Why Critical Illness Coverage Is A Waste Of Money

Description

Should I buy critical illness insurance?

There are no easy answers. Many agents may try to use scare tactics (which make logical sense) to get you to purchase critical illness plans, but are they really worth it?



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Not in my opinion.

Many agents will tell you that if you do not buy CI cover, you will not get insured against cancer, which is steadily on the rise. However, that is not the full story.

How does a critical illness plan work?

A CI plan pays you a lump sum of money if you are diagnosed with one of the 37 pre-determined major illnesses. This money can help pay for your living expenses or loss of income while you recuperate, or other ancillary medical expenses that may not be covered under your traditional health shield plans, including reconstructive surgeries.



The catch is â?? once you are awarded with a payout, your policy will usually be terminated and you

will no longer have any critical illness cover.

I personally donâ??t think CI plans are worth it, and hereâ??s why:

1. MediShield Life already covers most medical expenses

When youâ??re diagnosed with a critical illness, the hospital bills can chalk up to quite a large amount.

Fortunately, our MediShield Life covers a bulk of the medical expenses you are likely to incur, including:

1. Daily ward and treatment charges
2. Surgical operations
3. Implants/approved medical consumables
4. Radiosurgery
5. Chemotherapy
6. Stereotactic Radiotherapy for Cancer
7. Radiotherapy for Cancer
8. Kidney Dialysis
9. Immunosuppressant drugs for organ transplant
10. Erythropoietin drug for chronic kidney failure

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I recommended buying your own private H&S plan on top of your MediShield Life and employer health insurance, so if you heeded my advice, you should be paying close to zero for your hospitalization fees. Why would you still need a sum of money from your CI plan then?

Of course, if you want to seek treatment in a more â??atasâ?• hospital, then even MediShield Life cannot help you.

2. Common cancers like breast / prostrate cancer are not covered by CI plans



Contrary to what most Singaporeans think, you are not automatically covered for all types of cancer even if you own multiple CI plans.

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A few years ago, breast cancer patient Ms. Theresa Tan received a rude shock when her claims were rejected by her insurerâ?¦after paying all that money for 3 CI policies. In fact, did you even know that a number of common cancer conditions â?? including breast cancer, prostrate and cervical cancer â?? are not covered by CI policies at all? You would need either early CI or a gender-specific insurance plan to get this level of protection.

 # Singapore Cancer Registry, Interim Annual Registry Report, Trends in Cancer Incidence in Singapore, 2010-2014

(61,519notifications of new cancer cases by year of diagnosis, 2010-2014)

TOP 10 CANCERS DIAGNOSED IN SINGAPORE #			
Men		**Women**	
Colo-rectum	17%	Breast	29%
Lung	15%	Colo-rectum	13%
Prostate	12%	Lung	8%
Liver	7%	Corpus uteri	6%
Lymphoid neoplasms	7%	Ovary, etc.	5%
Skin, including melanoma	6%	Lymphoid neoplasms	4%
Stomach	5%	Skin, including melanoma	4%
Nasopharynx	4%	Thyroid	4%
Kidney & Other Urinary*	4%	Stomach	4%
Myeloid neoplasms	3%	Cervix uteri	3%

Moreover, even if you get diagnosed with any one of the covered illnesses, your CI payout is not guaranteed or confirmed. For instance, some illnesses require you to be at the final stage before you are eligible to make a claim. This means that even if you get diagnosed with a Stage 1 or 2 cancer, you may still not get a single cent from your insurer (even if youâ??re bedridden at home)!

3. On top of CI cover, you may even need a Early CI plan to get the payout



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Due to the above scenarios, insurance companies are now also offering the option for early CI plans, which allows you to claim your money sooner rather than wait until the final stages of your illness.

Given that more people are going for regular health screenings these days, it is more likely that one might be able to detect critical illnesses at an earlier stage where the likelihood of full recovery is still high. Thus, early CI plans would come in useful here.

However, do note that each payout is usually just a fraction of the insured sum, and may therefore be insufficient or lesser than what you expected. Even if you bought an early CI cover of $100,000, thereâ??s no guarantee that you will get the full sum upon diagnosis.

Even the ex-CEO of NTUC Income states that *â??the cost of critical illness cover is high. You should not spend too much premium on this risk, as the return is poor.â?•*

4. As a young working adult, the fact is I simply donâ??t have a lot of money to spend on insurance



Donâ??t get me wrong â?? Iâ??m not against insurance. In fact, I think insurance is absolutely essential before we can even start thinking about building our wealth. But I do not believe in every single type of plan out there.

In my first job, I was only getting $30,000 of annual wages. After working hard and getting promoted, my job still only gives me slightly over $40,000 each year. Which is why whenever any agent quotes me plans where premiums are in the 4-digits range, I baulk.

