

# Disability and Critical Illness Insurance

What Do You Really Need?

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## **Disability Insurance**

Most people realize that disability insurance is important. You are far more likely to face a period of disability than to die during your working years. Disability insurance replaces a portion of your income if you are unable to work due to injury or illness. Certain kinds of disability insurance are automatically available to Canadians in different situations.

For example, if you are injured at work, Worker's Compensation will pay 90 % of your net weekly earnings on the short-term. If you are permanently injured, WC may also compensate you for future economic losses and even non-economic losses such as reduced quality of life. Similarly, if you are unable to work due to disability, Employment Insurance provides a sickness benefit for fifteen weeks at 55% your prior earnings after a two week waiting period. EI does not provide any long-term benefits beyond the fifteen weeks.

The Canada Pension Plan also provides a disability benefit to those with a severe and prolonged disability after a three-month waiting period. The benefit amount is equal to 75% of your CPP retirement pension. The payout is relatively small and only applies to very serious, long-term disabilities.

***In Ontario, auto insurance will pay Income Replacement Benefits if you are injured in a motor vehicle accident and unable to work.***

The benefit is 80% of your net weekly earnings to a maximum of \$400 per week and requires a one-week waiting period. Higher income replacement is available for an additional premium if your income warrants it. The benefit is payable for two years if you cannot return to your regular job, and until age 65 if you cannot engage in any reasonable employment after two years. Other

provinces have similar disability benefits and you should find out what they are in your province for your own peace of mind.

With all these disability coverages, you might think that having a personal or work disability plan is unnecessary. However, each of these disability insurance programs has restrictions that might prevent you from receiving the benefit you need. For example, Worker's Comp only pays if you are injured or infected at work. Employment Insurance only pays for four months. Auto insurance only pays if you are disabled due to a car crash, and only pays beyond two years if you cannot work at any reasonable job, an unlikely scenario. Canada Pension Plan only pays for a severe and prolonged disability and the benefit amount could be quite low, depending on how much you have contributed to the CPP in the past.

If you are thinking that you might be able to cash in on multiple disability income sources, think again. Disability insurance has restrictions that prevent this from happening. For example, auto insurance income replacement will not be paid out if you are already receiving disability payments from worker's compensation. The EI sickness benefit is also a "second payor" after any personal disability, worker's comp or group disability plan.

### **Disability Insurance Through Work**

*If you are employed, you should seek out the best possible coverage through your company group disability insurance plan.*

A company plan will almost always provide the best value, since it is usually partly subsidized by your employer. It makes sense to obtain disability insurance through work if available, because if you are not working, you do not qualify for income replacement anyway.

Even if you must cut back on other benefits, make disability insurance a priority. After all, you can probably afford to pay a little more for dental cleanings, but how would you survive if you had no income at all? A company disability insurance policy differs from Worker's Comp in that it will cover you for disability that occurs at work or at play.

Try to secure the highest level of coverage possible. No disability insurance program will pay 100% of your income, as that would provide no incentive for you to return to work. Choose the highest level of income replacement available. Look for a benefit amount of at least 60% of your pre-disability income and if available, opt for more.

Also, examine the definition of disability in the plan that determines when you would be eligible for benefits. Ideally, benefits should be payable for two years if you are unable to work at your *own occupation*. After that, benefits should be payable as long as you cannot work in a position appropriate to your education and experience and/or paying at a level comparable to your prior income. Avoid policies that only pay if you are unable to work at *any* occupation, as this could result in your being forced to work at a low level job unsuitable to your skills and far below your pre-disability income.

### **Arranging Private Disability Insurance**

If you are self-employed, seek out private disability coverage. The premiums will not be tax deductible but on the plus side, any benefits received will also be tax-free. The benefit paid will be based on your taxable income as it appears on your tax return. Bear in mind that if you show an artificially low income due to business deductions, you will only qualify for a correspondingly low disability benefit. At least one disability insurance provider in Canada can calculate income replacement based on gross income: The Edge Disability Insurance through RBC Insurance. For more information, call a broker or visit [www.edgeplans.ca](http://www.edgeplans.ca).

If you are employed but your employer does not offer disability insurance, remember that you still qualify for the four-month EI sickness benefit. When setting up a private policy, you can choose the elimination period or the waiting time after the onset of disability before payments will begin. By choosing a four-month elimination period, your private disability payments will start when EI ends. A longer elimination period will provide disability insurance for a much lower premium. Just remember that EI only pays 55%, so you will need to be able to get by for the first four months on half your normal income, until your private disability policy kicks in. Arranging a secured line of credit in advance provides ready access to your home equity in an emergency like a disability.

While life insurance protects your loved ones, disability insurance protects you directly, and your family as well.

*As long as you need to work to pay for your living expenses, you need disability insurance protection.*

Regardless of whether or not you have dependents, if you are working, you should have some kind of disability insurance, either through work or privately so that your income would continue if you were unable to work.

### **Critical Illness Insurance**

A relatively new type of health coverage, Critical Illness Insurance, promises a chunk of cash upon diagnosis of serious illnesses, including heart attack, stroke and the most feared of all: cancer. You must survive the diagnosis by at least 30 days to receive the benefit, otherwise the policy will refund all premiums paid. The coverage may encompass anywhere from three to twenty illnesses or more.

