



# Critical Illness Insurance 101

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**Y**ou need financial independence when you're ill. Not because you're going to die, but because you're going to live," stated Dr. Marius Barnard, world renowned heart surgeon who helped develop critical illness insurance.

In 1996, I was invited to attend an all day seminar hosted by Canada Life Assurance Company. They were introducing a new product called critical illness insurance.

Critical illness insurance had already been well established in countries such as South Africa, Australia, and England. And, for the first time ever, Canadians would have an opportunity to purchase the product here.

They explained how critical illness insurance began and how its founder, South African, Dr. Marius Barnard was consulting with Canada Life to develop a plan for Canadians. Dr. Barnard witnessed the emotional strains that many of his patients faced after surviving serious illnesses. Financial stress often worked against recovery. In many cases, it left patients struggling to pay bills as they resumed their lives. These were real life examples of people who had survived a serious illness, then had to deal with the medical and financial burdens of that illness.

Getting sick isn't something any of us likes to think about. But it does happen. When it happens, thanks to advances in medical science and technology, along with improvements in healthy living, chances are you'll recover and get on with your life.

It got me thinking and asking myself.

- What if I was diagnosed with a critical illness?
- Where would the money come from?
- What would happen to my finances?
- Could I cover all of my debts including my mortgage?
- Could I cover my medical expenses?

Critical illness insurance was designed to cover these costs and allow us to focus on what matters most – getting better.

When the seminar ended, the first thing I did was to apply for a critical illness insurance policy. After a four-week underwriting review, which included a medical exam, I was delighted and felt fortunate to hear that my applica-

tion was approved. I have owned a critical illness insurance policy ever since.

Since 2001, critical illness insurance has been the fastest growing sector of the Canadian insurance market. This has been occasioned by the increased rate of life-threatening illnesses such as heart attack, stroke, and cancer. Canadians are therefore protecting their families and finances by purchasing critical illness insurance.

## Consider these Statistics

**Heart Disease** - 1 in 2 men and 1 in 3 women are predicted to develop heart disease in their lifetime. It is estimated there are over 70,000 heart attacks in Canada each year.

**Cancer** - 1 in 2.3 men and 1 in 2.6 women living in Canada will develop cancer during their lifetime. One hundred fifty-nine thousand new cancer cases are estimated to occur in Canada in 2007.

**Stroke** - There are between 40,000 to 50,000 strokes in Canada each year. Eighty-one point two percent of stroke patients survive the initial event.

**Multiple Sclerosis (MS)** - Every day, 3 people in Canada are diagnosed with MS. MS is the most common neurological disease among young Canadians.

**Alzheimer's Disease** - It is estimated that 300,000 Canadians over 65 have Alzheimer's disease.

With statistics like that, it's easy to see why critical illness insurance has grown rapidly in Canada in the past 10 years.

## How it Works

Unlike disability insurance, which pays you a monthly benefit based on your inability to work, critical illness insurance pays you a lump sum benefit if diagnosed with one of a number of covered conditions. After the diagnosis you

must satisfy a 30-day survival period. The survival period is important in demonstrating the financial need once the life insured has been diagnosed with a serious illness. Once the benefit is paid, you decide where the money goes.

There are a number of life insurance companies in Canada which offer critical illness insurance. These companies compete with each other in a bid to offer their customers the best protection at an affordable rate. Some of the top carriers such as Canada Life, AIG Life, and Manulife Financial can cover up to 24 conditions. Depending on the company, covered conditions can include: heart attack, loss of independence existence, stroke, kidney failure, life-threatening cancer, severe burns, aplastic anaemia, loss of speech, alzheimer's disease, loss of limbs, bacterial meningitis, major organ transplant, benign brain tumour, motor neuron disease, blindness, multiple sclerosis, coma, occupational HIV infection, coronary artery bypass, paralysis, deafness, parkinson's disease, heart valve replacement, aortic surgery.

## Check the Definitions and Exclusions

Each insurance company has its own covered conditions, definitions and exclusions.

Understanding the definitions and exclusions is of paramount importance. You may be diagnosed with an illness and think that you are covered only to realize that the condition is not covered.

Check the company's definitions and exclusions for the "big three" – heart attack, stroke and cancer. This is important because over 90% of claims paid come from these 3 illnesses, with cancer claims alone above 65%. You want to look for a company that has favourable definitions for heart attack, stroke, and especially life-threatening cancer.

