



# REPORT

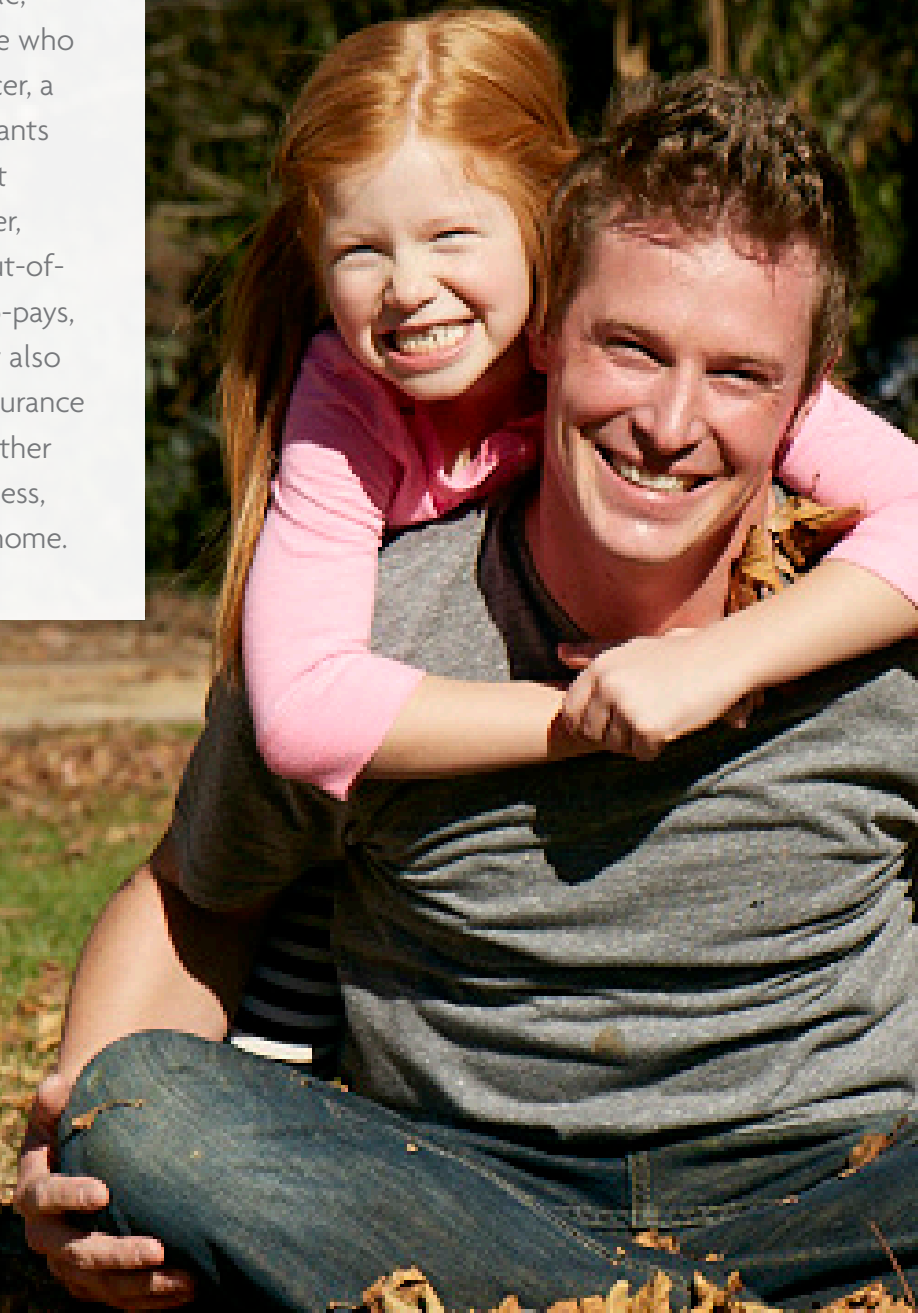
CRITICAL ILLNESS INSURANCE WHITE PAPER | SUMMER 2013

## Well-placed fears: workers' perceptions of critical illness

What every employer needs to know

## How a group critical illness insurance policy works

A group critical illness policy pays a single, lump sum benefit to a covered employee who faces a life-changing illness, such as cancer, a heart attack, or a stroke. Qualified claimants can use the benefit to pay out-of-pocket costs that health insurance may not cover, including certain medical procedures, out-of-network specialists, prescription drug co-pays, or alternative therapies. The benefit may also pay for living expenses that disability insurance payments may not meet, or help meet other non-medical expenses related to the illness, such as travel, child care, or help in the home.





A growing number of employers are offering critical illness insurance as a voluntary employee benefit that workers can purchase to help fill the “insurance coverage gap.” For even robust health insurance coverage may not meet all the costs that confront a worker who experiences a serious health condition. And out-of-pocket costs are rising, since employer-sponsored health plans are requiring workers to shoulder an ever rising share of health care costs.<sup>1</sup>

### This whitepaper seeks to answer the following questions:

- How much does the financial risk of a critical illness concern the American workforce?
- Which critical illness condition do workers most fear?
- How likely will the out-of-pocket costs of a critical illness reduce retirement or college tuition savings, cause a bankruptcy, or force a home sale/foreclosure?
- Can critical illness insurance counteract these risks to increase the financial security of American workers?

To explore these questions, Sun Life Financial conducted an online survey to understand the attitudes of over 4,000 U.S. workers. The findings underscore the need to educate the American workforce about the financial risks of a serious illness, and may help employers evaluate whether to offer group voluntary critical illness insurance.

1. Kaiser Family Foundation: “Over the past several years enrollees in employer-sponsored health plans have contributed more towards their care through the use of increased cost sharing. The percent of covered workers enrolled in a plan with a general annual deductible has increased significantly over time. In 2006, just over half (52%) of covered workers had a deductible for single coverage, compared with almost three-quarters (72%) in 2012.”  
