



Excess Major Medical Coverage:

Safeguarding personal assets from the high cost of catastrophic illness or injury

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Introduction

Excess Major Medical (EMM) coverage, also referred to as catastrophic major medical insurance, has been available since the early 1970's. However, despite that length of time in the marketplace, many people do not fully understand the difference between EMM coverage and their basic health care plan, and how an EMM plan can provide them with added financial security.

A basic plan means a plan that pays benefits for hospital, surgical or medical care or treatment. To be considered a basic plan, the plan must provide benefits at least as great as the following: a minimum of 70 days of coverage for in-hospital confinement or major medical benefits subject to a maximum deductible of \$2,500; co-insurance of 50% or less; and maximum out-of-pocket charges of \$5,000.

Many health care plans have caps or limits on the total medical expenses they will cover, or they may restrict your choice of care providers to a specific network of physicians and medical facilities. An Excess Major Medical plan supplements a traditional medical plan or managed care plan (including Medicare) by providing insurance coverage that pays for medical expenses, up to a specific amount (often \$1 million-\$2 million or more), once the limits of your basic health care plan have been reached.

If you don't have this type of supplemental protection, you may need to use your savings or other assets to pay medical expenses that exceed your health plan coverage.

In addition to protecting you against paying for catastrophic medical costs, an EMM plan may also enable you to seek medical care outside of a managed care network. And EMM plans often pay for home health care and convalescent home care, which most managed care or fee-for-service plans don't cover.

Many consumers may need this additional financial protection

There have been significant changes in health insurance over the past three decades, primarily driven by the need to address skyrocketing medical costs. The major change has been the emergence of managed care programs, either in the form of Health Maintenance Organizations (HMOs) or Preferred Provider (PPO) arrangements.

Most of these programs limit, to some degree, the insured's choice of medical providers, either by providing coverage only for in-network care, or by providing significant financial disincentives if an insured goes outside his or her provider network. In addition, some managed care programs have either tightened or eliminated benefits as a cost-containment measure. These changes have increased the need for an Excess Major Medical product in the voluntary insurance market to help give individuals a financial safety net once their basic health care plan coverage cap or limit has been met.

No matter what type of traditional medical plan or managed care plan you may have, the coverage it provides today may not be enough to protect your savings and financial well being should a catastrophic illness or accident strike. If you reach your basic health care plan limits, you may be forced to use savings and other assets to pay mounting medical bills. A plan that supplements a basic health care plan can help your family protect its savings and other assets.

A catastrophic accident or sickness such as cancer or heart disease can occur at any age, and the resulting medical treatment could all too quickly use up your current health care coverage benefits. Consider these facts from some of the nation's leading health organizations:

- Nearly 1 out of every 2 American men and 1 out of every 3 American women living today will someday face a diagnosis of cancer. And while the 5-year survival rate for all cancers combined is 66%, cancer treatments can be costly – the cost of some new cancer therapies can exceed \$100,000 a year.¹
- 1 in 5 people with health insurance who are diagnosed with cancer use all or most of their savings because of the financial cost of dealing with cancer.²
- More than 80 million American adults – 1 in 3 – have one or more types of cardiovascular disease. The lifetime risk for cardiovascular disease is 2 in 3 for men and more than 1 in 2 for women at age 40.³
- The estimated first-year charges for a heart transplant, including hospitalization, follow-up care and costs for immuno-suppressants, average \$658,800...average charges for the first year following a liver transplant total \$519,600.⁴
- Even less serious injuries or illnesses can result in a lengthy hospital stay. At an average cost of almost \$24,000 for a hospital stay, co-insurance payments and deductibles can quickly mount up.⁵
- Home health care can run thousands of dollars a month...the average hourly rate for a certified home health aide is \$32.37⁶ – month-long care for eight hours a day could cost more than \$7,700. Even if you have a modest need for assistance at home with personal care, such as a visit from a home health aide three times a week, you would have to pay about \$18,000 a year for these services, based on 2008 average costs.⁷ Payment for these services is typically limited in a traditional medical plan.

¹ Source: *Cancer Facts and Figures 2008*, American Cancer Society

² Source: *Costs of Cancer*, American Cancer Society Web site (www.cancer.org), 04/2009

³ Source: *Heart Disease & Stroke Statistics, 2009 Update At-A-Glance*, American Heart Association

⁴ Source: *Financing a Transplant*, United Network for Organ Sharing, www.transplantliving.org, 04/2009

⁵ Source: *Healthcare Cost and Utilization Project*, U.S. Dept. of Health & Human Services, www.hcupnet.ahrq.gov, 04/2009

⁶ Source: *Aging Services: The Facts*, American Association of Homes and Services for the Aging, www.aahsa.org, 04/2009

⁷ Source: *Cost of Long-Term Care*, U.S. Dept. of Health & Human Services, www.longtermcare.gov, 04/2009

How this coverage works

EMM plans are designed to act as supplemental coverage when your basic coverage (such as an individual or managed care plan) falls short, your basic health plan limits have been met, or you choose to go outside of an approved provider network for care.

