



**MetLife**

# Critical Times Require Critical Solutions

As Employees Look for Financial Protection  
Against Rising Medical Costs Critical Illness  
Insurance Has Never Been More Relevant

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## Research Methodology

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In April 2010, MetLife conducted two online surveys to closely examine the awareness of critical illness insurance — one of the most misunderstood employee benefits — and the financial impact that a critical illness can have on a typical U.S. household. The first survey, the **MetLife Critical Illness Awareness Study**, featured interviews with 1,000 respondents, ages 25 to 55, including 508 people who work full-time. The second survey, the **MetLife Financial Impact of a Critical Illness Study**, featured interviews with 1,002 respondents, ages 25 to 55, who experienced cancer, a heart attack or stroke either first hand or through a spouse — between six months and five years prior to the survey. A key requirement to participate in the study was that the individual for whom the survey questions were intended had health insurance at the time of diagnosis.

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## Executive Summary

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Life expectancy is on the rise as medical advances are allowing more people to recover from circumstances which, in years past, may have been fatal. While this is a very positive trend, living a longer life can heighten the risk of living with a critical illness.

Facing illnesses such as cancer, heart attack or stroke can reduce a family’s income by more than \$12,000 in the first year alone, even if the patient has medical coverage, according to the *MetLife Financial Impact of a Critical Illness Study*.<sup>1</sup> Most of the decline is due to lost wages, according to the respondents who had been impacted by a serious illness.<sup>1</sup> On top of that, deductibles, co-pays, uncovered prescription drugs and other out-of-pocket costs can add up to over \$6,500 for a typical family.<sup>1</sup>

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***Amid the tough economy, fewer people appear to have the resources to cope with unforeseen expenses. Of full-time employees surveyed by MetLife, 46% have less than \$5,000 in savings — and 28% have under \$500.***  
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When faced with a critical illness, many individuals are surprised that their medical coverage may not address the full financial consequences of certain critical illnesses. Critical illness insurance (CII) could help close the coverage gaps resulting from high deductibles, uncovered expenses or annual benefit maximums.

Despite its value, there is little knowledge of this product among the general public. In fact, there are numerous misconceptions with regard to coverage and cost, prompting a need for more meaningful education in the employee benefits marketplace. According to the *MetLife Critical Illness Awareness Study*, only 28% of full-time employees have heard of CII.<sup>2</sup> Furthermore, the study showed that many individuals confused CII with other health-related insurance coverages. Three in five appear to be confusing it with health insurance, and one in five confuse it with either a government insurance program or disability income insurance.<sup>2</sup>

The study indicates that once employees better understand critical illness insurance, they find the concept of this type of coverage somewhat or very appealing — even if it’s made available on a voluntary basis and they pay for it themselves.<sup>2</sup> However, the *MetLife Financial Impact of a Critical Illness Study* illustrates that just 7% of employees surveyed say they own critical illness insurance.<sup>1</sup>

# The Financial Impact of a Critical Illness

Being diagnosed with a critical illness is difficult enough, but the financial impact can be nearly as challenging to manage as the physical and emotional effects of the treatment and recovery for some households.

*Are individuals financially prepared in the event of a serious illness? Research indicates that the answer may be “no”.*

One survey respondent noted a significant reduction in earnings due to a disability leave as a result of the illness. In addition, the survey respondent’s spouse worked fewer hours to provide care — adding to the reduction in income. The couple needs to watch their household expenses now, cutting out many extras and spending money on just the bare necessities.\*

More than half of full-time employees surveyed (55%) said they were somewhat or extremely concerned about the financial impact of a critical illness on their families, with only 16% feeling confident they could pay for a medical emergency.<sup>2</sup> About four in ten full-time employees indicated that they live paycheck to paycheck, suggesting that out-of-pocket expenses related to a critical illness could quickly put them in a challenging financial situation.<sup>2</sup>

Their concern would seem to be warranted. According to the *MetLife Financial Impact of a Critical Illness Study*, the average financial burden associated with a critical illness is \$35,500 — most of which is linked to lost income.<sup>1</sup> It is clear that the financial impact experienced by these individuals can be significant. On average, households spend \$4,976 on out-of-pocket medical expenses not covered

by group health insurance and \$1,588 in non-medical expenses.<sup>1</sup> Co-pays account for most out-of-pocket medical expenses, followed by prescriptions and out-of-network doctor visits.<sup>1</sup> The **largest non-medical out-of-pocket expenses include:** travel, home or auto modifications and home maintenance.<sup>1</sup>

