

**Supplemental Health  
Insurance Products 101**

November 18, 2020



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begin  
momentarily...**

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of the presentation



## Supplemental Health Insurance Products 101

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November 18, 2020





## Presentation Disclaimer

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## Why supplemental health insurance products?



Enables employer to offer additional benefit options to employees



Minimal to no cost to employer to offer benefits to employees



Fixed indemnity benefits provide financial protection to employees



Employees receive benefits when a reimbursable health event occurs

**Insurance carriers incorporate products to diversify product portfolios**

## The current worksite market environment

For year-ending 2019, large carriers saw year over year sales growth in the double digits in at least some of the supplemental health products<sup>1</sup>

As of Q2 2020, annualized inforce premium of \$10.5B; 6% increase YOY<sup>2</sup>

COVID seems to have heightened consumer awareness of the Supplemental Health insurance products<sup>3,4</sup>

Market is not fully penetrated: less than 30% for CI and HI; less than 50% for Accident<sup>5</sup>

<sup>1</sup> LIMRA 4Q2019 Worksite Voluntary Report

<sup>2</sup> LIMRA U.S. Workplace Supplemental Health Insurance, 2020 Second Quarter Review

<sup>3</sup> Future Of Benefits: New Research From The Hartford Reveals Shifts In Attitudes About Employee Benefits Amid Pandemic (The Hartford; Aug 18, 2020)

<sup>4</sup> The Hartford Finds Pandemic Renews Focus On Employee Benefits That Provide Financial Protection (The Hartford; Sep 24, 2020)

<sup>5</sup> Exploring Employee Demographics: Key Attitudes and Behaviors towards Voluntary/Worksite Benefits (Eastbridge; Feb 2020)

## Session overview

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Products

2

Actuarial considerations

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Market trends



## PRODUCTS

Critical Illness | Accident | Hospital Indemnity



## Critical Illness

- In the benefits industry, there are several forms of insurance for serious illnesses:
  - Cancer
  - Specific Disease
  - Dread Disease
  - Critical Illness (aka Specified Disease)
- Critical illness is what we are discussing today
  - Pays a specific lump-sum dollar amount upon diagnosis of a covered condition based on coverage amount in effect for each covered person
  - May also offer smaller indemnity benefit(s), such as a screening benefit
  - Benefits are paid regardless of any other insurance coverage
    - No offsets
    - No coordination of benefits
    - Benefits paid directly to the EE if living, otherwise paid to beneficiary/estate
  - Offers a list of conditions that are covered
    - Conditions may pay per diagnosis or may be organized into categories
    - Separation periods may apply between diagnoses

## Critical Illness – Sample Benefits Summary

### Cancer

- Invasive Cancer
- Non-Invasive Cancer\*
- Benign Brain Tumor

### Vascular

- Heart Attack
- Heart Transplant
- CAD\*
- Angioplasty/Stent\*
- Stroke
- Aneurysm\*

### Other

- Major Organ Failure
- ESRD
- Bone Marrow Transplant\*
- Coma
- Paralysis
- Loss of Vision
- Loss of Hearing
- Loss of Speech

- Additional conditions frequently covered include, but are not limited to:
  - Neurological conditions (Alzheimer's, ALS, Parkinson's, MS)
  - Child conditions (congenital defects and diseases, etc.)
  - Infectious diseases (such as COVID-19)
  - Occupational HIV
- Reoccurrence benefits may be offered for conditions that can be cured/fully treated but happen again; typically reoccurrence are paid only once

\*Indicates standard partial benefit conditions (i.e. generally do not pay full coverage amount)

## Critical Illness – Guaranteed Issue Amounts and Coverage Amounts

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- Group critical illness coverage is most often guaranteed issue (GI)
  - GI will vary by group size, with the typical average GI for larger groups currently hovering at \$30K for the past several years
  - EOI (individual underwriting) can occur for excess amounts or late entrant amounts with some carriers
- For voluntary plans, one or more coverage amounts can be offered to employees/members (EE)
  - A typical minimum coverage amount for the EE is \$5K, with coverage offered in increments of \$5K up to a maximum amount
  - The maximum amount is usually the GI amount, unless EOI processes are engaged
  - Spouse/partner coverage is usually set at either 50% or 100% of the applicable EE amount
  - Child coverage is usually set at 25% or 50% of the applicable EE amount
- A policy benefit maximum or category benefit maximums, which are a multiple of the applicable coverage amount, are typically engaged to limit exposure

