

# What is Severe Illness Cover?

- **Q: We have looked at the life and disability benefit, and now we will be discussing severe or critical illness cover. What exactly is it?**

In a nutshell, cover for severe illness will pay out a benefit on diagnosis of a serious illness such as cancer, a heart attack or even in some cases, a serious injury. The benefit is designed to help you pay for the costs well beyond medical expenses that can arise when living with such an illness, that is really the main need that it addresses.

A second important aspect to emphasize for listeners is that severe illness cover can be a policy or benefit on a larger life insurance policy that pays you a lump sum on diagnosis of such a serious illness.

- **Q: Where and how exactly is severe illness cover different to say disability cover?**

A key difference to highlight between severe illness and something like disability is really about when you would be able to claim. Simply, severe illness cover differs from a lump sum disability cover in that your illness need not be permanent in order to claim. It differs from disability cover in that it pays out on diagnosis of a defined illness and in some cases injuries, rather than an assessment of your ability to work and earn an income.

This means they provide for slightly different needs when we are considering having that peace of mind that family members will be taken care of. While lump sum and income disability benefits are aimed at providing for lump sum needs such as the additional costs of an impairment, paying off debt or replacing lost income when you are disabled either temporarily or permanently, a severe illness benefit is aimed at providing for additional costs that put pressure on you financially when you have a serious health event. Although this may or not be permanent, the costs associated could still have a substantial impact on yourself and your family.

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- **Q: Severe illness cover is not something very well known. Who should be thinking about a severe illness cover?**

Severe illness cover is becoming increasingly important as we live longer and risk contracting more illnesses. Disability cover and medical aid cover are essentials that severe illness cover can complement. The payouts from a severe illness cover can be used for any purpose from adapting your lifestyle, to additional medical costs or care costs, to rehabilitation or reconstructive surgery. If you need to step back from pursuing your career as a result it can also compensate you for the potential loss of income.

This means that the reasons one would choose a severe illness cover can be quite varied and may also be influenced by any other products you already have, like medical aid, gap cover and so on.

- **Q: For me a questions that follows on from this, is that if you know or think that severe illness cover is for you how would I know what the right amount of cover for me will be?**

Excellent question. Working out how much you need is difficult because you may most likely do not know what illness or injury you may contract and likely do not know what you will want to use the benefit for until you fall ill. Engaging with a financial advisor or insurance advisor or broker should be a great assistance in answering this question for yourself.

Here are a few quick thoughts you may want to consider when answering this question:

1. Age: your risk of contracting an illness increases as you get older.
2. Family history: you may be susceptible to certain illnesses more than others.
3. Other insurance or financial products you may have: do you already have a medical aid, for example, do you already have a disability cover or income protection that could assist in affording some of these expenses?
4. Would your family be able to support you and care for you? And do you need to consider the costs of extended or home-based care?
5. Do you have other savings over and above your retirement savings and investments that could assist you in covering medical expenses or loss of income?

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- **Q: It was previously mentioned that when it comes to life, disability and critical illness cover, your cover can be what is called accelerated or not? What exactly does that mean?**

You can take out life, disability and severe illness cover each with their own benefit amount or you can take out disability and/or severe illness as an early pay out of the life benefit, and this second option is referred to as accelerated cover. This reduces the life benefit if you claim for disability or severe illness.

Taking out cover as an early pay out or accelerated benefit makes cover substantially cheaper, but it may not suit your needs. If you claim on stand-alone disability or dread disease cover, your life cover remains intact and will pay out in full if you subsequently die. But when the benefits are an accelerated pay outs and you claim them, your beneficiaries will receive a lower pay out should you subsequently die while the cover is still in force.

For example, you may take out R1 million in life cover, with R200 000 in severe illness benefits as an accelerated rider. Should you be diagnosed with, for example, cancer, the policy will pay out R200 000. Should you then die from the cancer – possibly years later, your life policy will pay out only R800 000, and not R1 million.

- **Q: I am now beginning to see how life disability and critical illness cover can fit together. Sort of like a puzzle piece?**

Yes, basically exactly like building a puzzle. When we are thinking about how to best provide for our families were something to happen to us, life disability and sever illness cover are three types of cover that can provide that peace of mind in knowing our loved ones are taken care of. If you were to pass away, there is life cover. If you were to become unable to work, there is disability cover; and if you were to become seriously ill or injured that is severe illness cover.

This is why you could consider having all three of these benefits under one fully-underwritten life insurance policy or you could have each one of these as a stand alone benefit, meaning you could have either one or any combination of the three to ensure you have the peace of mind for your family.

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- **Q: Final question is about a buzz word that everyone has been talking about recently, and that is inflation. As we have been talking about different types of life insurance and how best to make sure our loved ones are taken care of, we always ask how much cover would be enough? But what about inflation? Won't the amount of cover you need to be more to consider inflation and the cost of goods and services in 5, 10, or 20 years from now?**

When you take out life cover, you can choose whether or not to increase your benefits, and, by how much to increase each year. Remember that as your life cover increases, your premiums will also increase.

If you choose not to increase your benefits, your cover will potentially not keep up as cover needs increase. To contain your premium increases, you can choose to increase your cover by a fixed amount each year rather than keeping up with inflation. While your life insurance and lump sum disability needs may decrease each year as you grow older, remember that your income protection benefit generally does need to keep up with inflation. In fact, it may need to increase by more than inflation if your income increases because you were promoted, or you received a merit increase or grew your business.

If you don't agree to regular annual increases and ask for an ad hoc increase later, the new cover may be priced at a higher premium and come with underwriting, which could result in loadings or exclusions.

Some insurers may offer you the ability to increase your cover by a certain percentage or on certain events such as marriage or the birth of a child. This benefit is called future cover or future insurability and the cost of the benefit may be in your premium or offered as an add on.

If you are uncertain about how inflation may affect the value of your cover or about how your cover will increase, reach out to your insurer and ask for clarity.

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