visit friends in Cape Town for Saturday afternoon tea. Not wanting to arrive empty-handed, they stop along the way at a road-side bakery. A few minutes later, as 25-year-old Denise Darvall and her mother exit the bakery and cross the street, they are struck by a passing motorist.

Denise's mother dies instantly, but Denise is rushed to a nearby hospital where, despite every effort, she is declared brain dead later that day. One can only imagine the pain felt by her father, who had witnessed the tragedy and was suddenly faced with the loss of both his wife and daughter. He was approached by a young Dr. Christiaan Barnard, who reportedly said, "We've done our best, and there is nothing more that can be done to help your daughter. There is no hope for her. You can do us and humanity a great favor if you will let us transplant your daughter's heart." Darvell simply responded, "If there's no hope for her, then try to save this man's life."[1]

The following day, a team of 30 physicians operated for nine hours on Louis Washkansky. Louis had once been healthy. He had served in the military, and had led an active life of swimming, soccer, and weightlifting prior to the decline in his health. By 1967 he had been diagnosed as diabetic and had suffered three heart attacks that led to congestive heart failure. His doctors gave him only a few months to live and had talked with him about the concept of a heart transplant. This was more of a theoretical discussion since none had ever been done, and the odds of finding a suitable donor were slim. Young Denise Darvall was the perfect match—her unfortunate event provided the right donor, at the right time and the right place.

The transplant worked! Denise's heart was able to beat new life into Louis Washkansky. Unfortunately, complications set in, and Louis died of double pneumonia on December 21, 1967. He had lived for only 18 days, but that was long enough to convince the world that a fully successful heart transplant was possible.

Over the next 15 years Dr. Christiaan Barnard and his brother Marius continued to perform transplants and treat countless others with critical medical conditions. They understood that they must treat the whole person, and not just the disease. Marius, in particular, was able to see the destructive financial results of having a critical illness and empathized with his patients.

Dr. Marius Barnard witnessed the adverse impact on health and recovery when needing to work full time while undergoing cancer treatments. He saw lives shattered that should have been celebrating. Most importantly, he understood that if the advances in medical science were going to be meaningful, he would need to find a way to treat or cure the financial ailments that plagued his patients.

Dr. Marius Barnard was now on a mission. Over the next decade, he searched for the right treatments for this problem. Eventually, he came to the conclusion that an insurance product was the only possible solution to this complex but important issue. He approached one insurer after another, tirelessly trying to convince them to develop a product. Success finally came when Crusader Life agreed to front this new product idea, provided they could get meaningful reinsurance support. They understood the need, believed in the concept and thought a product could be priced well enough to be both affordable and profitable.

The first critical illness insurance product was issued on August 6, 1983, and it covered heart attack, stroke, cancer and coronary artery surgery. Since then critical illness has migrated around the world and is now being sold in more than 50 countries. The product has grown, changed, and matured since that first Crusader Life product was released, but it remains as important as ever. Despite these changes and improvements the product still holds a unique place in insurance. It was not created by an actuary from the "home office," a marketing representative in the field or a "think tank" in a large corporation. Critical illness insurance was created, you could even say "prescribed," by a physician who saw it as an essential component of treating the critically ill.

FOOTNOTE

[1] The Ultimate Operation, *Time Magazine,* December 15, 1967

What is Critical Illness Insurance?

Critical illness insurance pays an unrestricted lump sum benefit upon diagnosis of a covered condition or event. To the degree possible, these events are priced and defined to be truly critical in nature and likely to have financial consequences.

> *"Critical illness insurance pays an unrestricted lump sum benefit..."*

In North America these events might include, but are not limited to, the following:

Primary Critical Illnesses/Events

These benefit triggers are present in most policies— Cancer (life threatening), Heart Attack, Renal (kidney) Failure, Major Organ Transplant (kidney, liver, heart, lung, or pancreas), and Stroke.

Secondary Critical Illnesses/Events

These partial benefits are present in many policies—Aorta Surgery (25%), Carcinoma In Situ (10%), Coronary Artery Angioplasty (10%), Coronary Artery Bypass Grafting (25%), and Heart Valve Replacement (25%).

Tertiary Critical Illnesses/Events

Some of these benefits may be included in policies— Amytrophic Lateral Sclerosis (ALS/Lou Gehrig's Disease), Coma, Loss of Hearing, Loss of Vision, Paralysis, and Terminal Illness.

Critical illness insurance policies have historically paid a benefit once and then terminate, but there is greater attention being given to products that may pay for a second (different) event or even a second occurrence of the same event.

Why Someone Might Need Critical Illness Benefits

One common misconception is that critical illness insurance is not needed if an individual is properly insured with other existing products; another is that critical illness is a low budget substitute or alternative to other forms of coverage.

Just the opposite is true. Critical illness insurance complements the existing portfolio of products by helping to fill some gaps inherent in all of them. This is discussed in greater detail in subsequent portions of this publication. For now, let's focus on the common needs and uses for critical illness insurance.

