

Dr. Stephens received his veterinary degree from the University of Missouri and was named Alumnus of the Year in 1993. He has served as a leader of local, state and national veterinary organizations.

Dr. Stephens has several pets of his own and in 2000, he established and is chairman of the board of The Skeeter Foundation, a non-profit organization dedicated to the positive health effects of the human – animal bond. The Foundation supports the Skeeter Prescription Team, a national organization developed to provide comfort and companionship by sharing therapy dogs with patients in hospitals, nursing homes and other institutions.

Dr. Stephens was recently presented the Pioneer award by VetPartners for his significant contributions to the veterinary community. The award, as the name suggests, is given to individuals who are deemed “pioneers” in the profession. Dr. Stephens is a visionary leader who saw the need to help pet owners with the cost of care for their pets so that pets need not go untreated due to the financial constraints of their owners.

Therefore, for the past 30 years, Dr. Stephens has been **the** leading advocate for the benefits of pet health insurance for pets, pet owners and veterinarians. He not only cast the vision of pet insurance, but also was the leader in making it a reality in 1981 when he founded Veterinary Pet Insurance. After serving as the CEO of VPI for a number of years, he resigned and in 2005 founded Pets Best pet insurance company where he now serves as the President of the company. Dr. Stephens has written and published numerous articles about pet health insurance.

Doug: Jack, it truly is an honor to have you on the show today.

I received your email yesterday that you sent to veterinarians reminding us that this month is the 30th anniversary of the start of pet insurance in the United States along with the picture of you sitting with Los Angeles mayor Tom Bradley and the first dog to benefit from a VPI policy. That dog is perhaps the most famous canine TV star of all time. Tell us about that.

Jack: Yes, mayor Tom Bradley was gracious enough to help us. We had the press conference in downtown Los Angeles. We had Lassie, the TV star there and we were honored to present Lassie with the first pet insurance policy.

Doug: Wow! I’ve read where there were several failed attempts at pet insurance in the United States both before and even after you started VPI. Can you comment on that and why you think VPI was successful?

Jack: Yeah, there were 60 attempts that I had documented. Some of the attempts were entrepreneur efforts that weren’t properly licensed or weren’t capitalized well and really didn’t have much chance. But, some of them were from extremely reputable and large insurance companies like Fireman’s Fund, American Banker, Republic, Midwest Mutual and all those companies certainly had the resources for pet insurance, but they didn’t get enough sales or interest from pet owners that would keep them in the market. So, they just got out of the business because they felt like there wasn’t enough volume.

Why did we succeed? Well, I don't know. Probably tenacity and we didn't have anything else to fall back on whereas other insurance companies, they had other lines of insurance. In other words, when I got 900 veterinarians to invest in VPI, I had to make it work or the investors would have lost their money and I simply wasn't going to face that.

Doug: Just in the last few years since I've been studying pet insurance, there have been a couple of companies that started and then shortly thereafter folded. Why do pet insurance companies fail and should this be a concern for pet owners?

Jack: Well, let me answer that last part first. If pet insurance is properly licensed by the state, then they are protected. The consumer will get unearned premium back and will get their outstanding claims paid. The downside if the insurer doesn't make it is that the pet may have developed a chronic and serious medical condition that would be excluded from other plans and so they run the risk of not having coverage for that specific medical problem or perhaps if the pet developed cancer may not even be insurable.

But, the industry seems to have stabilized so that there is enough awareness of pet insurance and enough pet owners that want pet insurance that I think the risk is a lot lower. Of course, anytime you have insurance, it could happen and the only protection you have is for your premium and outstanding claims.

Doug: What's your take on the Lloyds Banking Group deciding to get out of the pet insurance business in the UK?

Jack: First of all, there is a lot of competition on the United Kingdom. The last time I looked, they had over 50 companies and at one point they had 60 companies and 100 plans. Their market is about one-tenth the size of the market in the United States. It would be like having 50 pet insurers in California only. So, competition has put some of them out and I'm not a real fan of the Lloyd's concept because, as you may or may not know, Lloyd's is a syndicate and they don't administer the plan or market the plan, so they don't have a strong vested interest in it. I think it is more a matter of Lloyd's saying they would rather leverage their money elsewhere – that and the competition more than any other reason.

Doug: What did you learn at VPI that guided you when you started Pets Best?

Jack: We don't have enough time to talk about all the things I learned – it was a lot. The one thing that I regret that I didn't change sooner, and I was starting to do that before I left, was changing from paying on a benefit schedule to paying on a flat percentage of the veterinary bill. That was important because veterinary medicine and pet owner's attitude toward their pets has changed a lot since I started Veterinary Pet Insurance (VPI).

