

Pet Insurance: The Basics for Extension Educators

The History of Pet Insurance

Pet insurance is a type of property and casualty insurance offered to manage the risks associated with the costs of pet ownership. According to data from the North American Pet Health Insurance Association, only about 2% of all pets in the United States are covered by a pet insurance policy. However, the number of insured pets in the US has risen from 1.8 million in 2017 to just under 4 million in 2021 (NAPHIA, 2022). In the same period, the amount these companies collected in premiums increased from \$1 billion to \$2.6 billion.

This is important for educators because as this industry continues to grow, more people may become interested in:

- ▶ Understanding how pet insurance works,
- ▶ Learning how to choose a pet insurance plan,
- ▶ Learning how to manage their pet insurance plan, and
- ▶ Understanding how to get the most out their pet insurance plan.

One factor that may be contributing to the rise in popularity of pet insurance policies is the increasing cost of veterinary services. Extension finance educators may begin to receive more questions as these costs begin to strain household budgets and people look for ways to defray the cost. The American Pet Products Association (APPA) began collecting data on pet medical care in 2018 and has found that the costs have increased every year since that time (NAIC, 2023). According to research from Minnesota Public Radio’s “Marketplace,” there are many reasons for this increase in costs at the vet office:

- ▶ Medications and procedures are becoming more expensive
- ▶ Vet offices have more overhead costs
- ▶ Pets are living longer and requiring more medications and treatments



Image showing a puzzle where the gap is “Risk” and the appropriate pieces to cover the gap are “Insurance.”

- ▶ Increasing demand for services due to increasing number of pets
- ▶ Corporate owned vet offices may have less flexibility in their pricing structures

These increasing costs translate to an increase in the chances that a pet owner will be faced with a significant bill. Insurance products are common tools for managing financial risks, and a variety of pet insurance products have been introduced to meet this need. The shifting landscape of pet insurance products means that educators and regulators need to keep up with the changes. To understand the basics of pet insurance, Extension finance educators need to understand a few key concepts: how pet insurance plans are regulated; what types of pet insurance exist; what factors determine the cost of pet insurance; and important additional factors to consider in choosing a plan. Extension finance educators who

understand these concepts can then help consumers make an informed decision without endorsing any specific insurance product or company. Instead, they can focus on helping the consumer understand and compare plans to decide what, if any, pet insurance they need for the pets in their lives.

How are Pet Insurance Plans Regulated?

For regulatory purposes, pet insurance plans are considered property and casualty insurance policies. Although many people consider their pets to be part of their family, the policies are more similar in structure to policies covering homes, automobiles, or other property than to human-related health insurance policies. Despite this structure, many pet insurance policies use terms like co-pay, coinsurance, or pre-existing conditions that are commonly used in connection with health insurance policies. But for pet insurance, it is more likely that pre-existing conditions will be excluded from coverage, and that preventive care, that the industry calls *wellness*, will only be covered if consumers purchase more expensive plans with additional coverage. Because of this difference, consumers may be confused or unaware that preventative or wellness care will not be automatically included in the policy, but that it may be an option, for a higher cost. They need to review the policy carefully to be sure they know what care is covered and how much they will need to pay for that care.

Extension educators should encourage consumers to research the plans available to them by asking for information about plans in writing. Further, Extension educators can advise consumers to carefully read policy documents and to verify information provided by sales agents by comparing that information against the written policy. They can also prepare consumers to be able to address any issues that might arise from the policy's branding. For example, policies may be marketed using brand names for the insurance product rather than the name of the company underwriting the policy. In the event there is an issue with the coverage, they may need to know the name of the underwriting company. Educators can demonstrate how to read fine print in policy documents or on the website to find the name of the underwriter. They can also remind consumers to check this regularly as pet insurance companies may change the underwriting company with which they work.

What Types of Pet Insurance Are Available?

The way pet insurance works depends of several key factors that are left up to the consumer when they select a policy. The first is the level of coverage. Typically, pet insurance plans are described as either *Accident Only* or *Accident and Illness* policies. *Accident Only* plans would likely cover events like a pet being hit by a car, a pet getting injured while playing, a pet becoming ill from ingesting something dangerous, or some other similar event. *Accident and Illness* plans are typically more expensive; they cover the accidents previously mentioned, but also cover illness. An illness might be an infection, chronic disease (like cancer or diabetes), or some other disease. Different plans or companies may have different definitions of the types of conditions that fall into these two categories. Educators can help consumers become experienced in reviewing policy documents so they understand what will and will not be covered under the coverage type they select.

Many companies offer an additional type of coverage, sometimes called a *wellness add-on*. This coverage cannot be purchased alone and often can only be added to the more expensive Accident and Illness policy. This wellness coverage may cover regular vet visits, checkups, vaccinations, and other types of routine pet care. These add-ons will increase the overall policy cost and still may not cover all needed veterinary care for the pet. Educators may want to contrast this type of coverage with human health insurance. Since regulations require human health insurance policies to include coverage for regular check-ups and other preventive care, an educator can highlight this difference and explain that coverage for regular care is generally not included with most pet insurance without paying extra for the add-on.

What Factors Determine the Cost of Pet Insurance?

Outside of the type of coverage, there are a variety of other factors that will affect the premium cost and coverage level. They are:

Type of pet:

Pet insurance companies do not cover all pets. Many companies only cover cats and dogs. At this time, only a few companies cover other pets, sometimes called *exotic* pets, like birds, ferrets, rabbits, and reptiles. Exotic pet



A dog considers a pet insurance application form.

plans may be more expensive. Additionally, plans covering dogs are typically more expensive than plans covering cats.

