

Insurance

Critical Illness Insurance: Protection Worth Considering

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insurance (Pronunciation: in-'shur-&n(t)s) **1:** coverage by contract whereby one party undertakes to indemnify or guarantee another against loss by a specified contingency or peril; **2:** a means of guaranteeing protection or safety. *Mirriam-Webster Dictionary, 2004*

This definition does a good job of summarizing what insurance is and what its use is. What it doesn't do though, is describe the various types of insurance that are available, or identify all of the various types of risks which it can protect you against. With a myriad of different products available, it isn't easy to keep up with what each product's purpose actually is. Even within a specific part of the industry – life insurance – it is not uncommon for many to think “that all types of coverage are the same” or “that if you have one type of insurance, that is all that you need”.

This misunderstanding is especially common with Critical Illness insurance (CII), a relatively new product on the insurance block. This type of coverage is different from the more traditional types of insurance such as life or disability, none of which are interchangeable, as they all provide different means of protection against different risks.

What is Critical Illness Insurance?

Critical Illness insurance is designed to provide coverage in the event you are diagnosed with any of the policy's covered illnesses. A lump sum benefit will be paid for surviving a specific waiting period (usually 30 days) after diagnosis of the first occurrence of a critical illness, as defined by the contract. The most commonly covered conditions are life-threatening cancer, heart attack, stroke and major organ transplant, however, most policies cover upwards of eighteen or more other illnesses. People are living longer and medical advances now provide the potential for someone who could have died 30, 20 or even 10 years ago from certain illnesses, to survive. The lump sum that CII provides upon a diagnosis is meant to protect you from financial worries allowing you to focus on more meaningful things, most importantly your recovery.

One of the greatest values of a CII policy is the fact that the money is yours to spend in whatever way that you see fit. It can be used to pay for experimental medical treatment, fund child-care, pay off a mortgage, allow your spouse to take a leave of absence from their job or support your business while you recuperate. Another important use is asset preservation. You may already have a substantial portfolio that could fund your recovery, but is this how you envisioned spending the money you've worked so hard to build? This coverage can provide you with peace of mind in knowing that those assets will be there for you to enjoy once you've recovered.

How Do CII Premiums Compare to Other Products?

The truth of the matter is that CII premiums are more expensive compared to traditional life insurance coverage. Since the risk of developing a critical illness is more likely than dying prematurely, insurance providers are far more likely to pay out on these policies and as such, must transfer their risk through higher premiums. With that being said, although premiums may seem high to some right now, signs across the industry indicate an increase in costs within the coming months. For many, this coverage is simply too expensive – but if it can be afforded, it's something that should be considered now, rather than having to end up paying more than you have to if you wait too long to decide.

Although statistics indicate the great likelihood of developing a critical illness, unlike death, it isn't a certainty. For that reason, many companies offer an optional rider that will return your cumulative premiums when the policy expires if you are lucky enough to avoid any of the policy's specified illnesses. In this case, if you make it to the end of your coverage (typically age 75, although some riders may allow for a partial return of premium sooner) and don't make a Critical Illness claim, the good news is that you'd be healthy, never having suffered a critical illness and you get your money back.

So Just How Much Would it Cost?

To give you an idea of how much this coverage would cost, attached is a chart outlining monthly premiums for Term-to-75 coverage for 3 different face amounts for 40 and 50 year-old male and female non-smokers. What you pay depends on factors such as age, sex, smoking status and current health status, specifically looking at things like your height, weight, lifestyle, and medical and family history. When applying for CII coverage, you would go through a process similar to that for life insurance, including medical tests and answering questions about these personal subjects.

Sample Monthly Premiums* for Level Term-to-75 Critical Illness Coverage									
Coverage Amount	Male Non-Smoker Age 40		Male Non-Smoker Age 50		Female Non-Smoker Age 40		Female Non-Smoker Age 50		
	Regular Premium	With "Return of Premium" Rider	Regular Premium	With "Return of Premium" Rider	Regular Premium	With "Return of Premium" Rider	Regular Premium	With "Return of Premium" Rider	
\$100,000	\$88.92	\$103.68	\$156.15	\$206.19	\$75.06	\$92.34	\$119.07	\$167.13	
\$250,000	\$202.28	\$252.45	\$381.15	\$508.73	\$170.10	\$224.10	\$274.05	\$411.08	
\$500,000	\$397.80	\$500.40	\$755.55	\$1012.95	\$333.45	\$443.70	\$541.35	\$817.65	

* Premiums obtained from companies on ScotiaMcLeod Financial Services Inc.'s approved list of insurance carriers.
Source: ScotiaMcLeod.

When we are healthy, it's difficult to fathom the possibility of developing a critical illness, but in practicality, it is the best time to consider the impact that something like this would have on ourselves, our loved ones and our entire financial well being. Speak to your life-insurance licensed ScotiaMcLeod advisor to find out more about incorporating critical illness insurance into your overall financial plan.