

Critical Illness Insurance

by *Stephanie Ditta and Hamish Wilson*

Most people are familiar with life insurance and disability insurance policies. But a relatively new insurance package aimed at contending with critical illness has been introduced on the Canadian insurance market. Critical illness insurance attempts to bridge the gap between life and disability insurance. Where life insurance policies pay out upon death or diagnosis of a terminal illness and disability insurance policies cover lost wages due to an accident or sickness, critical illness policies cover the insured upon diagnosis of an illness such as cancer, heart disease and stroke, to name a few. Originally developed in South Africa, critical illness insurance arrived in Canada during the 1990s, offering a financial security blanket against the possibility of expensive treatment and care.

Why critical illness insurance?

"Critical illness insurance is one that pays when people are diagnosed with a serious, life-threatening illness," says Joe Justus, Business Development Manager for the Empire Financial Group in Edmonton. Such illnesses are "not only life-threatening, they are also life-altering. The alteration generally suggests a need for cash in large amounts so that people can put their lives back together or work around their problem."

How does critical illness insurance work?

Upon diagnosis, critical illness insurance is designed to pay out the policy amount tax-free in a lump sum, usually 30 days after the initial diagnosis. In contrast, it often takes up to three months for long-term disability payments to begin, and even then they arrive in staggered, monthly installments. "In the long run, a disability plan would perhaps pay more," says Laszlo Kramar, an independent life insurance broker in Toronto. "But in the first few months, you won't get that much." And for many people stricken with a critical illness, the first few months following diagnosis can often be the most traumatic -- and expensive. Unlike life or disability plans, critical illness insurance provides a living benefit in cash directly to the ill person, without specifying or restricting expenses. The amount paid out can be used for any purpose, from immediate health-related costs to more general financial concerns such as looking after business, assets, or family, freeing the patient to concentrate more closely on the most important matter at hand: getting healthy.

Do you need it?

Many Canadians believe they are already well protected by their employer and government health programs. Or perhaps they feel that they already pay enough in health-related insurance premiums. Either way, many people do not realize the limitations in their health insurance coverage. For instance, most life and disability plans specify a maximum amount of coverage and, for someone who is critically ill and needs immediate and continual treatment, those health insurance dollars might not arrive in time or last long enough. Also, traditional life insurance does not cover survival expenses. People are living longer and the chances of surviving a disease are on the rise but the rate of contracting or developing a serious disease is also increasing. Advances in medical sciences have improved your chances of surviving a serious illness such as cancer, stroke, or organ transplant. Thanks largely to an aging population base, statistics also suggest that the rate of getting an illness is on the rise. The Heart and Stroke Foundation reports that the incidence of stroke is expected to rise by 32 per cent by the year 2006, with potential for a 68-per-cent increase within 20 years. Further, 60 per cent of those who suffer a stroke will be left with some form of disability. Even though your chances of survival have increased, surviving such a fate will not be cheap. In fact, the same technology that may save your life could destroy your financial well-being in the process. Recovery is often lengthy and expensive, involving losses to your personal wages and costs for care and treatment. Traditional life insurance does not cover such events. Critical illness insurance attempts to bridge this gap.

Which policy is right for you?

Each insurance policy is different, so finding the one that suits your needs will require a thorough examination. Policies will specify a definition for each medical condition and the provision of such benefits. As such, it is important to pay attention to the fine print in your policy. "There are some exclusions," says Robert Guertin, a Montreal-based insurance broker. In other words, if you end up falling victim to a critical illness not specified in your plan, you would still be out of luck. "Look at the details," Guertin cautions, "because the premium (might not reflect) all the exclusions you could have." Policies are available to Canadian residents between the age of 18 and 65, although some policies can be renewed until the age of 75 and even for life. Premiums are determined by your gender, age and whether or not you smoke. Emphasis is placed on your personal health history and especially that of your family. For instance, a family tendency toward a heredity disease such as cancer could result in its omission from your coverage. Coverage cannot be purchased for a pre-existing illness. When considering your health-insurance options, your decision might be determined by cost. In other cases, your decision might come down to a question of when, and for whom, the payment will be most useful. Where life insurance will be paid out to beneficiaries in the event of death or a terminal diagnosis, Justus points out that "critical illness is paid out on the diagnosis of survival."