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3 Key Concerns to Note when Buying Child Insurance

by GYC

When it comes to buying insurance for your child, we suggest doing so as early as possible in order to avoid the risk of your child becoming uninsurable in future. In this article, we address some concerns that parents might have.

Q1: My child has just been diagnosed with a rare disease. What steps should I take with regards to financial planning and making sure I am able to support the medical expenses?

If the parents already have a medical insurance plan for the child, then they can claim medical expenses under it. However, such plans typically only cover hospitalisation and surgical expenses, and expenses for GP and specialist visits are normally not covered.

Unfortunately, once a person has been diagnosed with a medical condition, he or she may become uninsurable, both for medical as well as life insurance. It is thus highly recommended that all parents consider taking up a medical insurance plan for their children as soon as practicable, and not wait until a sudden diagnosis that may render the child uninsurable. If so, the parents would then have the sole responsibility to set up a long term financial plan to support both the medical and contingent expenses for the child, especially if it is a lifelong condition. The parents should seek a good financial adviser to discuss the options available.

Q2: Medical expenses for patients suffering from rare diseases rise every year. What steps should I take to support the rising costs?

If the child was already covered prior to being diagnosed with a rare disease, what you need to look at is the annual limit of the insurance plan. As long as the annual claims do not exceed them, the expenses would still be covered.

However, it is important to note that some plans also have a lifetime limit, where the plan would lapse once claims exceed that limit.

Some plans also feature sub-limits to the type of expenses that can be claimed, as opposed to "as charged" plans. Note that some "as charged" plans are subject to a surgical table that defines the maximum claimable limits for different types of surgical procedures.

It is important that one discusses the take-up of medical insurance plans with a licensed financial adviser, who can help with deciding on the most appropriate plan.

Apart from simply relying on medical insurance plans, there will be other ancillary costs (as well as the higher inflationary costs of medical expenses) that parents of children with medical conditions will need to consider and plan for, as such conditions could be lifelong.

In their 2014 Global Medical Trends Survey Report, Towers Watson showed that the average increase in medical expenses for Singapore was 7.9% pa over the last 3 years.

As such, just leaving all of your savings in a savings or fixed deposit will not be sufficient to beat the high cost of inflation for medical expenses. Part of that savings will need to be prudently invested to try and achieve better rates of return in the long run, or else it would be rapidly wiped out with rising inflation.

Q3: I am unable to apply for insurance for my child now that she/he has been diagnosed. Any other options?

If a child has been diagnosed with a rare disease or other medical condition, an insurer may:

1. allow the child to be insured, but with exclusion clauses
2. allow the child to be insured, but with loaded premiums
3. postpone consideration of the case until a later age or until the condition improves
4. decline any coverage.

A few international health insurers do offer plans that cover pre-existing conditions. However, there is usually a waiting period of a few years (this differs from insurer to insurer), and there is a cap on the amount that one can claim for that condition (this way, the insurer gets to cap their liability for covering that condition). The main drawback of such plans is the very high cost of insurance premiums as compared to standard local plans.

The good news is that by the end of 2015, the new Medishield Life scheme will cover all Singaporeans and Permanent Residents, including any pre-existing illnesses that they may have. However, for some serious pre-existing illnesses, you may need to pay 30% higher premiums for 10 years (refer to the MOH website for further details). In addition, the subsidy only applies for Class B2/C wards in government hospitals.

Other options:

If the child has previously not been covered under any medical insurance plan, the responsibility falls doubly hard on the parents to "self-insure" the child. Money needs to be set aside and prudently invested to keep pace with inflation as well as provide for the future needs of the child.

One practical approach is to consider setting up a trust and systematically putting aside money on a regular basis to grow over the years, so as to provide the financial resources needed for this child in the long term. Should anything happen to the parents, the trust will be activated to continue providing for the child's expenses, as per the trust deed and any letter of wishes given by the parents (settlor). This is important, as the parent's assets may not be readily released if they are embroiled in disputes or challenges from non-beneficiaries. The trust would ensure that the needful expenses can still be disbursed without interruption, as the trustee holds the legal title of the trust's assets, although the child is the beneficiary.

Furthermore, assets (e.g. payouts from parent's life insurance policies) can also be injected into the trust upon the parent's death so as to boost the assets of the trust. With this purpose in mind, the parents could take on more life insurance for their own lives and assign the proceeds to the trust. The parents (together with the trustee) should also appoint an investment manager or financial advisory firm with family office capability, to grow the assets of the trust for the long term (to beat inflation) so that the assets can last for as long as possible, based on a mutually agreed upon investment mandate.

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