

# WATERMARK

## Financial Planning

### A GUIDE TO **CRITICAL ILLNESS PROTECTION**

DIAGNOSIS CAN BE BAD FOR  
YOUR HEALTH AND PUT A  
SQUEEZE ON YOUR WEALTH

FINANCIAL GUIDE

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# A GUIDE TO CRITICAL ILLNESS PROTECTION

## DIAGNOSIS CAN BE BAD FOR YOUR HEALTH AND PUT A SQUEEZE ON YOUR WEALTH

The diagnosis of a serious illness can mean a very difficult time for your health and your wealth. But critical illness cover can provide vital financial security when you need it most. Most homebuyers purchase life assurance when they arrange a mortgage, but overlook critical illness cover, another form of financial protection that we are statistically more likely to need before reaching retirement.

### SOMETHING CRITICAL

You really need to find the right peace of mind when faced with the difficulty of dealing with a critical illness. Critical illness assurance pays a tax-free lump sum on diagnosis of any one of a list of specified serious illnesses, including cancer and heart attacks. The good news is that medical advances mean more people than ever are surviving life-threatening conditions that might have killed earlier generations. Critical illness cover can provide cash to allow you to pursue a less stressful lifestyle while you recover from illness, or use it for any other purpose.

It's almost impossible to predict certain events that may occur within our lives, so taking out critical illness cover for you and your family, or if you run a business or company, offers protection when you may need it more than anything else.

### WHICHEVER HAPPENS FIRST

The illnesses covered are specified in the policy along with any exclusions and limitations, which may differ between insurers. Critical illness policies usually only pay out once, so are not a replacement for income. Some policies offer combined life and critical illness cover. These pay out if you are diagnosed with a

critical illness, or you die, whichever happens first.

If you already have an existing critical illness policy, you might find that by replacing a policy you would lose some of the benefits if you have developed any illnesses since you took out the first policy. It is important to seek professional advice before considering replacing or switching your policy, as pre-existing conditions may not be covered under a new policy.

### CORE SPECIFIED CONDITIONS

All policies should cover seven core specified conditions. These are cancer, coronary artery bypass, heart attack, kidney failure, major organ transplant, multiple sclerosis and stroke. They will also pay out if a policyholder becomes permanently disabled as a result of injury or illness.

But not all conditions are necessarily covered. The Association of British Insurers (ABI) introduced a set of best practice guidelines. In May 2003, the ABI introduced other measures. These included conditions such as non-invasive skin cancers and less advanced cases of prostate cancer. Tumours that have not yet invaded the organ or tissue, and lymphoma or Kaposi's sarcoma in the presence of HIV are excluded.

There are also more restrictive conditions for heart attacks. There has to be evidence of typical chest pain, or changes in the electrocardiogram (ECG), for example, if a claim is to be successful. Cardiac conditions, such as angina, will not be covered.

### LIFESTYLE CHANGES

Some policies allow you to increase your cover, particularly after lifestyle changes such as marriage, moving home or having children. If you cannot increase the cover under your existing policy, you could consider taking out a new policy just to 'top up' your existing cover.

A policy will provide cover only for conditions defined in the policy document. For a condition to be covered, your condition must meet the policy definition exactly. This can mean that some conditions, such as some forms of cancer, won't be covered if deemed insufficiently severe.

Similarly, some conditions may not be covered if you suffer from them after reaching a certain age, for example, many policies will not cover Alzheimer's disease if diagnosed after the age of 60.

### SURVIVAL PERIOD

Very few policies will pay out as soon as you receive diagnosis of any of

the conditions listed in the policy and most pay out only after a 'survival period'. This means that if you die within the specified number of days of meeting the definition of the critical illness given in the policy, the cover would not pay out.

How much you pay for critical illness cover will depend on a range of factors including what sort of policy you have chosen, your age, the amount you want the policy to pay out and whether or not you smoke.

Permanent total disability is usually included in the policy. Some insurers define 'permanent total disability' as being unable to work as you normally would as a result of sickness, while others see it as being unable to independently perform three or more 'Activities of Daily Living' as a result of sickness or accident.

### **GETTING IT COVERED**

If you are single with no dependants, critical illness cover can be used to pay off your mortgage, which means that you would have fewer bills or a lump sum to use if you became very unwell. And if you are part of a couple, it can provide much-needed financial support at a time of emotional stress.

While life assurance is often the priority of those with dependant family members, critical illness cover can be vital if you are the sole breadwinner, rely heavily on your income or are single. It provides a welcome financial boost at a time of emotional stress and financial hardship.

Before you take out critical illness cover, you need to obtain professional financial advice to make sure that it is right for you and offers sufficient cover. ■

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## Do you have peace of mind should the worst happen?

No one ever likes to think about getting ill, but how would you and your family cope if you became too ill to work? The good news is that medical advances mean more people than ever are surviving conditions that might have killed earlier generations. Critical illness cover can provide cash to allow you to pursue a less stressful lifestyle while you recover from illness, or you can use it for any other purpose. Don't leave it to chance – make sure you're fully covered. To talk more about how we can help, please contact us for more information.

Content of the articles featured in *A Guide to Critical Illness Protection (2013)* are for your general information and use only and is not intended to address your particular requirements. They should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. The pension and tax rules are subject to change by the Government. Tax reliefs and State benefits referred to are those currently applying. Their value depends on your individual circumstances. The performance of the investment funds will have an impact on the amount of income you receive. If the investments perform poorly, the level of income may not be sustainable.