

PET INSURANCE: FIDO'S RISK MANAGEMENT OPTIONS

By Sara Juliff, NAIC Statistical Analyst II

Pets. They come in all kinds: large and small, fluffy and feathery, adorable or with a face only a mother could love. One thing is certain: We love our pets. Keeping animals as companions likely began as far back as the first domestication of the dog, and today, 68% of U.S. households—approximately 82.5 million homes—include a pet family member.¹ In 2012, the American Veterinary Medical Association's (AVMA) estimate of pet ownership included 69.9 million dogs and 74.1 million cats.² Numbers for birds were perched around 8.3 million, and horses galloped in around 4.9 million.

Many pet owners treat their pet as a member of the family, sometimes going to great lengths to ensure their pet's comfort. As the number of households and families opening their doors to animals grows, expenses for pet care are also on the rise. The American Pet Products Association (APPA) estimated that total 2013 pet industry expenditures reached \$55.7 billion, with an estimated \$58.5 billion for 2014.³ Such heavy costs can be a burden to many pet parents, especially to those who are facing the incredibly difficult decision between an expensive surgery or pet euthanasia.

One option available to consumers is pet insurance. This risk management tool originated in Sweden in the 1920s. The first U.S. policy was written in 1982.⁴ The North American Pet Health Insurance Association (NAPHIA) estimates more than 1 million pets are insured in North America and the pet insurance industry has increased at an average rate of 13.2% since 2009, producing \$595 million in premiums.⁵ Pet insurance is similar to health insurance for humans, with exclusions, various levels of coverage, deductibles and payment limits. The option may not be right for all consumers, and pet owners should do their research to find out if pet insurance is right for them.

◆ POLICIES

There are many pet insurance carriers in the market today. Some carriers have different levels of coverage for the customer to choose from, which can include a wellness plan, basic coverage and comprehensive coverage. Other carriers have one-size-fits-all plans, with choices available for the amount of deductible. Most pet insurance companies exclude pre-existing conditions and hereditary or congenital conditions, and most general pet health policies do not cover wellness or preventative items, such as annual exams, vaccinations, and spaying or neutering. Some insurance companies will not accept pets after a certain age, and many companies have waiting periods before benefits begin.

Insurance policies are usually broken out by the type of pet being insured, and some companies allow owners to choose their veterinarian. Consumers will want to make sure they confirm they can continue to go to their preferred veterinarians with the carriers they are considering. For the purposes of this article, three sample policies from Trupanion, Healthy Paws and the Veterinary Pet Insurance (VPI) were reviewed to compare basic policy provisions. These sample policies are all available from each company's website, and all are relatively easy to locate. Each company seems to make a strong effort to make its sample policies readable and include definitions for terms used within the policy. Additionally, many companies offer comparisons on their websites of their policies to other carriers' policies.

The actual monthly cost of the policy will depend on many variables, including the species of animal, breed, gender, age, location, and the coverages and deductible chosen. Posted premiums can vary from \$10 to more than \$30 every month. All policies reviewed were, and indeed most pet insurance policies are, on a reimbursement basis. This means the policyholder pays up front for any charges incurred. The three carriers all require timely submission of a completed claims form to receive reimbursement. Most policies are not transferrable to other pets, but with written approval and consent, some policies can be transferred to new owners.

Reimbursement methods are slightly different among the three policies reviewed. One policy uses a benefit schedule that reimburses policyholders based on the illness or injury and the coverage level chosen. The other two policies do not use predetermined benefit schedules, but rather reimbursement percentages based on the amount actually spent by the policyholder. All three policies have waiting periods ranging from five days from the enrollment date to 12 months, depending on the illness, injury or condition.

Only one policy has a payout limit, and the amount of the limit per policy term varies based on the policy selected.

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¹ American Pet Products Association, 2013-2014. "Pet Industry Market Size & Ownership," accessed at www.americanpetproducts.org/press_industrytrends.asp.

² American Veterinary Medical Association, 2012. "U.S. Pet Ownership Statistics," accessed at <https://www.avma.org/KB/Resources/Statistics/Pages/Market-research-statistics-US-pet-ownership.aspx>.

³ American Pet Products Association, 2013-2014. "Pet Industry Market Size & Ownership," accessed at www.americanpetproducts.org/press_industrytrends.asp.

⁴ American Society for the Prevention of Cruelty to Animals. "History of Pet Insurance," accessed at <http://www.petinsurancepro.com/aspca-insurance/>.

⁵ North American Pet Health Insurance Association, 2014. "State of the Industry Benchmarking Report 2014," accessed at <https://naphia.org/industry/reports/state-of-the-industry-benchmarking-report-2014>.

Coverages offered depend on the type of policy selected. Two carriers offer simple plans with some choice in deductible, from around \$100 to \$500, which could be changed later by the policyholder if desired. One company offers many different types of plans, depending on what type of coverage the owner needs. None of the companies cover expenses associated with breeding, boarding, pre-existing conditions, special diets (unless recommended temporarily by a licensed veterinarian), diseases preventable by vaccines, and spaying or neutering. Most carriers will not cover pre-existing conditions, but consumers will want to verify with their carriers that conditions arising during a covered period are not considered pre-existing conditions when they go to renew their policies for the next period.

