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INTRODUCTION

Hospital indemnity insurance (HII) is a specialized form of supplemental health coverage designed to provide financial relief during hospital stays. Unlike traditional health insurance that reimburses based on actual medical expenses, HII pays out a fixed cash benefit — often on a per-day basis — for qualifying hospitalizations due to illness or injury. This cash can be used flexibly, whether for medical bills, household expenses, or other needs. In the context of Medicare, which serves over 65 million Americans as of 2025, HII has gained attention as a tool to address gaps in coverage, particularly for unexpected inpatient care.

UNDERSTANDING HOSPITAL INDEMNITY INSURANCE IN THE MEDICARE LANDSCAPE

Medicare, the federal health insurance program primarily for individuals aged 65 and older, as well as some younger people with disabilities, is divided into parts: Original Medicare (Parts A and B), Medicare Advantage (Part C), and prescription drug coverage (Part D). Hospital care falls under Part A, but it doesn't cover everything, leaving beneficiaries vulnerable to out-of-pocket costs. HII steps in as a private insurance product, not administered by the government, to help mitigate these expenses

It's especially popular among Medicare Advantage enrollees, who cannot purchase Medigap (Medicare Supplement) policies, but it's available to those with Original Medicare as well.

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As healthcare costs continue to rise — with the average hospital stay for seniors costing around \$2,847 per day — HII offers a layer of protection against financial strain

However, it's not without controversy, as some view it as a limited-benefit "junk" plan that may be oversold or misunderstood

This article explores HII in depth, from Medicare's baseline hospital coverage to the pros, cons, and practical considerations for beneficiaries.

MEDICARE'S BASELINE COVERAGE FOR HOSPITAL STAYS

To appreciate the role of HII, it's essential to understand what Medicare covers — and what it doesn't — for inpatient hospital care. Medicare Part A, often called Hospital Insurance, is premium-free for most beneficiaries who have paid into the system through payroll taxes for at least 10 years. It provides coverage for inpatient stays in acute care hospitals, critical access hospitals, inpatient rehabilitation facilities, long-term care hospitals, and psychiatric facilities.

Covered services include semi-private rooms, meals, general nursing, drugs (including methadone for opioid use disorder), and other supplies integral to inpatient treatment. However, it excludes private rooms (unless medically necessary), private-duty nursing, televisions or phones with separate charges, and personal items like toiletries. Costs under Part A are structured around "benefit periods," which begin the day you're admitted as an inpatient and end after 60 consecutive days without inpatient care (including skilled nursing facility stays). There's no limit to the number of benefit periods, but each requires meeting the deductible anew. For 2025, the costs are:

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GAPS IN MEDICARE COVERAGE AND THE NEED FOR SUPPLEMENTS

- Deductible: \$1,676 per benefit period.
- Days 1–60: \$0 coinsurance after the deductible.
- Days 61–90: \$419 per day.
- Days 91 and beyond: \$838 per day, drawing from 60 lifetime reserve days (non-renewable).
- After reserve days: Beneficiaries pay 100% of costs.

For mental health care in a psychiatric hospital, there's a lifetime limit of 190 days, though this doesn't apply to psychiatric units in general hospitals. Part B may cover 80% of doctor services during the stay, but overall, these structures can lead to significant expenses for prolonged illnesses.

Medicare Advantage (MA) plans, offered by private insurers, must cover at least what Original Medicare does but often include extras like dental, vision, and hearing. However, MA plans cap out-of-pocket maximums — at \$8,850 for in-network services in 2024, rising to \$9,350 in 2025 — but beneficiaries may still face high copays, deductibles, and costs for out-of-network care.

Original Medicare beneficiaries can buy Medigap to cover these gaps, with standardized plans (e.g., Plan G) handling deductibles and coinsurance. But MA enrollees are ineligible for Medigap, creating a niche for HII.

Additionally, Medicare doesn't cover non-medical costs like transportation, lodging for family, or at-home recovery aids, which HII can indirectly address through cash payouts.

