Insurance policies that benefit the living

That's what disability and critical illness plans are for

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Life insurance protects your family from financial adversity when you die. You only die once, but you may get sick or injured several times in your life.

Wouldn't it be nice to have an insurance policy that pays out when you need it – and you're still around to enjoy it?

For benefits while you're alive, you might want to look at disability insurance or critical illness insurance. The two are easy to confuse, but address different needs and hardly overlap at all.

Long-term disability insurance, or LTD, is designed to replace your income from employment or self-employment.

LTD pays you a monthly benefit, typically a percentage of what you earned before becoming disabled. The benefits may last for a few years – and possibly until you're ready to retire, if you can't go back to your own job or any job.

Critical illness insurance (CI) pays a lump sum when you're diagnosed with one of the illnesses covered under the policy. (There's no standardized list of illnesses or definitions.)

You can use the tax-free infusion of cash to cover medical expenses, hire nurses, build a wheelchair ramp or take a vacation. What you do is up to you.

Unlike LTD, which requires workforce participation, CI covers stay-at-home parents, homemakers and unpaid caregivers. If they get sick, their families might have to purchase services elsewhere.

Here's a summary of the key points of each policy, courtesy of Mark Halpern, a certified financial planner and insurance specialist:

- LTD can replace a portion of your income. CI can pay a lump sum to use as you choose.
- LTD requires ongoing proof of loss of income to continue receiving payments. With CI, no ongoing proof is required.
- LTD benefit payments may stop once you start earning an income. The CI benefit is not affected by your other income.
- The LTD benefit is limited to a percentage of your pre-disability income. The CI benefit is the full amount of the policy.

Employees often have long-term disability coverage provided by an employer. But they may want to top up the coverage or buy their own if they move jobs frequently.

For self-employed people, LTD can be a life saver – so to speak – allowing them to keep their heads above water financially when they can't work.

Janet Freedman, a financial planner who runs her own firm, had a terrible fall in 2000 and fractured her spine. She spent five months in the hospital.

Luckily, she had disability insurance (DI) – since she advised others to buy it – and was covered for $2,000 a month.

Freedman had purchased her policy 20 years before her accident. The original benefit was $1,000 a month, but she gradually increased the coverage without having to take medical exams.

However, the premium for the extra coverage was higher, reflecting her increasing age.

"The older you are, the more expensive it is to buy," she says about DI. "As a general rule, if you want $3,000 a month coverage, you'll pay $3,000 a year in premiums for an individual plan."

She had a top-of-the-line policy, which covered partial disability. This meant she could return to work part-time and get benefit payments to supplement lost income.

Seven years later, she's still getting DI benefits. But there have been bumps in the road.

"I waited months for cheques at times, despite numerous phone calls from me and my broker, and things improved only after I paid a lawyer to write a letter on my behalf," she says in her book, *Hit by An Iceberg: Coping with Disability in Mid-Career* (Trafford, $35.95).

"I haven't been impressed with the accounting or accountability at all, but my concern is more that others without a financial background such as I have may not be receiving all the benefits to which they are entitled."

Insurance companies are not your friends, she emphasizes. The minute there's a claim, the relationship becomes adversarial and you're on opposite sides.

Only a handful of insurers offer long-term disability coverage in Canada. This can lead to disputes and denial of coverage.

Statistics show that more people are likely to get cancer, heart attacks or strokes – the major illnesses covered by CI – than to become disabled for six months or more.

CI is a fairly new product, just a decade old in Canada.

It started with Dr. Marius Barnard, a South African surgeon (and brother of heart transplant pioneer Dr. Christian Barnard), who saw the damage serious illness can do.

A patient who inspired him was a 34-year-old single mother, terminally ill with lung cancer. She had to work right up until her death to support her children.

People are now surviving crititcal illnesses – but the bad news is that many won't recover fully and will be dependent on others.

"You need this insurance not because you're going to die, but because you're going to live," Barnard said at a conference this year in Victoria, B.C., according to *Insurance Journal*.

However, he urged insurers to develop new policies with reduced payouts if an illness was less severe. That could help bring down the premium cost – which has been going up steadily.

If changes aren't made, CI insurance "will become so expensive that no one will be able to afford it," Barnard said.

If buying a CI policy, prepare for lots of questions and a lengthy underwriting process. You may not get covered for pre-existing medical conditions or illnesses prevalent in your family.

Halpern gives the example of a client, 51, whose mother and sister had breast cancer in their 40s. He found her a policy, but one that excluded coverage for breast cancer.

"I said she should take it," he says. "Five months later, she had a heart attack and collected a cheque for $250,000.

"She called me from Sunnybrook hospital and talked about the financial stress she saw among other heart attack victims. But she had real peace of mind."

As with disability insurance, the CI coverage is more affordable when you're younger. You can opt for a refund of premiums if you don't make claims, but that will jack up the cost.

- Money 401 takes a break next week, returning on May 27 with a look at health insurance and travel insurance.

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