## Critical Illness – Claims Example

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- Mary is insured for a coverage amount of \$20,000
  - Her plan has a 500% policy benefit maximum
  - A reoccurrence separation period of 12 months applies
- Mary is diagnosed with Stage 2 breast cancer
  - A claim is submitted for invasive cancer, which offers a 100% benefit
  - The claim is evaluated and is eligible
  - A \$20,000 benefit is paid
  - Mary proceeds with treatment and is declared cancer-free many months later
- Three years later, she is again diagnosed, with Stage 3 breast cancer
  - She is eligible for another \$20,000 benefit under the reoccurrence provision
  - After the reoccurrence claim is paid, 300% still remains of her policy benefit maximum if any other covered condition occurs in the future
  - No further benefits are available under the plan for cancer

Note: These benefit examples are fictitious and for illustrative purposes only.

## Critical Illness – Typical Limitations

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- Benefit separation period
  - A period of time, such as 6 months, that must occur between diagnoses for additional benefits to be payable
  - May apply differently to the same (reoccurrence), related or unrelated diagnoses
- Pre-existing conditions limitation
  - 12/12 is standard for smaller groups (varies by state)
  - Lesser options (3/6, 6/6, etc.) or no pre-ex available
- Termination age
  - Usually age 70 or 80 if included
  - May be removed for groups with active work requirement
- General limitations – Benefits are not payable for any illness:
  - Diagnosed prior to the effective date of insurance for a covered person (except for newborn children/birth defects)
  - Diagnosed during an applicable Benefit Separation Period
  - For which a covered person has already received a benefit payment under the policy, unless the covered illness is included in a reoccurrence provision
  - For which a covered person has already received a benefit payment under the reoccurrence provision

## Accident

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- In the benefits industry, there are several forms of accident insurance:
  - Accidental death & dismemberment (AD&D)
  - Business travel accident
  - Accident medical expense
  - Specific accident
  - Scheduled indemnity accident
  - Etc.
- Scheduled indemnity accident is what we are discussing today
  - Pays specific, fixed (scheduled) dollar amounts for a wide variety of injuries, related treatments and services received by an insured as a result of a covered accident
  - Benefits are paid regardless of any other insurance coverage
    - No offsets
    - No coordination of benefits
    - Benefits paid directly to the EE if living, otherwise paid to beneficiary/estate
  - Can include catastrophic benefits that are very similar to AD&D

## Accident – Sample Benefits Summary

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- Initial care
- Diagnostic and emergency services
- Hospital admission and confinement
- Follow-up care
- and more.....

- Dislocations and fractures
- Burns, lacerations and concussions
- Surgery
- and more.....

- Death and dismemberment
- Coma and paralysis
- Prosthesis
- and more.....

## Accident – Sample Benefits Detail

Treatment/Service	Detail (Per covered person)	Plan 1	Plan 2	Plan 3
ACCIDENT FOLLOW-UP	Up to 3 visits/accident within 90 days	\$50	\$75	\$100
ACUPUNCTURE	Up to 10 visits/accident within 365 days	\$25	\$25	\$50
AMBULANCE – AIR	Once/accident within 72 hours	\$600	\$900	\$1,200
AMBULANCE – GROUND	Once/accident within 90 days	\$200	\$300	\$400
BLOOD/PLASMA/PLATELETS	Once/accident within 90 days	\$150	\$200	\$300
CHILD CARE	Up to 30 days/accident while insured is confined	\$25	\$25	\$30
CHIROPRACTIC CARE	Up to 10 visits/accident within 365 days	\$25	\$25	\$50
DAILY HOSPITAL CONFINEMENT	Up to 365 days/lifetime (Total daily and ICU)	\$100	\$200	\$300
DAILY ICU CONFINEMENT	Up to 30 days/accident (Subject to 365 days/lifetime)	\$300	\$400	\$600
DIAGNOSTIC EXAM	Once/accident within 90 days	\$100	\$200	\$300
EMERGENCY DENTAL – CROWN	Highest benefit once/accident within 90 days	\$150	\$300	\$450
EMERGENCY DENTAL – EXTRACTION		\$50	\$100	\$150
EMERGENCY ROOM	Once/accident within 72 hours	\$100	\$150	\$200
HOSPITAL ADMISSION	Once/accident within 90 days	\$500	\$1,000	\$1,500
INITIAL PHYSICIAN OFFICE VISIT	Once/accident within 90 days	\$50	\$75	\$100
LODGING	Up to 30 nights/lifetime	\$100	\$125	\$150
MEDICAL APPLIANCE	Once/accident within 90 days	\$50	\$100	\$150
PHYSICAL THERAPY	Up to 10 visits/accident within 365 days	\$25	\$25	\$50
REHABILITATION FACILITY	Up to 15 days/lifetime	\$50	\$100	\$150
TRANSPORTATION	Up to 3 trips/accident	\$200	\$300	\$500
URGENT CARE	Once/accident within 72 hours	\$50	\$75	\$100
X-RAY	Once/accident within 90 days	\$50	\$50	\$75