<http://kff.org/health-costs/issue-brief/snapshots-the-prevalence-and-cost-of-deductibles-in-employer-sponsored-insurance/>

## Summary of findings

# Perceptions and reality of critical illness

### Perceptions and misconceptions

- Many workers feared the *financial* impact of a critical illness even more than *dying* from one—especially employees who were single and/or in their middle years (ages 40 to 50), or who worked in transportation, utilities, business/professional services, or manufacturing.
- **Over one-third (36%) of workers believed that they had critical illness coverage**, when few likely do.

### Realities of critical illness costs

#### Medical costs

- Out-of-pocket medical costs for a critical illness average \$7,500.<sup>2</sup>
- Two-thirds (66%) of workers who personally experienced a critical illness had to make financial sacrifices to meet uncovered medical or non-medical costs, despite owning health insurance.

#### Disability costs

- Over one-third (37%) of workers who survived a critical illness found themselves out of work for four months or longer. Added to out-of-pocket medical costs, such a workplace absence usually forced them to dip into savings earmarked for future needs, such as retirement or college tuition, even if they had disability insurance.

### The desire for critical illness coverage

- When given sample rates and coverage amounts, almost two-thirds (65%) of nonsmoking workers from age 22 to 49 said they would buy critical illness insurance if their workplace offered it.
- Nearly half of all workers, notably women and younger workers, cited invasive cancer as their most dreaded critical illness, suggesting that critical illness insurance specifically providing cancer coverage would greatly appeal to many employees.

## The Sun Life study: objectives and methodology

In 2012, Sun Life Financial conducted a study to help American employers gain insight into how U.S. workers view critical illness and understand financial protection options. The research was administered by Kelton Research in August, 2012, using an online questionnaire sent to full-time workers at U.S. companies with two or more employees. Responses from 4,116 employees were collected, representing a sample of U.S. full-time workers across demographics including gender, age, and ethnicity. The median household income of respondents was \$51,000 and the median age was 43. The survey had a margin of error of  $\pm 1.5\%$  for the total sample.

