Income Protection – Situation Critical

Thanks to advances in medicine, the chances of surviving a critical illness have improved significantly over the past few decades. Fortunately, the three major causes of death – heart attack, stroke and cancer – if detected early and treated immediately, now have a much higher rate of survival. In fact, according to the Heart and Stroke Foundation and the National Cancer Institute of Canada:

- More than 80% of heart attack patients admitted to hospital survive;
- 85% of stroke victims survive the initial event; and
- 75% of men and 77% of women who develop cancer survive.

Of course, surviving a critical illness is extremely good news – but it can also be costly. Patients may be unable to return to work for an extended period of time. Among other things, they may also be forced to:

- Retrain for another type of job;
- Travel some distance to specialized facilities for treatment;
- Hire help for housework and childcare;
- Make modifications to their homes to accommodate disabilities. In severe cases, they may also require nursing services at home or in a long-term care facility.

Critical Illness Insurance Can Fill the Gap

According to a 2005 Ipsos-Reid poll about half of Canadians (54%) think they will have enough money to cover their expenses if they become critically ill, – yet just 22% report that they have critical illness insurance. This type of insurance policy is relatively new to Canada. It fills the gap between:

- Life insurance (which only comes into force if you die or, in certain cases, are diagnosed with a terminal illness) and
- Disability insurance (which often has a 90-day waiting period before the first benefit payment and which only replaces a portion of your income).

Critical illness insurance can ease the burden of families facing the emotional turmoil of a frightening diagnosis by providing peace of mind that unanticipated costs, in addition to regular bills, will be covered. Many critical illness insurance policies pay a lump sum benefit if you survive 30 days after being diagnosed with a condition listed in the policy definitions. Basic policies usually include protection for heart attacks, strokes and cancer. You may choose to pay more to cover additional diagnoses.

Critical illness insurance can be structured as a stand-alone policy or as a rider attached to a life insurance contract. Some policies even offer a refund of premiums rider if you die or the policy matures before any benefit has been paid. Critical illness insurance can also supplement other types of insurance you may already have such as disability insurance.

Since there is no “standard” policy, read the fine print carefully before considering a critical illness insurance provider. Insist on clear medical definitions and closely examine any exclusions. Be aware that the medical examination for critical illness insurance is generally more detailed than for life insurance – and that you may not be able to get coverage (or coverage may be prohibitively expensive) if you have a high-risk family history or a history of alcohol abuse, illegal drug use, obesity or smoking.

How Much Is Enough?

As a general rule, the critical illness benefit should be enough to allow you to take at least one year off work without affecting your lifestyle – plus an additional amount to cover the costs associated with a critical illness diagnosis.

Let's look at an example:
Morgan is 45 years old and earns $150,000 a year as a senior executive. Morgan is married to Lennie and has two children, aged 10 and 12, who attend private school. Lennie is a stay at home parent.

An amount of $250,000 would probably be sufficient to keep up his regular payments, including his children's tuition, and allow room for home modifications, home care and other costs associated with a serious disability resulting from a critical illness.

The Heart and Stroke Foundation reports that almost 18,000 Canadians aged 30 to 59 are hospitalized each year following a stroke. If Morgan suffered a debilitating stroke, and didn't have critical illness insurance, he could expect to pay $27,500 in acute care costs. Additional house renovations to accommodate a wheelchair could run into the thousands. If Morgan required the care of a nurse at home the hourly charge could be close to $40, which could add up quickly. Similarly, long-term care in a private nursing home could cost between $30,000 and $84,000 a year. Government-run facilities are less expensive but may still cost $12,000 to $57,000 annually.

The situation is clearly brighter with a critical illness policy. Morgan would receive a lump-sum benefit of $250,000 thirty days after his diagnosis, which could be used for any purpose he or his family chooses. The necessary expenses would be paid first, but any remaining money could be used, for example, to pay for distant family members to come and assist in providing care.

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