



How Supplemental Benefits Provide Financial Protection to American Families

As too many Americans know, unexpected medical costs due to a serious illness or medical issue can take a severe toll on their finances even when they have major medical coverage. Supplemental benefits are one way that life insurers provide financial security when life takes an unexpected turn. While no one can predict what the future will hold, life insurers make sure everyone can prepare for it.

WHAT ARE SUPPLEMENTAL BENEFITS PRODUCTS?

Supplemental benefits are insurance policies that provide financial protection against expenses associated with accidents or illnesses not covered by major medical insurance. The benefits are usually paid directly to the policyholder and can be used for any purpose, usually to pay for the unexpected household and out-of-pocket expenses.

Supplemental benefits are not a form of major medical coverage. They cannot pay benefits on an expense-incurred basis or vary benefits based on other insurance coverage that the person might have. These are among the features that differentiate supplemental products from major medical coverage.

TYPES OF SUPPLEMENTAL BENEFITS PRODUCTS:



Accident-only: Provides financial protection in the event of an accident that results in injuries requiring hospitalization or treatment. Depending on the product, benefits are paid as a lump-sum or a fixed amount. These benefits supplement major medical coverage to help pay for unexpected out-of-pocket costs, such as high deductibles for an emergency room visit or ongoing hospital care.



Critical Illness: Benefits are paid in a lump sum when one is diagnosed with a major illness (e.g. cancer, stroke, MS, ALS, etc.)



Specified Disease: Supplements an existing medical insurance plan to help cover costs if an individual is diagnosed with a disease or medical condition. For example, individuals can take out a policy if they have a family history of breast cancer or heart disease to help pay for costs in the unfortunate event of diagnosis.



Hospital Indemnity or Other Fixed Indemnity: Supplements existing primary medical coverage by protecting a policy holder in the event of hospital admission or need for outpatient or provider office-visit care.

PROTECTION FROM UNEXPECTED MEDICAL COSTS

Supplemental benefits products can help cover unexpected costs in the event of an illness or injury, like helping pay for deductibles and coinsurance which are growing larger each year, or travel and lodging to support a family member that may stay in a hospital far from home. These are costs families may not think about in a medical crisis but can be detrimental to a family's financial security. Now more than ever, we are seeing how fragile American household budgets are:

“Over the past five years, the average annual deductible among all covered workers has increased 53%.”

— *The Kaiser Family Foundation*

“About half of consumers with a high-deductible health plan say it would be hard to afford the deductible.”

— *PwC Health Research*

“45% of respondents say they have \$0 in savings. An additional 24% say they only have \$1,000 in savings.”

— *GOBankSavings Survey, 2019*

“86% of employees see a need for voluntary [supplemental] insurance and 93% of surveyed employees stated they chose to enroll in voluntary insurance because they believe the policies ‘help protect their financial security.’”

— *Aflac WorkForces Report, 2020*

MAKING IT CLEAR: WHAT SUPPLEMENTAL BENEFITS ARE AND ARE NOT

Supplemental benefits **are**:

- Financial protection products that help people manage their household budgets in case of unexpected costs related to illness or injury;
- A form of insurance – that supplements major medical insurance – to help people weather unpredictable costs they may face when sick or injured;
- HIPAA-excepted benefits, meaning they are excepted from many of the Affordable Care Act requirements imposed on major medical insurers because they do not directly pay for medical expense claims and are not a form of major medical insurance;
- An important tool that employers can offer to help prevent heavy debt or bankruptcy that often results from a health crisis.

Supplemental benefits **are not**:

- Meant to be marketed or sold as a form of major medical coverage or primary medical insurance;
- Short-term limited duration insurance (STLDI) or Health Care Sharing Ministries (HCSM) – both of which are forms of medical expense insurance, but are not HIPAA-excepted benefits;
- “Mini-meds” or other types of medical expense insurance that were outlawed under the Affordable Care Act; or
- “Junk Insurance” which leaves people vulnerable to uncovered medical costs.

STRIKING THE BALANCE

Supplemental insurance carriers and state regulators work together to ensure that consumers have access to these financial protection products and that they understand what they're buying. Effective regulation and oversight includes:

- Clear, concise disclosures that help people understand the difference between supplemental insurance and major medical insurance and that help customers find the best options for them.
- Mechanisms to ensure that customers understand the benefits and limitations of the product, regardless of the sales channel (e.g. worksite, employer enrollment platforms, internet/private exchanges, or agent-direct),
- Regulators and the insurance industry working together to create educational materials for various types of supplemental coverage.
- Policymakers and the insurance industry working together on effective standards that offer customer protection while encouraging product innovation and modernization to meet evolving needs, as the costs associated with being sick or injured often change.