*The three most common medical conditions, cancer, heart attack and stroke, make up approximately 85% of all CI claims.*

Other covered conditions may include Alzheimer's disease, brain tumour, kidney failure, multiple sclerosis, Parkinson's disease, motor neuron disease, blindness, deafness, loss of speech, coma, severe burns and paralysis. The purpose of critical illness insurance is to provide cash to help you financially cope with and recover from serious illnesses. You can choose any benefit amounts from \$10,000 to one million dollars with premiums directly correlated to the benefit you choose.

In this age of modern medicine, many of those diagnosed with the illnesses above will survive many years. However, in every case, such a diagnosis will result in hardship and additional costs.

*Survival could depend on the ability to pay for experimental treatments or to secure treatment more quickly than is available in the public health system.*

Critical Illness insurance provides a lump sum of cash that can be used in any way. You may need to pay for transportation to and parking at hospitals, medication, special therapies, medical

equipment and so on. With cash available, you could seek radiation therapy for cancer in the US within a few days instead of waiting weeks or months for the same treatment in Canada. You could use the money to hire a nanny or housekeeper to take care of you and your family while you are recovering. In case of paralysis, you might purchase powered wheelchairs or modify your home to make it more accessible. You could even spend some time in a tropical place to make the most of what may be the last few weeks or months of your life with those you love.

*Critical illness insurance differs from disability insurance in that there is no income requirement to obtain it.*

For homemakers or those working part-time who don't earn enough to qualify for disability insurance, this policy provides cash to help pay for the additional expenses that could result from illness or injury. Those who have disability insurance may also benefit from a critical illness policy.

*While disability insurance replaces a portion of your income, critical illness insurance provides a single, much larger, cash infusion to help with the unusual expenses that accompany a serious illness.*

Combining the two types of insurance will provide the most comprehensive protection for your health.

### **No Regrets Clause: Return of Premium**

A somewhat unique option with CI is Return of Premium on policy expiry. If you keep a CI policy in force to its expiry (typically age sixty-five or seventy-five depending on your choice) and never have a claim, the insurance company will refund back to you the full premiums that you paid over the years! With this rider, a CI policy pays you no matter what happens, as long as you keep it in force for the full term or until you make a claim.

This optional benefit costs extra and the price varies widely based on age and gender and the length of the policy. Naturally, with inflation and lost opportunities for investing, the value of this refund is substantially reduced compared to if you had invested the money over the years. However, a key benefit to Return of Premium is that it motivates you to keep the policy in force to its expiry date. As we saw with life insurance, if you discontinue the

policy prematurely, it provides no benefit should you face a critical illness.

Critical illness insurance can be quite affordable if you are looking for a small amount of coverage such as a \$10,000 or \$25,000 policy. Usually the rate of insurance, or the *cost per \$1000* goes down for benefit amounts of \$50,000 and again for \$100,000 or more, so you will get better value for your premiums by choosing a larger coverage amount.

If you do not have disability insurance, a critical illness policy will provide some protection against the possibility of a future health crisis. Keep in mind though that a critical illness policy only pays for a set list of health problems. It is altogether possible to develop a serious health condition that is not covered and not be eligible for a payout.

### **Choosing Among Disability & Critical Illness Insurance**

While it's best to secure your own private life insurance policy, arranging disability insurance through your employer is usually the better choice. Disability insurance is based on your income, so if you are not working, you no longer qualify for disability insurance anyway. When you change employers, your new job may offer disability insurance as well. However, if you need to secure private disability coverage later on, it should be relatively affordable, even when you are older. The reason is that disability insurance only replaces income for your working years, so an older worker represents a smaller potential liability. It's also possible to obtain an injury-only disability policy if your health makes you ineligible for sickness coverage.

Most people know someone who has been diagnosed with cancer, heart attack or stroke. It's easy to see how a cash payout would help. Studies have shown that financial stress has a negative impact on people's ability to recover when they become ill. Critical illness insurance is great for anyone who can reasonably afford it. While life insurance protects those you leave behind, a critical illness policy benefits you directly. Critical illness insurance applications are examined even more closely than life insurance, so the best time to apply is as soon as you can *comfortably* afford the policy. It also helps to be in good shape when you apply, so drop the extra pounds, lay off the fatty foods and beef up your exercise regimen for a few months before you apply.

*With all insurance, you should consider your need for protection and not your desire to gain a windfall.*

The simple fact is that you do not know what will happen in the future. If you over-insure, you will pay for the cost of that insurance and you may never receive any benefit from it. Conversely, if you underinsure, you risk facing a difficult financial situation that could take years to overcome. So, the key to your decision making process is to honestly evaluate your needs. Everyone with dependants needs life insurance. Similarly, everyone who needs to work, needs disability insurance. Since anyone can become ill, it can be argued that everyone needs critical illness insurance as well. However, you must decide where all these types of insurance fall on your priority list. Whatever you choose, be sure that you can afford to continue all the premiums you take on: a lapsed policy will do you no good.

Finally, remember that with health and life insurance, the younger you are when you apply, the lower the premiums will be. Don't put off decisions regarding health and life insurance. Make arrangements as soon as you need the coverage and can reasonably afford it.



### **Cheat Sheet**

- \$ As long as you need to work, you need disability insurance.
- \$ Most Canadians have various forms of income replacement through worker's compensation, auto insurance and employment insurance.
- \$ In most cases a group disability insurance plan through work provides the most cost-effective disability insurance protection.
- \$ Critical illness insurance provides cash 30 days after a diagnosis of a critical illness and can be used in any way.



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