"The insured is free to use the money in any way that he or she sees fit..."

The insured is free to use the money in any way that he or she sees fit due to the "unrestricted" nature of the benefit proceeds. Some common uses would be:

> Deductibles and co-pays
> Experimental treatments
> Name brand pharmaceuticals
> Nontraditional treatments
> Second opinions
> Out-of-network care *(often higher deductibles and co-pays)*
> Treatment not yet available/ approved in the United States
> Medicine and treatment once employer benefits cease
> Travel expenses for remote treatment
> Day care
> Elder care
> Home and vehicle modifications
> Home health care
> Hospice care
> Loss of income
> Mortgage, loans and other debt payments
> Savings and asset protection

Helping to Supplement Other Insurance Coverage with Critical Illness Insurance

Nearly everyone has a gap in their insurance coverage that may be filled by critical illness insurance. Sometimes the needs are easy to spot. Other times our clients don't even know they exist. Our job as financial professionals is to identify these gaps and offer solutions to help fill them. Examining every potential gap is beyond the scope of this publication, but some of the more common ones are discussed below:

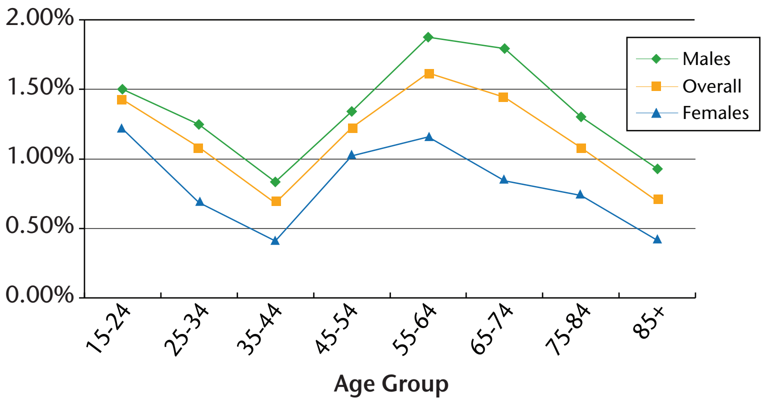
Life Insurance

Life insurance is perhaps the most basic form of insurance available today. Nearly every working person and many nonworking people have at least some level of term life insurance. One of the reasons that it has become so prevalent is the significant drop in premium over the last 20 to 30 years. One of the important reasons for this decline in rates is that significantly fewer people are dying from cancer, heart attacks and strokes than in the past.

This continued improvement in mortality has been well documented by insurers and government statistics. The table below shows that the steepest improvements have been apparent between the ages of 35 and 55. These are precisely the ages that have shown the most historical interest in critical illness insurance.

Although this is great news, survival comes with a steep cost. The specialized surgeries and treatments available today are expensive. Additionally, not everyone will recover fully. Treatment for major medical conditions is emotionally draining and only made worse by the financial stresses that often accompany them.

Annual Mortality Improvement 1980 – 2005



Sources: U.S. Census Bureau; National Center for Health Statistics

Health (Medical) Insurance

Health insurance is also a standard in our society today, yet many people remain uninsured or underinsured. There are many significant gaps, even for those with "good" insurance. Deductibles and co-payments continue to increase. Out-of-network care can be expensive but often necessary to obtain the most favorable outcome.

"Survival comes with a steep cost."

Even individuals with high-quality medical coverage may find their benefits terminated, or their personal share of the premium increased, after a prolonged absence from work. These individuals are further compromised by the fact that they are now uninsurable or excluded by the pre-existing limitation on any new coverage.

Disability Insurance

Disability income insurance has served an important purpose and protected many people from financial ruin over the years. Loss of income can have a devastating impact on an individual or family. Even the best disability plans have both obvious and less obvious gaps.

All disability plans are designed to replace a "portion" of income as high as 60–70 percent of pre-disability earnings. This makes great sense from a risk-taking point of view, but not from the insureds. To many, it seems unreasonable that during a medical crisis, when they most need their income, to have it reduced by 30–40 percent. This reduction is greater for certain occupations that may not be afforded full insurability. To make matters worse, the disability formula is likely the same for the individual with a lower back claim as it for the stroke patient who is now paralyzed.

Many disability policies today do not start accruing benefits for 90 days. Even then, the first benefit payment won't come until after the end of the fourth month or later. How will a critically ill individual be able access the best care needed to recover from their disability without these funds?

Long-Term Care Insurance

Long-term care insurance is a relative newcomer to the list of insurance products. Whereas 10 years ago the average sale was to someone in their late 60s or early 70s, today the product is being sold to many in their 50s and even 40s. These people may be perfect candidates for a critical illness product designed to work in conjunction with their long-term care policies.

The younger LTC client of today is not worried about becoming marginally frail and needing limited standby assistance with their activities of daily living. They are focused instead on the risk of becoming severely impaired by a catastrophic illness and not having the funds to provide for appropriate care.

