



## CRITICAL ILLNESS INSURANCE

Over the past decade, interest in **Critical Illness Insurance** has been on the rise. Although Critical Illness Insurance has been slow to expand into the market since its launch in 1983, now, most of the “big insurers” and some large banks offer it (although smaller insurance companies continue to be its main promoters). Whether or not critical illness insurance is here to stay is not the question we need to answer. What we **need to answer is whether Critical Illness Insurance is appropriate for you and your organization.**

### What is Critical Illness Insurance?

Critical Illness Insurance is coverage that provides a lump sum payment to people who survive a covered life threatening illness for the minimum period specified by the plan. Normally the coverage is limited to 15 – 20 illness categories, which may include:

- Heart Attack
- Coronary Bypass Surgery
- Stroke
- Life Threatening Cancer
- Parkinson’s Disease
- Multiple Sclerosis
- Blindness
- Kidney Failure
- Severe Burns
- Coma
- Major Organ Transplants
- Alzheimer Disease
- Paralysis
- Loss of Speech
- Deafness

In most cases, when applying for Critical Illness Insurance applicants are required to **submit medical history before the insurer will issue coverage.**

**Benefit payments can range from \$10,000 - \$1,000,000.** There are no restrictions on how the recipient can spend the payment and the funds do not attract tax. Following medical recovery, there is a minimum survival period for payment. Generally, the minimum is 30 days but it depends on the type of illness; for example, Multiple Sclerosis often has a much longer survival period.

Our research shows that if the insured individual has more than one of the covered critical illnesses they will **only receive benefits once.** After receiving payment, the coverage automatically terminates.

**The premium rates are generally age banded and based on gender and smoking status.**

Premiums can range from a few dollars a month to hundreds - depending on the person and the coverage selected.



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## Who would need Critical Illness Insurance?

Critical Illness is marketed as a 'bridge' between life and disability insurance. **The big question here is whether or not there really is a need for this bridge.** Most mid to large Canadian employers offer some form of disability income and health coverage that assists employees in the event of a prolonged absence. As well many group life insurance plans offer a "Living Death Benefit" to persons with a terminal illness that provides a portion of their life insurance coverage to help with expenses or to use as they see fit.

As it is difficult to predict whether a person will incur a critical illness, it is doubly difficult to predict the type of illness and the related expenses. What needs to be determined is **where the greatest financial exposure exists to the average person and does Critical Illness Insurance address that weakness properly?**

The role of Critical Illness Insurance is to supplement existing types of insurance. Due to real or perceived need and affordability, older and higher wage earners are more likely to be consumers of the product. The media has played a big part in educating people, rightly or wrongly, about the problems with our health care system. A person nearing retirement age and listening to the stories about long waiting lists and service cut backs could feel that their health and lifestyle may be threatened. Many in this circumstance look to the U.S. medical providers for quick access to services and could feel that Critical Illness Insurance gives them the money to make such a decision. But this opens up another **whole series of problems that people rarely consider such as the loss of Medicare and/or group benefit coverage, stress and expenses resulting from living away from home and your country, to name a few.** \$10,000 does not go far in the U.S. when seeking foreign medical care.

## Can you afford the unforeseen costs of a critical illness?

The bottom line is that an average person cannot afford the costs of a critical illness. The problem is that an average Canadian does not know what that dollar amount is or could be and few people plan for that probability. Thankfully, we rarely encounter Canadian stories based on financial hardship resulting from medical bills. The more common Canadian hardship is the inability to gain a reasonable income to pay normal living expenses (such as rent or child care) while ill. **While disability benefits clearly fill this gap, does Critical Illness Insurance positively address this need?**

## Do the costs outweigh the benefits?

Premium costs for a Critical Illness policy for \$100,000 of coverage, can be as high as \$5,500 per year for a 60-year-old male smoker. To age 65, this person would have spent over \$27,000 in premium. Due to the high costs, consumers need to ask themselves, "Does the need warrant the costs?" Am I putting my money in the right place (premiums) or should I invest an equivalent amount in a vehicle that earns money and lets me get at it and use it as I see fit? Maybe all I really need to do is increase the amount of my LTD coverage?" In every case, the question is an individual one versus one that an employer could accurately respond to on a general basis for their entire employee population. **If a group health plan exposes members to that degree of financial risk in Canada, there is something very wrong with the plan and/or the information.**

Do the costs outweigh the benefits? It depends on the individual.



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## What is our opinion?

### Do we think that Critical Illness Insurance is a benefit to be offered as part of a Group Program?

**NO!** The coverage is too restrictive and expensive, and we further question the real need for the average Canadian.

**Our opinion about Critical Illness Insurance is that it is a product developed and most appropriate for individuals and not for inclusion under the average group benefit plan umbrella.** However, an employer could consider offering access to the coverage as a service, provided issues such as liability exposure and administrative support are investigated and properly addressed. We believe that the average employee would struggle in their understanding of this product and in determining whether they need it. This is a major issue for an employer to consider.

As a member of your company's leadership team, what you have to ask is, **are there any corporate incentives to offering this product to employees?** Insurance companies will always be looking to sell new and innovative products but each organization needs to determine which are appropriate for them and their population. Let the buyer beware.

For more information on what Critical Illness Insurance might cost you, go to [www.kanetix.com/generic/critical\\_illness/](http://www.kanetix.com/generic/critical_illness/) for a free quote.