



Critical Illness Insurance

Additional financial protection when it's needed most

The cost of new cancer drugs is often more than \$10,000 per month compared to an average of \$1,000 per month 20 years ago.¹

A medical emergency can happen to anyone, at any time. While medical and disability insurance help defray the cost of care and potential loss of income, additional out-of-pocket costs can add financial pressure to an already difficult situation. Unplanned expenses such as medical insurance copays, home modifications, transportation and child care, are rarely considered when providing or purchasing health care benefits, but they quickly add up when a medical crisis hits.

Critical illness insurance is designed to help with these types of unexpected costs. Most policies provide a one-time, lump-sum financial benefit to insureds upon diagnosis of a covered medical condition. Benefits can be used to help with items not covered by medical insurance, to supplement existing disability coverage, or to pay for daily expenses while waiting for disability insurance payments to start.

Critical illness coverage provides an additional financial benefit to employees when they need it—at little to no cost to the employer.

How critical illness policies work

Following the confirmed diagnosis of a covered medical condition, critical illness policies pay a lump-sum benefit to the covered employee or dependent (if dependent coverage is available). Covered conditions typically include but aren't limited to:

- Cancer
- Heart attack
- Stroke
- Coronary artery disease
- Coma
- Occupational HIV infection
- Loss of sight, hearing or speech
- Major organ failure
- End-stage renal disease
- Paralysis
- Severe burns

In addition to these standard conditions, some carriers are expanding their coverage to include more diverse conditions such as infertility, mental illness, pulmonary and neurological illnesses, and infectious diseases—including COVID-19.

Employers decide how much benefit to offer and who is eligible for coverage. They can also choose whether or not to contribute toward the cost of premiums. Following a covered diagnosis, insureds can use the benefit however they choose, and it is paid regardless of any other coverage they may have.

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Over 66% of all bankruptcies were tied to medical issues due to high cost of care and time out of work.³ Critical illness insurance can help protect employees from the financial impact of a serious medical diagnosis.

Critical illness vs. disability insurance

It's important to note that critical illness policies serve a different purpose than disability income insurance, which is designed to replace a portion of income while recovering from a disabling illness or injury. Critical illness insurance provides additional support to help cover expenses after the diagnosis of a serious condition.

A critical illness policy can supplement disability income insurance or provide financial assistance if this coverage isn't available.

How much coverage should we offer?

The simple answer is whatever amount can be offered on a guaranteed issue basis. Many insurance carriers provide up to \$50,000 of benefits before requiring a medical exam.² Higher benefit amounts are often available, but in those cases, additional medical questionnaires and/or medical exams are almost always needed.

Some employers choose to only offer the guaranteed issue amount while others will create a multiple-option plan. This scenario gives employees the ability to buy more robust coverage if they wish to go through the medical underwriting process.

Are critical illness benefits taxable?

Any critical illness benefits totaling more than the costs incurred for medical care are generally taxable if the employee or employer paid the premium on a pre-tax basis. It is also important to note that critical illness benefits may affect eligibility for public assistance like federal, state or local welfare programs. For specific information, please consult a tax professional and/or your benefits representative.

Health screening benefit

Many critical illness insurance policies include a health screening benefit. This provides an annual cash benefit to the insured when they receive eligible wellness screenings, which may include bone marrow testing, mammogram, chest X-ray, fasting blood glucose test, PSA (prostate-specific antigen) test, colonoscopy and/or other types of wellness screenings that may lead to the early detection of a critical illness condition.

Multiple diagnoses or recurrence

The unfortunate reality is that some individuals are diagnosed with more than one critical illness condition. In this situation, some carriers provide an additional lump-sum benefit upon the diagnosis of a second covered condition. In addition, many carriers also offer optional recurrence benefits to cover insureds if they are re-diagnosed after fully recovering from a previously covered condition.

Multiple-diagnoses and recurrence benefits are not always standard offerings in a critical illness insurance policy and may have associated premium charges. Make sure you understand everything that is covered under the base contract and carefully review the carrier's policy to identify any limitations or exclusions that may affect eligibility for these and other benefits.

What to look for in a critical illness carrier

While critical illness coverage is offered by many insurance carriers, they may differ in what conditions are covered, how benefits are paid and more. Here are a few key considerations when comparing providers:

- **Clear contract language:** Make sure your provider offers clear definitions of covered conditions and requirements for diagnoses and claims. Employees will appreciate the certainty when they're facing a medical concern.
- **Claims administration experience:** Ask carriers about their claims administration process, including options for filing claims, turnaround times, hours of operation and more. A smooth and efficient claims experience can help ensure benefits are paid quickly when they're needed most.
- **Benefit waiting periods:** Carriers may have a waiting period between the date coverage begins and when conditions are eligible for claims. This could lead to unexpected claim denials if they are filed before the waiting period is over.
- **Preexisting condition limitations:** Make sure the carrier is clear about preexisting conditions and when they may disqualify individuals from filing claims.
- **Portability and continuation options:** Some carriers include provisions allowing employees to continue their coverage if they leave or are laid off.

Above all, make sure the carrier communicates clearly with the employer and covered individuals to ensure there are no surprises and claims are paid as expected.

Protection for the unexpected

A critical illness policy can add value to an employee benefits package at a relatively low cost to employers and/or employees. And the additional level of protection can help provide peace of mind against the financial impact of a serious medical diagnosis. It's a simple way to make a big difference for your employees and their families.

For more information about critical illness coverage, contact your group benefits representative.

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¹ Simon, Stacy. "Cancer Survivors Face Significant Financial Problems." American Cancer Society, Jan. 28, 2019, www.cancer.org/latest-news/cancer-survivors-face-significant-financial-problems.html.

² May vary by state, carrier, employer industry and group demographics.

³ Konish, Lorie. "This Is the Real Reason Most Americans File for Bankruptcy." CNBC, Feb. 11, 2019, www.cnbc.com/2019/02/11/this-is-the-real-reason-most-americans-file-for-bankruptcy.html.



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