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**Personal Health** / *By Kelly K. Spors*

## Serious Illness, Serious Bills

*Seven questions to ask when deciding whether to buy special insurance for major health problems*

### HOW DO I GET PAID?

Insurers offer two basic types of serious-illness plans: policies that cover only cancer, and critical-illness policies, which are broader but still cover only limited types of illnesses. The main difference between the two is whether you get your money over time or all at once.

Cancer policies typically pay benefits in increments based on the type and number of treatments the covered person receives. One midlevel cancer policy from Allstate Corp., Northbrook, Ill., pays a small lump sum of \$1,500 when a person is diagnosed with cancer. As the patient undergoes surgery, chemotherapy or other types of cancer treatments, the policy pays out set dollar amounts, such as \$300 a day for the first 70 days in the hospital, \$400 a day for the next 20 days, and \$600 a day for every day after that. The policy also pays \$125 a day for every day the patient needs an inpatient private nurse, and \$300 a day for every day spent in an intensive-care unit, among several other benefits.

By comparison, critical-illness insurance usually makes a one-time payment, such as

\$25,000 or \$50,000, when an insured person is diagnosed with one in a list of major illnesses, such as a heart attack, cancer or major-organ transplant. The payment is made regardless of the treatment the patient receives.

Both kinds of policies let consumers decide how to use the money. The benefits are paid directly to the policyholder, and don't interfere with standard health-insurance benefits, says Abbie Leibowitz, co-founder of Health Advocate Inc., a Plymouth Meeting, Pa., company that advises people on health-insurance issues. Among other things, the money can be used to make up for lost pay or to cover the often hefty co-payments and deductibles on regular policies.

### WHICH TYPE IS BETTER?

Critical-illness policies have become the more popular option, because "people feel there's six chances to collect on this one, versus one chance with the cancer policy," says John Van Wie, a partner at Travers O'Keefe & Associates Inc., a New York insurance broker.

Cancer policies, which have been offered for

decades, also tend to be more complicated because they require policyholders to continually file claims and get certain kinds of treatments in order to trigger benefits, Mr. Van Wie says.

But cancer policies do have one possible advantage: Someone with a prolonged illness due to cancer might get a bigger payout with a cancer policy than they would with a critical-illness policy of the same price, says Thom D'Epagnier, a vice president in Allstate's workplace division, which sells both cancer and critical-illness policies. A policy covering a cancer patient who is hospitalized for several months could pay out \$50,000 or even \$100,000. "The more severe a diagnosis, the more categories [of payments] that come into play," Mr. D'Epagnier says.

### WHAT PATIENTS PAY

A study funded by the American Society of Clinical Oncology and the American Family Life Assurance Company looked at average monthly out-of-pocket spending by 156 women treated for breast cancer from October 1999 to November 2002. Here is a breakdown of those costs:

DIRECT MEDICAL COSTS		DIRECT NONMEDICAL COSTS	
Hospital bills	\$237	Child care	\$39
Physician visits	109	Transportation	33
Medications	67	Housekeeping or laundry services	24
Prosthesis	47	Restaurant meals	21
Medical second opinion	23	Telephone calls	11
Herbs, supplements or vitamins	21	Hotel stays	5
Visiting nurse or nurse health aide	18	TOTAL DIRECT NONMEDICAL COSTS	\$131
Alternative therapies	17		
Counseling or psychological therapy	16	<b>INDIRECT COSTS</b>	
Nutrition services	15	Lost income, etc.	\$727
Other	28	TOTAL AVERAGE MONTHLY COSTS	\$1,455
TOTAL DIRECT MEDICAL COSTS	\$597		

Note: Figures may not add up to totals due to rounding.  
Source: Journal of Supportive Oncology

Cancer policies also pay benefits for some nonmedical costs associated with an illness, such as round-trip airfare for a family member to stay nearby, overnight hotel stays during treatment, and ambulance care. But the payouts are a fixed amount and not directly related to how much is actually spent. Most cancer policies carry no lifetime maximum, so you can continue to file benefits as long as you need to.

The average payout on cancer policies issued through **UnumProvident Corp.** is about \$19,000, according to Scott Brown, director of product and market development for the Chattanooga, Tenn., insurer.

The average individual critical-illness policy from **MetLife Inc.** pays a \$25,000 benefit, according to Randy Stram, MetLife's vice president of critical-illness insurance.

#### WHAT DON'T THEY COVER?

Read the fine print to make sure you're really

getting all of the coverage you want.

MetLife's critical-illness policies cover cancer. But a consumer who buys a critical-illness policy from **Aflac Inc.** may be surprised to learn that cancer is not covered. In addition, Aflac's critical-illness policies work more like traditional cancer policies — they pay a small lump-sum benefit but mostly pay out based on the kinds of treatment received. To get cancer coverage through Aflac, you must buy a separate cancer policy, says Lance Osborne, vice president of field force development for the Columbus, Ga., insurer. "We believe that that policy should stand alone," Mr. Osborne says.

