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JIM: About 15 years ago, I was at a meeting for insurance agents and financial advisors and had the opportunity to hear Dr. Marius Barnard speak and Dr. Marius Barnard and his brother Christian are known as pioneers in heart surgery. They had the first successful artificial heart transplant, very involved with heart treatment, and I know Dr. Marius Barnard, he would see his patients and how he could basically bring them back from the brink of passing away and solve their medical issues, at least for a pretty good period of time, but created huge financial issues for those families because what a lot of people didn’t realize, until they were in the situation, things like health insurance, pay the bill, things like disability insurance give you a weekly check, but a lot of time, with these serious illnesses, you have the whole family rallying together and you may have a spouse that is losing time at work. You may have family that’s needing to travel a lot for services so what he did is he went to the insurance industry and the companies and said you’ve got to do something about this. Joining me today is Don Hanson, and Don Hanson has been very involved in a new type of insurance that really isn’t so new anymore but it is kind of new in the United States, which is called critical illness insurance, and he’s actually been part of the process in designing some of these products for companies with ObamaCare creating much higher deductibles for families than they’ve ever seen before as we go to a new system. In other parts of the world, this has been a very popular insurance but it’s something that really hasn’t caught on yet in the United States and I wanted to give people a chance to be aware that this type of insurance even exists so welcome, Don, one of the creators of some of these types of policies. Welcome, Don.

1:59

DON HANSON: Thanks, Jim, pleasure to be on the show. Thank you.

2:01

JIM: In my intro, I kind of talk a little bit about critical illness insurance but why don’t you expand on that. What is critical illness insurance?

2:09

DON HANSON: That’s a good question. You had mentioned Dr. Marius Barnard just a couple moments ago and, really, critical illness insurance is the brainchild of Dr. Marius Barnard. He realized, like you mentioned, that, my guess, he would take people and basically bring them back from the brink of passing away to, oh my gosh, look at what their finances are looking like. In fact, he had kind of an offhanded joke he would tell to people. He said, hey, I’ve successfully transplanted your liver but we’re going to have to remove your bank account. Unfortunately, that really reigned true with most of his clients. He would see them a year later or a couple of years later and they would say I don’t have any money left so critical illness insurance was his idea to help provide money to a person who would have a life altering event that, up until that point in time, would literally put them into bankruptcy.

2:56

JIM: Now, I thought, and maybe I’m wrong, that this stuff has been around or created, I believe it was 1993. Do you know exactly when it started?

3:04

DON HANSON: Dr. Marius Barnard actually starting getting the insurance companies interested back in the 70s but it’s my understanding the first critical illness policy in South Africa was established in 1981 or 1982.

3:17

JIM: Okay, so I’m way off on that so it’s been around a long time. When I heard him speak, this was probably in the mid to late 90s and I know he passed away maybe three years after I heard him speak so I feel so fortunate to having met one of the pioneers in transplants and he was passionate about it. I mean he was going around the country speaking about this type of insurance. Obviously, being the one that created the idea of it, it was, back then, the number one fastest growing insurance product all over the United States. I thought this is something I should be aware of for my clients. I went through a whole bunch of education and started talking to my clients and then nothing so why is critical illness so popular in other countries where it wasn’t popular, in my experience, here in the United States?

4:05

DON HANSON: Well, that’s a good question. I think the first answer to that is, in other countries, they’ve got socialized medicine. That can be a real issue for people to get quality care, emergency care, long-term life altering diagnosis. People want to be able to have options and having a tax-free amount of money is one of the best ways of giving people options in their healthcare.

4:26

JIM: There was a Mackinaw Center of Public Policy and back when we were first toying with the idea of socialized medicine with the Clintons, they did a study that compared the United States to Canada and I’ll never forget because it was around this time that my father-in-law had heart surgery and I remember he went into his doctor and the doctor said you need to have bypass surgery. You have blockage. This was on a Thursday so, literally, they were going to put him under the knife on Friday, and they said, otherwise, we’ll wait until after the weekend and do it on Monday. I remember looking at this and it kind of struck me because, in Canada, the average wait was over six months. Now, that average wait is for the people that actually had the surgery. I don’t know if people might have died or people might have been denied the benefits but I know that’s something that you hear as people get older, they just aren’t eligible for that type of care, so something like critical illness creates a pool of cash and, if they want to go off the grid so to speak and still get the surgery, they can move to the front of the line and I think that’s what we saw happening in other parts of the world is why it caught on. Would you agree?

5:30

DON HANSON: Absolutely.

5:32

JIM: So, now, here in the United States, most people don’t know what critical illness is, they’ve never heard of it, and you’ve been involved with some insurance companies in developing some products so what makes you think and what makes the insurance companies think that all of a sudden the United States, they’re going to think differently about it in the years to come?

5:50

DON HANSON: It sure has caught on a little slower than what was anticipated but I do believe that it really has begun to pick up momentum and a lot of the reason is because people, really, up until now, the average American, they don’t even know that this type of insurance even exits so it helps with a little bit more awareness. More agents are understanding that this is even available. For the longest time, even insurance agents didn’t know that critical illness insurance was available or even what it was if they did.

