



What is Critical Illness Cover?

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Although Critical Illness cover is sold by life insurers, there is a big difference when compared with life insurance - you don't have to die to benefit from the Critical Illness insurance policy. This type of cover is designed to pay out a (tax-free) lump sum in the event of you suffering from certain types of serious illness or if you have to undergo certain types of surgery.

The lump sum paid out by the Critical Illness insurance is to help with the extra costs incurred as a result of contracting a particular condition. It is important to note that the policy only pays out if you contract one of a defined list of illnesses specified in your policy. It is important to remember that if you contract an illness which is not covered by your policy you will not receive a payout. These policies differ in what they cover, so you should always check the policy wording.

Unless you have substantial savings, some form of Critical Illness insurance may well make sense for you, particularly if you have any debt such as a mortgage. How much cover you should have depends on your circumstances. Consider the lump sums that you might need in the event of contracting a serious illness - being able to pay off the mortgage or making modifications to your home, for example. If you're able to cover the necessary lump sums from your own or your partner's savings, then critical illness insurance may well be unnecessary and it may be more appropriate to look at covering your income instead.

The size of your insurance premium will depend on your age, sex, health, occupation, whether or not you smoke, the type of cover you need, and how long you need it for. It is important to remember that premiums could also be more expensive if you have a history of a particular illness in your family.

- **Flexibility**

Usually you'll pay a set premium, for instance, with a term assurance policy meaning both your cover and your premium will be set for a certain period of time, however there are whole of life policies that can include critical illness cover which offer more flexibility such as the option to increase your cover over time, which one we recommend will obviously depend on your personal circumstances.

- **Combined critical illness and life insurance policies**

Some policies will offer critical illness combined with life insurance. Again, care needs to be taken, as once the policy has paid out cover will no longer be available-in other words if the policy pays out for a critical illness then there will be no life cover remaining. Furthermore, if the illness has been a serious one then it may be that replacement life insurance cannot be obtained due to health reasons.

If you do decide on one of these "bundled policies" make sure it covers both your critical illness and life insurance needs. Even though it may prove slightly more expensive, it may be worth considering separate policies for these different types of cover.

- **Total and permanent disability cover**

Many Critical Illness insurance policies will also include cover for 'total and permanent disability'. This pays out if you become unable to work due to permanent disability arising from any illness or injury (regardless of whether it is listed in the policy). If such cover is included, it is important to establish whether the policy will cover "any occupation" or "own occupation" . Generally cover is more expensive if the plan is written on an "own occupation" rather than "any occupation" basis. Please ask for advice on this important aspect of these policies.

Whether or not it is a good idea to include this cover is debatable, as it may overlap with Permanent Health or income protection insurance. However there are differences, the greatest of which is that Critical Illness insurance pays a lump sum whereas income protection pays a regular income to meet your income needs. In these circumstances people often prefer the lump sum so they have the flexibility to perhaps pay off debts. However, if finances allow there is nothing to prevent you having both forms of cover.

These types of plan will have no cash in value at any time, and will cease at the end of the term. If premiums are not maintained, then cover will lapse.

As confirmed above, these types of policy may not cover all definitions of a critical illness. For specific definitions please refer to the Key Features and Policy Documents.

This article (What is Critical Illness Cover?) is intended to provide a general appreciation of the topic and it is not advice. Guidance should be sought from a specialist who is qualified to advise in your specific circumstances.

For more information on this aspect of insurance, please contact Platinum Wealth Management on 01903 875400 or email us at

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