◆ **REGULATION**

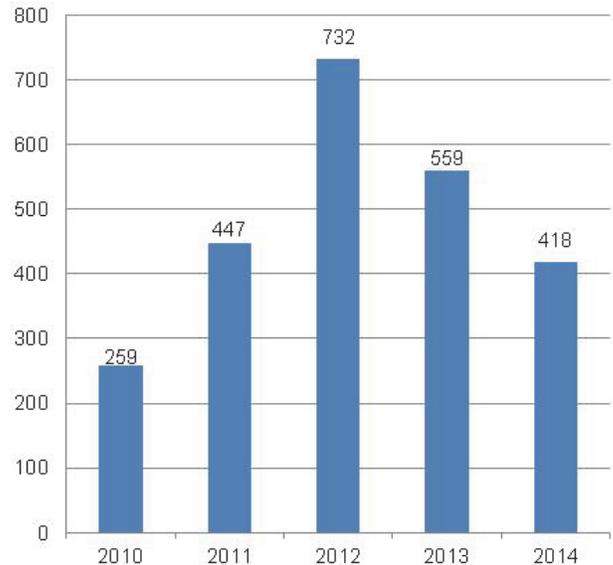
Traditional pet insurance is regulated the same way as other types of insurance—by the individual state insurance department. In the NAIC property/casualty (P/C) annual financial statement, pet insurance business is reported by companies in line 9—inland marine. SERFF is a system used in many states for facilitating the submission, review and approval of product filings between regulators and insurance companies. In SERFF, most pet insurance falls into line 9.0004 of the product coding matrix. Figure 1 depicts the SERFF Pet Insurance Plan received over the last five years, including 2014 filings received to August 2014. Over the last five years, 2,415 pet insurance filings have been received in SERFF, and in 2013, New Jersey was the state with the most filings, 26.

Many insurance departments have issued consumer alerts and news releases in the past with the intention of helping consumers understand pet insurance. The New Jersey Department of Banking and Insurance recently issued a news release to consumers with explanations of pet insurance, definitions of some conditions and coverages, and advice on questions consumers should ask before purchasing a policy. The Illinois Department of Insurance, Washington State Office of the Insurance Commissioner and other departments have issued similar consumer alerts in the past. California has even passed legislation, Assembly Bill 2056, to add a section in to the insurance code in an effort to require more standardized definitions, as well as make pet insurance policies more understandable and uniform.⁶

◆ **OTHER RISK MANAGEMENT TOOLS**

Wellness Programs—In addition to pet insurance, some veterinary offices offer their own wellness plans. For exam-

FIGURE 1. SERFF PET INSURANCE FILINGS*



Source: NAIC SERFF Database.

* Includes all filings submitted in years listed, regardless of disposition status. Not all states use SERFF. 2014 shows filings received to date.

ple, Banfield Pet Hospital, which operates more than 800 clinics inside PetSmart locations nationwide, offers wellness coverage for items traditionally not covered by pet insurance, such as vaccinations and examinations. It offer three levels of care, and the monthly cost is calculated similarly to pet insurance, using the animal's species, age and location.

Discount Plans—There are some national discount programs that exist as well. Programs such as Pet Assure offer veterinary services discounts for a monthly fee, calculated on the number and kind of animals owned. Veterinarians who are part of their network must be used to receive the discount. However, they do not require claim forms, and they accept pre-existing conditions.

Pet Pharmacies—Increasingly, pharmacies are beginning to carry pet prescriptions. Target and Walmart currently offer pet prescriptions with generic medications costing as little as \$4. Target even offers free flavorings for pets, such as tuna or beef.⁷

Homeowners Insurance—Homeowners and renters policies can sometimes assist with covering damages that pets incur

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⁶ California Legislative Information, 2014. "Assembly Bill 2056," accessed at <http://leginfo.ca.gov/>.

⁷ Target. "Pet Rx," accessed at www.target.com/pharmacy/petrx.

while on their own property. If pets are harmed on their own property, and the owners are following the laws of their jurisdiction (such as leash laws), the offending parties can be liable for the pets' medical bills.

Additionally, arrangements such as boarding may be covered for pets in homeowners' additional living expenses while their homes are being repaired for a covered loss. However, homeowners need to be prepared and research to make sure their animals are not excluded by their insurance carriers as a dangerous breed. Usually, homeowners and renters policies protect owners from liability caused by their animals, but if their carriers have identified the breeds as dangerous, or their pets have a history of aggressiveness, the pets may be excluded. For owners in such a situation, some additional or specific liability coverage could be purchased to cover the risk.

◆ CONCLUSION

The bottom line for most consumers is: Is pet insurance worth it? The answer is a frustrating: It depends." Insurance, as a whole, is a risk management tool for which a return on investment is actually not desired. It's a comfort for peace of mind, and consumers hope to never have to use it. Pet insurance, like other insurance, can be costly, and for some who want that assurance or are unable or unwilling to set aside the monthly funds to self-insure, it might be an option.

Pet insurance has made it into Consumer Reports no less than three times between 2010 and 2012. Consumer Reports has generally recommended against it. There are, however, a plethora of stories from owners whose pet insurance coverage has saved their pets and/or their wallets, and they would never dream of being without a policy. This type of coverage is not for everyone, and consumers who are considering it should do their research. There are many

online education centers dedicated to pet insurance, which include policy and company reviews, term definition and explanations, and questions consumers should ask of themselves and the companies they are considering. For ideas on where to look, please see the following Additional Information/References section.

◆ ADDITIONAL INFORMATION/REFERENCES

For more information on pet insurance, follow these helpful links:

- North American Pet Health Insurance Association (www.naphia.org)
- American Veterinary Medical Association (www.avma.org)
- Pet Insurance Review (www.petinsurancereview.com)
- Pet Insurance University (www.pet-insurance-university.com)
- Insurance Information Institute (www.iii.org/article/pet-insurance)

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