

# Today's Objectives

- To discuss individual plans for disability



Module 4 – Poor Health – Disability  
→ Individual Plans

Individual Disability Insurance (DI)

1. Who buys/needs Individual DI?
2. General Definitions
3. Disability Definitions
4. Benefit Components
5. Policy Features
6. Taxation
7. Individual DI versus Group DI



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### → Individual Plans

## Individual Disability Insurance (DI)

### 3. Disability Definitions

- There are two common definitions for total disability

#### **a) Own Occupation (“Own Occ”)**

- “An insured is deemed to be totally disabled when he/she cannot perform the major duties of their regular occupation”
  - There is a modified version of ‘own occ’ as well which adds the following to the above definition “...and are not at work in any other occupation” - This means disability benefit can be terminated or (more likely) reduced if the disabled chooses to work at another job (that’s not their regular occupation)

#### **b) Any Occupation (“Any Occ”)**

- “An insured is deemed to be totally disabled when he/she cannot perform the major duties of any occupation for which they are reasonably suited for”



## Module 4 – Poor Health – Disability

### → Individual Plans

## Individual Disability Insurance (DI)

### 3. Disability Definitions

#### **c) Combination of “own occ” and “any occ” in same policy**

- Common Example: “Total disability occurs if due to injury or sickness, the insured:
  - cannot perform the major duties of their regular (own) occupation for the first 2 years **and**
  - cannot perform any occupation for which they are reasonably suited thereafter”

#### **d) Presumptive Disability Clause**

- Under this clause, an insured is always considered totally disabled (even if still fully employed) if sickness/injury resulted in loss of sight (both eyes), hearing (both ears), any two limbs, or speech



## Module 4 – Poor Health – Disability

### → Individual Plans

## Individual Disability Insurance (DI)

### 3. Disability Definitions

#### **e) “Residual” or Partial Disability Benefits**

- Some plans pay a portion of monthly benefit if part of income lost due to disability

#### **f) “Recurrent Disability”**

- This is when a person becomes disabled, then later goes back to work but, then later becomes disabled again due to the same injury or illness
  - The insurer will waive the re-commencement of a qualifying period or elimination period (EP) if the person returns to work on a full-time basis and then becomes totally disabled due to the same or related disability within a certain period of time, usually within 6 months



## Module 4 – Poor Health – Disability

### → Individual Plans

## Individual Disability Insurance (DI)

### 4. Benefit Components

#### **a) Elimination Period (EP)**

- EP = # of days after the injury or sickness occurs during which no benefits are paid (e.g. a waiting period)
- EP is included in all DI policies
- EP helps exclude small illnesses or injuries where the insured is disabled for only a short period of time
- Most insurers have elimination periods ranging from 30 days to one year
- EP is usually the same for disability due to injury or sickness
- Since DI benefits are usually paid at the end of a month, a 3-month EP means the first monthly benefit is paid 4 months after the disability began



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→ Individual Plans

### **Illustration - The longer the EP the lower the Policy Cost**

- Policy Details:
  - Male age 35
  - \$2,000 monthly disability benefit payable till age 65

Elimination Period	Annual Premium
30 days	\$1,700
60 days	\$1,100
90 days	\$800
180 days	\$700
365 days	\$500



Module 4 – Poor Health – Disability  
→ Individual Plans

Individual Disability Insurance (DI)

4. Benefit Components

**b) Benefit Period (BP)**

- The benefit period (BP) is the **maximum period of time that disability benefits will be paid** (after the end of the EP)
  - If still disabled and unable to work after the benefit period has ended, no further DI benefits are received
  - The BP is usually the same for all disability types (e.g. same if disability due to sickness or injury)
- Popular benefit periods are 2 years, 5 years and to age 65





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→ Individual Plans

### **Illustration - The longer the BP the higher the Policy Cost**

- Policy Details:
  - Male age 35
  - 90 day elimination period
  - \$2,000 monthly disability benefit

Benefit Period	Annual Premium
2 years	\$375
5 years	\$500
to age 65	\$800



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### → Individual Plans

## Individual Disability Insurance (DI)

### 4. Benefit Components

#### **c) Benefit Amount**

- **Recommended % is 60-70% of taxable earnings** (note that most Individual Disability Income payments are non-taxable)
- The benefit amount for most individual DI policies is a fixed monthly benefit
  - It is written on a “value-basis”
  - This means the stated benefit of the policy is presumed equal to the actual monetary loss sustained by the disabled insured
  - Amount is not adjusted to insured’s earnings or other DI benefits



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### → Individual Plans

## Individual Disability Insurance (DI)

### 4. Benefit Components

#### **c) Benefit Amount**

- Insurers try to limit the amount of DI coverage they will sell to an applicant so that the total of all DI benefits does not exceed certain thresholds (part of U/W process)
  - Don't want disability income to equal (or exceed) a person's income prior to disability
  - Thresholds are higher for insureds with lower income (80-85%) and grades down for those with higher income (60-65%)



