

Your Health is Critical – Are You Protected?

By Jim Dehoney

Since its development in the early 1980s by South African physician Dr. Marius Barnard (brother of famed pioneer heart transplant physician Dr. Christian Barnard), critical illness insurance has consistently grown in popularity.

This article, presented in a series of questions, is designed to help you determine the suitability of critical illness coverage. This information is equally applicable to your clients. You may wish to service your client base by drawing their attention to this product.

Who do you know that has been diagnosed with or survived cancer, a heart attack or a stroke?

Take a moment and think about that person. Statistically, the odds of being diagnosed with or having one of these conditions during your lifetime are significant relative to other risks. Some numbers to consider:

- The odds of a cancer diagnosis are 1 in 3. ⁽¹⁾
- One of every two heart attack victims is under 65. ⁽²⁾
- One in three stroke victims is under 65. ⁽²⁾
- The likelihood of the average Canadian employee starting out in the workforce being diagnosed with a critical illness is 20.1 per cent; the likelihood of that employee dying prior to age 65: 2.1 per cent. ⁽³⁾

Did they survive?

One of the key reasons critical illness coverage is so important is higher survival rates. Due to medical advances, survival rates for individuals stricken by a life changing event have improved dramatically and will continue to do so. This has changed the nature of the financial risk involved.

How old were these individuals when diagnosed or stricken?

It might surprise you to know that the average age of claimants owning critical illness coverage is in the mid-forties. ⁽⁴⁾ The average employee in Canada is 42 years old. ⁽⁵⁾ During the “family stage” of your life, the impact of a critical illness can be devastating on all fronts.

Did this cause them financial concerns?

Amongst all the other challenges, there usually is a substantial financial impact faced by individuals diagnosed or stricken with a life-threatening medical condition.

Direct medical costs in Canada are reduced for individuals by our universal health care system; however, even the Canadian Cancer Society admits that over 60 per cent of the total costs associated with battling cancer are not covered by our healthcare system. (6)

Whether you are a sole proprietor or partner in a firm, financial pressures related to overhead or business loans required to run your practice may be magnified at the time of a critical illness.

A real life example: A client recounts his recent experience.

A client of my firm, Dehoney & Associates, a Vancouver-based insurance and financial consulting firm, and his brother, are each 50 per cent partners in a family-owned business with 16 employees. In September 2006 the brother's wife was diagnosed with a malignant brain tumour. Rather than leave his wife in the hospital, he brought his spouse home and hired the services of a private nurse. The nursing costs were \$4,000 per week. Due to the financial strain, he has had to refinance his home and has not worked in the family business for the last six months. Even though his wife has coverage under a benefit plan, most of her expenses were not covered by the plan. A critical illness policy would have been a value to both the business and the families in their time of need.

What benefits did these individuals have to help them financially during this time?

Most people have the traditional benefits of life insurance and long-term disability insurance to help deal with these unforeseen circumstances. But life insurance does not apply when a person survives a critical illness.

Disability insurance provides about 60 per cent of income replacement; however, there are many other unanticipated expenses when a person is diagnosed or stricken with a serious medical condition. If you were diagnosed with a serious illness, would your cost of living go up or down?

Would a lump sum of tax-free money at this crucial time have made a difference ?

The answer is self-evident. This is exactly what critical illness insurance does!

This lump sum benefit can be used any way you choose. For example, you could use the proceeds to pay off or reduce your mortgage, credit cards, business expenses, loans and lines of credit. It can even pay for alternate or additional medical and related treatments and services.

In Canada, employers can deduct the premium cost of this benefit for employees. The employee receives the benefit on a tax-free basis.

What are the basics I need to know about critical illness insurance (CI)?

Types of policies

There are individually owned, group and creditor type products. Basic policy factors to consider are:

- cost
- comprehensiveness
- guarantees
- renewability
- definitions
- enhancement options.

Generally, individual policies are the most comprehensive in terms of number of covered conditions, guarantees, renewability, definitions and customizable options. However, individual policies are generally more costly and have more stringent underwriting criteria than group CI or creditor CI. Group CI policies sit in the middle of the market and creditor coverage is at the base of the market.

What conditions are covered?

Policies available on the market range from the three most common conditions to as many as 23 or more diagnoses. Almost all policies feature coverage for the most prevalent conditions, namely cancer, heart attack and stroke.

Other covered conditions could include:

- Alzheimers
- benign brain tumour
- blindness
- coma
- coronary artery bypass surgery
- deafness
- kidney failure
- loss of speech
- major organ transplant
- motor neuron disease
- multiple sclerosis
- paralysis
- loss of limbs
- Parkinson's disease
- severe burns.

Some more recent conditions that some polices cover include:

- aortic surgery
- aplastic anemia
- bacterial meningitis
- heart valve replacement
- loss of activity of daily living (independent living).

When does a critical illness policy pay?

Critical illness policies require that the insured is diagnosed with a condition covered in the policy and survives for at least 30 days, for most of the covered conditions. At that point, the insured is eligible to receive a lump sum benefit to use in any way they wish in helping them meet the challenges they face. Some covered conditions, such as paralysis, require a longer waiting period of 90 to 180 days. This would also apply to loss of use of limbs or speech, and loss of activities of daily living. Payment for a major organ transplant would be made after transplant surgery or the date of enrolment in a transplant program.