In some plans, even though an illness is covered, there may be only partial coverage for it. For instance, a critical-illness policy from Colonial Life Insurance & Accident Insurance Co. pays 25% of the policy's face value when a policyholder is diagnosed with carcinoma in situ or gets coronary

bypass surgery.

There may also be unexpected exclusions. For instance, some policies won't cover skin cancer at all, and others exclude all but the most serious form of skin cancer, melanoma. And the most common of all human cancers, basal cell skin cancer, isn't covered by many policies. The disease, which afflicts 900,000 people a year, is rarely deadly, but it can be disfiguring and lead to vision problems, which result in costly treatments.

#### WHAT'S IT GOING TO COST?

Premiums for cancer and critical-illness policies are comparable, and generally run \$200 and \$350 annually for a middle-aged healthy individual. For instance, a 40-year-old healthy nonsmoker would pay \$225 to \$250 a year for MetLife's critical-illness group coverage and \$350 to \$500 a year for an individual policy, the New York-based company says. The average price for a cancer policy sold through the workplace by Colonial Life is \$26.50 a month, or \$318 a year, says Monica Francis, assistant vice president of product marketing management at the company, a Columbia, S.C., unit of UnumProvident.

Most insurers also sell family and single-parent cancer and critical-illness policies, not just individual policies.

#### WILL IT REALLY PAY WHEN I NEED IT?

While most policies can be held until death, some policies phase out full benefits after a certain age. For instance, UnumProvident's critical-illness policy pays out 50% of its face value if the policyholder gets ill after age 70. Colonial Life's critical-illness policy cuts the benefit in half after age 75. Some

critical-illness policies will pay the policyholder's beneficiaries the full benefit amount if the policyholder dies from one of the covered illnesses; others will not.

Pay attention to whether the policy will stay activated after one occurrence of an illness. Some policies end or pay reduced benefits after they cover one occurrence of an illness. But others pay full benefits as long as you keep the policy.

### SHOULD I BUY IT AT WORK?

Catastrophic-illness policies were traditionally sold through the workplace by companies specializing in supplementary benefits, but increasingly insurers are selling them in the individual market.

Some advantages come with buying insurance at work. Underwriting factors tend to be more liberal, as some insurers don't ask workers applying for cancer insurance about their tobacco usage, family health history or sometimes even age — basically extending coverage to anyone who wants it. Hence, they can be good deals for people who are older, use tobacco or have major illnesses in the family.

Underwriting tends to be more rigorous for critical-illness policies than for cancer policies, as more medical background questions are asked. Some insurers will consider applicants who've had previous illnesses, but most will not insure someone who is HIV-positive

Some insurers also give group discounts at work. Aflac and Allstate, among others, send annual checks — typically \$75 to \$100 — to work-based policyholders who get at least one of several common diagnostic tests such as a Pap smear, blood test or chest X-ray. Premiums also usually get conveniently paid through payroll deduction.

Some cancer-policy premiums are paid pretax, meaning the benefits are taxable. However, most policies are paid after tax so that benefits are tax-free.

Policies bought through work generally are guaranteed renewable and fully portable, meaning you can take the policy with you when you leave and can keep your same premium. Many times the premiums are fixed so they never change, even as you age, unless the insurer raises premiums for every policyholder in the state.

Buying insurance through work, however, usually limits the choice to one or two policies from a particular insurer. Buying a policy in the open market, by contrast, generally means that you can shop around for the lowest premiums and for the conditions that best suit your needs. While work-based policies usually come only in benefit denominations up to \$100,000 or so, some individual policies can be purchased for much higher amounts.

### IS IT WORTH IT?

The answer to this question depends on both your personal and family health history and your financial health.

The cost of a serious illness can be financially ruinous. A recent study by Harvard University researchers found that medical costs were a major factor in nearly half of all personal-bankruptcy filings in 2001. About 75% of those people had basic health insurance when they got sick, though many lost their insurance and their jobs along the way. Out-of-pocket medical expenses averaged \$11,854 for those whose illnesses had led to bankruptcy. For those with cancer, the average out-of-pocket costs were \$35,878.

Even so, financial advisers are often reluctant

to endorse illness insurance, especially policies linked to one specific illness. While the likelihood of someone getting a common critical illness over a lifetime is quite high, there is a relatively low probability of its striking before retirement age — when you are most likely to need the extra money and to survive the illness.

Women, for instance, have a 1-in-3 chance of developing cancer over a lifetime, but a 1-in-11 chance from ages 40 to 59, according to the National Cancer Institute. Men have a 1-in-2 chance of developing cancer in their lifetime, but a 1-in-12 chance from ages 40 to 59. The risk shoots up after age 60. The average age of a person having a first heart attack is 65.8 for men and 70.4 for women, according to the American Heart Association.

"I think people might overestimate what their chance is of getting one of these illnesses," says Ellie Deskin, senior partner of Lifetime Investment Management LLC in Troy, Mich., who adds that normally she doesn't recommend these policies. To protect yourself from the financial risks of getting sick, Ms. Deskin suggests buying a comprehensive medical insurance policy and having at least \$5,000 saved up. When you plan this way, she says, "it's not exclusionary of all the other illnesses" or disabilities you might get in life.