

Personal Disability Coverage: What You Need to Know Before You Purchase

So you don't have disability coverage – you're not alone. In Canada, literally millions of people have little or no disability coverage. Walking this line can be tremendously consequential. Disability is one of the major reasons behind the loss of businesses, divorces, and financial bankruptcy. Disability is the number one reason for home foreclosures. What is most disconcerting is that many of these tragedies could have been avoided through the simple purchase of adequate disability coverage.

Decades ago, the great majority of workers relied on their employer's group benefit program to provide for them in the event of disability. How times have changed: the responsibility of disability insurance ownership has now shifted in large part to the insured. In today's world, personal disability insurance isn't simply an issue for the self-employed professional or business owner. Careers are now constantly being redirected, contractual work is rampant and many employees have limited or no benefits – for many, self-employment no longer seems a remote possibility. The common sense behind carrying disability coverage has always been quite obvious. In absence of an income, one must learn to rely on other sources to make ends meet. This can be a difficult since government disability pensions are highly inadequate, personal savings are often minimal and financing alternatives (lines of credit and loans) will need to be repaid. To top it off, today's lifestyles are expensive, thus the importance of insuring that incomes continue in time of need.

Disability insurance (or DI) is first and foremost income replacement. In simple terms, DI could be summarized in the following way: under a structured indemnity program with an insurance company, the insured is unable to work for health reasons - this leads to a monthly payment being made to replace lost income. In essence, what appears simple can be complex since **the strength of any disability contract is measured by its underlying definitions and guarantees**. It is these definitions and guarantees that determine if, and under what conditions, payment can be made. To complicate things further, DI can be distributed through many channels and come in many forms:

- Some policies only cover the insured in the event of an accident; others provide coverage 24 hours a day in case of an accident or sickness.
- Some policies protect you to age 65 while others will cover you for a maximum period of 2 or 5 years.
- Some have guaranteed premiums for the duration of the contract while others have premiums that can be reviewed annually.
- Certain policies pay benefits based on the inability to do "your job" while others pay based on the ability to do "any job".
- Some contracts may be cancelled by the insurer, while others may only be cancelled by the policy owner.
- Certain policies are designed to exclusively reimburse one's debts.

In view of these considerations (and there are many others), choosing the wrong policy can be costly. Imagine being faced with a disabling situation and not being able to rely on your coverage to deliver. It is unfortunate many people are faced with this realization – often the devastating consequences of bad counsel, the lure of cheap premiums or of simply having never read their contract. The good news is that this can likely be avoided through a simple review.

Here are some of the key issues - addressing these points is paramount:

- **Under what conditions are you entitled to receive benefits?** How is disability defined?
- **For how long are benefits payable?** Will benefits be paid strictly for a short-term disability or will they deal with the consequences of a long-term one?
- **Are you covered for as long as you can't perform the duties of YOUR occupation?** Or will you be forced to go back to work doing ANY OTHER occupation?
- **How long will you need to wait before receiving benefits?** typically, DI pays after a reasonable waiting period – 30, 60, 90 or 120 days
- **Is the policy portable?** If you change occupations or move out of province or out of country, does your policy follow you WITHOUT condition or change?
- **Are benefits guaranteed?** Are the premiums you pay level and guaranteed? Can the policy's wording be changed? Will the policy conditions change if your health changes?
- **Do you own your policy? Can the insurance carrier cancel YOUR coverage?**

As well, there are ways to increase the quality of your coverage through some additional guarantees. Here are a few key ones that may be available to you (dependent on the availability within the plan):

- **Inflation protection:** in the event you are on claim, your benefit can be indexed to follow inflation
- **Guarantee of Insurability:** gives you the ability to increase coverage (as your income rises) regardless of your future health
- **Partial Disability benefits:** partial benefits are paid if you can only work part-time or if you can only do certain duties of your occupation
- **Reimbursement of Premiums:** provides the insured with the ability to have a portion of paid premiums reimbursed if there are no or minimal claims

As one investigates the issue further, the issue of cost will surface. Appropriate solutions should account for one's budget and should typically bridge need and financial means. Beware of coverage which promises maximum benefits at a minimum cost, since this is a fallacy. This is why an experienced, independent Living Benefit professional should be consulted.

An independent Living Benefit professional will not only act as a guide through the maze of policy definitions and options but will also explain the formal underwriting process. Underwriting is an insurance company's way to determine risk. The issues of health, lifestyle, income and occupation are all evaluated. **BEWARE of disability applications that only require a few quick questions to be answered to have a policy issued (typically the one found with financial institutions dealing with mortgage protection).**

These policies remains largely unfair to its subscriber since the actual determination of insurability (if one is covered or not), will only take place in the event of a claim. It is always preferable to evaluate the risk fully prior to having a policy issued - this logical approach to underwriting (and providing coverage) will generally eliminate the need to have a case re-visited at claim time.

Once the underwriting process is completed, one should expect the insurance company to offer the insured one of the following:

- A **standard offer** (no restrictions on coverage or additional costs)
- A **modified offer** (extra premium, reduced benefits or an exclusion for a pre-existing condition)
- A **decline** or a **postponed application**

In today's underwriting environment, insurance companies will make offers to the great majority of applicants. This was not the case a generation ago. Declines were quite common since insurance companies had less experience underwriting certain medical conditions (ex: back problems and psychological issues) as well as issues relating to home-based occupations/offices, contractual employment and new business initiatives. Once a policy is issued, take time to review the physical contract and its clauses with your Living Benefit specialist. A periodic review is also recommended.

OTHER CONSIDERATIONS:

By design, disability coverage is linked to the replacement of a set portion or percentage of one's income. An individual cannot receive benefits exceeding the actual income loss – this has the effect of providing incentive for the insured to return to work. Nevertheless, there are now additional products that enhance or complement coverage beyond actual income replacement. These include: **personal mortgage or loan replacement coverage, Critical Illness protection, monthly indemnity benefits, RRSP contribution replacement and Long Term Care policies**. Many are perceived as the perfect complement to a standard income replacement policy. Are these for you? Again the importance of dealing with a Living Benefit professional.

All in all, life has become ever more linked to growing financial means and responsibility, thus the importance of carrying appropriate disability coverage. With one's financial future relying on income being replaced in time of need, why take a risk by not investigating further? Education typically brings its just reward.

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