2. From Sun Life Financial. Proprietary research based on Sun Life Financial Stop-Loss claims data. See footnote 16.

3. From the Sun Life Financial critical illness survey. The question posed was: "In case you or your spouse experienced a critical illness, what would concern you most: A. Finances; B. Dying; C. Emotional Burden; D. Other."

4. 55% of workers from 40 to 50 named finances as their top concern in case of critical illness. 26% were most concerned with dying.

5. 65% of single women from 40 to 50 earning under \$50,000 in household income named finances as their top concern in case of critical illness. 15% were most concerned with dying.

## Research details

# Perceptions and misconceptions

### Many workers fear the financial consequences of a critical illness more than dying from one.

When asked to identify their greatest concern in case of a critical illness, nearly half (47%) of participants named “finances”—that’s far more than the third (29%) who named “dying,” or the fifth (22%) who named “the emotional burden.”<sup>3</sup>

### Financial fears predominate most among middle-aged workers and singles

Middle-aged workers from age 40 to 50 were twice as likely to be more concerned with finances than with dying:<sup>4</sup>

#### Of workers from age 40 to 50 . . .

- Single women earning under \$50,000 in household income were over four times more likely to be more concerned with finances than with dying—more so than any other demographic profile in the survey.<sup>5</sup>

- Single workers earning under \$50,000 were over three times more likely to be more concerned with finances than with dying.<sup>6</sup>
- Single parents earning under \$100,000 were also over three times more likely to be more concerned with finances than with dying.<sup>7</sup>

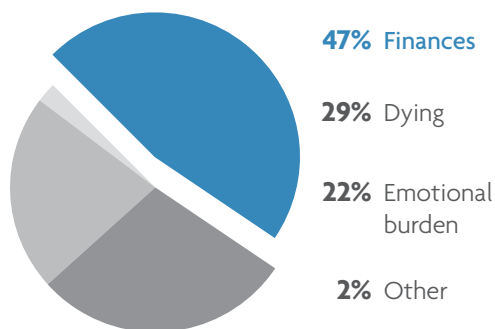
### Some younger workers from age 22 to 39 also express significantly more concern with finances than with dying in case of a critical illness

#### Of younger workers from age 22 to 39 . . .

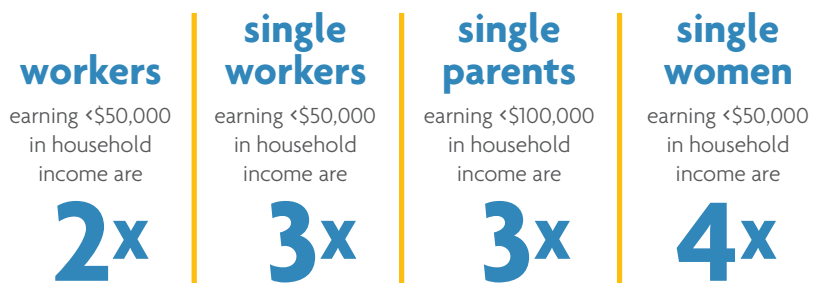
- Single parents were twice as likely to be more concerned with finances than with dying.<sup>8</sup>
- Single women with under \$50,000 in household income were nearly twice as likely to be more concerned with finances than with dying.<sup>9</sup>

Figure 1: Concerns: Finances versus dying

Many workers fear the financial impact of a critical illness—even more than dying from one.



Workers age 40 to 50 are particularly concerned about finances. Within this age group:



. . . more concerned with finances over dying.

6. 63% of single workers from 40 to 50 earning under \$50,000 in household income named finances as their top concern in case of critical illness. Only 19% were most concerned with dying.

7. 62% of single parents from 40 to 50 earning under \$100,000 in household income named finances as their top concern in case of critical illness. Only 18% were most concerned with dying.

8. 50% of single parents from 22 to 49 named finances as their top concern in case of critical illness. Only 26% were most concerned with dying.