If youâ??re a fresh graduate with a $26,000 tuition fee loan to repay, the financial burden gets even heavier. (For a start, you can check out my guide to paying off your TFL here).

5. Spending 12% to 15% of my annual income on insurance is far too expensive!



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The premiums for early CI plans are extremely expensive, even more so than traditional CI plans. While the plans may offer great protection, paying for such premiums would be a huge drain on my financial resources.

Let me set the record straight â?? no matter how good your insurance agentâ??s intentions are for you (ha ha ha), there comes a point when we are paying too much for our insurance.

Insurance is essentially protection. There are a wide range of plans that most agents will recommend us to get, including private health shield plans, whole life plans, critical illness cover, early critical illness cover, accident plans, disability income insurance, etc.

Each plan has its own meritsâ?¦and cost.

When I calculated my quoted premiums for H&S, term, CI and early CI, the total cost came up to a hefty 12% â?? 15% of my annual income! Does that make any sense to you?

I can relate to why CI coverage might be importantâ?¦but not at this point in time, when Iâ??m earning so little to begin with!

6. There is a HUGE OPPORTUNITY COST



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Paying a few thousand dollars to my insurer each year may not sound like a lot, but over the long run, it definitely adds up.

When you consider the gloomy economic conditions right now, I would frankly rather keep my cash on hand to take advantage of upcoming market opportunities and invest. That way, when my returns compound, I have more money.

7. I can potentially build up my own CI â??payoutâ?• faster



If I were to take the money spent on insurance premiums to invest in a good value stock that gives me 6% returns, by religiously adding in my â??insurance premiumsâ?• into this â??fundâ?•, I could grow

my money to $211,000* in 20 years.

**Presuming insurance costs of $5,000 annually, with regular injections of the same amount each year and compounded over a 20-year duration.*

In that way, I could build up my own CI â??payoutâ?• which would be â??guaranteed claimableâ?• should anything happen to me in the future. At the same time, Iâ??ll also be able to have this cash on hand to invest in other opportunities should they come along.

8. The chance of making a critical illness claim is extremely small.

I quote Mr. Tan Kin Lian, the ex-CEO of NTUC Income, who said: â??There is no need to buy insurance to cover critical illness. The chance of making a critical illness claim is small. Less than 5% of people make this claim during their working life.â?•

If so few people exercise their claims, then why should I be among the majority feeding the insurerâ??s pockets?!

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Industry list of all 37 critical illnesses:

1 Major Cancers
2 Heart Attack of Specified Severity
3 Stroke
4 Coronary Artery By-pass Surgery
5 Kidney Failure
6 Aplastic Anaemia
7 End Stage Lung Disease
8 End Stage Liver Failure
9 Coma
10 Deafness (Loss of Hearing)
11 Heart Valve Surgery
12 Loss of Speech
13 Major Burns
14 Major Organ / Bone Marrow Transplantation
15 Multiple Sclerosis
16 Muscular Dystrophy
17 Parkinson's Disease
18 Surgery to Aorta
19 Alzheimer's Disease / Severe Dementia
20 Fulminant Hepatitis
21 Motor Neurone Disease
22 Primary Pulmonary Hypertension
23 HIV Due to Blood Transfusion and Occupationally Acquired HIV
24 Benign Brain Tumor
25 Viral Encephalitis
26 Bacterial Meningitis
27 Angioplasty & Other Invasive Treatment For Coronary Artery
28 Blindness (Loss of Sight)
29 Major Head Trauma
30 Paralysis (Loss of Use of Limbs)
31 Terminal Illness
32 Progressive Scleroderma
33 Apallic Syndrome
34 Systemic Lupus Erythematosus with Lupus Nephritis
35 Other Serious Coronary Artery Disease
36 Poliomyelitis
37 Loss of Independent Existence

Looking at the insurance industryâ??s defined list of the 37 critical illnesses which one can claim for, I donâ??t really see too many people in my family coming down with these conditions, nor can I see myself ending up with any one of them. (Of course, I could be wrong, but this is where a good diet and exercise can hopefully help mitigate against.)



So there you have it â?? my list of reasons as to why I told my insurance agent I was not interested in buying any CI plans at the moment, at least until I get married and have children.

While we should definitely take precautions to protect ourselves, there is also a limit as to how much insurance we can afford to pay for. Donâ??t let yourself become like this executive who was stuck with paying yearly insurance premiums higher than her annual pay.

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While you could argue that CI plans are important / useful, these plans do not come cheap. If you asked me, it doesnâ??t make sense that I should be paying a few thousand every year for something I may never ever get to claim.

What are your thoughts on critical illness insurance?

With love,
Budget Babe

Category

1. Insurance