JULY 17, 2009, 11:51 A.M. ET

GETTING PERSONAL: Critical Illness Policies Gain Attention

By Victoria E. Knight

A DOW JONES NEWSWIRES COLUMN

NEW YORK (Dow Jones)--Critical illness policies offer one way of filling gaps in medical coverage, and insurers say sales are starting to rise as weaknesses in the health care system get more attention.

The policies have gaps of their own, and lots of critics. Still, the financial cushion they promise may be attractive for people with lots of income or assets at risk in a medical catastrophe.

Critical illness policies offer lump-sum payments ranging from $5,000 to $500,000 upon the diagnosis of a serious illness or life-threatening condition. Sales started off sluggishly, but are picking up as the debate on health-care reform puts a spotlight on spiraling health-care costs and how to pay for them. Insurers are also ramping up their marketing efforts.

They may face an uphill battle, since many financial advisers who say the policies are a gamble that isn't worth the cost. Critical illness policies can cover from a dozen to more than 20 conditions, typically including cancer, heart attacks and strokes. Price tags for the policies can vary from a couple of hundred dollars to thousands a year depending on the benefit-level, illnesses covered, health, age and gender of the insured.

Some newer policies will pay out more than once if the insured gets more than one illness or a reoccurrence of the same disease. As part of some policies, children may be covered for a handful of illnesses but get lower benefit amounts.

The lump-sum payouts can be used to pay for co-payments, travel expenses and experimental drugs that aren't covered by standard health or disability insurance. Higher-income earners can use the policies to top up disability coverage if they've maxed out. A growing number of workers are purchasing policies as supplement to health insurance. Last year, worksite sales of critical illness policies rose by 19% to about $120 million, according to data from Eastbridge, a consultancy firm specializing in voluntary and worksite benefits.

The average price for a policy from Unum Group (UNM), sold through the workplace with a lump sum benefit of $20,000, is about $300 a year, according to Fred Wiechmann, manager of voluntary products at Unum. Metlife Inc. (MET), Continental American Insurance Company, AllState Corp. (ALL) and Guardian Life Insurance Co. of America also offer policies through employers. Some employers subsidize workers' premiums.

Some insurers offer higher-end versions that individuals buy on their own. For instance, American International Group Inc's (AIG) American General Life Insurance Co. and Assurity Life Insurance Co., offer policies that pay up to $500,000.

Ken Smith, director of health products at Assurity, says higher-income earners may run into a bigger shortfall between their income and the amount of disability benefits they can buy. Physicians, for example, typically can't buy individual disability policies that pay out more than $15,000 a month in benefits, according to insurance agents.

A 40-year old male non-smoker would pay $4,535 in annual premiums for a critical illness policy with a $500,000 benefit from Assurity.

Financial advisers and consumer advocates are critical of the policies, which they say capitalize on people's fears of dread diseases. The policies don't pay benefits unless the insured gets a specific condition spelled out in the contracts.

"They can give the client a false sense of security," says William H. Keffer, a fee-only financial planner in Wheaton, Ill. Barry Korb, a fee-only financial planner, with Lighthouse Financial Planning, LLC, adds: "Many disabilities are not related to a given set of 'death-accelerating' critical illnesses," such as accidents.

Steven Podnos, a medical doctor turned fee-only financial planner, based in Merritt Island, Fla., says clients are better off devoting premiums dollars to purchasing the most comprehensive medical and disability insurance they can afford.

Supplementing group disability policies available through the workplace with individual policies they can buy on their own is an example advisers give.

Individuals who have maxed out other coverage options may want to consider buying a policy, if they can afford it, and can qualify, but only if it fits into their overall financial plan.

It's important to read the fine print. Even if a disease is covered, exclusions and exemptions for variants of it may apply. Individuals over age 64 typically can't buy coverage. When policyholders reach the cut-off age, policies may reduce the lump-sum payments, in some cases by as much as half, but don't reduce the premiums.

(Victoria E. Knight is a Getting Personal columnist who writes about the financial implications of health-care issues. She can be reached at 212-416-2235 or by email at victoria.knight@dowjones.com.)

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