

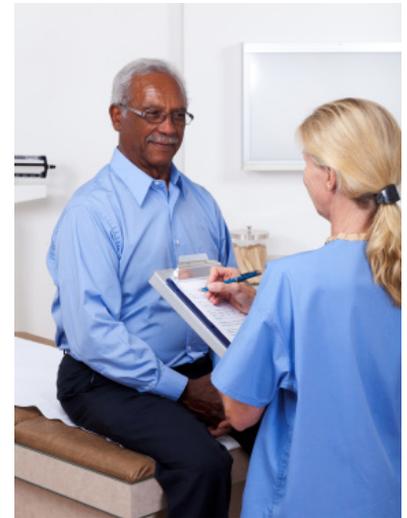


Why Supplemental Insurance Matters

Health care reform and increasing health care costs continue to drive demand for supplemental benefits options— and for good reason.

While many are confused about what health care reform means for them, in the months ahead key provisions will take effect that will require businesses and individuals to make important benefits decisions. Individuals have already experienced improved access and in some cases slower increases in premiums, as a result of the Affordable Care Act (ACA). Over the next year individuals will begin to have access to health care plans that adhere to new design standards. Many previously uninsured individuals will have the option to purchase individual coverage through a public online marketplace. Similarly, businesses will face many new responsibilities and options as a result of the law with many of the changes impacting small businesses first.

Supplemental insurance (also known as voluntary insurance) has long served as a way to protect the policyholder when they are sick or injured – regardless of their major medical insurance coverage. As health care costs continue to rise, and plans focus to meet consumer demand, supplemental insurance plans are even more relevant and have importance as a key piece of a worker's overall financial plan.



Workers gain responsibility; but face risks

“Healthcare consumerism is about transforming an employer’s health benefit plan into one that puts economic purchasing power—and decision-making—in the hands of participants. It’s about supplying the information and decision support tools they need, along with financial incentives, rewards, and other benefits that encourage personal involvement in altering health and health care purchasing behaviors.”

– Ron Bachman, *The Institute for Healthcare Consumerism Forum 2011*

The “consumerization” of health care is the process of turning patients into consumers. Everything from the patient experience to advertising for prescription drugs, health care has moved rapidly to involving and including the consumer in the decisions around health services. Not only is the medical community promoting more to the consumers’ interests, but with rising health care costs, employers have been shifting to more consumer driven health plan options, such as High Deductible Health Plans (HDHPs) tied to a health savings and/or reimbursement account (HSA or HRA). In many instances consumers are making more of their health care choices – including how much they spend on health care coverage and what type of coverage they have.



Research shows individuals are concerned they may not be prepared to handle the numerous and complex details of managing their health care insurance options as they should. The majority do not understand consumer-driven health care options, are confused about how they will be impacted by health care reform, and last but not least they have very unrealistic opinions about their own morbidity risks, or the risk posed to their finances. In fact, more than half of workers (53%) think they may not adequately manage their health insurance coverage, leaving their family less protected than they currently are, and a similar percent (54%) say they'd prefer not to have more control over their health insurance expenses and options because they will not have the time or knowledge to manage it effectively.

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How out-of-pocket costs work

Out-of-pocket medical costs are a reality – regardless of changes related to health care reform – and can accrue in a variety of ways. Some can be very much unexpected, so it is important to consider each of the ways an individual will encounter these costs.



» **Deductible:** The amount owed for covered health care services before an individual's health insurance or plan begins to pay. For example, if a plan deductible is \$1,000, the plan won't pay anything until the individuals pays the \$1,000 deductible for covered health care services subject to the deductible. The deductible may not apply to all services.*

» **Coinsurance:** Coinsurance can be described as a percent that an individual pays for each covered health care service. The coinsurance is paid, as well as any deductible. For example, if the health insurance or plan's allowed amount for an office visit is \$100 and the individual met their deductible, the coinsurance payment of 20% would be \$20. The health insurance or plan pays the rest of the allowed amount.*

» **Copay:** A fixed amount (for example, \$15) an individual pays for a covered health care service, usually when they get the service. The amount can vary by the type of covered health care service.*



» **Nonmedical costs:** When faced with a serious accident or illness, there are various unexpected nonmedical costs associated with a hospital stay or recovery time, including: child care, transportation, less take-home pay due to missing work and others. These expenses can add up quickly, contributing to the overall out-of-pocket costs of being sick or injured.

