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Significant others

Supplemental medical plans serve as antidote to high costs, complexity

By Bruce Shutan

While supplemental medical benefits aren't a priority for the average employee or a determining factor in recruitment and retention, there's little doubt that these unsung policies can add considerable value, notes Greg Goggans, director of benefits for Wal-Mart Stores, Inc., in Bentonville, Ark., the world's largest retailer.

"Providing that additional level of choice and opportunity to round out the benefits package is a good thing for some associates," he says. "It doesn't meet everyone's needs, but there's a segment of the population that finds it very meaningful."

After five consecutive years of double-digit health care cost increases, employers increasingly are offering supplemental medical benefits in conjunction with basic medical coverage, according to Jennifer Parmelee Witt, senior analyst, product research for LIMRA International in Windsor, Conn., which has examined these products in the worksite market.

"That being said," she adds, "part-timers and low-wage workers are probably prime purchasers, which contrasts with health savings accounts that primarily will be middle and upper-middle income workers."

In the grand scheme of worksite marketing, which involves employee-pay-all "voluntary" benefits, health-protection product lines have led the way. For example, insurance researcher Eastbridge Consulting Group, Inc. in Avon, Conn., has found that disability policies account for 23% of sales, followed by life insurance at 22%, accident insurance at 18%, cancer and critical illness plans at 15%, dental at 13% and hospital indemnity at 5%. That compares with just 1% for investment and annuity products.

In Eastbridge's July 2003 spotlight report, Voluntary Supplemental and Hospital Indemnity Plans, about one-third of the carriers surveyed expected that hospital indemnity or medical supplement plans will represent high-growth sales opportunities during the next five years. Sales premiums were estimated to be about $201 million in 2002. The report's authors say the health insurance cost crisis "is creating an environment of experimentation and new product development — and some market turbulence to boot."

Up-market sales

At WalMart, AFLAC's supplemental cancer policy has been well received by employees, with roughly 10% of the company's 530,000 group medical plan enrollees participating in the plan, which was introduced in January 2002. Each year, Wal-Mart seeks employee feedback on their benefits package through surveys and focus groups. One common request was that they be given more choices.

Indeed, Warren Steele, senior vice president and assistant director of marketing for AFLAC Incorporated in Columbus, Ga., has noticed that larger companies like Wal-Mart are becoming more open to offering these policies as a counter-balance to greater cost-sharing. Supplemental medical and voluntary benefits that plug coverage gaps left by higher deductibles and co-payments are seen as an alternative to raising premiums.

"Historically, we've sold in the small-account market of less than 100 employees to companies that do not have rich benefit plans or resources to provide coverage and receive any discount based on size," he says. And with pretax premiums on these policies, most of which are employee-paid, there have been PICA tax savings for both the employer and employee.

The recent creation of health savings accounts has encouraged employers to adopt high-deductible medical plans, a requirement under the new law. HSAs help employees absorb out-of-pocket costs. Since the federal government has endorsed this approach, Steele reports that HSA providers also are considering accident or cancer policies that help cover catastrophic expenses when deductibles could be as high as $5,000.

But the trouble with HSAs is that the arrangements are fairly complex, which may explain why the adoption rate has been slow moving. "It will clearly foster an environment in which employers offer coverage tied to a high-deductible health plan and individuals typically are paying retail prices," cautions. Abbie Leibowitz, M.D., chief medical officer for Health Advocate, Inc., a health care-assistance company in Blue, Bell, Pa. 'That money won't last too long as they burn through it."

Unreasonable and complicated?

Leibowitz is seeing scores of smaller employers eliminating health benefits as well as group premium contributions, leaving typical blue-collar workers and their families priced out of the major-medical market. Their only recourse may be supplemental medical benefits or discount policies. With the spiraling cost of health care, research shows employees increasingly have less than full coverage.

