Return of Premium on a Critical Illness Policy, It's Like Having your Cake and Eating it too...

By Corry Collins CLU CHFC CHS

Critical Illness Insurance is a policy that pays a lump sum benefit to the life insured if you suffer from one of the 27 covered illnesses like a heart attack, stroke or cancer. The actual illnesses will depend on the policy.

Adding a return of premium benefit makes the policy almost free says Corry Collins a financial planner and partner with Maritime Wealth Management in Halifax. Collins explains that in Canada some polices have an optional feature which allows one to buy a policy and if a claim is not made by a specific year (like year 15), the client receives 100% of the premium back if they surrender the policy.

Here's the math. Let's say the policy premium is $1,000 for a male age 37. He pays the premium for 15 years. That is $15,000 in total. At any time if he suffers from a covered illness, he receives $50,000 tax free. If had otherwise remained healthy, at year 15 he would get all of his $15,000 back, thus a "return of premium". That is free insurance says Collins.

If you wanted to calculate the after tax interest that might have been earned in a guaranteed deposit account on the same deposit, the true cost is still only $160.97 based on 2% interest and 50% tax over 15 years. Collins says, purchasing a critical illness policy this way is like having your cake and eating it too… Coverage is paid at claim time, and a full refund (minus interest) if no claim is made. If you were going to save the money anyway, why not let the interest buy you some critical illness coverage?

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