

Beyond life insurance: disability and critical illness considerations

TERRY CAIN

It's that nagging feeling. I have insurance – but is it enough? Is it the right kind? How do I know?

Most people who earn income and have a family have some form of life insurance – either through an employer group plan, or on their own. Many people have both, after deciding their group life insurance wouldn't adequately cover their family's needs in the event of death.

But what about your needs in addition to basic life insurance?

"I call it 'risk beyond life,'" financial adviser Robert McCullagh says. "How do you manage risks in your life – like death, unemployment, disability, serious illness? How would these events affect you and your family?"

Mr. McCullagh is a partner at Benefit Planners in Calgary. He has about 25 years of experience in the financial industry and teaches financial planning at Mount Royal College.

His process for determining clients' insurance needs begins with a "risk review."

"I ask people what would their situation look like if they were seriously injured in a car accident. Or if the accident left one spouse deceased and the other seriously injured?" Mr. McCullagh says. "It's not pleasant to think about, but people have to ask the question – if you're not able to work, how much money would you need per month?"

These questions usually lead to a discussion of disability and critical illness insurance. The two are related, but different.

Long-term disability insurance is designed to replace your income. It pays out a monthly benefit, typically a percentage of what

you earned before becoming disabled. The benefits may last for a few years – and possibly until you're ready to retire, if you can't go back to your own job or any job.

Critical illness insurance is a product that pays out a tax-free lump sum if you acquire a critical illness such as cancer or suffer a heart attack or stroke. Unlike disability insurance, it is not related to your previous income level, or your ability to go back to work.

So how do you know whether you need disability or critical illness insurance?

Advisers say the first step is to examine what coverage you may already have as part of a group plan. While critical illness coverage is rare in group plans, some level of long-term disability insurance is usually offered.

The next step is to consider a scenario where income is lost, look at what resources you may have, then find coverage that would make up the difference.

At this point the question of your risk tolerance comes into play – and how that relates to what you are willing to pay for coverage. That changes over time.

"The mindset of a 30-year-old is significantly different than the mindset of a 50-year-old when it comes to need for coverage and the willingness to pay the premiums," insurance expert Peter Harrison says.

Mr. Harrison has run his own firm, called HealthSource Insurance Agency, for 15 years. Prior to that, he worked for an insurance company, specializing in disability coverage.

Mr. Harrison says people's greatest asset is their ability to earn income every year – so the question becomes, what is that asset



What if you couldn't work any more? NAOMI BASSITT/GETTY IMAGES/ISTOCKPHOTO

worth?

To choose the exact amount of coverage, you need to look at how much income your family would require to cover needs such as mortgage and car payments and general living expenses.

David McKee is an insurance broker who has been in the business for 36 years. He notes most group long-term disability coverage will replace 50 to 60 per cent

of after-tax income.

"For most people that means there is very little need for additional disability insurance. But professionals and upper management often find there are gaps."

Mr. McKee says small business owners and entrepreneurs often have a greater need for disability and illness insurance, because they don't have any group coverage.

"The challenge for them is the cost. Inevitably they look at the proposal and cringe, so they often delay and postpone."

Many experts say that can be a mistake.

"Every adult in a family should consider some level of critical illness insurance," Mr. Harrison says. "When those kinds of situations hit, it gives a family some breathing room, and the ability to focus on recovery. It also will help with the inevitable impact on the 'healthy' spouse's income, as they help deal with the situation."

There are several other kinds of insurance. The first group is insurance against specific expenses you may encounter, such as a pet's illness, or health care when travelling. Mr. McKee calls these "self insurance" – and he says you don't need to pay into a policy to cover yourself.

"You can self-insure in these cases," Mr. McKee says. "If you were to take the premiums you would pay in these cases and put them in a savings account instead, you would almost always come out ahead."

The other kind of insurance coverage includes mortgage and credit-card insurance. These can be considered variations of life and disability insurance, as they provide coverage when an event leaves you unable to make your payments.

"I'm not a fan," Mr. McKee says. "People shouldn't be buying dribs and drabs of insurance all over the place. You're better off declining all of these kinds of coverage, and making sure your primary life and disability insurance is appropriate. It's much more efficient and keeps your life simple."

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