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Should you buy pet insurance?

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Risk Management

A year ago, one of patty Glynn's three dogs, a five-year-old Chinese Crested named Merry, became ill and very nearly died. It turned out that she had inflammatory bowel disease and required transfusions, among other care. Blood work, emergency vet-hospital treatment and after-care expenses brought the total close to $5,000; luckily for Merry, Glynn and her husband, Stew Tolnay, were able to handle the bills.

However, that experience convinced Glynn that it was time to buy pet insurance for all three of their dogs. When she checked into it, she discovered that approximately 10 companies now offer pet insurance in the United States.

By asking friends and doing her own research, she eventually decided which was best for her situation. Of course, Merry's earlier condition was considered preexisting and excluded from coverage. Still, the insurance allows Glynn and Tolnay to rest easier, knowing that if their pets develop a serious medical problem in the future, some of the costs will be covered.

By the Numbers
According to the American Pet Products Association's 2011–2012 National Pet Owners Survey, in the U.S., about 78 million dogs and 86 million cats live with us. On average, dog owners spend $248 and cat owners, $219 per year on routine vet visits.

But what about the unexpected, like Merry's illness, or the puppy who swallows a sock? Plus, specialty veterinary care is now available — ophthalmologists, oncologists, neurologists — which means that the costs of care are steadily increasing. Even the average cost of a typical corrective surgical procedure, for dogs in this case, are enough to give one pause: gastric torsion (bloat), $1,955; foreign-body ingestion (small intestine), $1,629; pin in broken limb, $1,000; cataract (senior dog), $1,244.

You'd think that, faced with these numbers, everyone who has pets would also have pet insurance. Yet less than 1 percent do. Should you buy pet insurance to cover your pet, and your bank account? Unfortunately, like many things in life, there's no clear yes-or-no answer.

Some are fortunate in that they have the resources, or the willingness, to go into debt for their pet's care if necessary; they are, in effect, opting for self-insurance. Others, perhaps without extra resources or who just want to sleep better at night, like Glynn, prefer paying a monthly insurance premium of anywhere between $20 and $60 (depending on the age of the animal and the coverage) in the hope that it will cover expensive vet bills down the road.

Like all insurance, pet insurance is, at its most basic, a gamble. We pay the premiums hoping we'll never need to use the coverage. If we do, our gamble has, unfortunately, paid off.

Before You Buy

Pet insurance is a relatively new industry in the U.S. Veterinary Pet Insurance (VPI) offered the first policy in 1982. Today, many companies offer policies, which is good, but it also makes choosing the best policy for you and your pet more complicated.

Before you sign on the dotted line and write that first check, do your due diligence.

Read the policy very, very carefully.

Most of the complaints I read on various websites seemed to stem from the fact that the pet owner didn't fully understand what was and wasn't covered, and so was shocked when a claim was denied. Each insurance company offers a slightly different product, and you can't assume that one policy is like another. Read them! If you don't understand the terms, it's worth the cost of a half-hour consultation with an attorney to make sure you do.

Understand co-pays, deductibles and caps.

Co-pays and deductibles are the amounts the policy requires you pay out-of-pocket for each claim. For example — keeping in mind that each insurance company has its own definitions for these terms — you submit a claim for a $500 ER visit that we'll assume is covered. You have a per-incident deductible of $250. Your insurance covers 80 percent, so your co-pay is 20 percent. The insurance company will make the following calculation: (Claim x insurer's copay)– deductible = insurance payment. So, altogether, you'll pay $400 rather than $500 for that visit: ($500 x 80%) - $250 = $150; $250 + 150 = $400. Then, to complicate things, policies have caps. According to Adam Karp, an attorney specializing in animal law who agreed to analyze three sample pet insurance policies for me, those purchasing pet insurance "must be aware of the multiple-benefit caps, as an animal may reach one cap before another and lose out on further payouts. Generally, there are three caps in play at any one time: lifetime, period and per incident."

1. The *lifetime cap* is the maximum amount the insurer will pay for the life of the insured pet. "Once reached, you may as well scrap the policy," says Karp.
2. The *period cap* is the limit the policy will pay for that animal within a specified time frame, such as a year. Karp warns, however, that "because insurers can decide not to renew the policy for any reason before the end of the policy term, this makes the lifetime cap illusory"; after hitting one or perhaps two period caps, the insurance company may simply decline to renew that pet's policy.
3. The *per-incident cap* limits how much the policy will pay for each "incident." When reviewing policy terms, pay close attention to how this term is defined. As Karp notes, insurers tend to pool or stack conditions into one incident, which limits their exposure. Make sure your vet's billing statements are very clear regarding what the various tests and procedures are for when you submit claims.

Know the policy's exclusions.
The list of conditions and treatments not covered by individual policies is specific to each policy and each company, and too varied to consider in this article. Again, another reason to read policies carefully, with your pet's particular needs in mind. Be aware that some policies have breed-specific exclusions, and according to Karp's analysis, few, if any, cover dysplasia and ligament-tear repairs. In some cases, you must purchase additional coverage for cancer and other conditions.

Following are some of the terms included in policy exclusions that you should understand thoroughly before you purchase.