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How Hospital Indemnity Insurance Works

HII is not a replacement for Medicare but a supplemental policy that pays a predetermined cash benefit upon hospitalization. Benefits are typically triggered by inpatient admission, with payouts ranging from \$100 to \$500 per day, depending on the plan

There's often no deductible for HII itself, and no network restrictions — benefits apply regardless of the hospital.

KEY FEATURES INCLUDE:

- **Daily Hospital Benefits:** Fixed amount per day of confinement.
- **Lump-Sum Payments:** For events like ER visits, ambulance rides, or urgent care.
- **Extended Coverage:** Riders for outpatient therapy, skilled nursing, cancer recurrence, heart attacks, or accidents
- **Flexible Use:** Cash can pay for deductibles, copays, prescriptions, rehabilitation, or even non-medical expenses like groceries or childcare.

For example, if a beneficiary with MA faces a \$2,000 deductible and \$300 daily copay, an HII plan paying \$200/day could offset much of that

Plans are guaranteed renewable as long as premiums are paid, and enrollment is often available year-round, without health questionnaires for some products

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HII with Original Medicare vs. Medicare Advantage

For Original Medicare users, HII complements Medigap by covering indirect costs or providing extra cash. However, it's more commonly paired with MA, where it fills gaps like high out-of-pocket maximums (\$8,300 in 2023 for in-network MA plans can change annually, potentially increasing costs, making HII a hedge against rising expenses.

KEY FEATURES INCLUDE:

In observation stays (outpatient but hospital-based), HII may still pay benefits, unlike Medicare which treats them differently

This is crucial as CMS rules have shifted more care to observation to control costs.

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Pros and Cons of Hospital Indemnity Insurance Pros

- **Financial Flexibility:** Direct cash payments reduce stress during recovery
- **No Networks or Deductibles:** Broad access and immediate benefits.
- **Customizable Riders:** Add-ons for specific risks like cancer or strokes
- **Year-Round Availability:** Not tied to open enrollment
- **Peace of Mind:** Especially for fixed-income seniors facing average stays of 4.7 days at high costs

CONS:

- **Limited Scope:** Pays fixed amounts, not actual costs; a \$67,000 bill might only yield \$200/day
- **Not Comprehensive:** Exempt from ACA protections, can exclude pre-existing conditions or cap benefits
- **Potential Overselling:** Some agents may misrepresent it as full coverage, leading to surprises.
- **Not for Everyone:** Best for those with low-premium MA; others might prefer Medigap
- **Research Needs:** Little data on its overall impact, prompting calls for more studies

Costs and Enrollment Considerations
Premiums vary by age, location, and benefits — e.g., around \$10/month for a 65-year-old with basic coverage

Riders add costs but enhance value. Beneficiaries should compare plans from carriers like Cigna, which offers accident, cancer, and heart riders, or Wellabe, emphasizing pre- and post-hospital benefits

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REAL-WORLD EXAMPLES FROM PROVIDERS

Enrollment is straightforward, often without underwriting for ages 50-85. Consult licensed agents, but beware of sales pressures — CMS regulates MA-related sales, requiring Scope of Appointment forms.

- Cigna: Offers plans starting at low premiums, with benefits for hospitalizations and optional riders for up to 100% additional payouts on recurring conditions. Ideal for supplementing Medicare by covering copays and household needs
- Wellabe: Focuses on MA gaps, providing cash for ambulance, lodging, therapies, and skilled nursing (average \$245/day in 2019). Emphasizes flexibility for observation care.

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CONCLUSION

Critics argue it's part of "junk" insurance, offering limited protections and potentially misleading consumers

Health Affairs has called for research on its effectiveness, data collection strategies, and impact on beneficiaries

As costs rise, regulators may impose stricter disclosures.

Hospital indemnity insurance serves as a valuable, if niche, supplement in the Medicare ecosystem, helping bridge financial gaps for hospital stays. For seniors on fixed budgets, it provides essential cash flow and peace of mind amid rising healthcare expenses. However, it's not a one-size-fits-all solution — beneficiaries should weigh its fixed benefits against potential limitations and consult trusted advisors. As Medicare evolves, HII's role may expand, but informed choices remain key to maximizing protection.