6:18

JIM: I just did a talk with several agents, a couple different groups that I talked to in the last week or two, and there was over 100 agents in each of the talks that I was speaking to and I did ask the audience, how many people are aware of critical illness insurance, and only about 20% of them were aware of it. Then, I asked how many of you could adequately explain what it is and how it works, and there was only one or two hands that went up. One thing is, when it comes to critical illness insurance, if this is something that interests you, go back to your insurance agent and your insurance professional and, maybe, you might have to be a little bit patient because this is something that’s fairly new and they might have to do a little background research for you to adequately counsel you on how this might fit into your overall plan. We’re going to take a short break and when we come back, let’s dig in a little bit deeper. Let’s talk about some of the benefits that might be available and, also, how do people get this insurance, so please stay tuned.

7:16

BREAK

8:11

JIM: Welcome back as we continue to visit with Don Hanson and, Don, as we mentioned, has actually been involved with several different insurance companies and he’s actually worked in the area of critical illness and helping companies develop product so I thought who better to talk about this with than someone who has been on the inside actually creating these types of policies to have a deep understanding of how these policies even work and what it takes to qualify, so let’s talk a little bit deeper about the benefits. We’ve heard of the policies, you know the duck, I won’t mention any names, but they have cancer policies, sometimes you see accident policies, and while those have a place, critical illness is so much more broad-ranged in the benefits that they provide, so talk about some of the illnesses that might trigger a benefit with critical illness.

9:00

DON HANSON: Absolutely, and I think one of the things that even insurance agents can sometimes get confused with here is that this is not meant to be a policy for hangnails. This is really a policy for critical illness diagnosis, a life-altering diagnosis that’s happened. A good example of some of the covered conditions would be, right off the bat, heart attack, cancer, and stroke. We look at the overwhelming majority of the population, male and female, we look at the top four killers of both genders, and heart attack, cancer, and stroke are in those top four. Those three are part of the top four so those three conditions alone account for nearly 80% of the claims on these policies and that doesn’t mention Lou Gehrig’s or ALS that is also covered on some policies, major organ transplants. I have an aunt that actually went through a double lung transplant and, my gosh, she was on the waiting list for two and a half years and not all the time was she on that list because somebody didn’t have the lungs, it was because she needed to be healthy at the time they did the transplant. There were a couple times she missed out because she just wasn’t healthy enough to do the surgery.

10:07

JIM: My understanding is there’s maybe as many as 21 different diagnoses that result in a claim and the way those claims work, it’s basically a lump sum check and you can have a small policy that might help cover the gaps with deductibles. I don’t think people fully even appreciate, now, those higher deductibles until they get sick and then it causes financial hardship even to cover those deductibles but what I’m hearing, what some of the increases for health insurance might be over the next year or two as more of the Affordable Care Act gets implemented, I think we’re going to see high increases is what I’m hearing and the way to combat high increases is go with higher deductibles and people are going to be exposed to a lot more risk so talk about how those benefits work. What does it take to get a check and is it paid out over a couple of months or how does that work?

10:57

DON HANSON: Sure, that’s a good question. One of the unique things about critical illness insurance is that it’s a lump sum one-time payout. There are certain insurance policies that will have multiple diagnosis payouts available but, really, if somebody is diagnosed with a heart attack, they get a tax-free lump sum check after the diagnosis has been established and, really, that money is completely, it’s up to them what they do with it. There is no control from the insurance company as to how they use that money.

11:24

JIM: That’s interesting because you go back 30, 40, or 50 years, and medical technology has come a long ways so the things that used to kill us, now, we’re able to recover from it but, financially, that’s always the challenge and I know I’ve been involved in some circumstances with some business partnerships where a partner wasn’t supposed to make it and they recovered and here they had a buy/sell relationship with life insurance but they had to still go to the bank and borrow the money to buy the partner out because they had an illness that wouldn’t allow them to return to work so I can imagine that in the buy/sell arena for business owners or key man, the things you would think about for life insurance, you need to think about for this because, if you have someone survive a life-threatening thing where they can’t go back to work, obviously, there’s disability insurance to maybe help with the monthly bills but there’s usually a lot of costs that go well beyond it so something like buying out a partner, can you get enough coverage? My understanding is you can get maybe as much as $1 million of coverage or how does that work for, say, a buy/sell situation?

12:26

DON HANSON: Well, that’s a good question. As far as benefit amounts, benefits can be as low as $5000 in a policy and it can be as high as $1.25 million. Now, one insurance company doesn’t cover the full $1.25 million. In those particular cases, very unique, would require multiple insurance companies to be involved but, yeah, we can get up to $1.25 million, depending on the circumstance. Correct.

12:49

JIM: So, it’s quite a wide range. Now, I know life insurance has gotten a lot easier to get people insured. I’m a pilot and I remember when I first got in the business, if a company would take you, they would charge you a flat extra of $2, $3, or $4 per thousand dollars of death benefit or they wouldn’t even consider taking you and, now, there’s companies that will take you standard. I look at things like cancer. Someone got diagnosed with cancer and you could just forget about getting life insurance and, now, after a couple of years, they’ll go and insure somebody. Is this as easy to get as life insurance or how does that work?