9. 51% of single women from 22 to 49 earning under \$50,000 in household income named finances as their top concern in case of critical illness. Only 28% were most concerned with dying.

## Workers' concerns about the impact of a critical illness also varied by industry

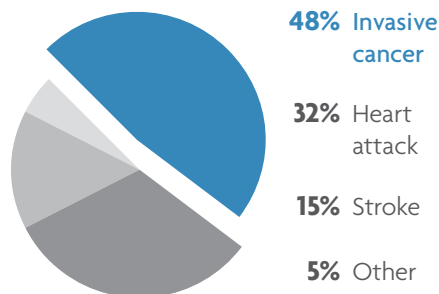
While most workers feared the financial impact of a life-changing illness, the greatest proportion of workers who felt more concerned with “finances” than with “dying” in case of a critical illness worked in the transportation, utility, business/professional services, or manufacturing industries.<sup>10</sup>

This suggests that employers might want to especially consider offering critical illness insurance in their benefit packages if they employ a large proportion of middle-aged workers, singles of all ages, or workers in the transportation, utility, business/professional services, and manufacturing industries.

## More workers, especially women and younger workers, fear a cancer diagnosis

Figure 2: Types of critical illnesses of most concern for workers

When asked which of the commonest critical illnesses most concerned them, half (48%) of all workers named invasive cancer, one-third (32%) named heart attack, and one-sixth (15%) named stroke.



- More women (56%) than men (42%) named invasive cancer as their most feared critical illness, and more men (37%) than women (25%) named heart attack.
- A higher proportion of younger workers named cancer as their most feared critical illness than did middle-aged workers.

|                 | Women | Men | Younger workers (age 22–29) | Middle-aged workers (age 40–54) |
|-----------------|-------|-----|-----------------------------|---------------------------------|
| Invasive cancer | 56%   | 42% | 53%                         | 45%                             |
| Heart attack    | 25%   | 37% | 29%                         | 35%                             |
| Stroke          | 14%   | 16% | 12%                         | 16%                             |
| Other           | 5%    | 5%  | 6%                          | 4%                              |

These findings parallel industry data ranking cancer as the most common critical illness claim.<sup>11</sup>

10. From the Sun Life Financial critical illness survey. Twice as many respondents working in the transportation, utility, business/professional services, or manufacturing sectors named finances as their top concern in case of a critical illness as those concerned with dying. In the following industries, one-and-a-half times as many workers named finances as their top concern in case of a critical illness, compared to those concerned with dying: wholesale/retail, financial services (excluding insurance), education, health and wellness, technology, and construction.

11. Both Sun Life Financial's proprietary research and independent sources confirm cancer as a leading critical illness:

- Sun Life Financial, "Leading Catastrophic Claims Conditions, 2012." This four-year study (2008–2011), identified cancer as the most costly stop-loss catastrophic illness by a significant margin. Claims payments for cancer comprised 25% of all stop-loss catastrophic claims payments.

- American Association for Critical Illness, 2012 Critical Illness Insurance Buyer Study, conducted by Gen Re Life Corporation, January, 2012. According to the report, cancer was the most common reason for opening a critical illness insurance claim. Percentages of new claims opened in 2011 by illness were: 61%: Cancer, 18%: Stroke, 11%: Heart Attack, 9%: Other.

## Most workers feel concerned about the risk of becoming critically ill.

The Sun Life study found that most workers expressed concern about experiencing a critical illness at some point in their careers:

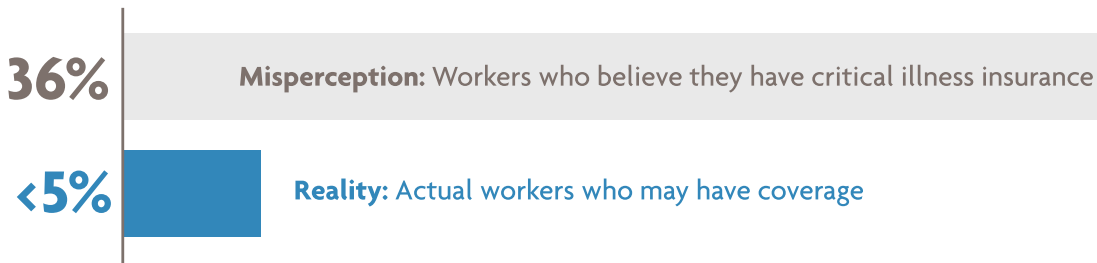
- More than two-thirds (68%) felt concerned about experiencing a critical illness before reaching age 65.<sup>12</sup>
- Almost three-quarters (73%) of married workers felt concerned that their spouses might become critically ill before age 65.<sup>13</sup>

Despite such financial concerns, many workers mistakenly assume that they already have critical illness insurance or are covered through their workplace health insurance plans.

Over one-third (36%) of workers in the Sun Life survey thought they had group critical illness coverage,<sup>14</sup> yet according to industry estimates, fewer than 5% of U.S. workers actually own such insurance.<sup>15</sup>

The likelihood that so many employees in the survey falsely assumed that they had critical illness and/or cancer insurance highlights the need for employers (and their insurance providers) to better educate workers about the scope and limitations of all of their employee benefits.

Figure 3: Misperception vs. reality



12. Of the 3,980 respondents under age 65, 17% were extremely concerned and 51% somewhat concerned about the probability of experiencing a critical illness before age 65.

13. Of the 2,325 married respondents who were asked about their spouse experiencing a critical illness before age 65, 25% of workers felt extremely concerned and 48% felt somewhat concerned.

14. From the Sun Life Financial Critical Illness Survey. Of 3,263 respondents not covered by Medicaid, 36% (1,173) said they had critical illness coverage through their employer or spouse's employer, 8% (272) said they had coverage through an individual insurance carrier, and 56% (1,818) said they were not covered.

15. From Weathering the Storm, LIMRA, 2011, and LIMRA estimates: Scarcely more than one-fifth of employers even offer access to workplace critical illness insurance. Those few employers who do offer such coverage generally offer it as a voluntary benefit, i.e., one that workers have the option to purchase. And only about 10% of workers offered such coverage actually buy it. Thus, perhaps less than one-twentieth (5%) of U.S. workers actually have critical illness coverage.

## Realities of critical illness costs

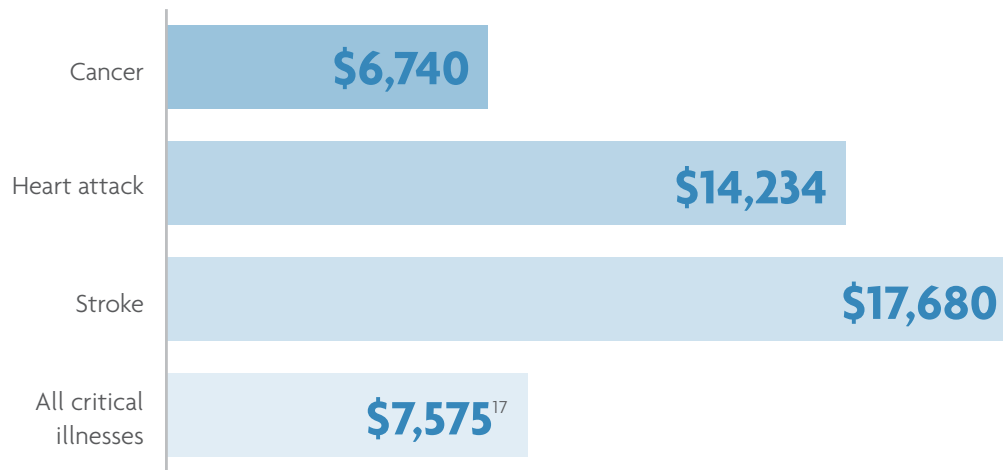
**Critical illness can lead to difficult financial choices—and significant sacrifices—even for workers who have health insurance.**