When I started VPI, there were very few specialists, and what few there were, they were all at universities. Today, we have a lot of specialists in private practice all over the country. The specialist, just by their very nature, go into more depth on their treatment and diagnostics. The other thing is that there are a lot more diagnostics than when I started VPI. So, back in 1982 when Lassie got that first policy, most veterinary care was general and the cost was similar, treatments were similar, but today pets have so many more options for care. We have MRI for pets, we have ultrasound, we have genetic testing. We have equipment, treatment and procedures that were unheard of, and as a result of that, the quality of care has changed

dramatically. So, for pet owners where the pet is more important to them can have virtually anything a human can have but obviously, even though it is only about 1/15 the price, it still can be expensive. We also have emergency centers that we didn't have then. So, the range of services and costs vary so much that with a benefit schedule, pet owners can be very surprised, and unpleasantly surprised with a low percentage of the bill paid whereas the model that I invented of paying a flat percentage of the bill, there's no surprises, the pet owner knows how much they are going to get in reimbursement. That's a long answer I know.

Doug: That's fine. In fact, you were getting to some of the things I was going to bring up. It's been said that your vision of pet insurance was ahead of its time in the sense that in the 80s, the costs of veterinary care wasn't sufficiently high enough for most pet owners to see a need to purchase pet insurance and I think you just outlined some things that have changed and some of the factors that are fueling the explosive costs or the explosive growth of pet insurance today.

Jack: That's right. I've got a lot of friends that have told me, "Jack, you were ahead of your time" and that was very true and you're right. Pet owners today want more for their pets. They don't want to put them to sleep. They don't want to get a new pet. If the pet can not be suffering and be restored to health, more and more pet owners want that today than they did 20 years ago.

Doug: You know, most pet insurance companies including Pets Best reimburse pet owners using a percentage of invoice model while the others reimburse either by what is considered usual and customary by a particular zip code or according to a benefit schedule as you alluded to earlier. The argument for reimbursing according to what is usual and customary or a benefit schedule is that it serves to hold premiums down over the long haul. Of course, depending on the claim, reimbursements might be lower also and we know as you just alluded to invoices are going up and up due to inflation and the more advanced and life saving procedures that are being done now. So, my question is – for those companies that reimburse according to the percentage of invoice model, is there concern that the premiums will also have to rise to keep up with those factors, and therefore, there may be a point of diminishing return so that companies may have to rethink this model.

Jack: Well, you're right in that as the pet owner spends more on their pet and the payouts for reimbursements rise, the premium has to be adjusted accordingly. There are several things that the pet owner can do if they want to bring that premium back down. They can increase the deductible and take more of the risk themselves. The problem with a benefit schedule or usual and customary is that the pet owner can be completely surprised thinking they are getting 80 or 90 percent of a high veterinary bill and then find out they are getting only 20 or 30 percent, and in fact, the average is 50 to 55% and that doesn't make them very happy – in fact, they are quite upset and they don't remember then that they are paying a lower premium. All they remember is that it didn't pay enough of the bill. So, I think they have to better communicate to the pet owner about their expectations. I prefer that the pet owner know exactly what they are going to get back and if their premium is too high, that they just take more of the risk themselves.

Doug: There are about a dozen pet insurance companies in the United States today. Does a new startup company have any advantages by seeing how the industry has evolved or are they at a disadvantage because of the fierce competition?

Jack: Well, as I alluded to about the United Kingdom, I think we'll see more pet insurance here. There is always a group who thinks they can do it better or have a better approach. I think competition is a very good thing. What we're seeing with the explosion from when I was the only pet insurer for many, many years to today with a dozen companies in the United States is a lot more variety – more plan options and coverage options, deductibles and different exclusions. So, the consumer in one aspect has more variety, but on the other, it can be somewhat confusing. I think we're going to find that pet insurance in the United States will evolve somewhat similar to the United Kingdom where we're having brand labels like I know Wal Mart is doing a test of pet insurance and I know several other big names are testing pet insurance, so I see the market expanding even more.

Doug: I've noticed that pet insurance companies may change underwriters periodically which sometimes results in changes to their policies and in turn can affect their policyholders. Why do pet insurance companies change underwriters from time to time and what are the pros and cons for policyholders when this happens?

