Supplemental Policies Bridge the Emerging Health Coverage Gap

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Despite the fact that the employer mandate under the Affordable Care Act has been delayed once again, many clients have already begun to feel the effects of changes to their health coverage, and those effects have most often manifested in the form of leaner coverage and higher out-of-pocket expenses. Fortunately, this is not the first time Americans have faced this problem, and insurance carriers have stepped in to fill the gaps in coverage by offering Medigap – like supplemental insurance policies that can help your clients ease into the new reality of health coverage. This trend could save your clients thousands, so it is important to understand the benefits and risks going into this new era of healthcare.

# The Supplemental Coverage Trend

Though one of the central purposes of the health reform law is to expand the availability of affordable, comprehensive health coverage, many clients whose employers had previously offered health coverage have modified those plans because of the so-called Cadillac tax. This tax imposes a penalty on employers who offer health plans with the most generous levels of coverage—often with low deductibles and little cost-sharing by employees.

As a result, many clients have seen their deductibles and out-of-pocket expenses related to health care rise in recent months. Similarly, many of the plans offered through the new health exchanges have relatively high deductibles—on average, “silver” plans offered through the health exchanges had deductibles upwards of $2,500, while those associated with “bronze” plans averaged over $4,300.

Clients, therefore, have increasingly been left looking for affordable ways to fill gaps in their coverage.

# What Does Supplemental Health Insurance Do?

Enter supplemental health insurance, a relatively low-cost way for clients to gain access to limited benefits that can help ease the sting of high deductibles and lower coverage levels. These policies typically provide a fixed cash benefit upon the occurrence of a particular event. The terms of supplemental policies vary, but benefits are most often

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triggered upon diagnosis of a specific disease—such as cancer—or after a hospital stay or accident. Importantly, supplemental health insurance is often relatively inexpensive. Depending on a client’s age, these policies may cost anywhere from $12 to $45 per month and pay out anywhere from $10,000 to $20,000 upon the occurrence of the triggering medical expense.

The basic premise is that, for many clients, these supplemental policies can allow them to pay somewhere between $150 and $500 annually instead of a $4,000 deductible if they are hospitalized or require expensive treatment stemming from a diagnosis of a particular disease. Further, the policies often pay a fixed cash value to the client, which can be used to replace lost income if the amount exceeds actual medical costs.

Supplemental insurance can be purchased as a rider to an existing policy, or as a stand-alone policy used in conjunction with a comprehensive policy. Either way, it’s important that clients understand exactly what supplemental coverage can do for them.

# Risks of Relying on Supplemental Coverage

One important criticism associated with supplemental coverage is that it is an extremely specific form of coverage and, as such, it is essential that clients understand exactly what they are purchasing. For example, if a client purchases a supplemental policy that provides for cancer coverage, the policy will not help cover the costs associated with car accident-related injuries.

Further, clients who purchase supplemental coverage will still be responsible for any costs associated with routine medical care up to their annual deductible limit.

# Conclusion

Though supplemental coverage alone will not satisfy the new requirements imposed under the Affordable Care Act, it can provide a solution for clients who are worried about high deductibles and the impact that a major medical event could have on their savings. As such, it is likely that the supplemental insurance trend will continue to play an important role in clients’ health care planning.