Do you need critical illness insurance?

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By Gordon Powers, MSN Money, December 16, 2011

The probability of surviving a critical illness before 65 is actually twice as great as dying from it. Here's how to protect yourself.

Although never an unemotional item, the concept of life insurance is fairly straightforward. Your loved ones would suffer financially as a result of your premature death, so you take out insurance that will provide for them when you no longer can.

But what if you become seriously ill? What if you actually manage to make it through? What happens then?

Close to two thirds of Canadians are confident they would survive a critical illness, according to the 2011 Desjardins Financial Security Health Survey.

However, most feel that their recovery would render them financially vulnerable and admit that they would likely need to turn to family for financial support.

While that's not an appealing idea, it is a reality since what was once considered a terminal illness is now often survivable. In fact, the probability of surviving a critical illness before 65 is actually twice as great as dying from it.

Enter critical illness insurance, "CI" for short, which takes the idea of personal risk management one step further -- instead of paying if you die, this kind of insurance policy pays so that you can live -- offering protection should you fall victim to a serious illness.

Although advisors suggest that a CI policy is a product that provides dignity, arming worried customers with the financial resources to face the battle of their lives, interest in Canada is still mild compared to other counties.

But that interest is growing with the number of policies in place crossing the 500,000 mark earlier this year.

Unlike group life and disability policies, most companies don't offer this type of coverage to employees, leaving individuals to weigh the merits for themselves.

Instead of having to take out a bank loan, tap into your retirement savings, or rely on family members while you recuperate from a medical setback, CI insurance will pay you a lump sum benefit to help support your recovery

CI is not a replacement for adequate life or disability insurance coverage, however. Life insurance protects against your untimely death while disability insurance provides a regular income should you become unable to work.

Instead, critical illness coverage is generally viewed as a complementary item that's meant to help you overcome the large, one-time expenses that can overwhelm a family's finances.

Unlike disability claims which can drag on endlessly, critical illness pays out almost immediately, generally once the recipient survives the first 30 days.

You're free to use the lump sum, cash benefit in any way you see fit. Either for direct health-related expenses -- like physical therapy, medical equipment, child care and babysitting services -- or to pay off your mortgage or to renovate your home to make it wheelchair-accessible

You might, in extreme circumstances, even want to use it to avoid the medical waiting list in Canada and pay for private care in the United States or elsewhere.

There are a wide variety of CI products on the market, covering a range of illnesses.

Most policies will pay should you suffer from a heart attack or stroke or be diagnosed with cancer, Parkinson's disease, or multiple sclerosis. Some even offer protection for more obscure diseases, such as the West Nile virus.

The definitions of what constitutes a critical illness can vary widely from insurer to insurer, however, -- so it may take some research to determine which product is suitable for your situation.

You could, for instance, reduce costs by tailoring the policy to cover only heart attacks, stroke and cancer, the three conditions that account for the majority of claims.

Critical illness insurance is sometimes subject to very stringent guidelines, and can be difficult to obtain and, sometimes, collect on. If the illness is diagnosed within 90 days of taking the policy, for instance, you may not be eligible for the claim.

Also, if it's a result of alcohol or drug use, or a pre-existing condition, then the insurance company may also refuse the claim.

Although the price of CI insurance has jumped in recent years, a healthy man in his 40s could still expect to pay about $90 to $100 a month for a contract today. The price rises sharply each year you don't lock in, however, roughly doubling every 10 years or so.

As a twist, some critical illness insurance policies offer a return of premium or "ROP" feature. This means that if you don't make a claim, you'll receive some of your money back upon reaching a certain age -- usually age 65 or 75.

Adding this feature will increase the monthly cost of your insurance, however, and doesn't offer much of a return on your money. But it may appeal to people, particularly if they'd otherwise be investing in GICs, who like the idea of getting something should they never need the product.

Generally speaking, it's best to obtain CI while you're still young and healthy so that you can "lock in" your premiums at a guaranteed rate and have coverage in force in later life, when you may be more liable to falling victim to a serious disease.