



Three Cost-effective Ways to Supplement Your Group Long Term Disability Coverage

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If you have long term disability (LTD) as part of your employee benefits package, you may want to consider adding individual disability insurance (DI) to maximize your earnings potential should you become disabled. Most people think that their LTD plan at work will give them the income they need to cover all their expenses in case they can't go to work. This is most often not the case.

Typically group 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 four to six months, about the time short-term disability payments end. Depending on the plan the disability payments may continue for two to five years or until the employee reaches the age of 65.

Since group LTD is under one master contract, it fails to provide for the individual financial needs of each employee. Group LTD has 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 is once you leave the company your insurance cancels automatically.

This is where you may want to add individually-owned disability insurance (DI) to your group LTD plan to maximize your earning potential and reduce the risk of having your income reduced or stopped altogether.

Following are three cost-effective ways to improve your company LTD plan using an individual DI plan.

Case Study

Matthew is a 45 year-old marketing executive with an annual income of \$125,000. His group plan will pay

him \$2,750 per month of non-taxable LTD coverage if he were to become disabled. If he applied for individual disability coverage, he would be eligible to receive \$5,775 per month of non-taxable DI based on his income.

1. Top-Up

Since Matthew's existing insurance is less than what he's eligible for, he can "top up" by buying the difference. For example, Matthew has \$2,750 of non-taxable group LTD coverage. He qualifies for a non-table benefit of \$5,775 per month. To top up his group LTD, Matthew needs \$3,025 of individual DI. He can buy a top up of $\$5,775 - \$3,025 = \$3,025$. His monthly individual DI premium for \$3,025 monthly benefit would start from \$76.44 per month.*

**Based on a Class 5 Lifestyle Protection Plan with Canada Life. Healthy male non-smoker, 180-day waiting period and benefits paid to age 65.*

2. Offset Or Complimenter

If Matthew is concerned about the quality of his group LTD coverage and whether it will pay him at time of claim, he can purchase a group complimenter or offset rider. For example, after calculating his living expenses, Matthew decides he needs \$5,000 per month to get by if he becomes disabled. He purchases an individual DI plan with a \$5,000 monthly benefit and attaches a group complimenter rider. If his group plan pays at the time of claim, then the amount paid by his individual DI plan will be reduced to reach the \$5,000 maximum benefit amount. If the group plan stops paying for any reason, then his individual DI plan will top up to the full \$5,000 benefit amount. Because of this potential offset Matthew qualifies for a premium discount on his individual DI plan, anywhere from 10 to 20% depending on the insurance company.

3. Wrap Around

The definition of disability in a group LTD plan can be a deciding factor on whether or not you will be paid at time of claim. Disability is often defined as “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, or any occupation?

The regular occupation definition considers a person disabled if they are unable to perform the essential duties of their regular occupation, which is 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 cannot perform your occupation and choose not to take up another occupation, you will be paid.

In contrast, 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.

For group LTD plans you should look at the time period for which the disability occupation definition is in effect. Most employer sponsored LTD plans will use the regular occupation definition for the first two years, and then switch to the any occupation definition after that time.

This is where a “wrap around” strategy can protect the employee if their group plan’s definition of disability changes from regular occupation to any occupation after two years. A “wrap-around” is a cost-effective way

to maintain the preferred regular occupation definition should you remain disabled after the two years.

Let’s get back to Matthew's plan. He decides \$5,000 per month is the benefit amount required to keep up with his living expenses. His group LTD plan has a regular occupation definition of disability for the first two years. After that it changes to any occupation. Matthew decides to purchase a \$5,000 monthly income individual DI plan with a regular occupation definition and a two-year waiting period to receive his monthly benefits. This wrap around strategy is cost effective because the difference in premium between a 30-day waiting period and a 2-year waiting period is substantial. Instead of paying \$344.00 per month for the 30-day waiting period, Matthew only pays \$157.00 per month for the 2-year waiting period plan.* The risk to the insurance company who underwrites the individual DI plan is minimized since they only have to pay Matthew if he is disabled for two consecutive years.

**Based on a Class 4 Professional Series plan with RBC Insurance. Male, age 45 non-smoker benefit period to age 65.*

Individually-owned disability insurance continues to provide a simple way to help protect one of your most valuable assets—your ability to earn an income. It also provides a broad range of products to examine and choose from. It is crucial to have an advisor who is knowledgeable in this particular field and understands how to incorporate your individual DI with your group LTD plan.

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