



Experience Wealth Enhancement – Experience Us

## *Client Information Summary*

### ***Disability Insurance How to Maximize Your Benefits***

**U**ntil an individual has created sufficient wealth to provide adequate income for their family in the event of a disability, it is vital to *manage* the risk of loss of income.

In an ideal world it would be possible to have complete income replacement for a disability but insurance companies will not allow this because they want those who are insured to continue to have an incentive to go back to work.

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*Limitations are set so that  
individuals will have an incentive  
to go back to work.*

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That is, they expect every individual to suffer a degree of financial hardship as a result of their disability.

Once you have identified the amount of disability insurance you need as explained in CIS #171R (Capital Needs Analysis in the Event of Disability), making a decision as to which type of coverage best meets your specific requirements is the next task. Often our analysis of your needs in the event of disability will identify a shortfall that cannot be fully eliminated due to the maximum issue limits insurance companies set, as previously mentioned. Therefore, it's important to structure your coverage in a cost effective manner which optimizes your protection without exceeding these issue limits. There are also other kinds of insurance coverage that can be obtained that offer some protection in the event of certain kinds of disability – see below for a description of Critical Illness Insurance.

This information summary has been produced to provide a basic understanding of the various types of disability insurance and how to maximize your benefits. An overview of the various types of disability insurance follows:

#### ***GROUP DISABILITY INSURANCE BENEFITS***

Many employers provide group benefits to their employees. Usually disability benefits under such plans are broken into two distinct plans. The following provides a brief description of these group benefits and some of the common features:

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#### **Short Term Disability (STD)**

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This benefit, sometimes called "weekly indemnity" typically will have a starting date from zero days to 15 days. It usually has benefit duration of 15 - 52 weeks and provides benefits of 2/3rds of the employee's basic weekly income.

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## Long Term Disability (LTD)

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Benefits for LTD almost always begin when the STD benefits end. Thus if the STD plan has a benefit duration of 15 weeks, the LTD plan will usually commence benefits after 15 weeks. The benefit duration of LTD group plans is usually to age 65.

### Definition of Disability Under LTD

As noted above, the benefit duration for LTD benefits is usually to age 65. However, the definition of disability is normally quite stringent, especially after 2 years of disability.

For example, "Total Disability" means the complete inability of an insured employee because of accidental bodily injury or sickness to engage in any occupation or employment for remuneration or profit for which he is reasonably suited by reason of education, training or experience.

### Plan Participation

Most group disability plans are mandatory for all employees. It is through this mandatory arrangement that group rates are kept low since it ensures that healthy employees don't opt out of the group plan to acquire private coverage which is of better quality and leave the "less healthy" employees in the group plan. This mandatory participation often means that a covered employee is exposed to some risks due to the deficiencies of many group plans.

### Taxation of Benefits

In cases where the employer pays the premium for the STD and LTD plans, the benefits, when received by the employee, are fully taxable, like regular employment income. In cases where the employer has structured their plan so that the employee pays the premium for these benefits, they will receive their benefits tax free. It is for this reason that some employer's have elected to have their employees pay these premiums.

## ***PRIVATE DISABILITY INSURANCE***

Insurance companies have developed quite a wide variety of private disability insurance contracts. Each is designed to fill a specific situation. The following are some of the typical variations that can be found in the marketplace:

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### Own Occupation Coverage

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This type of product is designed for self employed professionals and executive employees who operate on a fee for service basis, where their income would stop should they become disabled.

**Definition of Disability:** "The insured cannot perform the substantial duties of their **own occupation** to the end of the benefit period"

**Start Dates:** 31, 61, 91, 121, 181, 366, & 732 days

**Benefit Periods:** 5 years, 10 years and to age 65

**Proportionate (Residual) Disability:** This feature protects the insured from a partial loss of income due to disability. If the insured is disabled, resulting in an income loss of at least 20%, they will be paid a percentage of their benefit based on the percentage loss of their earned income.

**Presumptive Disability:** This feature protects from the irrecoverable loss of sight, hearing, speech or use of two limbs.

**Waiver of Premium:** If a period of disability continues for more than 90 days, the premium for the policy will be waived for the remainder of the disability and the premium paid for the first 90 days of disability will be refunded.

**Recurrent Total & Proportionate Disability (12 months):** If the insured is disabled from the same cause within 366 days of returning to work, the relapse will be considered a continuation of the previous disability.

