



**DAVE
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How Critical Is Critical Illness Coverage?

America continues to be a nation of entrepreneurs. According to the U.S. Census Bureau, there are more than 800,000 small businesses in the United States with an owner and no employees, up from just over 700,000 in 2001. This entrepreneurial growth is driven by several factors.

First, despite a growing U.S. economy, downsizing is still a common occurrence among major employers. Second, the access to retirement savings vehicles and the recent long-running bull market have allowed many people in the 35- to 55-year-old age bracket to accumulate sizeable retirement assets.

Armed with a promise of retirement security, entrepreneurial-minded employees are now able to follow their dreams and open their own businesses. These new businesses are driving an unprecedented increase in individual medical sales and creating opportunities for agents to help new clients protect the valuable assets they have accumulated.

When agents are working with new major medical clients, they are often focused on providing the major medical plan that best matches the client's needs and budget. Too often, however, they overlook how their client can protect assets when faced with a major illness. *Critical illness (CI) coverage can be a cost-effective way to ease the financial burden associated with a significant health problem.*

CI provides a lump-sum payment to the insured when he is diagnosed with specific serious illnesses. This payment can be used

in any way the insured sees fit, including paying for out-of-pocket medical expenses or day-to-day living expenses such as housing costs and automobile loans.

While CI policies vary by company, most will pay out the benefits when an insured is diagnosed with cancer or has a stroke or heart attack. In addition, some carriers will pay on the diagnosis of ALS or when a client loses a limb or suffers from paralysis. Benefit payments usually range from \$1,000 to \$10,000 per diagnosis and generally take the form of a lump-sum payment.

Many agents bypass selling CI products, assuming that their customer can self-fund the out-of-pocket and other associated costs with personal savings. For many people, however, this is a dangerous assumption.

According to the Federal Reserve Board's 2004 *Survey of Consumer Finances*, more than 22 percent of families in which the head of the household is between 45 and 54 years of age have less than \$500 in savings. This means that when a family is hit by a critical illness, many simply do not have the financial resources to weather the associated costs.

In fact, a 2006 *USA Today/Kaiser/Harvard* survey found that 46 percent of households affected by cancer considered the illness a financial burden as well as a physical burden. Twenty-five percent of the households surveyed spent most or all of their savings, even though 95 percent of those afflicted had health insurance coverage.

As the cost sharing between payers and customers increases, the financial burden of a major illness will also continue to rise. When providing clients with advice on choosing a medical plan, agents should also discuss how the clients will manage the financial strain associated with stroke, heart attack, cancer or other significant medical conditions. While many families are prepared for the actual medical charges, replacing the income lost by both the person with the illness and the caregiver should be part of every agent's discussions regarding major medical coverage. In fact, estimates are that more than 50 percent of personal bankruptcies list medical expenses as a contributing factor in the bankruptcy filing.

CI coverage generally is provided in one of two ways. The first, and most common way, is as a stand-alone benefit sold along-

side an individual or group major medical plan. While this is often a convenient way to market CI coverage, many of the potential purchasers of the product balk at the cost or put off their decision. As with most insurance products, when the client delays his decision to purchase, he often never makes the final purchase. New entrepreneurs are often first-time purchasers of individual products and they may experience sticker shock at the cost of medical coverage; thus they are less likely to be willing to fund the additional cost.

A growing market for CI coverage is to provide it via an accelerated death benefit in a life insurance policy. Providing the coverage through life insurance has several benefits, not the least of which is lower cost. In addition to the lower-cost basis, clients see the additional benefits of providing valuable life insurance protection to their

families. When the life and CI benefits are combined with a return of premium benefit if no claims are made, clients begin to see how the pieces of their insurance package fit together to protect them and their family. The idea of purchasing a package of benefits, as opposed to individual products, leads to less buyer's remorse and greater customer satisfaction.

By presenting a package of major medical insurance, life insurance and CI coverage, you can create a complete circle of protection for your client's assets. Too often the presentation ends once the sale is made on the health insurance, leaving your client open to financial disaster even though he has purchased a health plan from you. Make sure that your clients are fully protected when you leave the sale by providing coverage for their life and income needs in addition to their health care needs. 🌐