Jack: Yeah, that's a great question, Doug. There are several reasons why they change. I know when Pets Best got started, our underwriter was only approved in 24 states and we knew that we wanted to grow into all 50 states. That underwriter initially thought they would expand to all 50 states, but after we got going, they decided that they weren't going to expand to all 50 states. So, we made the decision to move to an underwriter that was approved in all 50 states and that relationship was wonderful. Our second underwriter was acquired by a larger insurance company out of Australia and they were underwriting one of our competitors and that competitor didn't want them underwriting us, so we were forced to move in that situation to another underwriter and we moved to Aetna. And then, talking about bad luck, after 3 years, Aetna decided they didn't want to stay in the pet insurance business and wanted to focus more on the human health care, so we made another move. I know our arrangement with our new underwriter is even better. We had about a dozen companies that wanted our business and we narrowed it down to five and interviewed those five and then chose the one that we thought would give us the best plans and coverage and pricing for pet owners. The underwriter is the company that ultimately takes the risk for the claims.

Doug: I know since I started studying pet insurance, there has been a couple of companies that have lost their underwriter and those companies didn't survive – I guess because they didn't have the dogged determination that you have in seeing this through and making sure your policyholders are taken care of.

Jack: Right. I like to explain it by the fact that I'm a veterinarian and I'm interested in helping pet owners always be able to afford whatever veterinary care is required and not have to worry about how much it is going to cost.

Doug: Pets Best as you mentioned recently changed underwriters and came out with some brand new policies also. I know ya'll have always had per-incident deductibles in the past,

but you recently came out with annual deductible policies. Talk about why you did this and sorta give an overview of these new annual plans.

Jack: Yeah, this gets back to having an underwriter that is willing to work with you. Our market studies showed us that pet owners preferred annual plans versus per incident mostly because they understood annual because their own human healthcare worked that way. So, we wanted to be responsive to what pet owners want. The other was that we found that the biggest fear today for pet owners is that their pet will get cancer. We did some market research and found out that there was a certain percentage of pet owners that would buy cancer-only insurance for their pet – they don't want the accident and illness coverage – they'd rather self-insure for that. So, we designed a cancer-only plan. Basically, we're looking to come out with options that meet with what the pet owner wants and where the market is going.

Doug: I think both the per-incident plans and the annual plans have more deductible options. Is that correct?

Jack: Yeah, most pet owners want a lower deductible, but obviously the lower the deductible, the higher the price. We came out with multiple deductible options and multiple copayment options so that they have us paying 70, 80, or 90 percent of the bill.

Doug: I also noticed where you have higher lifetime limits on the new policies.

Jack: Yes.

Doug: And you also increased your hereditary condition limits.

Jack: We broadened the coverage by increasing the limitations. Behavioral conditions are no longer limited under the full coverage. Pregnancy is now under the full coverage where it was limited before. So, what we are trying to do with our coverage is not only make it more affordable, but broaden it and add more benefits to it.

Doug: Interestingly, I saw where you have some lower limit plans that have lower premiums also.

Jack: Yeah, thanks for reminding me. The other thing that we found from consumers was that pet owners didn't want the "cadillac" plans – they don't want the full coverage. They don't want high monthly premiums, and yet they want some coverage and so what we've done is come out with catastrophic-only plans – one for cats. What we've done is pick the 25 most common illnesses in cats that are expensive. Let me qualify that by saying not the most common problems because the most common problems for both dogs and cats aren't expensive, but the frequency is high. So, when the frequency is high, that affects the premium. What we found from our studies with pet owners is that some of them don't want to pay premiums for the high frequency, low cost items like ear infections or skin rashes or pyoderma or non-specific GI upsets. But they do want coverage for costly illnesses like cancer or metabolic diseases. So, we came out with a plan that covers that for less than half the cost of full coverage.

Doug: You still will be offering your per-incident plans. Is that correct?

Jack: We will, Doug, but those people who have the per-incident plan now can stay on it or they can move to annual. In some markets, we are going to be testing only annual plans and not per-incident plans at first, but the pet owner will have the option of choosing either one eventually – yes.

Doug: So, the current policyholders have the option of sticking with the per-incident plan or switching to the annual plan. Is that right?

Jack: Correct.

Doug: So, you just let them know a month or two before their renewal date comes up?

Jack: Yeah. We have to notify them by law. Pet insurance is regulated just like homeowners or auto insurance. We have to notify them in advance and what we do is let them know their options.

Doug: And I assume this whole process of state by state approval is going to take awhile.

Jack: Yeah. We have about 15 states that have approved the new plans and we have the others in process. Normally, it takes about a year and a half to two years to move from one underwriter to another. It's not a quick process because the states vary in how long they take to approve it.

Doug: So, whenever a pet owner goes to your site to get a quote, whether they are a current policyholder or a new policyholder, whatever plans are available – either the old or the new – will be the ones they'll have to select from. Is that right?

