



# Disability Insurance (Part 2)

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In the October 2008 edition of *Canadian MoneySaver*, I discussed basic disability needs. Then, I explained government disability benefits and employer-sponsored plans. Now, we carry on with individual disability insurance plans.

## Individual Disability Insurance Plans

An individually-owned insurance plan takes into consideration an individual's occupation, earnings, and health to determine whether that individual can be approved for disability coverage. Canadian insurance companies that actively offer individually-owned disability insurance include Canada Life, Manulife Financial, Great West Life, and RBC Insurance. For a complete list of companies that offer long-term, non-cancellable individual disability insurance in Canada you can call the Canadian Life and Health Insurance Association at 1-800-268-8099.

These companies offer a wide range of products to examine and choose from. For example, Manulife Financial has a white collar product for executives and professionals (Proguard). A cost-effective plan for small business owners and other working individuals without disability coverage is Venture. A comprehensive product for non-working individuals, including retirees, part-time and transitional workers who wouldn't otherwise qualify for coverage is called Personal Accident.

Canada Life has designed four new disability programs (part of the Lifestyle Protection Plan) with pre-selected optional benefit riders targeted to each occupation class: professional, executive, business owner, and employee. The Lifestyle Protection Plan contains many valuable features and benefits. It can be customized to suit an individual's needs for each occupation class.

Some of the important features of an individually-owned disability insurance plan include:

**Guaranteed non-cancellable contract** - Once approved by the insurance company your policy cannot be cancelled or modified in any way. You are in complete control of the future of your coverage unlike group and association plans

where the employer or association has the right to modify and/or cancel your coverage at any time.

**Guaranteed level premium** - The cost is guaranteed and level until the insured person reaches the age of 65. Group and association disability insurance rates are subject to change, based on the selected insurer's overall claims experience.

**Fully portable** - To have the ability to take your coverage with you in today's transitional climate is a definite asset, especially if you become uninsurable. Group policies relate to employees of a specific employer and are not portable.

**Higher benefit amount** - Some individual plans offer an unlimited monthly benefit based on an individual's total earnings and occupation. In group plans the benefit amount is limited (capped), which does not protect your full personal income.

**Individually underwritten** - This means that if you are in good health and do not engage in any hazardous activities (e.g., mountain climbing) you may qualify for a better premium rate than the rate that would be offered in an association or group plan. Individually underwritten also refers to the fact that once your occupation and proof of income are established, you can decide what kind of coverage would best suit your individual needs.

## What to look for when shopping for disability insurance

When you're shopping for individual disability insurance, you need to know how the insurance company defines a disability in the policy. The disability definition is one of the keys to the quality of your plan. It will determine whether or not you will receive a disability benefit if you're not able to work.

Total disability often means that "due to an injury or illness the insured person is unable to perform the important duties of his or her regular occupation and is not engaged in

any other occupation.” The key word in this sentence is “occupation” and how it is defined. Is it defined as your “regular occupation”, “own occupation” or “any occupation”?

The regular occupation definition considers a person disabled if they are unable to perform the essential duties of their “regular occupation”, i.e. the occupation in which they were engaged at the time of disability. This means that the insurer cannot force you to take up another occupation. If you can’t perform your occupation and choose not to take up another occupation, you will be paid.

The own occupation definition has the same meaning as the regular occupation definition, except that if you are able to work in another occupation, and choose to, total disability benefits will continue to be paid. There will be no offset for income earned in a different occupation. This definition is well suited to those professional occupations that demand special education or experience, such as doctors and surgeons.

Any occupation definition simply means that you are considered disabled only if you are unable to work at any job. This is the least favourable of all the disability definitions.

You should also look at the time period the disability occupation definition is in effect. Most employer-sponsored plans will use the “regular occupation” definition for the first two years, and then switch to the “any occupation” definition after that time. Individual insurance plans can offer regular and own occupation definitions for the entire benefit period.

The other key words to look for in the disability definition are injury and illness. Some disability plans offer injury protection only and omit the illness portion. You want a policy that will cover a disability whatever the cause.

Other items to look for include:

Look for a plan that offers indexation of benefits to keep up with inflation, and an option to purchase additional coverage at a later date regardless of a person’s state of health. Look for a plan that will allow you to return to work part-time and receive partial benefits, and a plan that will contribute to your retirement savings if you become totally disabled. Ask your agent if there any limitations or restrictions on the policy that you should be aware of.

All of the options are great to have, however, when buying disability insurance, you will also run up against the affordability barrier.

## How to Save Money When Purchasing an Individual Plan

Purchasing an individual disability policy means you own and control your disability coverage. You can design your plan to suit your needs and budget, based on your occupation. Here are several ways you can reduce the cost of your personal disability plan.

**Increase the elimination/waiting period** - This is the amount of time that must expire before you are eligible to receive monthly benefits. Most insurance companies offer waiting periods of 30, 60, 90, 120, 180, 365, and 730 days. The longer you can wait to receive your first disability payment, the cheaper your premiums will be. The big drop in premiums occurs between 30 and 90 days where you can save close to 40% of the cost. If you choose the 730 day (2 years) waiting period, the savings increases by only an extra 10%. Most people cannot live without an income for 2 years. However, 90 days without an income might be acceptable.

**Reduce the benefit period** - This is the length of time you are entitled to receive the monthly disability benefit. Most companies offer benefit periods of 2, 5, and 10 years to age 65. This option may not be appropriate for everyone, but it does reduce your cost substantially. I always recommend taking the longest benefit period available, as you may well live for many years with a disability.

**Reduce your maximum monthly income benefit** - This is the amount of income you will receive should you become disabled. You may be eligible to receive benefit amounts ranging from 60% to 70% of your gross monthly income. By reducing that amount to 50% or less, you can reduce your premiums. Prepare a disability budget plan with the help of your insurance advisor to see if this is an option for you. Don’t forget, your income is already being reduced by 30 to 40 percent when you are receiving disability payments, therefore you may not want to reduce it any further.

**Higher occupation class means better rates** - Professionals and executives often have a significant investment in their occupation, including years of training and acquired experiences. Their claim experiences have historically been low. This allows the insurance companies to give this particular group a very good rate when compared to a labourer working in a high-risk construction job. The higher your occupation class the cheaper the price.

## In Conclusion

Disability insurance provides a simple way to help protect one of your most valuable assets, your income, should you become totally disabled. You have a broad range of products to examine and choose from and it is crucial to have an advisor who is knowledgeable in this particular field.

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