Your current health care plan likely has caps or limits on its benefits, which you should check prior to considering an EMM plan. A catastrophic insurance plan can provide up to \$2 million or more in added financial security by covering catastrophic medical expenses after your basic health plan limits have been reached. A policy will typically cover reasonable and customary charges, or not more than the usual charge for medical treatment in a given region. In addition, most EMM plans will pay the costs for care outside of your current health plan provider network once your deductible is met.

Excess Major Medical coverage will start paying your covered medical expenses once the plan deductible has been met. The deductible amount could range from \$10,000 to \$100,000 or more, depending on the specific EMM plan you are considering.

For example, if you purchase an EMM plan with a \$25,000 deductible, it will begin to cover your expenses once your basic health care plan expenses reach \$25,000. Once the plan deductible has been met, EMM plans also often cover 100% of the costs for a wide range of medical expenses not covered by your basic health care plan, including convalescent and home care. In addition, if you are injured in an accident, a fee-for-service plan may pay 80% of your medical expenses. If you have an EMM plan, it may pick up your remaining 20% coinsurance fee.

Perhaps the best example would be if you faced a serious medical situation and wanted to use a non-network provider for treatment. Depending on your current plan coverage, it is possible you would face large out-of-pocket expenses for that care. EMM coverage could remove this financial hardship and, depending on the plan, would allow you to have the desired treatment.

What to look for in a plan

When reviewing an EMM plan, consider what your basic health care plan limits are and how much Excess Major Medical coverage you are looking for to help safeguard your personal assets should you face a catastrophic sickness or injury. You'll also want to be aware of what medical expenses your basic plan may not cover that an EMM plan typically would pay for, such as convalescent care or private duty nursing.

What is covered: Once the plan deductible has been met, an EMM plan often pays up to 100% of eligible medical expenses. Charges paid are typically those which are reasonable and customary. Depending on the EMM plan, covered expenses may include:

- Doctor's fees for diagnosis, treatment or surgery.
- Some charges for convalescent care, hospice care and medically necessary private duty nursing. These types of care are often not covered by a basic health care plan.
- Semi-private hospital room and board.
- X-rays, lab tests, radiation treatment, blood and plasma, artificial limbs, crutches, prescription medicines, ambulance services.

- Some hospital charges for psychiatric, mental disorders, alcoholism and drug addiction.
- Intensive care.
- Physical therapy and anesthesiologist services.

Care provided by physicians and facilities outside of your basic health care plan network: Some EMM plans offer additional protection to provide coverage in situations where the managed care plan restricts the insured's choice. Assuming medical expenses have reached and exceeded your plan deductible, an EMM plan would enable you to seek care outside of your current network and could provide full coverage for that care, up to the policy limit.

Deductible: The deductible is the amount of covered expenses that an insured must incur and pay before any EMM plan benefits can be paid. The benefits that already have been paid by your basic plan, including Medicare, can usually satisfy your deductible for a supplemental EMM plan. Deductibles vary by plan, and could range from \$10,000 to \$100,000. You'll want to check an EMM plan you are considering to determine your deductible accumulation period, which could range from one to three years. For some plans, you need to satisfy the deductible once for each covered injury or illness, and for others there is an "all cause" deductible and all eligible expenses are applied to the deductible regardless of the injury or illness.

How long benefits will be paid: EMM plan benefit periods vary, and begin after the plan deductible is satisfied. Depending on the plan, the length of time benefits are paid for a specific illness or injury will generally range from two to five years. A benefit period typically begins on the date an insured person incurs charges.

Eligibility: To be eligible for an EMM plan, you often must have a basic health care plan through your work or individually. Most policies require a person to be able to perform the normal activities of a person of like age and sex, with like occupation or retired status, on the date insurance is to take effect. Your spouse and dependent, unmarried children may also be eligible. Check your EMM plan to see if their plan can remain in effect should you die.

Limitations and exclusions: If you have a pre-existing condition, most plans will provide coverage once you have gone 12 months or more without needing medical treatment for that condition. Be sure to review plan limitations and exclusions to determine what charges will not be covered.

Summary

Currently, the majority of Americans are covered under some form of managed care program. However, most fee-for-service and managed care plans have limits on their benefits. One catastrophic accident or illness could quickly use up basic health care coverage benefits, leaving you with tens or even hundreds of thousands of dollars of medical costs to pay.

That's why many consumers look for supplemental coverage that can help protect their assets should they face a catastrophic illness or injury. The difficulty may be finding a reasonably priced plan that provides this additional financial protection.

While many organizations and corporations today offer basic health care coverage to employees, excess coverage often is not made available at the workplace. Those looking for this type of coverage therefore need to research the market themselves to review and purchase an individual EMM plan. Or, they may find that a group plan is available through their affiliation with an association or fraternal organization. EMM coverage is often offered as a benefit of membership as a way for members to increase their health insurance protection and help alleviate the possibility that a member would have to liquidate assets upon suffering a catastrophic illness. Plans offered through such affiliations may be less expensive than an individually purchased plan.

Because medical expenses related to a catastrophic injury or illness may often exceed the protection offered by a basic plan, many individuals and families may want to consider supplementing their basic plan with EMM coverage. Such a plan can be a valuable financial safety net to safeguard your accumulated savings and other assets.