» **Limits or exclusions:** It is important to pay attention to services not included in a particular plan, as well as any limitations or exclusions. With health care reform, plans will no longer be able to have lifetime or dollar limits, but limits may be related to other items such as number of refills for certain drugs, number of visits to certain specialists, and number of days covered for certain benefits. These limits or exclusions could mean unexpected out-of-pocket costs.



» **Out-of-pocket limit:** The out-of-pocket limits established by the IRS for 2014 are \$6,350 for individual coverage and \$12,700 for family coverage, so an individual will pay coinsurance, copays and deductibles (in a variety of ways according to their health plan) up to their out-of-pocket limit. These limits apply only to covered expenses; so if an individual or family member incurs non-covered expenses, these will not count towards their out-of-pocket limit, adding to potential unexpected costs.

Any way you look at it, employees are shouldering both additional health care costs and decision-making responsibility. Even with a comprehensive major medical plan, the out-of-pocket costs (both medical and non-medical related) can be substantial. In fact, the 2013 Aflac WorkForces report stated that 44 percent of workers would have to use a credit card or borrow from friends or family to pay for out-of-pocket expenses associated with a serious illness or accident.

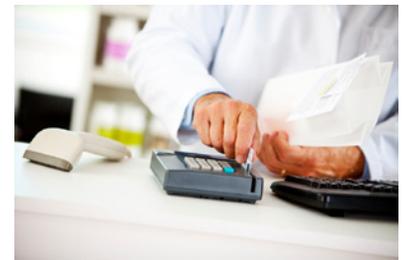
Uncover the real cost of getting sick or injured – even with major medical insurance: aflac.com/realcost.

Supplemental insurance is a trusted benefit option to help fill the blanks

For many employers, supplemental benefit options can help solve a number of concerns and challenges that have surfaced during this time of sluggish economic growth, a recovering housing and retirement savings environment and many workers back in the work force full time after being out of work for as much as 9 months in the last 3 years. Supplemental insurance benefits are paid to the policyholder directly, unless otherwise assigned, for unexpected costs associated with serious illness, injury or loss that can still result even with major medical insurance. These benefits options have long been a solution for employers to create customized benefits packages for employees, and additional financial protection. Headed into the post health reform era supplemental insurance benefits options continue to demonstrate value and grow in popularity with employers of all sizes.

Supplemental insurance helps to:

- » **Support the overall benefits plan:** Workers with supplemental benefits options are more likely to be extremely or very satisfied with their benefits options than workers who do not have supplemental benefits (69% compared to 48%).
- » **Provide additional robust benefits options:** Supplemental benefits options offer a variety of levels and types of coverage to meet individual needs and life stages. Supplemental insurance policies include accident, disability, cancer, hospital and many more. These policies can be offered, sold or provided with any major medical plan.
- » **Provide workers cash benefits to help with out-of-pocket medical costs:** Most employees (43%) are not very or not at all prepared to pay for out-of-pocket expenses related to an unexpected illness or accident. Additionally, 25 percent are only prepared to pay less than \$500 for themselves or family members for out-of-pocket expenses.
- » **Guard workers against financial stress and anxiety:** Employees who are offered and enrolled in supplemental benefits options are significantly more likely to say they have peace of mind (52% compared to 42%), and have a financial plan (49% compared to 39%).



Businesses gain more by making supplemental insurance available

Many businesses make supplemental benefits options available to meet workforce needs, and increasingly as a solution to growing health care costs. Insights from the 2013 Aflac WorkForces Report reveal workers who are offered and enrolled in supplemental plans are more likely to be knowledgeable about and engaged, when it comes to their employee benefits, confident in their employer's benefits communication, satisfied with their job, and financially prepared for an accident or illness.

Facing so much uncertainty, developing a plan to manage health care costs can be an overwhelming task. As HR professionals and decision-makers seek health care benefits options, supplemental options continue to help soften the impact of the inevitable cost-shifting and rising out-of-pocket costs on its valuable workforce. These solutions have no direct cost to the company, but offer workers choice in additional coverage that best suits their needs.



About the study

The 2013 Aflac WorkForces Report is the third annual Aflac employee benefits study examining benefit trends and attitudes. For a more in-depth look at employers and employees findings on supplemental benefits, see the article—[The Hidden Rewards of Voluntary Benefits](#). To learn more about the Aflac WorkForces Report, visit [AflacWorkForcesReport.com](#).

*Definitions and examples adapted from [healthcare.gov/glossary](#)

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