**Universal Life Disability:** Here we combine life insurance and disability insurance in one policy: Universal Life coverage, which allows for the build up of tax exempt cash values and disability coverage which provides an income in the event the insured can not perform the substantial duties of their regular occupation and is not gainfully employed in another occupation.

**Health Care - Preferred Tax Treatment:** You have the option to claim capital benefits under certain Universal Life policies in the event that the insured becomes occupationally disabled or is afflicted with a critical condition. You can withdraw the cash accumulation free of any income tax. In general, the maximum capital benefit that may be claimed cannot exceed the value of the accumulation fund of the policy (after deducting any applicable market value adjustments and early liquidation amounts). Capital benefits are received by the beneficiary as tax-free disability benefits.

### **Lump Sum or Periodic Benefits**

Capital benefits may be claimed, after a waiting period of 90 days, as either a lump sum or periodic payments for as long as the disability continues. They are available at any time throughout the lifetime of the insured. Some examples of where capital benefits may be particularly valuable include:

- Periodic tax-free payments to supplement income replacement benefits
- Lump-sum benefits to pay off debts
- Funding for buy/sell provisions of shareholder agreements triggered on disability
- Payment of extraordinary medical or other expenses incurred as a result of disability
- Funding for long-term health care.

### **Occupational Disability**

For purposes of claiming capital benefits, you are considered to be occupationally disabled if, because of injury or sickness, you are unable to perform the substantial duties of your regular occupation and are not working in any other gainful occupation. You must also be under the regular care of a physician.

### **Critical Condition**

Capital benefits are also available if the insured is afflicted with a critical condition at any time, regardless of age. Critical conditions include:

- total and permanent loss of sight in both eyes, hearing in both ears, speech, the use of both hands or both feet, or a hand and a foot,
- the ability to perform one or more of the activities of daily living,
- any condition diagnosed as terminal by a physician and as a result of which death is expected to occur within 24 months.

This product is designed to protect business owners as well as the non-professional employee who would have 100% of their income to return to after disability.

**Definition of Disability:** The insured cannot perform the substantial duties of their regular occupation for 24 months and is not working in any other gainful occupation. After 24 months the definition becomes "Due directly to injury or sickness, the Insured cannot work in any gainful occupation for which they are reasonably fitted having regard for their education, training and experience."

**Start Dates:** 15, 31, 61, 91, 121, 181, 366 & 732 day

**Benefit Periods:** 24 months, 60 months, 120 months and to Age 65

#### ***Built-in Features:***

**Presumptive Disability:** This feature protects the insured from the irrecoverable loss of sight, hearing, speech or use of two limbs.

**Waiver of Premium:** If a period of disability continues for more than 90 days, the premium for the policy will be waived for the remainder of the disability and the premium paid for the first 90 days of disability will be refunded.

**Recurrent Total Disability (6 months):** If the insured becomes disabled from the same cause within 181 days of returning to work, the relapse will be considered a continuation of the previous disability.

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#### **Additional Rider Protection Under Private Disability Contracts**

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The following are some valuable riders which can be added to a private disability insurance contracts which help to maximize benefits:

##### **Disability Benefit Indexer**

This rider helps to offset the effects of inflation on the purchasing power of the monthly income benefit during periods of disability. The monthly income benefit will automatically be adjusted according to the specifications of the company. The actual indexation is often tied to the Consumer Price Index.

##### **Future Earnings Protector**

This rider provides the insured with the option to purchase additional disability income insurance in the future with no medical underwriting required, but subject to financial underwriting. This is a useful rider for the young person starting out in a new career who anticipates significant increases in their income in the future.

##### **Future Savings Protector (FSP)**

This rider protects the personal strategy for achieving financial independence. During a period of disability, it is likely that the savings pattern of the insured will be interrupted due to a lack of funds.

The FSP rider ensures that a specified amount of money will go into a savings trust for the insured to help minimize the negative impact of a disability on long term retirement objectives. This rider is often used to fill shortfalls that are otherwise not possible to eliminate due to issue limits on base coverage available. This rider is also available through some companies as a free standing contract as opposed to as a rider.

**ASSOCIATION  
DISABILITY INSURANCE**

Many professional associations as well as some trade associations offer a form of group disability insurance coverage to their members. The coverage can normally be tailored to each individual's situation, similar to private disability insurance.

The premium for this type of coverage is generally much less than that of private disability insurance. The reason for the reduced cost is partly because the association benefits from a "group discount". However, another contributing factor to the low cost is due to a degree of uncertainty relative to whether a disabled member will actually collect benefits under the plan. This is because association coverage can usually be cancelled at the discretion of the insuring company (if claims are excessive). Also premiums are not guaranteed and thus can be increased at any time to offset bad claims experience.

