

# Questions

to ask about your Disability Insurance Policy, **if you knew what to ask!**

Buying disability insurance could be **the most important financial decision of your life.**

It is easy to make a disability insurance buying decision based on some of the “numbers”. For example, “this one pays after 60 days” whereas “the other one pays after 90 days” – however that is the **WRONG WAY** to make the decision.

**Selecting one policy over another because it is cheaper is also the WRONG WAY to make the decision.**

When you buy disability insurance **YOU ARE BUYING WORDS AND PROMISES.**

The true value of your policy will become apparent if you get sick or hurt. Depending on the words in the policy, it could be the difference between a life of financial suffering, or financial comfort.

Unlike buying consumer goods however, if you have purchased the wrong product, you can't just take it back for a refund!

If you buy a car that's a lemon, bad luck! You won't buy that make again. If an appliance doesn't work, you can get it repaired. If your holiday plans go haywire because the resort blew away in a hurricane before you got there, more bad luck! But at least you might get a refund, and you can take more holidays. If your disability insurance policy doesn't work when you need it, there is no second chance!

If your income is important to you, **EXAMINE WHAT WORDS WILL INSURE YOU!**

Ask the following questions when you buy your disability insurance – remember, this could be your one chance!

## Ask these questions

### 1) How much monthly income do I get if I am “Totally Disabled”? (the “Monthly Benefit”)

Disability insurers don't want it to be financially advantageous for you to be disabled.

Accordingly, there is a table that says “if your income is X, you may have Y disability insurance”. “Income” is your income at the time you apply for the policy. You can't “double-up” with policies from multiple insurers in an attempt to exceed the allowable limit.

Disability Insurance (DI) benefits are normally paid on a tax-free basis, so the allowable insurance figure is usually “after-tax” income.

An exception is made for young professionals, for example Medical Residents, or MDs, CAs and Lawyers just starting in practice. Some insurers will let these applicants insure to their **potential** income, rather than their current income.

### 2) For how long does Disability Insurance pay? (the “Benefit Period”) (BP)

You may choose a policy that pays benefits for a given number of years, for example “five years” or “ten years”, but the most common BP is “to age 65”.

### 3) For how long must I be disabled before the policy pays? (the “Elimination Period”) (EP)

DI is to replace income when things get serious. You may choose a policy that pays after either 30, 60, or 90 days of disability.

### 4) Must the EP days of disability be consecutive?

A superior DI policy will allow you to satisfy the EP by accumulating non-consecutive days of disability from the same or related causes.

Let's say you are a Surgeon with back problems. Your policy has a 60-Day EP and you miss 14 days work because of a bad back. You return to work for a couple of months. Then, your back acts up again and forces you to go home. This coming-and-going continues.

A superior policy will let you add one period of disability to the next, if the two periods are not separated by more than 12 months (and are from the same or related cause).

Therefore, the Surgeon in our example can be off for multiple different periods of days or weeks or months, and when they add up to 60 days, his policy starts paying him.

Very important note: With some policies, there is a limit as to the allowable collection period for different periods of disability. For example, the policy might say you can add together different periods of disability, but they must be accumulated within twelve months of the first day of disability.

### 5) How does the policy define “regular job”?

**(at the time of disability)** If you are disabled, the policy will consider your ability to do your “regular job”. Usually, “regular job” is the job (or jobs) you are doing at the time you become disabled.

### 6) What defines “Total Disability”?

**(Is it “own occupation”, “regular occupation”, or “any occupation”?)** “Own Occupation” means because of disability, a person is unable to do the duties of their regular job. For example, a surgeon damages a hand and cannot perform surgery. Even if they choose to work as a GP, they will still receive disability benefits if they can’t do “their own job”

“Regular Occupation” means unable to do your regular job and not working elsewhere. For example, a motion picture cameraman may not have the physical stamina to operate the camera, so is disabled. If the cameraman chooses to return to work as a film editor, he is no longer “totally disabled”.

“Any Occupation” says disability is “unable to do **any occupation**”. With the “any occupation” definition, if there is **any** work you are physically capable of doing, the insurer does not have to pay you. For example, with the “any occupation” definition in place, the disabled camera operator in the example above would not be paid benefits if he is physically capable of being a film editor.

(Note the difference: With the “regular occupation” example, the person has chosen to be a film editor; with the “any occupation” definition, the insurer doesn’t care what the disabled person wants to do.

All definitions include “must be under the care of a physician”. In other words, there must be a medical condition that causes, and exists during a disability.