Based on Sun Life Financial stop-loss claims data, Figure 4 depicts average out-of-pocket costs from a critical illness for individuals covered by medical plans. The estimate reflects out-of-pocket, first-dollar medical claims data of nearly 320,000 employees (and their spouses and dependents) covered by employer-sponsored health plans. Estimated total out-of-pocket medical costs due to a stroke, for example, exceed \$17,000.<sup>16</sup>

**A disability can add more costs to a critical illness, even for workers with disability insurance coverage.**

Non-medical costs can further compound the financial burden of a critical illness. For example, Sun Life's out-of-pocket medical cost estimates for critical illness do not include loss of income from a potential workplace absence. Disability insurance typically replaces 60% of income lost during a qualifying workplace absence. The median respondent in the Sun Life survey who experienced a critical illness could not work for two months, and nearly one in four could not work for four months or longer.<sup>18</sup>

Figure 4: Average out-of-pocket medical costs by condition



16. From Sun Life Financial. Proprietary research based on Sun Life Financial stop-loss claims data. Details:

- These findings are based on 2007 medical claims data (adjusted for health care inflation to 2012 dollars), and reflect total of out-of-pocket costs, not annual costs.
- The out-of-pocket, first-dollar medical claims data come from nearly 320,000 employees (and their spouses and dependents) covered by health insurance through employer-sponsored health plans.
- Estimates include out-of-pocket prescription drug costs and assume individuals have insurance coverage. Uncovered individuals would have higher costs.
- The annual results were derived by obtaining the annual medical costs of a household with a member suffering from a given critical illness and then subtracting the average annual costs of a household with no instance of critical illness (\$1,043).

17. Though cancer, heart attack, and stroke comprise the three most commonly occurring critical illnesses, the average total out-of-pocket cost for critical illness (\$7,575) includes the following diseases/procedures, weighted by incidence rate: cancer, heart attack, stroke, angioplasty, heart transplant, benign brain tumor, cystic fibrosis, muscular dystrophy, cerebral palsy, coma, congenital heart disease, paralysis, type I diabetes, aortic surgery, and coronary bypass surgery.

18. Of 409 workers who said they or their spouse had experienced a critical illness, 37% reported a workplace absence of four months or longer.



Without adequate savings or insurance, employees confronted with such medical and non-medical costs may have to make difficult choices that can seriously impact their financial picture. Such costs explain why:

- Two-thirds (66%) of workers made financial sacrifices to meet their uncovered medical or non-medical costs.<sup>19</sup>

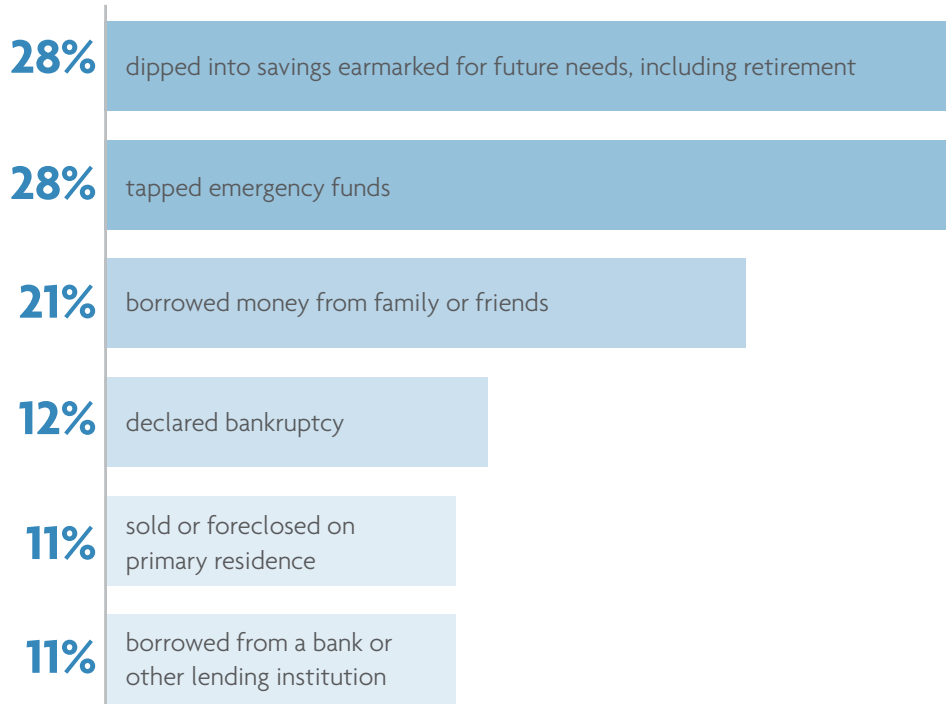
As illustrated in Figure 5 below, tapping emergency funds and/or dipping into long-term savings typified the sacrifices workers made to meet critical illness costs. But critical illness costs pushed twelve percent of workers into bankruptcy, and 11% into losing their homes.<sup>20</sup>