"They may be offered policies that are restricted in certain ways or have higher deductibles and copays with lower benefit levels," Leibowitz observes. "People come to us because they're facing the need for care or a large bill and they don't have coverage for the care they need or can't afford to pay for out-of-pocket expenses."

Employees also require a helping hand to understand the complexity of reasonable and customary charges that vary from one region of the country to another. "It's a huge issue for the typical individual today who's in one of these plan designs," Leibowitz reports. "The amount of a bill uncovered by benefits can be enormous."

For example, people will assume that 60% of a $1,000 hospital bill will be paid for when, in fact, the reimbursement would be for 60% of the reasonable and customary charge — not the final tab. In some areas, it may amount to just $200.

Another trap Leibowitz sees in the market is confusion over discount programs that people mistake for insurance, which could be caused by misleading marketing, lack of knowledge about the market or both factors. "If a hospital offers a 20% discount off $10,000, they still have an $8,000 bill," he says, noting that retail charges are difficult to afford.

One effort to reduce the cost of supplemental medical benefits is through network provider restrictions, which Leibowitz says creates a tiered approach much like the point-of-service model. "Anything that gives people access to care at a price they can afford is a good thing," he notes.

The bigger lesson for supplemental medical benefit sponsors is that they keep plan design simple and straightforward, particularly given all the confusionand compexity swirling around the health insurance market, suggests Neiciee Durrence, vice president, life products and market development for UnumProvident Corporation in Chattanooga, Tenn.

"The consumers need to know what they're purchasing and can expect from the claims adjudication process," she says, adding that a schedule of benefits approach is superior to the reimbursement model.

Avoiding complaints

At AFLAC, which boasts a nearly 30% market share in worksite marketing sales, the topselling product is an indemnity-based accident policy that pays for hospitalization, rehabilitation and emergency treatment for broken bones and cuts. Steele attributes the high demand to the absence of underwriting, affordable rates that average $300 a year and the fact that all age groups share concern about absorbing the financial burden of an accident.

Other popular indemnity-based products from AFLAC cover treatment related to cancer (a hot seller in the over-40 age group) and hospital care, both of which resemble so-called "mini-med" (i.e., critical illness and cancer) or "gap" plans that pay reasonable and customary charges, as would a major-medical policy. As their name suggests, gap plans plug holes in basic medical coverage, while mini-meds involve limited benefits that are marketed mainly to the working poor who cannot afford health insurance.

"What we're hearing is some of those plans are having fairly significant premium increases of 70% to 80%," Steele reports. "The big difference with our product being indemnity-based is the amount stays consistent, regardless of the amount of expenses incurred, so people understand how much they're going to get paid every time they're treated and we don't have any complaints at claims time."

Supplemental medical benefits are catching on to the point where certain unlikely carriers are getting into the act. Take, for example, UnumProvident, which specializes in the disability area but considers supplemental medical a good match for its core expertise and income-protection plans. That's why the company earlier in the year introduced a voluntary accident insurance plan and is looking into a medical gap insurance program.

For nearly two years, UnumProvident has seen a marked increase in its supplemental health portfolio among small and midsize firms with fewer than 2,000 lives that have paltry benefit budgets, while larger employers have come on board in the past year as an antidote to the high cost of health insurance. "Quite honestly, I haven't seen any market segment that hasn't had an uptick in interest in this area," Durrence reports.

Communication challenges

While plan selection is almost always cost-driven, the way coverage terms are explained is where the rubber meets the road.

"Most employers will say employees don't understand their benefits because they don't read the material," observes Ron Kleiman, president of BenefitVision Inc. in Long Grove, Ill., which makes available trained call center professionals to help employees make sense of their benefits so they can make informed decisions.

Kleiman believes organizations that offer online benefits enrollment are deluding themselves if they think that the paperless approach will correct this problem.

"They didn't read the stuff when we sent it out to them in the brochure, and putting it on a computer didn't make it easier to read," he maintains. — *E.B.N.*