## Accident – Everyday Claims Example

Jack is hurt playing basketball during gym class... (scenario unfolds)

Depending on how the claim is submitted, the benefits could be paid over time or in one lump sum

Injury/Treatment/Service	Benefit Amount
<b>Ground Ambulance</b>	\$300
<b>Emergency Room</b>	\$150
<b>X-ray</b>	\$50
<b>CT (Diagnostic Exam)</b>	\$200
<b>Dislocated Knee (Closed)</b>	\$900
<b>Concussion</b>	\$150
<b>Brace (Medical Appliance)</b>	\$100
<b>Follow-Up Visits</b>	\$150 (\$75 x 2)
<b>PT Sessions</b>	\$200 (\$25 x 8)
<b>Total Benefits:</b>	<b>\$2,200</b>

Note: These benefit examples are fictitious and for illustrative purposes only.

## Accident – Serious Claims Example

Joe is hit by a car while riding his motorcycle... (scenario unfolds)

Depending on how the claim is submitted, the benefits could be paid over time or in one lump sum

<b>Injury/Treatment/Service</b>	<b>Benefit Amount</b>
<b>Air Ambulance</b>	\$900
<b>Emergency Room</b>	\$150
<b>Diagnostic Exam(s)</b>	\$200
<b>X-ray(s)</b>	\$50
<b>Skull Fracture (Closed)</b>	\$750
<b>Thigh Fracture (Open)</b>	\$4,000
<b>Abdominal Surgery</b>	\$1,500
<b>Hospital Admission</b>	\$1,000
<b>Hospital Confinement</b>	\$2,000 (\$200 x 10)
<b>Rehabilitation Confinement</b>	\$1,000 (\$100 x 10)
<b>Medical Appliance(s)</b>	\$100
<b>Follow-Up Visits</b>	\$225 (\$75 x 3)
<b>PT Sessions</b>	\$250 (\$25 x 10)
<b>Chiropractic Sessions</b>	\$250 (\$25 x 10)
<b>Total Benefits:</b>	<b>\$12,375</b>

Note: These benefit examples are fictitious and for illustrative purposes only.

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## Accident – Typical Limitations & Exclusions

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- No limit to the number of accidents – benefits are payable for as long as insurance is in-force
- Certain benefits have per accident or lifetime limits
- Certain benefits are only payable if injury is incurred or treatment received within a specified period of time after the accident
- Exclusions are typical accident exclusions, similar to AD&D:
  - Suicide/self-inflicted injury
  - War or act of war
  - Participation in felonies
  - Service in armed forces
  - Intoxication/drug use
  - Certain air travel
  - While a crew member on an aircraft
  - Motor vehicle racing/stunts/speed tests
  - Exclusions may be adjusted due to state regulations in the situs state of the group

## Hospital Indemnity

**Pays a set benefit amount per day for each day an insured is confined in a hospital**

**Benefit amount may be higher for the first day of confinement or ICU confinement**

**Additional benefits for each day related services are received may be included**

- Medical travel, lodging, family care, etc.
- Physician visits, surgeries, therapy services, etc.

