



Disability Insurance (Part 1)

Rino Racanelli

What is your most valuable financial asset? Whenever I ask a group of people this question, many in the group will reply: my house, my cottage, my investments, or even my car as their most valuable financial asset. Then I will suggest to the group that an individual's ability to work and earn an income could be their greatest financial asset.

The chart below shows the financial impact a disability could cause if it affected your ability to earn an income.

Total potential earnings to age 65, assuming a 2.5% income increase, follow:

AGE	\$30,000	\$50,000	\$70,000	\$90,000	\$120,000	\$150,000	\$200,000
25	\$2,022,077	\$3,370,128	\$4,718,179	\$6,032,080	\$8,088,306	\$10,110,383	\$13,480,511
30	\$1,647,846	\$2,746,410	\$3,844,975	\$4,943,539	\$6,591,385	\$8,239,231	\$10,985,641
35	\$1,317,841	\$2,195,135	\$3,073,189	\$3,951,243	\$5,268,324	\$6,585,405	\$8,780,541
40	\$1,024,733	\$1,707,888	\$2,391,043	\$3,074,199	\$4,098,932	\$5,123,665	\$6,831,553
45	\$766,340	\$1,277,233	\$1,788,126	\$2,299,019	\$3,065,359	\$3,831,699	\$5,108,932
50	\$537,958	\$896,596	\$1,255,235	\$1,613,873	\$2,151,831	\$2,689,789	\$3,586,385

Source: Canada Life Needs Analysis 10/06

Based on your current age and income, what are your total potential earnings to age 65? If you are 35 years of age and earning \$70,000 per year, a long-term disability could cost you over \$3 million dollars of earned income.

Let's look at an example for the 35-year-old male earning \$70,000 per year. The value of his home equals \$300,000. The value of his vehicle equals \$30,000. The approximate annual cost to insure these assets equals \$1,500.

The total potential earnings to age 65, assuming a 2.5% increase, are \$3,073,189. Depending on the plan and options chosen, the total annual cost to insure his greatest asset equals \$2,200.

Is your income worth protecting? We all insure our homes, cottages, and vehicles. Most of us couldn't afford to lose them. But is your income insured? Could you afford to lose it?

Disability insurance is the type of insurance that provides you with a monthly income when you are unable to work and earn an income due to an accident or an illness.

The monthly income you receive is based on a percentage of your earnings. This differs from critical illness insurance which provides you a lump sum payment should you develop one of the covered conditions. Another major difference between the two types of insurance is the termination date. If a critical illness insurance claim is paid, the policy is terminated. If a disability insurance claim is paid, the policy continues.

Odds of Becoming Disabled

Odds are that you are much more likely to become disabled before retirement than to die.

What are your odds?

Percentage of people who will become disabled for at least 90 days prior to age 65 and the average duration of disability:

Age	% Disabled	Average Duration
25	44%	2.4 years
30	42%	3.2 years
35	40%	3.4 years
40	37%	3.9 years
45	33%	4.2 years
50	28%	4.7 years

Source: Commissioner's Disability Table, 92 CIA Mortality Table, blended 50/50 male/female

Commissioner's Disability Table, blended male/female and 50/50 accident/sickness

The chances of becoming disabled for more than 90 days may be greater than you realize.

The average length of a disability that lasts over 90 days is 2.9 years. There is one in three chances of becoming disabled for 90 days or longer at least once before age 65.

Between 2001 and 2007 the number of persons reporting a disability in Canada increased to ¾ of a million, a 21.2% increase.

(Source: CIA 86-92 Commissioner's Disability Table A)

Not many of us expect to be affected by a disability. Yet disabilities are a very real fact of life that can be financially devastating. Most Canadians assume their government, their employer, or their association will provide them with adequate income replacement should they become disabled. Although these programs exist, they may not provide disabled Canadians with adequate financial protection. Let's look at some of the disability programs available to the working Canadian.

Government Disability Benefits

Employment Insurance Sickness Benefits

Employment Insurance (EI) provides sickness benefits to individuals who are unable to work because of sickness, injury, or quarantine.

To be entitled for sickness benefits you must show that your regular weekly earnings have been decreased by more than 40%, and you have accumulated 600 insured hours in the last 52 weeks or since your last claim. This period is called the qualifying period. You must serve a 2-week unpaid waiting period before your EI benefits begins to be paid.

How much will you receive?

