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GETTING PERSONAL CANADA: Protecting Against Critical Illness

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TORONTO (Dow Jones)--Money is the last thing that you want to worry about when you're recovering from cancer, or a stroke, or a heart attack.

But, few people tend to make the necessary financial provisions to cover their household expenses, child care, living and/or medical and rehabilitation costs, says Mark Halpern, a Toronto-based certified financial planner and president of illnessprotection.com. "We live in a society where people don't really review what they have in their financial plan, and they naively think the government is going to look after them if they get sick," he says.

Since Canada has universal health care, medical costs aren't an issue, unless you seek treatment outside of the country. Critical illness insurance, available in Canada for the past 10 years, provides a predetermined lump sum to the policyholder on the diagnosis and survival of an illness that is covered by the policy. The conditions that are covered include cancer, stroke, heart attack, kidney failure, Parkinson's or Alzheimer's. Premiums for most critical illness products are guaranteed for the life of the policy.

"Unlike life insurance, people aren't as aware of living benefits products, such as critical illness, disability income and long-term care insurance, compared to life, auto and home insurance products," says Ben Miclette, vice president of living benefits at RGA Reinsurance Co. in Montreal. "So, financial advisers have the dual role of educator and adviser."

Premiums will vary depending on the policy's size, the types of illnesses covered, and the applicant's age, gender, smoking status, personal health and family history, particularly parents and siblings prior to age 65. For example, a healthy, 45-year-old male nonsmoker would pay $50 a month for a 10-year, C$100,000 critical illness insurance policy. A C$500,000, 10-year term would cost C$200 a month. Ratchet that up to C$1 million and the monthly premium doubles to C$400.

Some people don't apply because they think it is harder to qualify for critical illness insurance than life or disability coverage, but that shouldn't dissuade them, says Halpern. The 45-year-old male nonsmoker, whose mother had cancer at 50 and father had a heart attack at 60, would still qualify but his monthly premiums would likely increase by 50%, he says.

When buying a policy, consider buying enough to replace at least one year's salary and one year's housing or mortgage payments. "That buys people the time to focus on getting better as opposed to worrying about money," says Halpern.

Group critical illness plans are increasing in popularity but "are still the exception rather than the rule," says Miclette. However, they usually offer a relatively low level of coverage.

Policies will also vary among insurers. Premiums will decline if the policyholder remains healthy, so it is important that policyholders make sure their financial advisers keep insurers informed of their health, says Halpern. Some insurers will return 100% of the premiums back to policyholders, without interest, at maturity if they don't submit a claim during the policy's life. "It's sort of like a zero percent hedge for wealthy people," says Halpern.

The so-called return of premium benefit "has historically been very popular in Canada" and likely inspired other countries to develop it, says Miclette. He says their popularity has waned in recent years, as premium rates changed and financial advisers refocused their sales approach, recommending clients buy a higher benefit amount rather than investing in a return of premium benefit.

Less than 25% of financial advisers in Canada have sold critical illness protection, Halpern says, citing industry statistics. But, as aging baby boomers become more aware of critical illness coverage, they're going to ask their financial advisers why they don't have it.

"It's only a matter of time before somebody gets a call from his or her client, who says, 'My husband just had a heart attack. How much critical illness insurance do we have?' And, the adviser is going to say, 'Huh.' I personally feel that that's grounds for potential litigation in the future," says Halpern. "Advisers, at least, have to do the proper thing by telling their clients about it."

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