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INSURANCE

NOT CRITICAL FOR EVERYONE

A CRITICAL ILLNESS POLICY COMPENSATES THE INSURED FOR ANY LOSS OF INCOME, AND SHOULD NOT BE YOUR PRIMARY HEALTH INSURANCE PLAN

NEHA PANDEY

With the rising cost of healthcare, it is important for everyone to have a proper health insurance policy. Ideally, a term policy, medical insurance and an accident policy should be enough. In case of a family, one could look at a family floater for medical insurance as well.

However, in the past decade, insurance companies have introduced policies directed for critical illnesses. Available as both riders in life insurance policies or separate formats, these provide additional finances if the person has to be kept at home for treatment or there is a loss in income.

Shriraj Deshpande, head – health insurance, Bajaj Allianz General Insurance, said: "A critical illness cover is to protect the loss of income of the person suffering from the critical disease."

For instance, if a person with both medical insurance and critical illness policies were to have a disease covered by the latter policy, his cost of treatment would be reimbursed by the medical policy. In addition, the entire insured sum under the critical illness policy would be given to him.

"This amount can be used to make up for loss of pay or repay debt," said Rahul Aggarwal, CEO, Optima Insurance Brokers. Obviously, critical illness policies are important, but only as top-up insurance.

Critical illness cover can be taken in two ways – a standalone policy from any general insurance company or as riders on a life insurance policy. Riders come cheaper than standalone policies because they come as an additional part of the base policy. Also, the Insurance Regulatory and Development Authority (Irda) has capped the premium of a rider at 30 per cent of the base policy, which basically means that if the yearly premium of a policy is Rs 10,000, the insurer cannot charge more than Rs 3,000 for a critical insurance rider.