These statistics parallel several industry reports, which estimated that high medical costs cause over 60% of personal bankruptcies, even for people with health insurance, and nearly 50% of all home foreclosures.<sup>21</sup>

### The desire for critical illness and cancer coverage

The survey also gauged workers' interest in purchasing critical illness and cancer insurance given hypothetical rates and coverage. Nearly two-thirds (65%) of nonsmoking workers from age 22 to 49 with health insurance said they would buy a critical illness and cancer policy providing \$5,000 to \$25,000 in coverage, costing \$8 to \$49 per month.<sup>22</sup>

Figure 5: Actions that workers with health insurance took to meet the cost of a critical illness



19. Of 285 people who personally experienced a critical illness, two-thirds (66%), or 189 respondents, had to take special measures to cover costs.

20. Results do not total 100%, since workers may have experienced one or more of these scenarios.

21. [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1416947](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1416947)

<http://www.law.harvard.edu/programs/petrie-flom/workshop/pdf/warren.pdf>

22. This degree of interest in purchasing critical illness insurance (889 of 1,368 nonsmoker respondents with health insurance aged 22–49, or 65%) remains fairly steady within this age range.

## Observations and opportunities

# The vital need for education on critical illness

This report highlights the key role that critical illness and cancer insurance can play in helping American workers overcome the financial challenges of a serious health crisis. The findings demonstrate that without a plan to manage such expenses, a critical illness can severely compromise a worker's finances, potentially sacrificing savings or even a primary residence to meet out-of-pocket expenses. These findings reinforce the importance of giving workers the information they need to make better decisions about all their benefits, whether employer-sponsored or voluntary. Such a message might especially resonate with singles, single parents, and workers from age 40 to 50.

Yet the survey also unearthed potentially disastrous misconceptions about critical illness coverage: many workers seemed unaware that their health insurance didn't necessarily cover all the costs of a critical illness.

Nevertheless, many workers expressed concern about the financial impact of a critical illness, felt especially concerned about experiencing invasive cancer, and signaled interest in buying critical illness insurance.

### In closing . . .

As out-of-pocket health costs continue to rise, voluntary critical illness and cancer insurance can help employers complement workplace medical insurance, enhancing their entire benefits package without increasing overhead. By underscoring to workers the value of purchasing group critical illness and cancer insurance, employers can help workers better protect their families, their lifestyles, and their financial well-being.



## Should employers offer critical illness insurance as a voluntary plan choice?

Rising health care costs mean that even robust health and disability insurance plans are unlikely to cover all the costs of a critical illness. Without critical illness coverage, a serious illness can cost a worker many thousands of dollars, requiring significant financial sacrifices.

**By including critical illness insurance as a voluntary (employee-paid) benefit, employers can:**

- help employees reduce the financial impact of a critical illness, and
- build a more complete and competitive benefits package to recruit and retain the best workers.

**By purchasing group critical illness insurance, employees can:**

- protect long-term savings for future education or retirement,
- meet mortgage payments,
- prevent personal bankruptcy, and
- stay on track to meet personal financial goals.

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