Top 3 Out-of-Pocket Expenses (Medical)	Top 3 Out-of-Pocket Expenses (Non-Medical)
<ol style="list-style-type: none"> <li>1. Co-Payments</li> <li>2. Prescriptions</li> <li>3. Out-of-Network Doctor Visits</li> </ol>	<ol style="list-style-type: none"> <li>1. Travel</li> <li>2. Home/Auto Modifications</li> <li>3. Home Maintenance</li> </ol>

Even three to five years after being diagnosed, 60% of survey respondents who experienced a serious medical situation are still incurring out-of-pocket expenses<sup>1</sup>, illustrating how the costs associated with a critical illness and the financial impact can be long-term. It is important to underscore that 46% of full-time employees surveyed by MetLife reported having less than \$5,000 to cover expenses for a major illness, with more than half of those respondents admitting to having less than \$500 available.<sup>2</sup>

Survey respondents who reported that a critical illness had a *minor, or no*, financial impact on their lives made adjustments that included a decrease in discretionary spending (37%), withdrawal from savings (28%), reduction in contribution to savings (19%), higher credit card balances (15%), an inability to pay bills (9%) and need to borrow money from friends or relatives (6%).<sup>1</sup> (Figure 1)

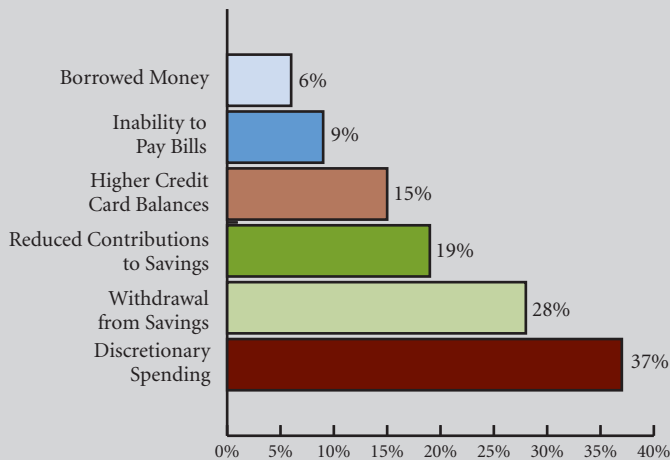
Another respondent fortunately had insurance and a sick leave policy. The respondent noted that the family never felt the financial effects of the illness, but couldn't imagine what their life would have been like without the insurance coverage.\*

While survey respondents who reported that a critical illness had a *devastating* financial impact on their lives made these adjustments: a decrease in discretionary spending (72%), withdrawal from savings (64%), reduction in contribution to savings (50%), higher credit card balances (47%), an inability to pay bills (44%) and need to borrow money from friends or relatives (40%).<sup>1</sup> (Figure 2)

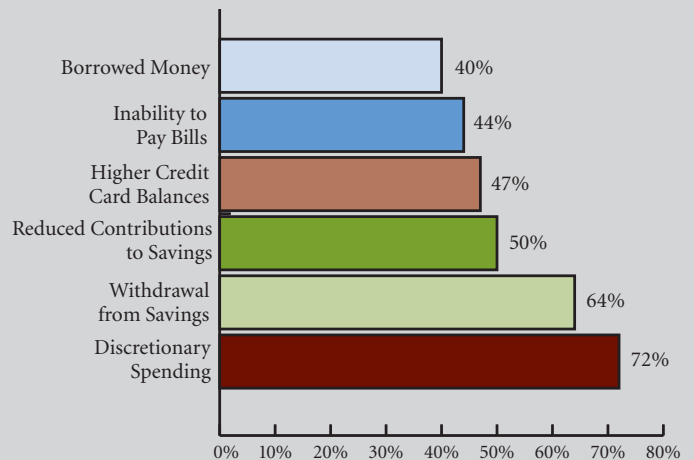
Almost two-thirds of those survey respondents with critical illness insurance coverage say their illness had a minor impact on their financial situation, or none at all.<sup>1</sup>

## Biggest Financial Adjustments as a Result of a Critical Illness

**Figure 1: Minor or No Impact**



**Figure 2: Devastating Impact**



# Critical Illness Insurance in the Benefits Landscape

To develop a comprehensive understanding of critical illness insurance, it's important to know what the benefit covers. Policies typically pay a lump sum payment that can be used to help cover expenses (i.e., medical co-pays, deductibles, childcare and mortgage payments) related to such illnesses as cancer, stroke, heart attack, major organ transplant and kidney failure, for example. The lump sum payment offers flexibility so that the claimant may use it in a way that makes most financial sense for their personal situation.

