



## Disability Benefits Overview

### **Your ability to work and earn a living is your greatest personal asset.**

This overview is intended to provide background information on the various types of Disability Insurance that are available to working Canadians. For specific information on the **Menuflex™ Disability Insurance Program**, please click [here](#).

#### **Introduction:**

An individual's ability to work and earn an income is his/her greatest personal asset. Take away that ability through unexpected injury or illness and it can result in a financial disaster greater than death for the majority of Canadians. Unless one has married or inherited wealth, or won the lottery, there is a need for disability income protection. The question is determining the best protection to meet the individual's specific needs and occupational situation, as a self-employed entrepreneur, contract employee, part-time or full-time employee.

Disability insurance is not a coverage that can be accessed through a spouse's program. If a working spouse becomes disabled and can no longer bring in a pay cheque they become a financial liability to the family unit rather than a contributing asset.

Virtually every working Canadian has a need for disability insurance. It should be the number one priority as one cannot normally self-insure that ability to work. Unfortunately, many think about dental insurance first because of an impending expense for major dental work that could be financed over time if necessary.

Disability income protection is available from a number of sources, each with particular terms and conditions that affect its potential application to a specific individual situation. We would like to present the following summary of disability insurance sources to ensure that our clientele is aware of the various options and are therefore able to determine the best source of coverage for their personal situation.

#### **1. Government Disability Benefits:**

Disability benefits are provided under the following plans based on certain eligibility and contribution requirements:

**(a) Employment Insurance:** Under E.I. there is a sickness benefit of 55% of insured weekly earnings (may vary based on certain criteria) up to a maximum weekly benefit of \$413. Benefits are payable for a maximum of 15 weeks following a two week waiting

period that dates from the Sunday preceding the date the claim is filed. Benefits are considered taxable income.

**(b) Canada/Quebec Pension Plans:** A disability benefit is payable to those meeting a very stringent definition of disability, i.e. “the condition must be severe, prolonged and of indefinite duration, likely to result in death”. Benefits are payable in the fourth month following the month of disability and are based on contributions and years of participation up to a maximum of \$992.80 per month in 2004 (CPP). Benefits are considered taxable income. Approval for benefit payments can be a long and arduous process.

## **2. Association Sponsored Group Long Term Disability Insurance Programs:**

A number of professional associations have long established group Long Term Disability (LTD) Insurance plans as part of an overall benefits program offered exclusively to members. As the occupational factor is clearly established for the insurer, and because of the potential number of applicants from a specific risk class the insurer is able to offer a preferred rating to the eligible class of members.

Over the years some of these programs have experienced very favourable claims experience thus allowing the insurer to offer even lower premium rates. Others have experienced high claims due in part to the provision of “to age 65 own occupation” definitions of total disability, which remove any incentive for the disabled to attempt to become rehabilitated in another occupation or lower job classification, as well as because of economic downturns resulting in stress claims.

## **3. Employer Sponsored Programs:**

(a) Employers may provide a Short Term Disability benefit for a number of weeks at all or a portion of earnings, often up to the commencement of Long Term Disability Insurance Benefits (LTD), or CPP Disability benefits if there is no LTD benefit in place. Benefits may be afforded as a continuation of earnings through payroll, or through an insured Weekly Indemnity Plan. Benefits may be taxable or non-taxable, dependent on who pays the premium cost, if any.

(b) Many employers provide an insured LTD plan which typically provides a benefit of 60 – 66.7% of monthly earnings with the maximum benefit determined by the insurer based on the size of the group and earnings level. Benefits commence after an elimination period selected by the employer and continue for 2 or 5 years, or through to age 65. The definition of “Total Disability” may refer to the inability to perform the duties of “any occupation”, or one’s “own occupation” for the first 12, 24 or 36 months of benefit payment, dependent on group size and occupations of the insured group.

Eligibility is normally restricted to full-time staff working a specified minimum number of hours per week following a probationary period. Satisfactory Health Evidence may be required based on group size or earnings level in order to be approved for coverage. Premium rates are based on the demographics of the insured group and the selected

insurer's overall claims experience, and can be adjusted for the group at each policy anniversary date. The group may be terminated if its claims experience is above the norm anticipated by the insurer. However, any claims eligible for payment at the date of contract termination will continue to be paid as if the contract had not been terminated.

#### **4. Individual Disability Insurance Plans:**

**(a) Guaranteed Non-Cancelable Policies:** A limited number of insurers now offer Individual Disability Insurance Programs to the public. The recent market consolidation has removed several former underwriters from the field. The policies are sold on the basis that once medically approved the individual's coverage cannot be terminated except for fraud or non-payment of premiums.

Each applicant is extensively underwritten in terms of current and past medical history, occupation and proof of income to justify the benefit level requested. Many individuals are rejected at time of application. Because of the cost of the extensive medical and other underwriting, the cost of guaranteed non-cancelable policies is significantly higher than the cost of group or association LTD programs.

**(b) Non-Traditional Disability Plans:** In response to an apparent market need for a disability insurance product that could respond to the needs of the self-employed individual, particularly those not covered by Workers Compensation, a new DI product with unique features was launched in 1994. The product has continued to evolve and now provides coverage comparable to the guaranteed non-cancelable policies, but the insurer does reserve the right to terminate the policies from a class of insured persons, but not for an individual. These policies respond to the needs of those filing a T1 General Income Tax Return who write down their gross revenue for tax purposes by enabling them to purchase benefit coverage based on a percentage of gross revenue.

Non-traditional policies exclude benefit payments for conditions which are difficult to diagnose such as mental and nervous conditions, chronic fatigue, chronic pain, fibromyalgia, anxiety, depression, stress and burnout, and thus are able to offer coverage at lower cost than a traditional DI policy.

#### **5. Individual Disability Insurance Versus Group Insurance:**

Individuals who have been covered under a group insurance program and become self-employed are often shocked by the difference in cost, terms and conditions, as well as the medical and financial underwriting required in order to secure individual coverage. Some of the reasons why individual DI coverage is more expensive than group coverage are:

(a) Each risk must be individually underwritten with associated costs. The risk of anti-selection is too great to allow anyone to gain coverage on an optional basis without being underwritten. Through the mandatory participation requirement in a group program the anti-selection is spread over a large "normal" population. This allows group insurers to avoid the high cost of individual underwriting.

(b) Individual policies are more costly to administer than a group with many employees covered under one contract and one monthly premium billing.

(c) Premium rates are level under an individual policy throughout its term. Group premium rates are based on the average age of the insured group at each policy anniversary date and the selected insurer's overall claims experience under similar group plans.

(d) Individual DI policies are fully portable – an extremely important fact in today's economy where workers may have a multitude of jobs throughout his/her working lifetime. Group policies relate to employees of a specific employer and are not portable, and not all employers in fact provide LTD coverage.

(e) The rules related to eligibility for coverage are less restrictive under an individual policy where part-time and contract workers can be insured. Under a group program they are normally excluded from coverage.

### **Conclusion:**

The insurance marketplace is continuing to evolve as the result of demutualization and consolidation. The number of insurers willing to underwrite either group or individual policies continues to shrink. Group insurers are now trying to withdraw from the small employer market leaving employers without ready access to coverage.

It is extremely important for every Canadian worker to adequately protect their ability to earn an income through the purchase of disability insurance, be it group coverage or individual. Contract terms and conditions must be carefully considered along with price, and the ability to satisfy the medical and financial underwriting requirements.

For information on the Menuflex™ Disability Insurance Program, please click [here](#).  
For more information, please [Contact Us](#).