Critical illness cover – what you need to know

Critical illness cover (or CIC) is a type of insurance that is often sold alongside life insurance. It is designed to provide you and your family with financial stability if one of you were to fall seriously ill. It's of course not a nice thing to think about but preparing for the worst is always a good way to ensure you have a safety net to fall back on if a critical illness were to prevent you from going to work.

If you are diagnosed with a critical illness, it can obviously impact your ability to work and therefore dramatically impact your annual income. People are so quick to insure their belongings like phones and laptops but often overlook their income – a fact that makes little sense given the just how important your income can be. CIC is designed to help you. If you do fall critically ill, this type of insurance will pay out as a lump sum as long as the illness you are diagnosed with is covered by your policy.

How does it work?
When it comes to taking out critical illness cover, how much cover you need and how long you need the policy to be active for are two of the main considerations to make. For example, you may decide that you want to be covered for the next 30 years for a £100,000 pay out – two factors that will play a big part in determining the cost of your policy. It is always a good idea to take some time to properly work out what you'll need from your policy to ensure you get the perfect policy for you and your family.

Most people buying critical illness cover aim to use the lump some to pay off their mortgage. With all the stress that comes with having a critical illness, the last thing you and your family would need in that situation is the obligation of monthly mortgage payments. However, this doesn't mean the lump sum can't be used for other things, such as treatment or tuition fees for children. It is also worth setting aside the equivalent of a few years salary in order to live comfortably while being unable to work. You can also choose if you want the cover to increase over time to keep up with inflation or decrease if you only intend to pay off the mortgage.

When does it pay out?
This will often depend on your provider, but it is usually a matter of weeks for a successful claim to be processed. It's good practice to contact your insurer as soon after your diagnosis as possible to make sure you don't encounter any financial issues before your lump sum is paid. The good news is the pay-out is not classed as income and therefore isn't taxable.

If you'd like to learn more about critical illness cover and perhaps take out a policy yourself, our advisers are on hand to answer any questions you may have.

If you'd like to discuss the options available to you, contact your adviser today.