



## *Critical Illness Insurance*

### **Introduction to the concept**

- The concept of life insurance is fairly straightforward: your loved ones and/or business partners would suffer financially as a result of your premature death, so you take out insurance that will provide for them in your stead.
- Critical illness insurance (or “CI” for short) takes the idea of personal risk management one step further — instead of paying if you die, this kind of insurance policy pays so that you can *live* — offering protection should you fall victim to a serious illness.

### **How it works**

- Instead of having to take out a bank loan, drain your retirement savings, or rely on family members while you recuperate from a disease, critical illness insurance will pay you a lump sum benefit to help speed your recovery.
- For example, a critical illness insurance policy might pay you \$100,000 should you be diagnosed with cancer or have a heart attack.

### **History of the product**

- In the 1980s, a doctor in South Africa named Marius Barnard noticed that although many of his patients were able to physically recover from surgery, their bank accounts never returned to normal. Working with an insurance company, Barnard helped to create the world’s first critical illness policy.
- The idea spread first to the United Kingdom, where people were anxious to find a way to pay for private care rather than going through the underfunded National Health Service. It soon became one of the most popular types of insurance coverage in Britain. The product is now gaining ground in North America.

### **CI’s place in your financial plan**

- Critical illness insurance is not a replacement for adequate life insurance or disability insurance coverage. Life insurance protects against your untimely death and disability insurance provides a regular income should you become unable to work.
- Critical illness insurance is a *complementary* product that is meant to help you overcome the large, one-time expenses that may be associated with a significant illness.

## Uses

- You are free to use the lump sum, cash benefit from a critical illness policy in any way you see fit. You could, for example, use the money to pay off your mortgage, renovate your home to make it wheelchair-accessible, fund a business buy-sell agreement, take a vacation, or even jump the medical waiting list in Canada and pay for private care in the United States. It's up to you.

## Types of coverage

- There are a wide variety of critical illness insurance products on the market, covering a range of illnesses. Most policies will pay should you be diagnosed with cancer, suffer from a heart attack, blindness, kidney failure, or a stroke. Some offer protection for more obscure diseases, such as the West Nile virus, E. coli bacteria, and meningitis.
- The definitions of what constitutes a “critical illness,” however, can vary from insurer to insurer — so it may take some research to determine which product is best in your situation.

## Refund of Premium

- Many critical illness insurance policies offer a return of premium or “ROP” feature. This means that if you don't make a claim, you will receive some or all of your money back upon reaching a certain age — usually age 65 or 75.
- Adding this feature will increase the monthly cost of your insurance, but it does appeal to people who like the idea of getting their payments back should they never need the product.

## Qualifying

- Critical illness insurance is sometimes subject to very stringent underwriting, and can be difficult to obtain.
- Depending on the amount of insurance you require, you may be asked to take a medical exam and those who already have a history of illness may not obtain coverage at a favourable rate.
- Generally speaking, it's best to obtain CI while you're still young and healthy so that you will have coverage in force in later life, when you may be more liable to fall victim to a serious disease.
- Obtaining coverage at an early age may also allow you to “lock in” your premiums at a guaranteed rate.

## Next steps

- What are your concerns? Are you worried about the financial damage an illness could do to your retirement savings? If you had the money available, would you jump the lineup in Canada and get immediate treatment in the United States?
- If you'd like to know how much it would cost to obtain a critical illness insurance policy of your own, I would be happy to give you a quote and answer any other questions you might have.