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Hedging your bets with critical illness insurance

By Michelle Warren • Bankrate.com

Erin Petry is a prime candidate for critical illness insurance. However, as the owner of an upholstery boutique in Toronto, she's like many entrepreneurs: too busy working to think about what would happen if she couldn't work.

"If something happened to me right now, that would be the end of my business," admits Petry. "[Critical illness insurance] would make sense, especially because my work is so physical -- I wouldn't be able to do it if I was sick."

Petry is not the only one giving critical illness insurance a second glance. Insurance experts say it's an increasingly popular choice because it differs from traditional disability insurance.

Disability or critical illness insurance?

"Both are important," says Mark Halpern, a certified financial planner and president of IllnessProtection.com Inc. in Markham, Ont. The appeal of critical illness, however, is it pays a lump sum of up to $2 million within 30 days of diagnosis. "It's not about having a terminal illness, it's about a diagnosis. It gives a lot of people peace of mind because they can focus on recovery."

In contrast, long-term disability pays up to two-thirds of current income, which is OK if you have a well-paying full-time job. However, it's a drawback for the unemployed, stay-at-home parents, lower-wage earners or self-employed professionals with a decent accountant who minimizes taxable earnings. There's also a waiting period of 90 days before payout, and you need to be under a doctor's care. In addition, long-term disability benefits are payable to age 65, while critical illness can extend into retirement years.

"There is a much higher likelihood of collecting on a critical illness policy versus long-term disability," says Halpern.

What's covered?

Critical illness insurance differs from company to company, but generally covers about two dozen conditions, including:

- Cancer.
- Heart attack.
- Bypass surgery.
- Stroke.
- Blindness.
- Alzheimer's disease.
- Parkinson's disease.
- Multiple sclerosis.
- Organ transplants.
- Kidney failure.
- Paralysis.

- Loss of independent living.

Insurance companies report 90 per cent of critical illness payouts arise from four common conditions: heart attack, cancer, strokes and bypass surgery. It's worth noting that one in three Canadians will contract a critical illness during their lifetime.

Health is your greatest asset

"Your risk of suffering a critical illness before age 75 is five times greater than the risk of dying," says Halpern. From a risk-management perspective, he adds, critical illness insurance should be a priority during financial planning.

Most people assume their most valuable asset is their house -- but that's not true, he says: "Their greatest asset is their ability to earn money. It doesn't make sense that people are willing to insure their house and their car, but they don't insure themselves."

It's harder to qualify

The downside is that about 30 per cent of people who apply are declined or rated (basically, pay more) because of family history or personal health.

Like all types of insurance, the best time to apply is when you're young and healthy. Policies are underwritten at application, which involves a complete physical and disclosure of family medical history.

It helps to work with a professional adviser who can guide you through the application and be an advocate. "Complete transparency is key. At the time of claim, you don't want to have any questions or any problems," says Halpern.

How much should you get, and how much will it cost?

While a family history won't necessarily disqualify you -- in fact, that's when you should consider it most -- expect to pay a bit more if you're "higher risk."

Critical illness is more expensive than disability insurance, and cost depends on several factors. These include age, health, term and benefits, which range from $25,000 to $2 million. Consult with a financial adviser, but consider at minimum a one-year salary replacement and one year of mortgage or rent payments.

A $100,000 benefit for a healthy individual would look like this:

Age	Term	Annual fee
30 to 40	10 years	$350
40 to 50	10 years	$603

"A lot of companies also offer return of premium, either on death or when the policy expires," adds Lorne Marr, certified financial planner and founder of LSM Insurance in Markham, Ont. "People like this option because it pays out in both events."

For instance, Marr says a 40-year-old non-smoker man with a term to 75 on $200,000 benefit would pay $193.50 a month. Or, with the return-of-premium option, he would pay $261.23. If he stays healthy, he gets back $109,166 when he turns 75 -- or whatever he has paid in, should he die earlier under circumstances not covered by the policy.

Halpern likens it to a zero per cent GIC hedge, with the added benefit that critical illness provides peace of mind. "People need to know what their options are when they get sick," he says.

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