A trend that may have an effect on the way CII is viewed, is the medical-tourism movement. This movement is likely to influence decisions by critical illness insurance policyholders about where (domestically or overseas) and when, to seek treatment, as well as how to leverage lump sum payments to best cover both medical and non-medical costs.

**Another survey respondent noted that his/her family is a one-income family and had no money coming in because the breadwinner was out of work due to a critical illness. Each surgery caused the bills and expenses to increase and caused them to get farther behind financially.\***

With tough economic times, more and more employers are asking employees to take additional accountability for their financial and medical well-being. A recent trend of employers offering health insurance coverage with higher deductibles could serve to burnish the value of critical illness insurance. Products such as critical illness insurance may be able to help employers who want to transition to a higher deductible health plan by helping their employees offset out-of-pocket costs associated with illnesses. At a time when individuals are increasingly responsible for funding more of their medical treatments, the *MetLife*

*Financial Impact of a Critical Illness Study* suggests that few working Americans are financially equipped for a major illness. But it doesn't have to stay that way.

The workplace can serve as a logical point-of-sale for critical illness insurance because of group rates and in some circumstances, no – or limited – medical underwriting. Many employees are even willing to pay 100% of premiums — given the convenience of payroll deduction and cost effectiveness of coverage sold on a voluntary basis.<sup>2</sup> Offering these plans can also have a positive impact on an employees' perception of their employer and helps to boost their loyalty.<sup>3</sup>

From an employer's perspective, offering critical illness insurance on a voluntary basis expands their benefits portfolio and can help fulfill strategic business objectives by investing prudently in their most valued asset — their employees. For example, 81% of employees who say they're satisfied with their benefits feel the same about their jobs, whereas just 23% of those who are dissatisfied with their benefits are satisfied with their jobs.<sup>3</sup>

There is still a significant gap between employers and employees about the perceived value of ancillary benefit offerings, such as critical illness insurance, to supplement other core benefits. Consider that while 65% of employees said these voluntary benefits made them feel more loyal at work, only 39% of employers thought they were strong drivers of employee loyalty.<sup>3</sup>

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## Clearing up Confusion

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Aside from gauging the financial impact of a critical illness, employers and brokers must deal with a serious lack of product awareness and downright confusion. About three-quarters of full-time employees surveyed never heard of critical illness insurance.<sup>2</sup> There's also a tendency to mistakenly assume that other forms of insurance cover critical illnesses when, in fact, critical illnesses can trigger significant out-of-pocket costs even for those who have group medical coverage. Three in five employees confuse critical illness coverage for health insurance and one in five confuse it with disability income insurance or a government insurance program.<sup>2</sup>

In fact, the *MetLife Critical Illness Awareness Study* showed that some respondents who initially identified themselves as owning a critical illness insurance policy later realized they were mistaken once they learned more details.<sup>2</sup> With respect to critical illness insurance premiums, although cost is more of a concern in difficult times when there's less discretionary income to go around, many respondents indicated a willingness to pay up to \$200 a year for critical illness insurance.<sup>2</sup>

Once they learn about the cost of the coverage and gain a clearer understanding of the details of the coverage, employees often develop an appreciation for its value.

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***Roughly 75% of employees who don't own or never heard of critical illness insurance find the concept appealing once the product's features are explained and most are even willing to pay the entire premium.<sup>2</sup>***

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A major selling point for critical illness insurance is that the lump sum benefit eliminates any need for ongoing paperwork and submission of bills and receipts. Furthermore, the benefit payment can be used at the individual's discretion, providing maximum flexibility.

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## Opportunities for Employers

Effective benefits communication is always challenging — currently only about a third of working Americans think their employer communications are effective at educating them about their benefits<sup>3</sup> — but for CII it's even more vital for employers to implement an effective education and communication campaign — given the apparent lack of CII awareness. Employers and their broker partners have a tremendous opportunity to articulate a simple message about how critical illness insurance fits into the employee benefits equation and why it should be considered a benefit priority.