Most companies define life-threatening cancer as a tumour characterized by the uncontrolled growth and spread of malignant cells, and the invasion of tissue. Therefore, cancers in situ can be excluded. Cancer in situ is considered a malignant tumour which has not yet become invasive but is confined to the layer of cells from which it arose. This form of pre-invasive cancer has a very good prognosis and is easily treatable. All other forms of cancer should be covered.

### Are Breast Cancer and Prostate Cancer covered?

Breast cancer is covered under most company definitions with the exception of ductal carcinoma in situ (DCIS). This is a form of cancer that is not invasive and is very curable.

Prostate cancer is also covered, except for the non-life threatening variety, i.e. early prostate cancer (Stage A). The majority of prostate cancers are diagnosed at Stage B or greater and are fully covered under the cancer definition

with most companies.

Early prostate cancer (stage A) and breast cancer in situ (DCIS) can be covered at a lower benefit level. For example, Canada Life has an "illness assist benefit" built into the plan that pays the insured a one-time, lump sum of the lesser of 10% of the critical illness benefit amount selected, or \$25,000.

## Other Benefits and Features

Different companies offer different features/riders to attract new customers. Some of the more popular ones include:

**Return of Premium on Death** - The premium is returned in full to the named beneficiary if you die from any cause.

**Return of Premium on Surrender** - The company will return a percentage of premiums paid if you surrender your contract. Canada Life and AIG Life, for example, will return 100% of premiums paid after 15 years.

**Disability Waiver of Premium** - If you become disabled for a certain period of time, the company will waive your payments.

**Best Doctor's Inc.** - This benefit is usually built into the plan. The services of Best Doctor's Inc. are designed to improve your chances of full recovery from a critical illness by locating the names of doctors in your geographic area who specialize and have been identified by their peers as the best for treating the insured condition.

## Counselling and Support Services

### How is it Priced?

Because your chances of getting a serious illness and surviving are greater than your chances of dying, critical illness insurance costs more than a traditional life insurance policy.

Premiums are computed according to gender, age, smoking status, and a thorough evaluation of your health, lifestyle, and family health history.

Along with the above criteria, other factors that influence the cost of insurance include the type of product and the amount of coverage purchased.

The least expensive product is a basic 10-year renewable term product. Premiums are guaranteed for 10 years, then increase every 10 years until coverage ends at age 65 or 75 (check with carrier). Although this product is better priced initially, it can become quite costly if you decide to renew every 10 years.

AIG Life and Manulife Financial offer a 20-year renewable term. Although it costs more than a 10-year term, your premiums are guaranteed not to increase for 20 years. This product is popular for mortgage protection.

Other products include level term to age 65 or 75, with the most expensive plan being the permanent level term to age 100.

Most companies will accept an application for insurance starting at \$10,000 to a maximum of 2 million. Obviously, the more coverage you require, the more it costs.

## What is the Financial Cost of a Critical Illness?

If you were faced with a critical illness, would you have to use money from your RRSP to help cover costs?

What would this do to your retirement savings?

Here's an eye-opening example:

If you were diagnosed with a specific heart problem and put on a waiting list for treatment, what would it cost to seek treatment elsewhere?

The estimated cost of a coronary artery bypass (1-4 vessels) with a hospital stay of 5 to 7 days at the Mayo Clinic (Rochester, Minnesota) is C\$76,000-\$99,220.

The "real cost" of a coronary artery bypass if RRSP funds are used is between C\$143,396-C\$187,208.

If you calculate a cost of \$87,750 for the treatment, you must have \$165,566 in your RRSP if you are taxed at a 47% marginal tax rate.

This could result in a significant loss in value in your retirement savings, since \$165,566 will grow to \$530,993 in 20 years if the compounded annual rate of return was 6%.

If the cost of insurance puts you off, compare it to the cost of using your own savings funds. You will find that paying for the insurance premiums can save you hundreds of thousands of dollars if you were diagnosed with a critical illness.

## In Conclusion

Critical illness insurance is a relatively new and complex product. Each company has its own policy features, benefits, covered conditions, definitions and exclusions. A knowledgeable insurance agent can assist you in choosing which company's plan is right for you.

The cost for the insurance varies between companies and shopping around for the best product and price makes sense. A word of caution – a critical illness can strike at any time. Shopping the market takes time.

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