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*Private disability insurance  
eliminates risk!*

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Association group coverage should be viewed as a method of merely "reducing risk", in comparison with private disability insurance which "eliminates risk". One should only contemplate acquisition of Association group coverage in situations where cash flow constraints prevent the implementation of private coverage.

### DISABILITY INSURANCE SELECTION PROCESS

Type of Coverage	Low Cash Flow Surplus	Moderate Cash Flow Surplus	High Cash Flow Surplus
<b>Group Disability</b>	Acquire maximum available Group Disability coverage where available	Acquire maximum available Group Disability coverage where available	Opt out of Group Disability coverage if possible. Otherwise acquire minimum coverage necessary through the group
<b>Group Offset</b>	None	Minimum of one half of allowable Disability Group Offset	Maximum allowable Disability Group Offset in cases where group coverage is mandatory
<b>Association Group</b>	Top up to maximum allowable coverage with Associate coverage (if available)	Top up to maximum allowable coverage with Association coverage (if available)	None
<b>Private Coverage</b>	Top up group or Association coverage to extent possible	Top up group or Association coverage to extent possible	Obtain private coverage to highest extent possible
<b>Retirement Protector</b>	Acquire if shortfall exists or to protect against group plan not paying out	Acquire if shortfall exists or to protect against group plan not paying out	Acquire if shortfall exists after private coverage and group offset is in place
<b>Tax Protector</b>	Acquire if deferred tax will be a problem in the event of disability	Acquire if deferred tax will be a problem in the event of disability	Acquire if deferred tax will be a problem in the event of disability
<b>Disability Waiver on All Life Insurance Policies</b>	Acquire when full disability coverage is not available due to issue limits	Acquire when full disability coverage is not available due to issue limits	Acquire when full disability coverage is not available due to issue limits
<b>Critical Illness</b>	Acquire Term 10 coverage if shortfall exists	Acquire a blend of Term and Permanent coverage if shortfall exists	Acquire Permanent coverage if shortfall exists
<b>Loan Protector</b>	Acquire when business loans would jeopardize financial solvency of business	Acquire when business loans would jeopardize financial solvency of business	Acquire when business loans would jeopardize financial solvency of business

## ***SPECIALITY PRIVATE DISABILITY PRODUCTS***

The following specialty products and/or product enhancements enable individuals to increase their coverage beyond the constraints of insurance companies issuing limitations:

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### **Critical Illness Disability**

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Critical Illness Protection is a benefit payable when the insured is diagnosed with one of a number of covered illnesses. Unlike a monthly disability benefit which is designed to replace income this type of benefit is designed to pay a lump sum in the event of one suffering a critical illness.

The reality today is that with modern technology individuals are living longer after surviving a serious illness. The costs incurred to adjust ones lifestyle could result in dipping into retirement savings and even possibly result in using up equity in ones home.

Types of expenses resulting from a critical illness are homecare, therapists, and home renovations (if one suffered a stroke or paralysis wheelchair accessibility may be required). Although no one can be perfectly insured for disability, a blend of Critical Illness benefits should be acquired where any shortfall exists.

**Definition of Disability:** The waiting period is 30 days. Provided the insured is still living at the end of the waiting period a lump sum benefit will be paid

**Illnesses Covered by (Typical):** heart attack, stroke, coronary artery bypass surgery, life threatening cancer, kidney failure, major organ transplant, paralysis, multiple sclerosis, blindness, deafness

**Benefit Periods:** Permanent level premium for life (Canada Life), and/or 10 year renewable and convertible term to age 75

**Waiver of Premium:** If a period of disability continues for more than six consecutive months, the premium for the policy will be waived for the remainder of the disability. Disability is defined as bodily injury or disease which results in:

i) the first two years of the incapacity the individual covered by Waiver of Premium is prevented from engaging in his or her regular occupation for payment or profit

ii) during the remainder of the incapacity the individual covered by Waiver of Premium is prevented from engaging in any occupation for which he or she becomes qualified by training, education or experience

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### **Disability Group Offset**

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As was explained under "Group Disability Insurance Benefits", it is common for participation in group plans to be mandatory. This exposes the employee to the possibility that benefits will not be paid due to the stringent definition of disability typical under a group insurance plan. The Disability Group Offset rider provides a solution in that it allows the employee to acquire private disability insurance which will pay benefits **only if the group plan won't pay**. This eliminates any exposure to the risk that the group plan won't pay.