These individuals can substantially lower their cost of buying long-term care insurance by purchasing a longer elimination period and/or limited benefit period, and supplementing the policy with a lump sum critical illness product. The critical illness supplement has the added advantage of providing an unrestricted pool of funds that the insured is free to use as he or she sees fit.

These are only a handful of insurance products that provide less than total protection for those who suffer from a critical illness. We have pointed out some of the more obvious gaps in each product type in order to demonstrate the value of critical illness insurance as a complementary product. Helping your producers identify and understand the role of critical illness insurance in helping to address these gaps will benefit everyone involved.

Ideal Candidates for Critical Illness Insurance

Nearly everyone with limited assets is a candidate for critical illness insurance, but there are some individuals who are especially good candidates. These individuals may have unique life situations or work in occupations or industries that are excluded from or have severe limitations for other products. The following is a partial list of some of the most ideal candidates:

- Independent contractors
- Low net income business owners
- New business owners
- Medically substandard disability clients
- Celebrity/entertainment/professional sports
- Government employees
- Working from home
- Homemakers
- Temporarily unemployed
- Uninsurable or under insured occupations for disability
- High income professionals

Various Forms of Critical Illness Insurance Policies

Critical illness insurance is perhaps one of the more versatile and flexible insurance products developed in recent years. The value of this coverage is clear on a standalone basis and often clearer when supplementing with other products. The options and opportunities for leveraging critical illness are limitless. Some of the more commonly used approaches have been outlined below:

Standalone

Selling critical illness insurance as a standalone product is perhaps the most flexible and versatile way for an agent to utilize this product to help fill a number of gaps that appear in other types of coverage. The agents and consumers who gravitate to this form of the product tend to have the greatest awareness and understanding of the risks involved and value the protection offered.

Life Rider

Critical illness riders to life insurance products are becoming fairly common. These riders may offer a secondary pool of benefits or, more commonly, accelerate all or part of the underlying life benefit in the event of a critical illness. Although less common in the United States, critical illness accelerations on mortgage term life insurance has enjoyed great success in many countries.

Disability

Leveraging the strength of disability marketing and underwriting is perhaps one of the simplest ways to enter the critical illness insurance market. The gaps in this product, as stated previously, are reasonably clear and easy to understand. The underwriting is as strong or stronger than traditional critical illness underwriting. Perhaps most importantly, the producers who are selling disability today are already in the most desired and receptive market for critical illness insurance.

Long-Term Care

Just a few years ago, no one would have dreamed of bringing these two products together as their target markets were quite different. With a substantial decrease in the average age of an applicant for long- term care, and with movement away from the shorter elimination periods and longer benefit periods of the past, critical illness may be the logical choice to supplement these policies. When properly combined, the insured may find improved flexibility of benefits and greater catastrophic protection.

Other

Health Savings Accounts (HSAs) and Mini-med plans are also attractive products for combining with critical illness insurance. HSAs are high deductible medical insurance plans bundled with a savings account. With an HSA the insured pays their routine medical expenses through the savings accounts (or out-of-pocket) and only accesses the insurance for high cost care. Critical illness insurance can be used to pay the "front end" cost in the event of a significant covered illness.

Mini-med plans are somewhat the opposite of an HSA. These plans provide for some coverage such as routine medical exams and minor hospitalizations but do not provide protection for high cost events. Layering a critical illness policy on top of a mini-med may provide a baseline protection for both levels of risk.

Important Statistics Regarding the Impact of a Critical Illness

In 2005 the journal *Health Affairs* published a Harvard University study on the role that illness and injury played in bankruptcy filings in 2001. This research project is one of the most comprehensive and compelling studies ever done on this subject and provides credible data which supports the value of a product such as critical illness insurance. Some of the important elements of that study are:

- 1.46 million American families filed for bankruptcy in 2001
- Roughly one-half cited medical issues as a contributing factor
- Out-of-pocket medical costs averaged $11,854
- 75.7% had insurance at the onset of the illness
- One-third of those insured lost coverage during their illness
- 39% of terminally ill patients reported that health care costs caused moderate or severe financial problems
- More than 50% had some degree of college education
- Medical debtors were primarily middle class (by education and occupation)
- More than half owned their own home or had lost one in the preceding five years
- Three-fifths went without a needed doctor or dentist visit
- Nearly one-half failed to fill a prescription
- 15% of all homeowners who had taken out a second mortgage cited medical reasons
- Debtors with private insurance at the onset of their illness had higher out-of-pocket cost than those without insurance
- Mean out-of-pocket expenditure for those with cancer was $35,878
- Medical debtors experienced more problems in access to care than other debtors

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Some critical illness policies are underwritten by Assurity Life Insurance Company. Product availability, features and rates may vary by state. Critical Illness policies have limitations and exclusions. Please contact your representative or Assurity Life and ask to review the policy if you have questions or need more information.

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