**Benefits are paid directly to the primary insured**

- May help defray expenses that primary health insurance doesn't cover
- Can be used however the insured chooses

**Benefits are paid without regard to any other form of insurance and without regard to expenses actually incurred**

**Is not “gap” insurance, supplemental medical or limited benefit medical**

**HSA compatibility** (Benefits may vary depending on whether the plan is designed to be HSA compatible)

## Hospital Indemnity – Sample Benefits Summary

<b>Hospital Care (Base Plan/ HSA Compatible)</b>	First day hospital confinement	First day ICU confinement
	Daily hospital confinement	Daily ICU confinement
<b>Other Medical Care Facility</b>	Continuous care (hospice, rehab facility, skilled nursing)	
	Mental/nervous inpatient	Substance abuse inpatient
<b>Surgery</b>	Inpatient	Anesthesia
	Outpatient – ASC or hospital	Blood products
	Outpatient – Dr office or ER	Second opinion
<b>Additional Care</b>	Ambulance	Lab test
	Emergency room	X-ray
	Hospital observation/short stay	DME
	Diagnostic exam	Prescription drug
<b>Medical Professional Care</b>	Physician/Medical professional office visit	
	Telemedicine visit	Urgent care
	Therapy services (PT/OT/ST/chiropractic/acupuncture)	
	Home health care	Short term recovery
	Mental/nervous outpatient	Substance abuse outpatient
<b>Family Care</b>	Medical travel	Companion lodging
	Family care (adult or child)	Pet boarding
	Health screening	

## Hospital Indemnity – Sample Benefits Summary (Continued)

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- Typical plan designs are often limited to the following benefits:
  - First day hospital confinement/hospital admission
  - Daily hospital confinement
  - First day ICU confinement/ICU admission
  - Daily ICU confinement
  - Health Screening
- There can be wide variation across carriers in the industry for what is included in plan designs, so benefits may also commonly include:
  - Emergency room visit
  - Hospital observation/short stay
  - Rehabilitation facility confinement
  - Mental health or substance use disorder facility confinement
  - Other benefits

## Hospital Indemnity and HSA Compatibility

### Health Savings Account (HSA)

A tax-advantaged account available to individuals covered under qualifying HDHPs that allows them to save for medical expenses that a HDHP does not cover

### IRS

The IRS limits the types of supplemental insurance that an individual who participates in an HSA may have, while still maintaining the tax-exempt status of HSA (IRS Pub 969)

### Permitted Insurance<sup>1</sup>

Accident only, specified disease/illness, workers' comp, disability, dental, vision, LTC and insurance that offers "a fixed amount per day (or other period) of hospitalization"

### Impact

HSA compatible plan designs should be offered to people who participate in a HSA, and the majority of HI premium sold in the current marketplace is for limited, HSA compatible plan designs

1: 26 USCS § 223(c)(3)(B) and (C)

## Hospital Indemnity – Claims Example

### STANDARD PLAN DESIGN (HSA-compatible)<sup>1</sup>

### EXAMPLE

Joe is 46 years old and enjoys playing and coaching sports with his children. Recently, Joe was playing ice hockey with his son when he began experiencing significant chest pain. Joe was transported via ambulance to a nearby hospital.

Joe was diagnosed with a serious heart attack and underwent immediate surgery. After surgery, he was placed in the ICU for two days. Then he was transferred to a regular room for another seven days, before being released from the hospital.

A health insurance deductible of \$1,500 had to be met before Joe's major medical insurance would begin covering his treatment, followed by 20 percent coinsurance.

The benefits paid by the hospital indemnity plan helped Joe cover his out-of-pocket expenses and supplement his income while he wasn't working.

SERVICE	BENEFIT AMOUNT
Hospital Admission	\$1,000
Daily ICU Confinement	\$600 (\$300/day x 2 days)
Daily Hospital Confinement	\$1,050 (\$150/day x 7 days)
<b>TOTAL BENEFITS:</b>	<b>\$2,650</b>

Note: When an insured is eligible for more than one benefit in a single day, only the highest benefit will be payable.

<sup>1</sup> Insurance companies and employers should seek their own legal counsel with respect to HSA compatibility analysis.

Note: These benefit examples are fictitious and for illustrative purposes only.

## Hospital Indemnity – Claims Example

### EXPANDED PLAN DESIGN

### EXAMPLE

SERVICE	BENEFIT AMOUNT
Air Ambulance	\$1,000
Emergency Room	\$150
Diagnostic Exam(s)	\$150
Inpatient Surgery	\$1,500
First Day Hospital Confinement	\$1,000
Daily ICU Confinement	$(\$300 \times 2)$ \$600
Daily Hospital Confinement	$(\$150 \times 7)$ \$1,050
Rehabilitation Confinement	$(\$100 \times 10)$ \$1,000
Follow-Up Visits	$(\$75 \times 3)$ \$225
Therapy Services	$(\$25 \times 10)$ \$250
<b>TOTAL BENEFITS:</b>	<b>\$6,925</b>

Johnny is an avid motorcycle rider. On his way home from work during evening hours, he was hit by a car and thrown over 30 feet from his bike. Even though he was wearing a helmet, the impact of his landing knocked it off, and Johnny sustained multiple serious injuries.