Individual Circumstances	Starting Dates Available					
	31st day	61st day	90th day	181st day	366th day	732nd day
No cashable emergency reserve; very tight cash flow	Yes	Maybe	Maybe	No	No	No
Cashable emergency reserve; significant cash flow surplus	No	No	Maybe	Yes	Yes	Yes

Identifying the right starting date as illustrated above, is an important part in designing coverage for your personal situation. Another important question is how long should benefits last. The following helps to identify the benefit duration to suit differing situations.

Individual Circumstances	Benefit Duration Periods Available				
	2 Years	5 Years	10 Years	To Age 65	Life
Less than 2 Years from Financial Independence	Yes	Maybe	No	No	No
Less than 5 Years but Greater than 2 Years from Financial Independence	No	Maybe	Maybe	No	No
Less than 10 Years but Greater than 5 Years from Financial Independence	No	No	Maybe	Maybe	No
Greater than 10 Years from Financial Independence	No	No	No	Yes	Maybe
Financial Independence would be totally impossible in the event of a long term disability due to issuing limitations	No	No	No	Yes	Yes
Cost Differential	\$1.00	\$1.50	\$2.00	\$3.80	\$5.00

The private coverage is issued under the group offset arrangement regardless of normal issue limits. The premiums are slightly reduced to recognize the diminished likelihood of a claim due to the private coverage taking a second payer stance.

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**Disability Waiver of Premium**

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This is an option purchased as a rider on a life insurance policy.

With this rider, the basic premiums are waived in the event of the insured's total disability. This in effect eliminates the need for funding of these contracts during a period of disability and thus helps to reduce shortfalls in the event of disability.

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**Deferred Tax Protector**

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This product is designed to protect the unincorporated

professional who is disabled and has a deferred tax liability to Canada Revenue Agency (CRA). Under this specialized contract the definition of disability is that

the insured is "Unable to perform the substantial duties of his occupation and is not gainfully employed in another occupation for which the earnings are greater than 20% of his prior earnings."

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### **Loan Protector**

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This product is designed to protect a business owner whose disability would jeopardize the financial solvency of the business due to an outstanding loan debt.

#### ***DISABILITY INSURANCE SELECTION PROCESS***

Choosing the right type of disability insurance can be a complicated decision. However, the decision becomes easier when you know how much you need, the maximum amount you can buy, as well as the current and future cash flow you can allocate without having a detrimental effect on your personal financial strategy. Once these issues are resolved we can then use the chart on the previous page to help identify the products that best meet the client's needs.

Choosing the right type of coverage is the first step in the process of designing a personalized disability insurance portfolio. The next step is to evaluate the needs of the client with regard to their ability to absorb an income loss. Identifying this allows the program to be developed using benefit start dates that are appropriate. The earlier the start date the more expensive the coverage. However, if the family would be in dire circumstances if they had to wait six months for benefits to commence, the price must be paid for an early start date. However, if the family has sufficient emergency cash available, it's possible that the start day could be later resulting in a lower premium.

Using the previous two charts it is possible to narrow the choices when it comes to selecting the right starting date and duration for your disability program. The final step is to eliminate any "maybes". Simply put a "maybe" should turn into either a yes or a no based on any strong personal circumstances that influence the selection towards either an improved benefit or a reduced benefit.

The actual cost of one benefit over another is a separate factor to take into consideration when making choices. For example, if an individual has significant cash reserves for emergency purposes but

the cost differential between a 90 day start and a 181 day start is nominal, then it would likely be best to choose a 90 day start. Another example where cost efficiency may influence a choice is where an individual will become financially independent in approximately 7 years and the cost differential between a 5 year or 10 year benefit duration is very great. In such a case perhaps a 5 year benefit duration would be the right choice, even though a 10 year duration would be more ideal.

#### **IN SUMMARY**

Designing a disability insurance portfolio involves selecting the right type of contract, the right company, the right optional benefits and the right amount of coverage. Integrating all of these issues into the program will result in coverage that will provide the best protection possible given issue limit restrictions. Having coverage that's right for you will deliver peace of mind in knowing that this important contingency is protected so your family is not devastated financially in the event of a disability. Having financial security in the event of disability can also help to lessen the overwhelming emotional impact at such a difficult time.

A full cross comparison of preferred companies disability products is available upon request.

#### **Page Client Information Summary**

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CIS #132-E 20091215

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