One such approach is to explain the benefit within a larger context alongside medical insurance and disability income insurance. In this case, the coverage is

**A female respondent noted that she analyzed what the cost of her illness would have been without insurance. That really scared her.\***

seen as a means of helping to provide broader, more adequate, financial protection in the event of a critical illness that can trigger thousands of dollars in unexpected medical and non-medical expenses that many people mistakenly believe will be covered by their group medical plan.

For employers, offering critical illness insurance is a way to enhance the appeal of a benefits program for their employees — particularly if health plans are changing and employees have the potential to face larger deductibles, co-pays and other out-of-pocket expenses. For employees, purchasing critical illness insurance is about strengthening their financial safety net and helping to mitigate the financial exposure that still remains when experiencing a very serious illness.

### Key Action Steps

#### **STEP 1 - Enhance Your Existing Benefits Offering**

Consider recommending critical illness insurance as a means of expanding your employee benefits portfolio in the face of cost pressures and in turn, raise the level of employee loyalty, productivity and retention. Unique products such as critical illness insurance can help employers distinguish themselves in a competitive market. Again, with just 7% of employees saying they own critical illness insurance<sup>2</sup> — this suggests a tremendous opportunity for employers to help their employees mitigate the financial exposure that still remains when experiencing a critical illness.

**STEP 2 - Promote Critical Illness Insurance Alongside Other Core Benefits**

Employers can offer CII as a way to supplement existing medical and disability benefit plans — thus, strengthening the financial safety net for employees by stitching in another layer of protection from out-of-pocket medical and non-medical expenses.



*CII should be considered a complement,  
never a replacement for medical coverage.*



CII may be implemented as a means of helping employers who are transitioning to a high deductible health plan, by providing employees with a lump sum payment to offset out-of-pocket expenses associated with a critical illness. This may be able to help an employer better manage their overall benefits budget.

**STEP 3 - Improve Communications**

A good starting point for improving communications is to correlate an employee’s benefits offering with their individual financial concerns. In other words, illustrate how financial protection benefits are relevant in building a strong personal safety net and helping to provide peace of mind. Ongoing communications can also help reinforce the employer’s commitment to their employees’ well-being and strengthen employee engagement in the benefits program.

Simple messaging and straightforward materials focused on the value to the individual can all contribute to greater success. Making it as easy as possible for employees to understand what the product covers and how they can benefit from it, can make them more receptive to participate. Emphasizing how employees can use the lump sum benefit payment for anything they choose — not only makes the entire process less complicated but also provides maximum flexibility and less paperwork during the claims process.



*Employees believe they have CII coverage – when they **don’t**...<sup>2</sup>*



It is essential to communicate what critical illness insurance is — and maybe more importantly what it is not. To increase your employees’ understanding of the benefits versus the cost — provide sample or personalized rate illustrations so your employees are making an informed decision on whether the coverage and cost is right for them.



## Conclusion

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As of yet, critical illness insurance doesn't have high visibility among employee benefit offerings because there's still a considerable lack of awareness surrounding this product. It has the potential to deliver tremendous value when offered alongside group medical and disability income coverage and should become more of a priority for employers, brokers and employees alike.

The most effective way to convey this is to promote a simple theme that's easy for employees to understand. Perhaps the best example for spotlighting critical illness insurance is the use of a health care version of the proverbial three-legged stool.

This may help illustrate how the sum of these three benefits (medical, disability income and critical illness insurance) is far greater than the individual parts. In short, critical illness insurance deepens financial protection from ever-increasing health care costs, providing a flexible lump sum payment that can be applied to medical and non-medical expenses as each employee sees fit.

Combining critical illness insurance with medical and disability income coverage may help to ensure that employees are confident about the level of financial protection they're receiving — so they can focus more on their recovery from a major illness and less on their finances during such a difficult time.

To download a copy of this Critical Illness White Paper “Critical Times Require Critical Solutions” go to [www.metlife.com](http://www.metlife.com).  
[Click on Voluntary Benefits and then Critical Illness Insurance]

Or for more information on MetLife's Critical Illness Insurance product contact:

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## Endnotes

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1. MetLife's Financial Impact of a Critical Illness Study, April 2010
2. MetLife's Critical Illness Awareness Study, April 2010
3. MetLife's 8<sup>th</sup> Annual Employee Benefits Trends Study, 2010

\* Comments of survey responders were captured in the MetLife Study - *The Financial Impact of a Critical Illness*.

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