COMPARISON

DISABLED OR CRITICAL?

Long-term disability coverage may provide a better bang for your client's buck.

By Janet Freedman and Marie Howes

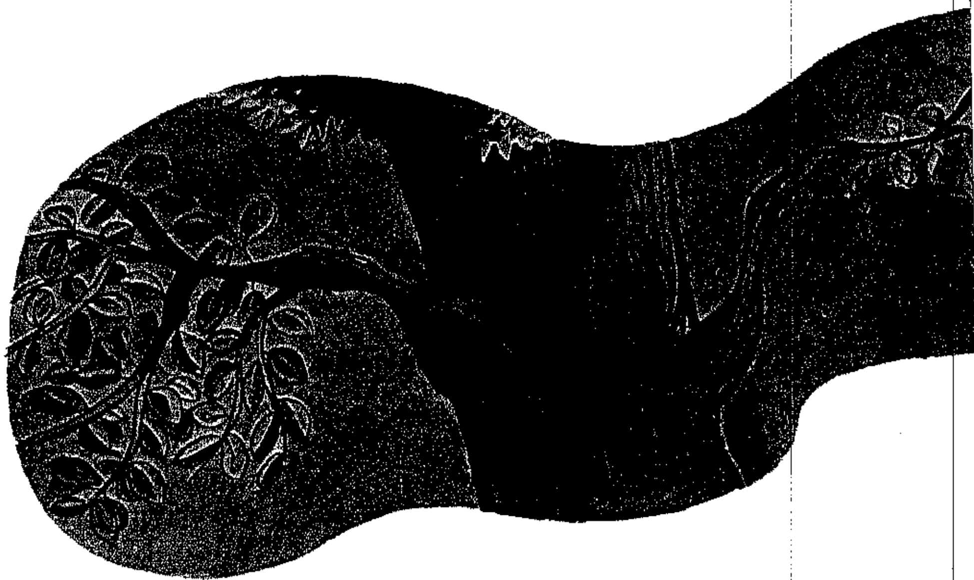

Illustration by Dave Whamond

How does critical illness insurance (CI) fit into a client's risk management portfolio, versus long-term disability (LTD) insurance? It depends on an individual client's circumstances.

CI pays a client a lump sum if he is diagnosed with one of the life-altering medical ailments on the policy list, mainly cancer, heart attack or stroke. This lump sum can be used for any purpose which the client wishes, such as paying down the mortgage or purchasing special care.

But one disadvantage to a lump sum is it can get spent relatively quickly. And in situations where a person is facing a traumatic event, decisions on the best use of the lump sum are likely to be made without proper long-term consideration. Also, other family members may believe they have an entitlement to the money.

LTD, on the other hand, offers long-term income security up until age 65. This insurance coverage is designed to replace earned income lost as the result of a disability. Regardless of the type of disability, LTD can pay a monthly amount as long as the disability prevents the person from doing her "occupation" as defined in the policy conditions.

Since a critical illness and disability may both hamper a person's ability to work, first consider LTD for clients.

Many conditions covered by CI are also covered by LTD, such as early onset Alzheimer's. CI doesn't cover stress, mental breakdown and other psychiatric disorders, fibromyalgia and musculoskeletal problems, which are the leading cause of disability. LTD will normally cover all those conditions assuming they occur during working years and prevent claimants from doing their jobs.

Plus, the amount of money paid out on a LTD policy can be enormous, depending upon the type of coverage the client has purchased. For example, a LTD policy that pays a client $2,000 a month will pay $480,000 over 20 years—and much more if there is inflation protection. A policy with a $4,000 per month payout with inflation protection would pay at least $1 million over the same period.

Not everyone qualifies for disability coverage, however. This exclusion list may include clients who:

- are newly self-employed;
- work as contract employees;
- are between jobs;
- have no earned income; or
- work in occupations where LTD is

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not available or inadequate.

For clients in this predicament, CI is a good alternative. For example, Mary is a stay-at-home parent who is caring for three children until the youngest begins school full-time.

If Mary were to become disabled, a nanny or daycare service would be needed to take care of the children. However, a term CI policy could cover this risk if Mary met the policy terms for payout.

Critical Catch

There is a catch. For instance, in the case of spinal cord injury and paralysis, CI will not pay out the lump sum immediately. It takes 90 days for some policies. In other cases, it takes up to 180 days and there must be no sign of improvement. Someone who starts to walk again after three months would not receive payment through a CI policy, even though the initial diagnosis was "total paralysis" because the insurer wants to make sure the paralysis is permanent.

But having to wait six months for the lump sum doesn't help the client meet day-to-day expenses or enable a spouse to quit her job to take care of the family. So clients who don't qualify for LTD but have CI need to ensure they have an emergency fund that will pay for living expenses for three to six months.

There are other CI wrinkles. If clients are diagnosed with one of the major health problems that CI covers, they may not receive payment because their conditions don't fit the precise definition of the qualifying health problem. Canada has "definition diarrhea" when it comes to CI policies. Unlike the U.K., which finally standardized its medical definitions, Canadian CI issuers each have their own definitions. Below are the definitions of heart attack from three different insurers.

