Is critical illness insurance worth it?

Bonita Boutilier, who now sells critical illness insurance herself, filed a claim after she was diagnosed with MS in 2010.

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Bonita Boutilier's purchase of critical illness insurance in 2003 proved to be prescient.

The then 36-year-old Vancouver-based massage therapist bought the $100,000 10-year term policy on the advice of her adviser, a policy that cost her $53.50 a month. "He said: 'As a self-employed business person, you should have this coverage,'" she recalls.

Before her 10-year term was up, she had filed a claim. "In 2010, I was actually diagnosed with MS," Ms. Boutilier said. In addition to paying for her time off work, her mortgage and her car, the lump-sum insurance payout allowed her to travel to Mexico and California to undergo a $13,000 experimental new treatment for MS.

"I didn't have to think about working every day," said Ms. Boutilier, now 49. "I would have had to use my savings, take out a loan or asked family to help."

Enamoured with critical illness insurance, Ms. Boutilier became an insurance adviser and now sells it to clients, who, when they see her cane, have a visual reminder of the types of conditions it covers. Most purchase $100,000 policies.

"If you've got a business or young children, where is the money going to come from? It's really important to have," she said. "Ninety per cent of my sales are critical illness insurance."

Critical illness insurance covers an individual against illnesses such as heart attack, stroke and cancer and is sold in terms of 10 years, 20 years, to the age of 75 or the age of 100, with the option to lock in premiums. Policies can range from covering three medical conditions to as many as 24.

They have a variety of riders, such as a return-of-premium rider; a second-event rider, which offers limited coverage if you are diagnosed with a second critical illness; a loss of independent existence rider; and a disability waiver-of-premium rider, which lets you off the hook for the premium if you've been totally disabled for 90 days.

A monthly premium for a 10-year, $100,000 policy for a 40-year-old non-smoking male, for example, is $70 on average, which adds up to $840 a year. That rises to about $100 a month for a 50-year-old male non-smoker, totalling $1,200 a year.

While acting as a safety net for those with no benefits coverage and no life or disability insurance, critics say the coverage is no slam-dunk. To begin with, it can be quite restrictive – only certain illnesses are covered – and the descriptions of the conditions are quite narrow in scope. These factors can mean claims are difficult to make after an illness strikes.

Dave Courtney discovered this when he suffered a heart attack two years ago. Covered under a return-of-premium $150,000 critical illness policy he had purchased 20 years ago, Mr. Courtney, now 61, found that although he was relieved to have the coverage, getting his claim paid was no easy task.

"It took about three months to prove I had had a heart attack," says the Mississauga-based owner of a firm that sells medical-assistive devices. "Once you've paid 15 or 20 years of premiums, you shouldn't have to go through that."

His experience was the result of policy stipulations. To claim a heart attack, a certain set of conditions has to take place, including "the death of heart muscle due to obstruction of blood flow, that results in the rise and fall of biochemical cardiac markers to levels considered diagnostic of myocardial infarction, with certain very specific cardiac changes." If a patient's cardiac event is outside these parameters, the claim won't be paid.

Ultimately, Mr. Courtney's stack of medical documents that he procured from numerous doctors proved convincing. And he's a happy man: "$150,000 is nothing to sneeze at," he says, adding in addition to paying for his time off work, the money will go toward his travel insurance in retirement, now that no carrier will offer him inexpensive premiums.

"Even if it costs $10,000, I'll go. The money is there. I'm at peace knowing it's already paid for."

While Glenn Cooke believes that stories like Mr. Courtney's are a compelling reason to buy critical illness insurance, "it's purchased for emotional reasons – not financial reasons. I advise consumers to buy critical illness insurance only after they have lots of life insurance and lots of long-term disability insurance," says the president of LifeInsuranceCanada.com in New Hamburg, Ont.

He tells his clients that the best way to protect against a critical illness is to set aside a reserve equal to three to six months of income saved or to consider a $50,000 critical illness insurance policy to get them through the period they'd be off work.

Mr. Cooke says the idea that critical illness will pay for expensive drugs and out-of-country treatments, though possible, is oversold. "For most Canadians, our health care is basically free and any potential costs are not catastrophic."

However, if someone feels they need the extra protection, they should tread carefully, says Mr. Cooke. He says premiums shouldn't be the sole deciding factor, as different insurance carriers cover different numbers of critical illnesses – and even offer basic and deluxe packages, which vary considerably in what they cover and how much they cost.

He suggests checking the exclusions – as many insurers have recently made changes to what they will and will not cover – such as early-stage cancers and neurological diseases such as dementia. Plus, he says riders such as return-of-premium need to be weighed, as they often stipulate that a person must pay premiums for 15 or 20 years before the money is returned.

Mark Seed, the 42-year-old Ottawa-based blogger behind MyOwnAdvisor.ca, feels the complexities of the product can be challenging and that buyers may not know what they're getting into. "It may be a great product. But I don't think the average consumer understands the nuances. Not all critical illness policies are created equal."