What is the Aflac Duck Selling? Supplemental Insurance Explained

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With lovable mascots and catchy slogans, companies that sell supplemental insurance say they help you pay for the things your health insurance won't.

A woman receives physical therapy.

According to Aflac, one of the nation's largest supplemental insurance providers, health insurance pays for about 60% of medical costs, leaving you to pay the remaining 40%.

How do you fill those gaps? For some people, buying a supplemental policy might be an answer. For others, it makes less sense.

What is Supplemental Insurance?

Supplemental insurance, sometimes called secondary insurance or specialty insurance, helps pay for out-of-pocket expenses your health insurance does not cover. You can buy one supplemental insurance plan or several small plans to complement your main health insurance plan to pay for different things under different circumstances.

Something to note: There is a difference between supplemental health insurance for people under 65 with health insurance and Medicare supplement plans for people 65 and over. This article does not address Medicare or medigap supplements.

"While supplemental insurance products do not replace someone's major medical health insurance coverage, they do offer an additional layer of financial protection which can really go a long way in helping people focus on their recovery and not (on) paying their bills," says Wendy Herndon, second vice president of Product Launch and Adoption at Aflac.

Most supplemental insurance plans pay you, the policy holder, directly instead of paying a provider, as regular health insurance does. Payments are either periodic or in a lump sum up to a plan maximum.

Supplemental insurance can help pay for out-of-pocket medical costs like copayments, co-insurance, and deductibles and much more that has nothing to do with medicine.

"A policyholder can choose to use the money however they want including covering things like their everyday living expenses or groceries or paying their utilities or the rent or the mortgage, so it really helps give them that extra financial coverage," Herdon explains.

Many companies sell supplemental insurance, so you do not need to purchase plans from the same insurer as your health insurance.

Different Types of Supplemental Insurance

Supplemental insurance plans are often specific, so you might need more than one plan to cover everything that could happen to you or your family.

"As a general rule, these are somewhat specialized and targeted coverages," says Steven Weisbart, senior vice president and chief economist of the Insurance Information Institute. "[They are] frequently narrowly defined terms of what the insurance provides, which has the benefit of keeping the premium low."

Some typical types of policies include:

- **Accident:** If you are injured in an accident, the policy will pay for expenses you have because of that accident. There is a schedule of benefits and what the policy will pay and when, which often includes copays for tests, physical therapy and more.
- **Cancer, dread disease, or specified health event:** Some companies sell one policy that covers cancer, dread disease, or events like heart attacks or stroke. Some companies separate them so you'd need different policies if you wanted to cover both cancer and heart attacks, for example. With these policies, they usually pay out a lump sum upon diagnosis and then there is a schedule of benefits for different items. There is usually a list of covered diseases and conditions. Anything not on the list is not covered.
- **Hospital:** If you end up in the hospital, most major medical policies do not pay 100% of the cost. This type of policy could pick up the difference.

Just as there are different types of policies, there are different levels of coverage within each category.

"There's a low, mid, and high and all the benefits are the same. The only difference is the amount of the payout," Herndon says.

Costs of the various plans vary by company. Aflac plans begin at about $13 a month for accident coverage, $17 for cancer protection, $10 for other specified health events and $17 for hospital plans. The premiums increase if more than one person is covered and for higher level plans. Premiums and policy availability also varies by state because of differing regulations.

Many employers offer supplemental insurance as part of their voluntary benefits packages with premiums paid through a payroll deduction, sometimes using pre-tax money. You can also purchase plans directly from the insurers or through insurance brokers.

Usually, you do not have to wait for an open enrollment period or life-changing event to add supplemental policies.

Who Needs Supplemental Insurance?

Often, fear of financial ruin is a driving force behind buying supplemental health insurance.

According to the 2019-20 Aflac WorkForces Report, 52% of American workers said if they had medical expenses of more than $1,000, they wouldn't be able to pay them.

To figure out if you might want to get supplemental insurance, Weisbart suggests considering if the cost of the premiums is worth the benefits. If you can cover expenses like copays and coinsurance, you might not need supplemental insurance. Also think about how often you go to the doctor and your family's health history.

Payouts for Aflac plans vary. Initial cancer diagnosis benefits range from $1,000 to $6,000. A heart attack policy would pay $7,500. Accident policies pay based on what happens and the treatment necessary, ranging from $20 to $13,000.

Policies are also stackable, so if you have both accident and hospital coverage, you could receive payouts from both policies if you end up hospitalized as a result of an accident.

But in many cases, Weisbart says, taking the money you'd pay in supplemental insurance premiums and putting it into savings might be better in the long run.

"If a problem never develops, you have the savings for other purposes," he says, adding that many people who have specialty insurance never receive any money because they pay the premiums for years without ever filing a claim.

"I think a lot of people are over-insured," says Mary Bell Carlson, a certified financial planner and accredited financial counselor known as the Chief Financial Mom. "There is insurance for just about everything. The fact of the matter is, you need to have insurance protection for what your big expenses are going to be and then you could actually save to pay for the copays and deductibles.

"There are other ways around it than buying insurance."

Carlson suggests a long-term disability plan in case you cannot work due to illness or injury.

She offers two ways to save to pay for extra health-related expenses:

"Most companies have flexible spending accounts, or FSAs, where you're putting pre-tax dollars in and you never pay tax on that money because it's only going for medical care," Carlson says. You decide how much to contribute to an FSA up to an annual maximum, and you either use it or lose it.

A health savings account, or HSA, is similar, but is only for people who have health insurance plans with a high deductible. "It's still pre-tax dollars going in, but it's not use it or lose it. It becomes like a retirement account for health care," she says.

No matter what, it's important to tell loved ones the types of coverage you have.

"One can easily imagine you get sick, you go to the hospital, you're in pretty bad shape. Somebody could make the claim on this policy for you, but nobody knows about it," Weisbart says. "So all the money you put into paying the premium doesn't produce a claim payment because in effect the policy is invisible."

Tiffani Sherman is a Florida-based freelance reporter with more than 25 years of experience writing about finance, health, travel and other topics.