Jack: Right. It's automatic. Once a state approves our new plans, our website converts to the new options.

Doug: If a policyholder switches from a per-incident policy to an annual policy, will the pet be subject to underwriting again?

Jack: No. They would be impacted, for instance, if they have used up their per-incident limit, then they would be restricted by that. All future medical conditions would be unaffected under the new terms of the policy.

Doug: If they switch from a per-incident to an annual policy and they had an ongoing chronic problem, that particular problem would be covered still under the per-incident maximum limit. Is that right?

Jack: Correct.

Doug: I think you've already touched on the cancer policy and the cat illness policy. Tell us about your accident-only policy and what percent of pet owners opt for an accident only policy?

Jack: Not very many, Doug. Pet owners typically want the full coverage. Less than 10% want the accident-only. But, we do have it there for price conscience consumers and we're going to be doing some mass marketing of accident-only as an introductory plan so that pet

owners can experience pet insurance and see whether they like it, and then hopefully, they'll upgrade to the full coverage for their pet.

Doug: Tell us about your wellness coverage and the same question, what percent of pet owners opt for wellness coverage?

Jack: About 1/3 of our policyholders opt for wellness, and wellness coverage is a little bit different in that it is an endorsement to the plan. It provides about double the benefit as the cost and there's no deductible. It does have a limit on the benefits. We'll pay up to the limit of the benefit. For instance, a wellness physical exam – we'll pay up to \$50 – a flat amount with no deductible. They can go to any veterinarian. It has over \$500 of benefits for cats and almost \$500 for dogs and it costs about \$264 per year – so about half what the total benefits that are available. The reason we can offer that is they have to be insured to have that program and then we know that they won't use all the benefits, but they'll use about 50 to 70% of them on average.

Doug: I know veterinarians probably like it when pet owners opt for the wellness care because sometimes it's hard to get them to bring their pet in for dental prophylaxis and so forth, and since the wellness care covers that, then the pet owner may be more apt to follow through on the veterinarian's recommendation. Is that true?

Jack: Yes, the compliance is much better because if the pet owner has the wellness endorsement, they seem to use the benefits. They tend to come in for that annual exam and the preventative vaccinations. So, yes it does and we see a healthier pet and that's why we can offer it at such a lower amount than the usage. But then, we make up for it with them not having as many claims on the accident and illness side.

Doug: Well, that makes sense. You have a direct deposit program. Tell us how that works.

Jack: The direct deposit is for claims reimbursement. So, if a pet owner emailed us a claim today, and you can have the reimbursement funds in your bank account through direct deposit two days later.

Doug: And that's just something that policyholders can opt in for?

Jack: Yes, we have an internet web portal for all policyholders and they can not only submit the claim, but they can also have their reimbursement directly deposited into their checking account for every claim or individual claims or assign it to their veterinarian and have the veterinarian get direct payment. We know that most pet owners are paying veterinary bills with credit cards. So, what we've done is expedited it so we have same day payment on wellness claims and 1 to 2 day payment on illness claims so that so pet owners can have the money in their bank account before they get their credit card bill.

Doug: Do a lot of your policyholders opt for that?

Jack: Yes, they do. They love that value-added benefit. Over 40% of them do that.

Doug: When a pet owner submits an application, can they request a medical record review to determine if there are any pre-existing conditions that won't be covered under the policy? Will you do this and what's involved in that?

Jack: Sure, all they have to do is e-mail us or fax or send by mail a photocopy of the past 1 year of their pet's medical record and we'll let them know if there are any conditions that would be excluded from coverage. With us, if a pet has a prior medical condition before they enroll, that condition simply needs to be cured, but something like being a diabetic or hypothyroid, for instance, which is not curable, if they had that before being enrolled in pet insurance, that would not be covered.

Doug: Are there any situations where a pet might have a chronic, incurable condition where they wouldn't be eligible for accident and illness coverage, but you would offer them the accident-only policy?

Jack: Yes. If a pet has a serious medical condition that's life-threatening like cancer, they can enroll in an accident-only policy and then once that condition is stable or resolves, they can upgrade to the full illness plan.

Doug: Oh, okay – that's good to know. When a pet owner files their first claim, if there hasn't been a medical record review done, do you automatically request records at that time or does it depend on the claim?

Jack: It depends on the medical condition. If a pet has a laceration a month after getting a policy, we do not request medical records. We simply adjust the claim. But, if they have a tumor or cancer a month after they get the policy, then we will request medical records to determine if that medical condition was present before they enrolled.

Doug: Tell us a little bit about the North American Pet Health Insurance Association, its purpose and how many companies are members.