Age of pet:

As pets get older, they typically require more medical care. Pet insurance policies generally increase in cost as the pet age increases to cover the potential increase in care costs. Some companies may also set age limits and be unwilling to cover pets over a certain age. Educators can highlight these potential restrictions and cost increases so that consumers can be aware of how their pets' age might affect their premiums and coverage options.

Current pet health:

Many pet insurance companies will not cover pre-existing conditions. As part of the application process, they may ask for health records and an initial health assessment. Conditions previously identified or those identified during the health assessment may be exempt and therefore not covered by the policy. Consumer complaint records show that denials due to pre-existing conditions are a common area where consumers face issues (NAIC, 2019). For example, a consumer might go

to the vet because of a pet's illness and then have coverage for that visit denied because the insurance company maintains that the illness was a pre-existing issue. In the data from the NAIC, consumers reported that they either did not know pre-existing conditions would not be covered or were not told that type of issue would be considered pre-existing. Educators can help consumers understand the importance of knowing the rules around pre-existing conditions for their policy.

Some plans will not cover health issues common to specific breeds (like hip dysplasia or certain types of cancer). Educators can point out that consumers should ask providers if there are any breed exemptions in the policy that will apply to their specific pet.

Deductibles:

Common in human health, auto, and other types of insurance, a deductible is the amount that the insured must pay out of pocket before the insurance will begin to cover the cost of an incident. Pet insurance deductibles may be *annual* or *per incident*. *Annual* deductibles must be met for the year before the insurance company will cover the costs. These typically reset at the end of each calendar year. *Per incident* deductibles reset after each

incident. This means that if a pet is injured in an accident, the owner must meet the deductible for the incident before insurance will begin to cover the costs. If the pet then becomes ill a few weeks or months later, this is considered a new incident, and the owner must meet the deductible again before the insurance will cover costs. Typically, plans with annual deductibles are more expensive than plans with per incident deductibles.

Waiting periods:

Pet insurance plans may have a variety of waiting periods. These refer to the time between signing up for the plan and the start of coverage. A plan with a one year waiting period would only cover incidents that occur after the pet has been covered by the insurance plan for at least one year. Waiting periods can vary depending on the type of care required. Costs due to an accident may have shorter waiting periods, while illness and wellness coverage may have longer waiting periods. Often when selecting a plan, there are several options for waiting periods. Extension educators can help consumers understand how the waiting period they select will affect the cost of the premium. In general premiums are lower for plans with longer waiting periods and higher for plans with shorter waiting periods.

Plan limits:

Some plans may have a limit to the amount they will pay per policy, per pet, per year, or per incident. Plans with higher limits may be more expensive than plans with lower limits.

Provider Limitations:

Some plans only cover specific providers. For example, they may only cover a specific veterinarian office. Additionally, they may not cover specialists like veterinary cardiologists or oncologists. Knowing who is a covered provider under than plan will help consumers understand what types of costs they will need to pay out of pocket. This is especially important because of the potential for higher bills related to specialty care.

Additional coverage:

Some policies cover prescriptions, spaying and neutering costs, end of life benefits, or other types of services. When educating consumers about additional options, educators can encourage pet owners to consider additional care a pet might need. For example, a person with a puppy may want to ensure the plan covers spaying

or neutering. Older pets that are already spayed or neutered will not need this coverage.

What Else Needs to be Considered as Part of the Pet Insurance Choice Process?

Along with the above factors, Extension finance educators should be familiar with two additional features of pet insurance policies.

Appeal process:

Like other types of insurance, companies can deny coverage of certain costs due to the policy terms. If an insurance company denies coverage and the consumer disagrees with that decision, they may be able to file an appeal. By filing an appeal, the policy holder is asking the company to review their decision and make sure it follows the terms of the policy. This process can be confusing, so extension educators can help consumers be prepared to ask for information about the how the appeals process works in case they need it in the future.

Reimbursement model:

Many pet insurance plans require the insured to pay out of pocket before they can request reimbursement. Companies may reimburse based on the actual vet bill, a specific schedule of benefits for different services, or average (or customary) rates. If the company does not reimburse based on the actual vet bill, consumers can end up paying a portion of the costs out of pocket. Additionally, the amount of time required for reimbursement can vary between companies. Extension educators should help consumers understand that, even with insurance coverage, they still need enough savings or credit to pay out of pocket when care is provided. They also can help consumers understand each policy’s particular waiting period to ensure they know how long they would need to wait to receive reimbursement from the insurance company.

How Can Educators Help?

Like many other financial products, pet insurance requires careful research before purchasing. Extension finance educators should be prepared to help consumers understand the ways in which pet insurance can vary so that consumers can compare different plans to find the one that best fits their situation. Finance educators can also talk with pet owners about setting up a designated

savings account for pet costs. Pet owners who have older pets, have pets with pre-existing conditions, or those with enough savings to pay costs out of pocket may find that having a designated savings account makes more sense for them. Educators should also be prepared to discuss pet insurance without endorsing any particular company or brand. Ideally, the education should focus on comparing the plans and determining which plan, if any, would be a good fit for the consumer’s situation. Finally, educators should consider reaching out to their state Attorney General or insurance licensing department to understand the regulatory environment in their state. Since regulations can differ from state to state, understanding your own state will help you be more prepared to assist consumers with filing complaints, if necessary.

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