- Congenital condition: A discoverable condition that the pet was born with. These occur in every breed, often from inbreeding, or can be caused by mutation. Examples include limb deformity, cleft palate and deafness.
- Hereditary condition: An inherited condition that may or may not be obvious at birth. Indeed, in some cases, it may not manifest itself until the pet is elderly. Common examples include hip or elbow dysplasia, certain eye conditions, and OCD (osteochondritis dissecans), an abnormality in bone development often seen in large dogs.
- Developmental condition: A condition resulting from a failure to develop normally in some way early in life. These are usually structural — for example, a kinked tail, cleft palate or a heart anomaly — caused by trauma, malpositioning, infectious agents (virus, bacteria, parasite) or reaction to drugs or toxins while developing in the womb.

(Note that some conditions fall into two categories. For example, cleft palate can be congenital or developmental. Deafness can be considered a hereditary congenital condition.)

According to Karp, in all policies, unless an additional rider is purchased, “congenital conditions are deemed preexisting and not covered. Some policies bar hereditary and developmental conditions as well, unless additional coverage is purchased.” Karp notes that a policy he recently reviewed was one of the few to define a “chronic condition” to mean “not curable.”

“Thus, even if the condition went into remission for a year, if the initial onset preceded the effective date of the policy, it will be deemed an incurable and preexisting condition,” he says.

Make sure your current vet qualifies under the terms of the plan you choose. Some insurers define a primary vet as one who is licensed and is also a member of the American Veterinary Medical Association (AVMA). As an aside, vets don’t have to join the AVMA in order to practice; it’s voluntary. Some choose to join the Humane Society Veterinary Medical Association (HSVMA) instead, yet under such a policy, if your vet chose HSVMA over AVMA, her services wouldn’t be covered.

“Another concern,” says Karp, “is that [few] policies cover experimental, investigative or non-generally accepted procedures, as determined by the veterinary medical community.” That is the sort of language lawyers love. Does it mean the AVMA? The HSVMA? Or some other more vague, local medical community?

Have a headache yet? Believe me, this is just the tip of the insurance-lingo iceberg. It’s complicated, confusing and a little terrifying, because the financial investment you make when you purchase insurance is significant and you want to be sure it pays what you hope and need it to pay. Each company’s policy includes numerous terms, conditions and exclusions, as well as dispute- resolution provisions. You need to understand them all.

Rolling the Dice

So what are you really insuring against when you purchase a policy? The short answer: anything that would cause you financial hardship and make you ask yourself if you can afford the care your pet needs. None of us wants to be in the position of making an important decision about our dog’s care based solely on cost.

Here’s an illustration that makes this issue very real.

In 2002, Dana Mongillo, dog trainer and owner of Fuzzy Buddy's Dog Daycare in Seattle, Wash., purchased pet insurance with a cancer rider for Mango, her healthy young Boxer. It initially cost her $20 a month. Over the next few years, Mango remained healthy and no claims were made on the policy. Then, the premium increased to about $50 a month. "Paying $600 a year for nothing is a little indulgent," says Mongillo, "and I remained on the verge of canceling the policy for months. But then a vet visit for a slight limp ended up with the worst diagnosis possible: Mango had cancer." The diagnosis came in 2008. Mango received treatment and care for two years before he finally succumbed in 2010, at age eleven. "While I helped Mango through the final weeks of his life, the insurance was suddenly very wonderful," says Mongillo. "Every time I got a quote for treatment options, I knew the final amount I would pay would be less. That made it easier for me to consent to treatments that might help Mango, or at least help us find out the extent of the problem. In the last six weeks, he had a whirlwind of vet appointments, two sets of X-rays, an MRI and weekly acupuncture. Insurance removed the huge burden of the financial, leaving me able to focus on what was best for Mango and not what was best for my wallet."

Here's the tally for Mango's insurance and vet expenses: Total premiums paid (2/2002–3/2010): $3,098. Total vet bills paid (3/2008–4/2010): $4,802. Total amount not covered (3/2008– 4/2010): $2,705.

For Mongillo, it was worth every penny, and she would do it again. She recognizes that in her case the insurance gamble paid off and Mango received the level of care she wanted him to have. Had he not developed cancer, she would have paid for insurance that she never used, but insists she would have been happy to "lose" that particular bet.

DIYing It

There are at least two other options to consider. The first is self-insuring. Set up a savings account for your pet and deposit in it the amount equal to what you would pay as a premium, then use it only for extraordinary care. This works best if you're disciplined and if your pet doesn't require expensive care early in his life. Better yet, start out with a large initial deposit and add to it each month.

The second is CareCredit. This is a line of credit specifically for use at participating veterinary clinics. Stacy Steele, DVM, of Ocean Shores, Wash. (profiled in "World Vets" in the Sept/Oct 2011 issue) recommends this to her clients, almost none of whom have pet insurance. Like a credit card, this line of credit can be used for routine care and/or extraordinary care. There are no up-front costs and you select the monthly payment option you can handle. Depending on the amount put on the card, you can take from six to 60 months to pay off the balance (check the annual percentage rate before you sign up).

The bottom line: choose the option that will allow you to sleep well, knowing that if your beloved companion requires expensive diagnostics, treatment and care, you have the resources available to pay for them. If you choose pet insurance, read every word of the policy very carefully and understand what the terms mean *before you purchase*. Then, go have fun with your pup!