Are Heart Attacks Covered?

Insurer A: Yes.
Insurer B: Yes, as evidenced by ECG changes and elevation cardiac enzymes.
Insurer C: Yes. ECG changes, elevation cardiac enzymes and chest pain.

As you can see from the policies of Insurer B and Insurer C, a minor heart attack is not going to result in payment of a claim. So it's important to know the definitions of each medical condition for each insurance policy.

Also consider the client's health background before recommending CI. A prospect can be declined coverage if there is a family history of a certain disease or medical condition, or if a certain medical condition may lead to the likelihood of a claim under the CI policy. For example, an obese client will likely be declined CI because obesity may lead to heart disease or diabetes, which in turn could be the basis for a future CI claim.

Financial underwriting for CI provides limitations based on a client's income—a non-income earner or a part-time employee are limited in one policy to a maximum of $250,000 of coverage. Other limitations are based on seven times earned income plus mortgage balance, for example.

To insure a specific need, consider LTD first, if the client qualifies, or CI as an alternative when LTD coverage is not available. IE

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READING the fine PRINT

One company has the following stipulations and exclusions in its CI policy.

Stroke

- needs diagnosis by a neurologist and must include infarction of brain tissue, hemorrhage or embolism from an extra-cranial source
- needs evidence of permanent neurological deficit
- mini-strokes are specifically excluded

Cancer

- cancer that has not spread (in situ)
- skin cancer (other than melanoma into the dermis and deeper)
- early prostate cancer (stage A or equivalent), although some companies offer a rider for this
- any tumour in the presence of HIV

Alzheimer's

- diagnosis must occur prior to age 75 and the insured must require continuous daily supervision

MARKETING

EMPLOYER OPPORTUNITY

Present CI as an alternative to dental and eye care benefits.
By Deanne N. Gage

Although critical illness insurance (CI) sales have hit record levels, one growth area remains untapped: the plan sponsor market. Only 5% of employers currently offer critical illness insurance as part of their employee benefits plans, notes Scott Morrow, a wholesaler with RBC Insurance in Mississauga, Ont. "Most advisors market CI one on one, but getting into the employer market is the more successful approach," he told attendees at the World CI Conference in Toronto. He adds that most employers have never heard about CI before.

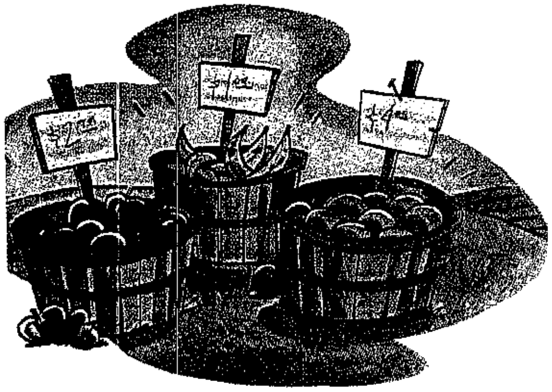
Morrow envisions employers shifting away from the traditional dental and eye care benefits packages to instead provide only for the most catastrophic events. While it may seem that plan sponsors and participants alike would prefer the standard benefits, Morrow isn't so sure. He suggests you frame your argument to employers and employees this way: Do they know friends or families who have suffered a critical illness such as cancer, a heart attack or stroke? Did they have to leave their job temporarily? Would a lump-sum payment have made a difference in giving them access to cutting-edge medical services or reducing overall financial stress?

THE STATISTICS

Think you'll have a hard time selling CI to employers? Present them with these facts.

- 149,000 new cases of cancer will occur in Canada this year.
- 38% of Canadian women and 44% of Canadian men will develop cancer within their lifetimes.
- 54% of Canadian women and 44% of men are physically inactive.
- 39% of women and 56% of men are an unhealthy weight.
- 15,000 Canadians will have a mini-stroke this year.
- 35,000 cardiac arrests happen each year.

Source: *Canadian Cancer Society / National Cancer Institute of Canada, 2005*



What type of employer should you target? Morrow suggests going after employers who have 25 to 100 employees and see benefits as an excellent way to attract and retain staff and feel a responsibility to their employees. "Ask if they'd rather cover real risk for their employees and if they want to help employees when they run the risk of losing their home due to out-of-pocket expenses that arise from a critical illness," he says. "Issues like this can be seen as a big part of employee retention."

If employers still aren't convinced about either replacing some traditional benefits to add CI, or adding CI to the overall benefits package, Morrow recommends you volunteer to set up a meeting with employees. "Say you'll go and talk to the employees and get [them to fill out] an evaluation form," he explains. "Human resources can then gauge the feedback."

Group CI would work similarly to individual policies, in that employees would receive a lump sum payable 30 days after a diagnosis. (The amount paid usually ranges from $25,000 to $50,000 per employee.)

CI group policies generally only have a one-page enrolment form, where applicants fill out their names, addresses, ages, earnings and answer three questions: Do you smoke? Have you had CI before? Do you speak English or French? Since these are group policies, the underwriting process attached to individual CI policies does not apply. "We want to make the process as easy as possible for the employer and employees," says Morrow. IE

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Illustration by Dave Whamond