

# **Life Assurance Online**

## **Consumer Guide**

**To**

## **Critical Illness Insurance**

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## INTRODUCTION

This booklet is intended as a general guide to critical illness insurance, how the plans work and the illnesses normally covered. It also includes the main features and benefits provided by most plans and the tax implications.

The guide is not intended to provide financial advice under the Financial Services and Markets Acts 2000 or the rules and regulations of the Financial Services Authority. If you are in any doubt you should seek professional advice from an Independent Financial Adviser.

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Please note that the guide is intended for the use of UK residents and British expats. We hope you find it useful. For further information and a quotation please return to our web site at [www.lifeassuranceonline.co.uk](http://www.lifeassuranceonline.co.uk)

## **HOW THE PLANS WORK**

Critical illness insurance is designed to provide financial assistance to help overcome some of the consequences of surviving a serious illness.

The insurance pays out a tax free lump sum after a survival period that varies depending on the insurance company but is generally 15-30 days after diagnosis.

The insured may not be able to return to work and so lose their income and may be permanently disabled. The lump sum is available to help reduce outgoings on a mortgage and other loans and provide capital for special equipment that might be needed.

The insurance is not designed to replace lost income. The loss of income could be covered with income protection insurance. In addition to reducing outgoings the lump sum can also help in providing better convalescent facilities than would otherwise be available.

The plans provide cover for a specified range of illnesses which include cancer, stroke, heart attack, major organ transplant and many others including permanent and total disability. Please see the next section for a complete list.

Every illness covered is specifically defined in the insurance company's literature and the diagnosis of the illness must conform to the definition to support a valid claim. For example, not all cancers are covered.

The underwriting of the plans will take in to account the applicant's health and medical history, age, sex, plan options, term of years including pastimes and occupation. The plan is normally set up to run for a number of years or to a certain age but some companies offer a whole of life plan.

## ILLNESSES COVERED

The illnesses covered include the following but the list may vary slightly depending on the insurance company.

Alzheimer's disease	Angioplasty
Aorta graft surgery	Aplastic anaemia
Bacterial meningitis	Benign brain tumour
Blindness	Cancer
Cardiomyopathy	Coma
Coronary artery bypass surgery	Creutzfeldt-Jacob disease
Deafness	Dementia
Heart attack	Heart valve replacement
Heart valve repair	HIV/AIDS*
Kidney failure	Liver failure
Loss of limbs	Loss of speech
Major organ transplant	Motor neurone disease
Multiple sclerosis	Paralysis/paraplegia
Parkinson's disease	Stroke
Progressive supra nuclear palsy	Terminal illness
Third-degree burns	

\*HIV/AIDS is confined to the result of a physical assault, from a blood transfusion or restricted to applicants in named occupations.

The insurance company may place exclusions on the policy as a result of underwriting. The following exclusions apply on most policies where the illness or disability was caused directly or indirectly by:

- Drug abuse, alcohol or solvent abuse or the taking of drugs except under the direction of a medical practitioner.
- Failure to follow medical advice or unreasonable failure to take or seek medical advice.
- War and civil commotion including invasion, hostilities, civil war, rebellion, revolution or taking part in a riot or civil commotion.

# **MAIN FEATURES AND BENEFITS**

## **Waiver of premium**

This feature is available as an option and provides for payment of the premium if the insured is ill or disabled and as a result loses his/her income through not being able to work.

The insurance company pay or “waive” the premium until the insured returns to work or the plan comes to an end. The option is set up to start after a period of time, known as the deferred period, which is normally 4, 13, 26 or 52 weeks.

## **Guaranteed premiums**

An option that ensures that the premiums will not be reviewed and increased throughout the period of the plan.

## **Reviewable premiums**

This option provides a lower premium compared to guaranteed premiums during the early years of the plan. The premium will be subject to review after a period of time, normally after 5 or 10 years.

A new premium will be set which reflects the insured’s new age and the insurance company’s charges and will normally be increased.

## **Indexation**

This benefit helps to provide protection for the insured amount from the effects of inflation. The insured amount can be set to increase each year in line with the Retail Price Index (RPI) or a fixed percentage normally 5% or 10%.

If this option is selected the premium will also increase each year in line with the level of increase chosen.

## **Permanent and total disability**

This is an option where the benefit can be claimed if the insured becomes totally and permanently disabled. The insured must be unable to carry out their own occupation, any occupation or a number of the activities of daily living. This will depend on the definition of disability

chosen at the outset of the plan.

### **Joint or single life**

The plan can normally be set up as an individual plan or jointly with another. If the plan is set up jointly with another it will only pay out on the first claim and then come to an end.

### **Life insurance cover**

Some insurance companies offer the option of adding life insurance to the plan. If this option is chosen then the plan will normally only pay out on one event and then come to an end.

### **Life buyback option**

If life insurance cover has been chosen then this option is also available and enables the insured to “buyback” the same level of life cover 12 months after a claim for critical illness or total and permanent disability has been made.

The premium for the life cover will be based on the insured’s new age and the insurance company’s charges at the time but will not require any further medical evidence. Not all insurance companies offer this option.

### **Income option**

Some insurance companies offer the option to pay the benefit in equal instalments normally over 5 years instead of one lump sum.

### **Children’s cover**

Some insurance companies provide this benefit as standard and provides cover for the insured’s own or legally adopted children. The amount covered is normally restricted to 50% of the sum insured subject to an upper limit.

The number of children covered may be restricted. Cover will normally be available to the children from the age of 30 days to their 18<sup>th</sup> birthday.

### **Family income benefit**

Some companies offer critical illness benefit as an income rather than a lump sum. The amount insured under the plan is expressed as a monthly income and will be paid until the end of the term of the plan or earlier death of the insured.

## **TAX IMPLICATIONS**

Under current (2004/5) legislation benefits paid out under a critical illness plan are free of income and capital gains tax.

Premiums for critical illness plans do not qualify for income tax relief.

The law relating to taxation and Inland Revenue practice is subject to change. You should consult professional advice on your position.