### 7) What if I am doing my own job, with a partial drop in income caused by disability? (“Residual Disability”)

If your policy pays only for Total Disability, you can’t set foot in the door of your office without having your benefits discontinued.

If you have the “Residual Disability” feature, you receive proportionate DI benefits if your disability results in a

reduced income, even though you’re not Totally Disabled.

For example, if you are a stressed-out lawyer and under doctor’s orders to slow down, if your income is down, you will receive some disability insurance benefits. If you are a camera operator unable to work big jobs with long hours, because you have rheumatoid arthritis, if your income is down, you could qualify for Residual Disability benefits.

### 8) What if I can’t do my regular job because of disability, but I choose to work at a different job (that probably pays less)? (also “Residual Disability”)

If the policy is “Own Occupation”, as you saw above, the full Total Disability amount will be paid if you “can’t do the duties of your regular job”, **even though** you are working at another job.

If you are the experienced camera operator returning to work as a novice film editor, your income is probably reduced. A policy that includes “Residual Disability” allows your return to work and you will receive some disability insurance payments. You are not cut off completely.

### 9) Do I need to be “Totally Disabled” before qualifying for “Residual Disability” payments?

Imagine you have MS or Parkinsons, or rheumatoid arthritis. You might never be “totally disabled”, but you have steadily decreasing income because of your medical condition.

This is a very very important point in the world of DI, because most disabilities are “residual disability”, and most medical conditions do not necessarily involve a period of “total disability”; rather, the condition causes a steady deterioration of health and ability to work. If the policy requires days of “Total Disability” before “Residual Disability” payments are made, the person with a deterioration in health might never collect insurance benefits.

### 10) How are Residual Disability benefits calculated? (measuring “loss of income”)

The insurer looks at what you were making before you became disabled (called “Prior Income”), and compares that to what you are now making while Residually Disabled. A percentage of the Total DI amount is paid according to the calculation.

For example, if your income is down 38% because of a Residual Disability, the insurer will pay you 38% of what you would have received had you been Totally Disabled.

### 11) How is “Prior Income” measured?

Prior Income is your “pre-disability” income, and the base from which Residual benefits are calculated. If Residually Disabled, the larger the drop in income, the greater will be your insurance benefit.

Superior policies give you choices as to how Prior Income is measured. For example, some policies allow you to pick

your highest earning consecutive two years out of the last five, or your highest earning consecutive six months out of the last eighteen.

Having more choices is important. For example, if you are a realtor, your income likely fluctuates from year-to-year. If you are “residually disabled”, more choices in how you calculate “prior income” will lead to a higher disability benefit amount.

**12) When do Residual Disability benefits start? (“Elimination Period”)** After the Elimination Period for Residual Disability (for example, 30, or 60, or 90 days).

**13) Can the Elimination Period days for Residual Disability be either days of “total disability” or “residual disability?”** Some policies require the EP days be days of “Total Disability”. See point 9 above.

**14) For how long are Residual Disability benefits paid?** Normally, to age 65, although some plans pay for less.

**15) What does “Loss of Time or Duties” mean? (applies in “Residual Disability”)** Some policies, before you receive Residual or Partial Disability benefits, require you to either (a) suffer a loss of the ability to work fulltime, or (b) lose the ability to do one or more specific duties of your job (in addition to having a drop in income).

The superior plans do not have that clause, and simply pay if you have a **drop** in income caused by disability, regardless of “time or duties” considerations.

For example, an Eye Surgeon is told by her doctor to slow-down as part of recovering from a heart attack. If the doctor is working fulltime doing the same things as before, but moving more slowly and earning less because of a disability, the “time or duties” clause might mean she couldn’t collect Residual disability benefits.

**16) Is “Partial Disability” included?** Some disability policies pay a “partial disability” amount if the insured person is unable to do parts of their job, or unable to work more than half the time they previously worked.

The “Partial Disability” clause is normally found in policies that do not have Residual Disability.

**17) For how long are “Partial Disability” benefits paid?** Typically it is something like “50% of the total disability benefit for two years, and 25% for a further five years, assuming the person still qualifies by reason of accident or illness.”

**18) Does the policy include a “Recovery Benefit” (return to work payment)** Professionals, who bill for their time, might not immediately have a full practice after returning to work. Some disability policies recognize this

by including a “Recovery Benefit”. In effect, it says that when you return to work, fully healthy, after a disability, you will be paid DI benefits as if you were Residually Disabled, if there is still a loss of income

Payments under this feature are made for a limited time, usually three months.