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### → Individual Plans

## Individual Disability Insurance (DI)

### 5. Policy Features

#### **a) Non-Cancellable & Guaranteed Renewal Protection**

- i. Non-cancellable
  - Policy premium can never be raised above amount shown in the policy and benefits may not be reduced – as long as premiums are payable on time
- ii. Guaranteed Renewable
  - Policyholder has right to renew the policies with the same benefits, but insurer can increase premiums - as long as they are increased for all other policyholders in the same class



## Module 4 – Poor Health – Disability

### → Individual Plans

## Individual Disability Insurance (DI)

### 5. Policy Features

#### **b) Optional Benefits (Riders)**

- Popular Riders that can be purchased on Canadian Individual DI policies include:
  - i. Cost of Living Adjustments (COLA)
    - Provide for annual increase in benefits either a CPI direct link or stipulated % to proxy CPI
    - First adjustment would be after disabled for 1 year
  - ii. Future Purchase Option (Guarantee Insurability Option)
    - Allows one to purchase additional disability income insurance as one's income increases without being underwritten again



Module 4 – Poor Health – Disability  
→ Individual Plans

Individual Disability Insurance (DI)

5. Policy Features

**b) Optional Benefits (Riders)**

iii. Residual Benefit

- Pays a portion of your monthly disability benefit if you have a drop in income as a result of a disability but a minimum % of earnings loss would be required (e.g. a min. 20% loss in income to qualify for a residual benefit)

6. Taxation

- Individual DI policy benefits are generally non-taxable (given the policy is paid for with after-tax dollars)



## Module 4 – Poor Health – Disability

### → Individual Plans

#### Individual Disability Insurance (DI)

##### 7. Individual DI versus Group DI

- Individual DI is much more costly
- Individual DI is much more flexible in terms of features that can be included
- Individual DI plans are portable (i.e. job change), Group DI plans are not
- Group DI may have more restrictive disability definition and doesn't typically offer cover partial disability (which is type of DI claim most likely to occur)
- Group DI benefits are taxable (when e'er pays premium) and are offset by other plans



## Module 4 – Poor Health – Disability

### → Individual Plans

#### Individual Disability Insurance (DI)

- Plan Example – RBC products

- One of many examples

<https://www.rbcinsurance.com/health-insurance/compare-disability-insurance.html> and <https://www.rbcinsurance.com/health-insurance/disability-insurance.html>

- Can compare online the various Individual Disability Products with respect to payments and renewal, benefits and features, and qualifications
  - For Example can compare following 3 RBC products:
    - i. RBC Simplified DI versus
    - ii. Foundation Series versus
    - iii. Professional Series





## Module 4 – Poor Health – Disability

### → Individual Plans

#### Individual Disability Insurance (DI)

- Plan Example – RBC products
  - i. RBC Simplified DI
    - Covers Total Disability only
    - Age 18-55 can apply, must be working 30+ hours
    - Own occupation definition and must not be working elsewhere
    - No medical/underwriting (U/W)
    - Can elect coverage for injury only or injury plus sickness
    - 2-year benefit period only, coverage ends at 65
    - Maximum benefit is 75% of gross monthly income, no riders
    - Waiver of Premiums (P's) while getting benefits
    - Can choose 60 or 90 days EP
    - Premiums can be adjusted on a class basis only
    - There are many exclusions for this product



## Module 4 – Poor Health – Disability

### → Individual Plans

#### Individual Disability Insurance (DI)

- Plan Example – RBC products

- ii. Foundation Series

- Covers Total Disability only, ages 18-60 can apply
    - Own occupation definition for first 2 years, then any occupation
    - Covers both injury and illness, U/W required
    - Benefit period: 2, 5, 10 years or to 65 (same as (iii) for after 65)
    - Coverage ends at 65
    - Can convert DI coverage to LTC insurance (between 55 -65)
    - Several riders: Partial Disability, COL, future income, AD&D
    - Waiver of Premiums (P's) while getting benefits
    - Bigger choice in EP periods (30, 60, 90, ..., 365, 730 days)
    - Premiums guaranteed to 65 (step rate premiums possible)
    - There are only a few exclusions, one of which is; “Any injury sustained or illness which first manifests itself before your policy becomes effective or while your policy is not in force”



## Module 4 – Poor Health – Disability

### → Individual Plans

#### Individual Disability Insurance (DI)

- Plan Example – RBC products

- iii. Professional Series

- Covers Total Disability as well as residual/partial disability
    - Targeted at doctors, lawyers, accountants (or fee for service) and high income professionals (higher level of income protection)
    - Age 18-60 can apply
    - Own occupation definition and not gainfully working elsewhere
    - Covers both injury and illness, U/W required
    - Benefit period (BP) choices: 2, 5 yrs, to 65 (to 75 if working full time in some cases and with restrictions - e.g. maximum BP = 2 years )
    - Similar options or riders to Foundation Series
    - Waiver of Premiums (P's) while getting benefits
    - Same choice of EP periods as (ii) (30, 60, 90, ..., 365, 730 days)
    - Premiums guaranteed to 65 (step rate premiums possible)
    - Similar exclusions to Foundation Series