Jack: About 6 years ago, I got as many of the pet insurers together as I could and we met for a summit because I wanted to bring us together and talk about some common goals even though we were competitors. From that summit, four of us decided to form a pet insurance association. The association is designed to not only increase awareness about pet insurance, but we set standards for how we treat our policyholders, how fast we pay a claim, how transparent are we, advertising and we're also doing benchmarking. So, there are a lot of things we can do, even though we are competitors, to help each of us be more efficient, and lower our costs and when we lower our costs, we are able to give better value back to the pet owners.

Doug: What do you think the future of pet insurance holds?

Jack: Pet insurance is going to grow dramatically because it is a great way for pet owners to budget and then not be surprised and have to put to put their pets to sleep or not have their pet treated when it needs quality care. It's just that simple. Pets have been more and more bonded to their owners because we are understanding the physiological, psychological and social benefits of pet ownership. Pets are good for our health, and when they are good for our

health and well-being, we're finding that more and more pet owners are wanting to reward them by taking care of them and giving them a better quality of medicine.

Doug: What do you think the future is as far as electronic medical records, electronic filing of claims – you already doing electronic direct deposits – do you think that is in the future of veterinary medicine and pet insurance?

Jack: Absolutely! In fact, it's already here. We have a company out of the United Kingdom that has the ability to download a claim, medical records, invoices with the internet from the veterinary practice management software directly to the pet insurance software. That just started up in the last several months in the United States. Been going on for a couple of years in the United Kingdom.

Doug: How will that work as far as it being widespread so that every pet insurance company has that capability. Is that something that they're just going to have to join the program, so to speak, to make that happen or will they develop their own or what?

Jack: We're trying to encourage this new system to provide us with some efficiencies that benefit our costs to offset their costs and we're in the midst of negotiating that right now.

Doug: As you know, many veterinarians are scared to death of pet insurance and they foresee – some of them foresee pet insurance evolving into a managed care model similar to what we have with human health insurance. You've been quiet outspoken in trying to let the veterinary community know that that doesn't necessarily have to happen and I don't think you believe that it will happen, but talk about that.

Jack: Yeah, actually 30 years ago I was afraid of that when I first developed pet insurance in the United States. My primary concern even then was that we want pet owners to be free to choose their veterinarian and not have to go to a set network. We want pet owners to decide what level of care, what cost of care and what's the best care for their pet. We think that's best and not an insurance company or a bureaucracy telling them what treatments are allowed and what treatments are not. In the 30 years that we've had pet insurance, there have been some attempts at networks and managed care, but none of them have ever gotten any traction because pet premiums aren't tax deductible, so the pet owner is paying the premium, and not the employers. So the employers aren't forcing the pet owners to join networks. I think as long as veterinarians don't join networks and don't set fees, but determine independently for themselves the right fees, we won't have that in veterinary medicine. That and the fact that you'll have enough competitors who don't do it and we don't have the government telling pet owners what to do with their pets.

Doug: Before we go, would you like to say anything about the Skeeter Foundation?

Jack: The Skeeter Foundation is named after my dog that I had for 17 years. He was a wonderful Miniature Pincher, my traveling companion and him and his predecessor, Spanky, even though I'm a veterinarian, taught me about the human – animal bond and the benefits of pet ownership. As a result of that, my wife and I started a Foundation named after Skeeter. It has supported scientific research validating how pets help humans. It takes dogs, a couple of cats and several miniature horses into nursing homes, hospitals and schools and that's what the Skeeter Foundation does.

Doug: Well that's great. Jack, I want to thank you again for being a guest on the podcast today and sharing your vast experience and knowledge about pet insurance for those pet owners who will listen to the podcast and maybe consider purchasing pet insurance for their pet and I want to personally thank you for being such a tremendous help to me over the past few years informing me about pet insurance and especially Pets Best policies. I tell you, it seems like almost every time I email you – you must have an alarm on your iphone or something because it seems like within minutes I've got a reply and I can't tell you how much I appreciate that.

Jack: Well, I want to thank you, Doug for being an advocate for pet insurance and informing pet owners about the real value of it and so I see you as an ally for the whole industry. The one thing that I think makes Pets Best different is that my email and the only phone I have is available to veterinarians 24/7 and I really mean that 7 days a week. I'm here to help pets and help veterinarians be able to treat more pets. When I was in practice, I hated putting pets to sleep because the owners didn't have the money and I simply didn't want to do that.

Doug: I certainly appreciate you being an advocate for pet owners and their pets and for supporting the veterinary profession like you have, and again, thanks for being with me and I enjoyed the conversation.

Jack: Take care, Doug.

Doug: Bye – Bye

Jack: Bye