

What is Critical illness cover?



Confused about critical illness cover? Here's our guide to understanding what it is, how it works and how it differs from life insurance.

What is critical illness cover?

Critical illness cover is a type of insurance that pays out a tax-free lump sum if you're diagnosed with, or undergo surgery for, a critical illness that meets one of the listed definitions during your policy term.

It's designed to help support you and your family financially while you deal with your diagnosis – so you can focus on your recovery without worrying about how the bills will be paid.

All providers will have their own definitions that will need to be met for payment of a claim, so make sure you read the policy conditions carefully.

What is a 'terminal illness benefit'?

Some insurers will provide what's called a 'terminal illness benefit' as part of their life insurance cover.

This means you can receive your life insurance pay-out before you pass away if you're diagnosed with a terminal illness that meets the policy definition, and you're not expected to live longer than a certain amount of time, usually 12 months.

A terminal illness benefit is different to critical illness cover, as money is paid out on the basis that you'll pass away.

What's the difference between critical illness cover and life insurance?

Critical illness cover helps to support you and your loved ones financially if you've been diagnosed with a specific condition.

You'll receive a lump sum payment to help cover things like the costs of treatment, or to help pay the bills, if you're not able to work.

Critical illness cover usually doesn't pay out if you pass away. This is where life insurance comes in.

In most cases, life insurance only pays out if you pass away during the term of the policy. It's designed to help your family to maintain their lifestyle after you've gone (for example, by covering mortgage payments or children's university fees).

Many insurers will offer both types of cover at once, so make sure you understand what each policy offers before you buy.

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How does critical illness cover work?

Your cover will be based on how long you want your policy to last (as most policies will end automatically once you make a claim), and how much you want to pay for it each month.

You'll probably want to make sure that you have cover in place for as long as you still have significant demands on your income, such as an outstanding mortgage.

The next thing to consider is whether you want level cover or decreasing cover.

With level cover, you choose a lump sum to leave behind, and select how long you want your cover to run for. You'll then pay the same amount each month until your policy ends. This option could suit you if you want to make sure your salary and living standards are covered.

You can choose to make your cover amount increase in line with inflation. This means that your monthly payments may rise but ensures that the lump sum won't be worth less in the future because of the rise in the cost of living.

With decreasing cover, the value of your cover goes down each month, but what you pay stays the same for the duration of the policy. This option could suit you if you want to cover any debts or loans that you repay monthly, such as a repayment mortgage.

If you reach the end of your policy without needing to make a claim, then your policy will end and you won't receive any money back.

How much cover do you need?

Your financial adviser will be able to help you with this but again, think about the costs you'd need to cover if you were to fall ill and couldn't work (this might include regular outgoings, such as energy bills and food shopping).

If you have children, you'll want to ensure that your family is provided for, in case you can't work due to health problems. Level cover can offer financial security for you and your loved ones.

Or you may need a policy to make sure that your mortgage can be paid off. Decreasing cover helps to pay off debt, like a repayment mortgage, that's reducing over time.

For extra protection, you can usually get critical illness cover and life insurance at the same time. This way, you'll be protected against different circumstances and be able to choose how much cover you need for each policy.

Which illnesses are covered?

It's important to understand that critical illness policies don't cover all illnesses however most of them cover conditions such as Cancer, Heart attack, Alzheimer's disease, Stroke and MS.

Most policies will also offer some cover for children at no extra cost, and can provide cover for additional conditions, to give you even more protection.

The level of cover varies between providers so make sure you read the policy documents to see exactly what's covered and if there are any exclusions.

Can you get cover after being diagnosed?

Most insurers will ask you for your medical history when you take out critical illness cover.

If you do have a pre-existing condition, make sure you let your insurer know when you apply for your policy.

It doesn't necessarily mean you won't be able to get cover, but as some conditions can make you more likely to suffer from further illness, your insurer could decide not to accept you for critical illness cover.

Who needs critical illness cover?

As critical illness cover is designed to support extra costs if you fall ill, you might want to consider it if:

- You depend heavily on your salary to support yourself and your family
- You don't have enough savings to live on if you were to become seriously ill or disabled
- Your job won't cover you for a long period off work due to sickness (employee benefits package)