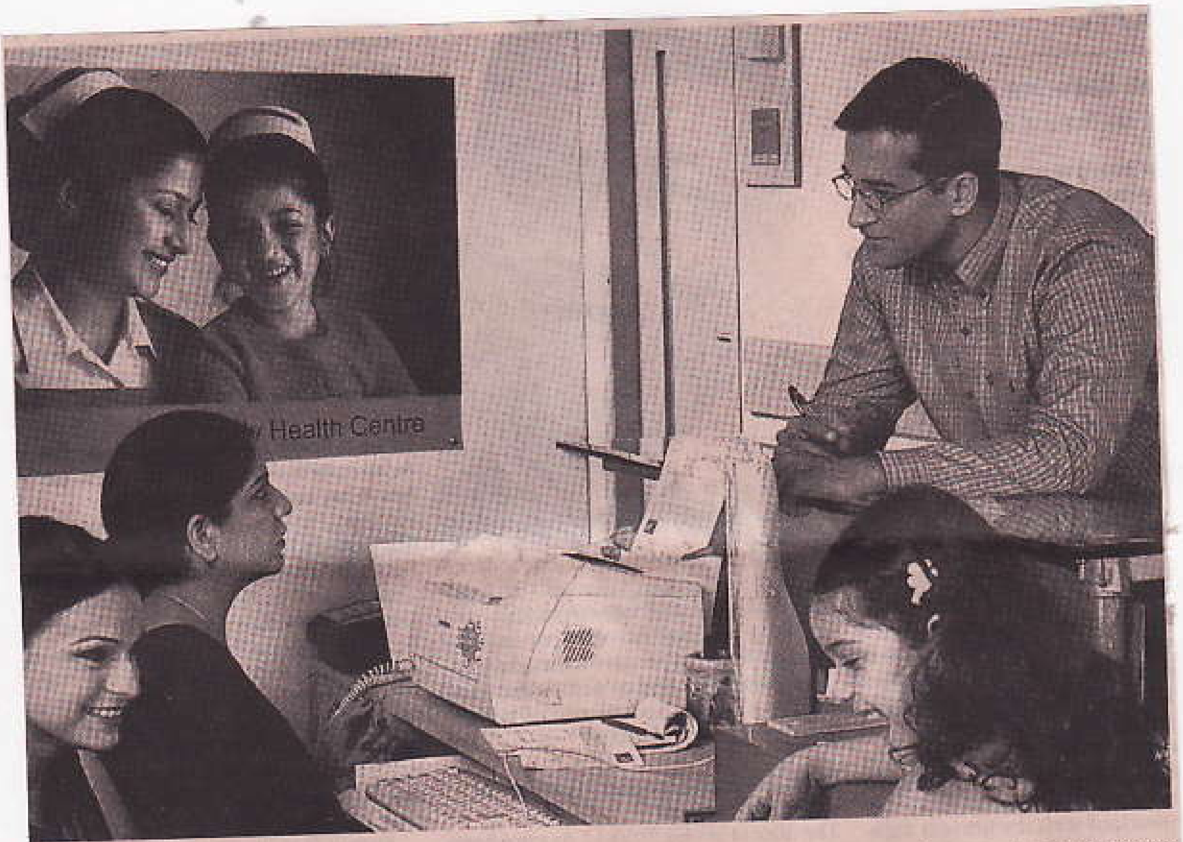
POLICY RIDERS

But, riders come with their own issues. That is, once a claim has been made under these riders, the base policy is terminated as well. Also, if the insured were to expire within two or three months after making a claim under the critical illness rider, the sum paid under the rider will be deducted from the death benefit.

However, if one purchases a critical illness policy, the claim can be made only for pre-defined illnesses. Also, the policy will not cover pre-existing diseases within a period of 90-120 days from its commencement.

If you have mediclaim of more than or equal to Rs 5 lakh, you may not need a critical insurance cover. The better option is to buy a floater policy, where the entire family can be covered

The diseases covered under such policies include cancer, first heart attack, kidney failure, major organ transplant, multiple sclerosis, paralysis, coronary artery bypass surgery, primary pulmonary arterial hypertension and aorta graft surgery. "Such polices are only advisable for ones who are looking for critical illness coverage," said Gopal Jhunjhunwala, an insurance agent.



Before buying a critical illness policy, look at the exclusions carefully. "The clauses in these policies are quite stringent," said a financial planner. A heart patient has to survive 30 days after the surgery to get the claim.

OTHER FACTORS

Most financial planners feel if there is adequate medical cover, there may be no need for a critical illness cover. "If you have a mediclaim of more than or equal to Rs 5 lakh, you may not need a critical illness cover. The better option would be have a floater plan where the entire family is covered," said Mukesh Dedhia, director, Ghalla and Bhansali.

"It is good to have a health insurance policy and a critical illness cover. But, a critical illness cover is not a replacement for a health insurance policy," added Deshpande.

Ideally, such policies should only be bought by people within a certain age group, said experts. That is, purchase a policy in the age band of 30-50 years. This is because this policy does not make much sense if you don't have any dependents, which is true in the earlier years of your career. And, after the age of 50, the premiums are prohibitively high.

For a 25-year old person, the annual premium of a 20-year endowment policy with a sum assured of Rs 1 crore, with a Rs 5 lakh critical illness rider, would be Rs 24,863. The same policy would cost Rs 31,481 and Rs 64,699 for a 40-year and 50-year old. At the latter age, the coverage would be provided for only 10 years.

If one goes for a standalone policy, a 50-year old can purchase a three-year policy with a cover of Rs 12 lakh at a whopping premium of Rs 72,666.

ALTERNATIVE

In such circumstances, one should create a medical expense corpus by saving through the systematic investment plans of mutual funds. This can be done over time. Start keeping aside a sum when you are 40-45 years. And over a 15-20 year period, you would have accumulated a significant sum.

Let's put it in numbers. Say, you were to invest Rs 2,000-3,000 monthly for 15 years. Assuming an average annual return of 10 per cent, quite reasonable if invested in equities, you will accumulate Rs 8.36 lakh-Rs 12.54 lakh in 15 years - quite a decent sum for emergency contingencies.

But, remember an important thing. Move this corpus after 15 years to a safer debt fund or bank fixed deposit, which will ensure safety and continue to give you reasonable returns.