13:26

DON HANSON: You know, that’s a good question. I would say that getting underwritten in critical illness insurance, there’s a combination of some mortality and some morbidity because, really, with critical illness, it doesn’t matter what happens after the diagnosis so whether a person is now deceased or whether they’ve survived and now they’ve got a long road to recovery, the critical illness insurance company, they don’t take any of that into consideration. The only thing they take into consideration is the fact that there was the diagnosis to begin with so it is a unique underwriting experience. With family history, it’s a very important piece of underwriting. As far as previous diagnosis in critical illness, if somebody has already had a heart attack, cancer, or stroke, most of the insurance companies that offer critical illness insurance would not be willing to issue a policy on that individual although there are insurance companies that do have 10 year previous diagnosis so if there has been no cancer diagnosis in the last 10 years, then they would issue a policy. It has gotten a little bit easier with new insurance companies getting into the business but, for the most part, it isn’t as simple as life insurance but it’s not quite as difficult as disability in some circumstances, such as financial underwriting. Critical illness insurance doesn’t have near the financial underwriting that disability does.

14:38

JIM: So, really, what we’re looking at is people that would be motivated to buy it probably don’t qualify because they probably have something but it is something you really want to think about because who among us doesn’t know somebody in our family or friends that haven’t been diagnosed with something like heart attack, cancer, or stroke, and then there’s a whole myriad of other things that are also covered on a lot of these policies. Don’t decide from this program, well, I don’t know if I can get it or I don’t know if I want it. When you’re looking at your health insurance and you’re seeing $5000 and $10,000 deductibles, that can be a lot for a family to handle and, boy, if someone gets sick with something like that, now, you’re making that deductible maybe year after year after year so it is something that can help fill the gap. There’s also something that you can couple with critical illness because it’s only covering the illnesses so, if someone is looking to help maybe mitigate some of the risk of these high deductibles, they might also consider an accident policy, and how do those work, Don?

15:38

DON HANSON: Well, there’s really two different types of accident policies. There’s one that’s considered a schedule of benefits and it’s a very straightforward accident plan where you can go to your policy and it will say exactly what your dollar benefit will be dependent upon the type of accident that happens and then the second kind of accident insurance is what’s called an actual expense reimbursement and what that does is the insurance company asks you to submit what the charges, what’s been billed to you, and they’ll reimburse what’s been billed to you.

16:05

JIM: With those accident policies, do they pay one and done or is that something that you can keep going and, if something else happens, you can collect again?

16:11

DON HANSON: That’s a great question. It’s actually an annual basis so, hypothetically, a person can claim on an accident every year up until the time they get rid of the policy or, normally, accident plans are done at age 65 to 69 range.

16:25

JIM: All right, and then the last question I’d ask you, how expensive are these policies? Do you find people can afford these or are they only for someone who’s got money falling out of their pockets?

16:34

DON HANSON: That’s a good question. Really, I hate to say, it depends upon the face amount or benefit that’s wanted but, really, that’s what it comes down to, a person’s age and the benefit that they’re looking for but, really, critical illness insurance policies can be very affordable. If we’re trying to buy $1 million, of course, that’s going to come with a cost but, when we look at average benefit amounts of $25,000 in face amount being sold, those are really, really affordable. For the most part, the average American, $25,000 of tax-free money is going to help pay their deductible and, if they have some sort of long-term disability, it will at least help pay for maybe the first 90 days of their waiting period before they start getting a disability benefit.

17:14

JIM: Well, I know the one thing I’ve found from personal experience and working with clients is when they get something like that, it usually involves a spouse or other family member carting them to follow-up visits, therapy, rehab., chemotherapy treatments, kidney dialysis. All of those things require a family member typically driving them to and from the office because a lot of times after those treatments people aren’t even supposed to drive. We had a guest on a while back that was in Canada and one of the things he talked about in Canada with his cancer, he was fortunate. He lived about three miles from the cancer facility where people were traveling 300 miles to go to that facility and one of the things we’re seeing in the United States is with the state exchanges, if you’re in a border area and your doctor is across the border in a different state, now, you may have to go for getting treatment, it might have to be in some other city where you were used to being close by so it’s definitely something worth considering. You should talk to your insurance professional about it. Now, I will say, you’ve got to cut them some slack on this one because most of them are just starting to learn about it. I know I’m just starting to learn about it but maybe have them look into it for you and be your advocate to help determine whether or not this would be a good thing to help mitigate some of the risk as we’re going with higher and higher deductibles with our health insurance. Thanks, again, for joining us, Don.

18:37

DON HANSON: Thanks, Jim.

18:38

JIM: Thanks for joining us this week and tune in again next week as we explore another phase of the Real Wealth process and, remember, if anything you heard in today’s show you’d like to get more information about, contact your Real Wealth advisor. Also, if you feel that any of this information would be helpful to a friend or family member, just click the Forward to a Friend button.