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## ***CRITICAL ILLNESS***

Written by Janine Purves, CFP

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### ***Do you need critical illness insurance?***

Most long-term disabilities are a result of some type of critical illness. A newer option on the insurance scene, critical illness insurance (CII) can be a useful addition to disability insurance. Critical illness insurance can also be a solid option, no matter what impact your illness has on your current lifestyle. It can help to cover off many items that are additional expenses beyond the usual monthly expenses we all experience. One area where this type of insurance is particularly helpful is for Self-employed individuals. Often the disability for which a self employed person qualifies is less than they actually need. Critical illness insurance is not based on absolute income levels.

While disability insurance provides an income stream designed to replace lost salary, CI pays a single lump sum if specific diseases are contracted or specific conditions incurred.

The lump-sum payment is usually payable 30 days after diagnosis. It can be used to cover expenses (including surgery in another country), or to repay debt (such as a mortgage), or to fund early retirement.

There are no restrictions on how the money is used. It might be used to replace lost income, keep a small business afloat, or to replace a key person in a business.

Unlike disability insurance, payment under the CII policy is not dependent on any event, such as being unable to return to work. Generally, the insured must be between 18 and 65. Some policies offer a renewal to age 75, and others remain in effect for life.

In selecting appropriate coverage, the face amount of a CII policy is often based on income- perhaps five times annual earnings- plus significant debt, such as a mortgage.

If the premiums are paid personally, the lump sum is received tax-free. If the policy is owned by a business, the proceeds are tax-free if the corporation does not deduct any portion of the premiums as a business expense.

Certain limitations apply to most CII policies. Generally, the insured must remain healthy for the first 90 days the policy is in effect. Otherwise, premiums are refunded and the policy cancelled.

If the insured dies within 30 days of contracting a critical illness, only the premiums paid on the policy are returned to the deceased's beneficiaries. For this reason, CII should not be seen as a replacement for adequate life insurance.

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Depending on the policy, payment may be made in the case of heart attack, stroke, cancer, coronary surgery, multiple sclerosis, kidney failure, paralysis, blindness, deafness, dismemberment, or major organ transplant, among others. Please note in the past few years most companies have adopted a standard definition of the illnesses, so there is less discrepancy in what is covered and what is not. As well, illnesses that are a result of alcohol or substance abuse won't qualify for payment. The issuer of the policy makes the decision about whether the illness qualifies for payment. The issuer of the policy makes the decision about whether the illness qualifies for payment, not the insured's family doctor.

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