Can I be turned down for critical illness coverage?

The answer depends on the product application type or eligibility. When applying for an individual fully underwritten critical illness policy you can be declined. Our own experience shows us that around 30 per cent of applications are declined, rated or modified. Individual products require full medical underwriting with a focus on your prior health history and an emphasis on the covered conditions found in the policy. Your immediate family history is also a major consideration in underwriting critical illness coverage.

Most people are automatically approved for group critical illness coverage, provided they are in an eligible class or group. Insurers manage the group risk by use of pre-existing condition clauses, usually 24 months prior to enrolment and after enrolment. For some larger employer groups the pre-existing limitation may only be 12 months prior to enrolment and 12 months after.

Creditor CI coverage uses an application with a series of screening questions. If you answer yes to any of the screening questions you are not eligible for coverage.

What does it cost?

The good news is there is a wide range of critical illness products available in Canada. As a rule, most working Canadians can afford some form of critical illness coverage. Some examples are:

- Standard group critical illness coverage is available for \$36 per month to receive a \$100,000 lump sum for a 40-year-old male or female non-smoker. ⁽⁷⁾
- Sample pricing for a basic individual critical illness plan on a standard issue basis would be \$65 per month for a 40-year-old male non-smoker to receive \$100,000, to age 65 coverage, and \$57 per month for a 40-year-old female non-smoker. ⁽⁸⁾

Factors in determining the cost of a plan are:

- coverage period (10 years to age 65 or even age 100)

- policy guarantees of premium and renewability (guaranteed future rates and renewability, while often desirable, cost more)
- number of covered conditions and better definitions
- optional features (like return of premium on death or premium expiry)
- gender (cost for males is more than for females)
- tobacco use (significant in the cost for individual coverage)
- age (older clients pay higher rates)
- certain considerations like high risk occupations or avocations.

What criteria should I use in determining whether CI is right for me?

Your budget is a primary consideration but you will want to weigh this factor against the important question of the financial impact to yourself, your family or your business if you were stricken with one of these major medical conditions.

Once you have made the decision that critical illness insurance should be part of your financial plan, you will want to determine the amount of coverage you need. Factors to consider in assessing the amount of coverage would include:

- the outstanding balance of your mortgage
- business loans
- lines of credit
- other debts.

Also, you will want to consider the additional cost for treatment and related expenses when facing this challenge. These costs can be substantial.

Next, you will need to determine the length of your coverage. Most policies in Canada offer coverage to at least age 65 or 75, but some people want coverage beyond 75.

Another important factor to consider is how comprehensive you want the policy to be. The number of covered conditions in a policy is a factor here. It should not come as a surprise to you to learn that the majority of critical illness claims are for cancer, heart attack and stroke conditions, with cancer accounting for well over half of all critical illness claims. However, other major illnesses can have the same financial impact. For this reason you may want to purchase a more comprehensive plan that covers more major illnesses. Critical illness may be more important if you do not have disability coverage or limited life insurance coverage. A great example of this would be an at-home spouse who does not qualify for disability coverage.

Other options to consider might include purchasing a policy that returns the premiums you paid in if you do not claim. Individual policies offer this feature and others at additional cost.

Are You Protected?

Critical illness insurance coverage comes in many shapes and forms in the Canadian market. You will first want to consider whether this coverage is right for your financial plan, and seek the advice of a living benefits advisor who can help you select coverage that best suits your needs.

This article gives you a basic understanding of the importance of critical illness coverage in your financial plan. Although an overview of critical illness insurance coverage types and consideration has been provided, space limitations do not allow for dealing with every possible need or situation.

Sources:

- (1) Canadian Cancer Society, www.cancer.ca
- (2) Heart and Stroke Foundation, www.heartandstroke.ca
- (3) Assuming average age of someone starting out in the workforce at age 25. 1989-91 Experience report by group size, Canadian Institute of Actuaries, Sept. 1999. M&G; critical illnesses include: cancer, heart attack, stroke, kidney failure, multiple sclerosis, blindness and deafness.
- (4) Munich Re CI worldwide claims review
- (5) Dr. Robert Brown University of Waterloo
- (6) Canadian Cancer Society 2000
- (7) Sample group critical illness rate quoted from Industrial Alliance Pacific.
- (8) Sample individual critical illness rate quoted from RBC Insurance.

Jim Dehoney is the president of Dehoney & Associates, a Vancouver based insurance and financial consulting firm. Jim has worked in the insurance and benefit field for over 25 years, focusing on Canadian Controlled Private Corporations. Dehoney & Associates is an entrepreneurial firm using financial and insurance products to align with its customer's business strategies. The firm has developed innovative strategies, such as the integration of individual and group products, for the corporate and professional market.

Dehoney & Associates has seen strong interest in critical illness insurance amongst its clients over the last several years, with approximately 600 lives deciding that critical illness is the right benefit for them.