The basic benefit rate is 55% of your weekly average insured earnings up to a yearly maximum insurable amount of \$41,100. This means you can receive a maximum payment of \$435 per week. Your EI payment is taxable income, meaning federal, provincial or territorial taxes, if it applies, will be deducted. Sickness benefits may be paid up to 15 weeks to a person who is unable to work because of sickness, injury or quarantine.

(Source: Service Canada 2008-08-18)

Canada/Quebec Pension Plan

The Canada Pension Plan (CPP) disability benefit is available to people who have made enough contributions to the CPP, and whose disability prevents them from working at any job on a regular basis. To qualify for CPP benefits your disability must be severe and prolonged and of indefinite duration likely to result in death.

To qualify for a disability benefit, you have to have earned an amount higher than \$4,400 in 2008 and you have to have made CPP contributions in three or four of the last six years, provided you have made CPP contributions for at least 25 years.

CPP rates are adjusted every January if there are increases in the cost of living as measured by the Consumer Price Index. Depending on certain eligibility and contribution requirements, the maximum monthly disability benefit for 2008 is \$1,077.52.

It may take as long as three months for you to find out if your application for a disability benefit has been accepted. If your application for a CPP disability benefit is not granted, there are three opportunities for you to have your application reviewed or reconsidered.

These must occur in the following order:

1. A request to Social Development Canada for reconsideration.
2. An appeal to the Office of the Commissioner of Review Tribunals.

This is your opportunity to present your case in person to the Review Tribunal panel. At the hearing, you will present your case before a three-member Review Tribunal panel. One member is a lawyer who will chair the hearing, one is a health professional, and the other is an individual from the community from any walk of life.

I have attended several appeal hearings representing the disabled person to help explain his or her case. In over 50 hearings I attended, every claim but one was rejected by the panel. The decision was always based on CPP's stringent definition of disability, "severe and prolonged and of indefinite duration likely to result in death." I can say from experience that collecting a disability pension with this kind of definition is extremely difficult.

3. An appeal to the Pension Appeals Board.

(Source: Service Canada 2008-08-18)

Employer-Sponsored Plans

Short-Term Disability

Short-Term Disability (STD) is a plan set up by an employer, underwritten by an insurance company that will provide weekly benefits for a fixed period to employees in cases of illness or injury. Benefit amounts are based on the percent of earnings (or a flat rate) and can range anywhere from 50% to 70% of a person's weekly income.

Benefits under a short-term disability plan must begin no later than the 15th day following the start of the employee's disability, i.e. after a waiting period of no more than 14 consecutive days.

Your short-term disability plan must be the first payer. You cannot receive a premium reduction if your plan uses income benefits payable by EI as part of its payment structure. Consequently, benefits under your plan cannot be integrated or coordinated with benefits that would be paid under the EI Act.

(Source: Service Canada 2008-08-18)

Long-Term Disability

Employers may also provide their employees with a Long-Term Disability (LTD) plan. Typically LTD provides a benefit anywhere from 50% to 66.6% of an employee's

gross monthly income. The maximum benefit is determined by the insurer based on the size of the group and earnings level. Benefits commence after a waiting period of 4 to 6 months (about the time STD payments end) selected by the employer and may continue for 2 to 5 years or until the employee reaches the age of 65.

Because STD and LTD are under one master contract, they fail to provide for the individual financial needs of each employee. They have several limitations which include: annual premium increases, reduced maximum amount of benefits available, may be cancelled or modified by the employer at any time, and may not cover commission or bonus income. Another drawback of employer-sponsored plans is that when you leave the company your insurance is cancelled automatically.

Association-Sponsored Plans

Various professional associations have long established disability plans as part of an overall benefits program offered exclusively to members. As with employer-sponsored group insurance, association plans are under one master contract and have all the short comings of a group plan.

However, premium rates for the association members can be quite low since the insurer has established the occupational factor and the specific risk class associated with that occupation.

Workers' Compensation

Workers' compensation programs protect employees from the financial hardships associated with work-related injuries and occupational diseases. Workers' compensation benefits only cover disabilities which occur on the job.

These programs are largely administered by provincial and territorial governments in Canada. In Ontario you may receive up to 85% of your net earnings, up to maximum annual compensation earnings of \$73,300.

(Source: Association of Workers' Compensation Boards of Canada [AWCBC], Spring 2008)

Next month I'll discuss individual disability insurance plans.

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