He was airlifted to the emergency center at an area trauma center. Diagnostic exams showed a skull fracture, a badly broken thigh bone and abdominal trauma requiring surgery.

Following surgery, Johnny spent three days in the ICU before being moved to a regular room. He remained hospitalized for 7 days before being released to a rehabilitation facility for another 10 days of recovery.

Over the next several months, Johnny followed up with his family physician, and received regular physical therapy and chiropractic care. A health insurance deductible of \$1,500 had to be met before his insurance would begin covering his treatment, followed by 20 percent coinsurance.

The benefits paid by the hospital indemnity plan helped Johnny cover his out-of-pocket expenses and supplement his income while he was not working.

Note: These benefit examples are fictitious and for illustrative purposes only.

## Hospital Indemnity – Typical Limitations

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- Pre-existing conditions exclusion
  - 12/12 is standard; varies by state
  - Lesser options (3/6, 6/6, etc) or no pre-ex available
- Benefit waiting period (BWP)
  - May apply in the absence of a pre-ex
  - Applies to first 30 days of coverage for illnesses only
- Normal pregnancy coverage options:
  - SAAOI
  - 9 or 10 month limitation
  - Normal pregnancy not covered/excluded
  - Complications of pregnancy are always covered SAAOI

Note: SAAOI is Same As Any Other Illness

## Hospital Indemnity – Typical Exclusions

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### Typical exclusions:

- Suicide/self-inflicted
- Intoxication
- Illegal activity
- Risky flying/driving/off-roading
- Risky extreme hobby/sports activity
- Acts of war/active military service
- Travel/activity outside the US or Canada

### Treatment related:

- Elective procedures (abortion, fertilization, gender change, sterilization)
- Naturopathic treatment (aromatherapy, herbal therapy, homeopathic services)
- Custodial care
- Dental care (except accidents or congenital anomaly)
- Government provided treatment unless payment is required



## ACTUARIAL CONSIDERATIONS



## From the perspective of a pricing actuary

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Incidence rates, particularly on Accident

Higher commissions and expenses relative to other group benefits such as life or disability

Market intolerance of risk mitigation measures such as pre-existing conditions limitations

Relative immaturity of market and pace of product evolution

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Materially different actual experience and/or distribution of enrolled versus pricing assumptions

Participation and selection risks due to voluntary nature of products

No market standard for reporting or data provided by carriers

Issue age rating in a group market

## From the perspective of a pricing actuary (continued)

Incidence rates, particularly on Accident

**Reminder notifications**

**Enrollee satisfaction**

**Minimum loss ratios**

Higher commissions and expenses relative to other group benefits such as life or disability

**Low average premiums**

**Heaped commissions**

**Enrollment / tech vendors**

Market intolerance of risk mitigation measures such as pre-existing conditions limitations

**Policy design and language**

**Exclusions**

**Importance of participation**

Relative immaturity of market and pace of product evolution

**Group market growth rates**

**“Shelf life” of products**

**Pricing based on book experience**

## From the perspective of a pricing actuary (continued)

Materially different actual experience and/or distribution of enrolled versus pricing assumptions

Participation and selection risks due to voluntary nature of products

No market standard for reporting or data provided by carriers

Issue age rating in a group market

**Age and gender distribution**

**Plan / benefit selection**

**Incidence**

**Importance of enrollment efforts**

**Wallet share of employee**

**Limitations and exclusions**

**Manual rating**

**Experience / loss ratio reporting**

**Enrollment**

**Rates tied to EE age at issue**

**Takeover cases**

**Active life reserves**



## MARKET TRENDS



## Where the market is heading

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**Product  
evolution and  
modernization**

**Focus on  
increased  
consumer  
engagement**

**Benefit  
platforms and  
technology  
vendors**

**Claims integration:**

1. Notification
2. Auto-submission
3. Auto-adjudication



**THANK YOU!**