**19) How does DI deal with inflation? (“Cost of Living” clause)** A COLA clause may be included. It increases the monthly payments to you as each year of disability goes by.

**20) Is there a COLA clause with the Residual Disability benefit?** If a person is collecting Residual Disability benefits, normal inflation could cause their income to increase. If that happens, it will cause the Residual Disability insurance payments to reduce, because they are based on the loss of income relative to “prior income”. Some policies have a feature called “Indexing of Prior Income”.

With this feature, the insurer assumes that had the insured person continued to work, their income would have increased at the rate of inflation, therefore, the measurement of residual income versus prior income becomes a more accurate reflection of the true nature of the income loss, and results in higher insurance benefits being paid.

**21) Can the insurance company reduce its promised disability payment?** If your DI has an “offset provision”, the insurer may legally reduce its payment to you if you’re receiving income from other sources, such as UIC, CPP, WCB, or other insurance policies.

If there is a “Relation to Earnings” clause, the insurer may reduce its payment to you if, at the time of disability, your income isn’t high enough to satisfy the normal “income to insurance” ratio. Many Group LTD or association-sponsored DI policies have this clause. It is also sometimes called the “all-sources maximum” clause. Essentially, it means that at the time you become disabled, the insurer can look at your “prior income” and determine the benefit that will be paid. The top-quality policies do not have this clause.

**22) What are the exclusions? (causes of disability where benefits will not be paid)** All policies will not pay if disability is caused by an act or accident of war, during normal pregnancy, or in the event of imprisonment.

Some policies will not pay for disabilities caused by drug or alcohol problems, nervous conditions, or self-inflicted injuries, either intentional or unintentional.

“Intentionally self-inflicted injuries” sounds unimportant because most people wouldn’t expect the insurer to pay in that case, but, if disabled, you don’t want to be in court debating whether your accident was “intentional” or “unintentional”.

**23) Does the policy include “Waiver of Premium”?**

Most policies “waive” premiums after the insured person has been disabled for 90 days. In other words, you’re not collecting insurance benefits and paying premiums at the same time.

**24) Can the insurance company ever increase premiums?**

In a top-quality policy the premium rate can never be increased by the insurer. In other policies, in particular association or group plans, the insurer has the right to increase your premium.

**25) Can the insurer cancel my disability policy in the future or change the policy provisions?**

Some disability policies are “non-cancellable”. The insurance company cannot cancel the policy, raise your premium, or change the policy clauses. Insurers offering group or association coverage usually have the right to worsen the terms of your coverage or cancel the policy completely.

**26) What if I move to a different province or country?**

Most individual policies are portable. Most group or association policies cancel if you move.

**27) Does the policy include “Guaranteed Insurability” (“Future Purchase” option)?**

As your income goes up, you may want to add more DI. Normally, this requires passing another insurance medical.

Some insurers however give you the right to increase your DI in the future, without having to pass a medical. This is known as “Guaranteed Insurability”.

**28) Do I get part of the premiums back if I don’t become disabled?**

DI policies, unlike some life insurance policies, generally do not build cash or equity values. With luck you’ll stay healthy, and you can say your DI premiums paid were a “good bad investment”.

However, if you are 100% convinced that you’re going to stay healthy, you might consider the “No Claims” rider offered by a couple of insurers.

With this option you pay a higher premium, but if you go a number of years, usually ten, without filing a claim, a large percentage of your total premiums are returned to you.

**29) Is there a retirement funding clause?**

If you are disabled and receiving tax-free disability insurance, you are not able to make a RRSP deduction. And, yes, the disability insurance you are receiving will probably be needed to cover living expenses.

Some insurers will sell you a separate “Retirement Funding” DI policy. It can be structured to pay up to \$2000 per month during a disability, into a retirement fund at a Trust Company.

The accumulated funds are made available to you at age 65.

**30) Are all the policy clauses referred to in this guide available to everyone?**

No, some of the features previously mentioned in this guide are only available to certain occupations.

Generally speaking, professionals who have had many years of university training and subsequent professional certification, such as doctors, lawyers, and CAs are able to obtain every feature offered in a disability insurance policy.

**NOTE:** The above is an overview. Different insurers offer DI that contains wordings similar to the above, and apparently similar to each other, but not necessarily identical.

**Please check your own policy for the exact contractual wordings that will apply should you become disabled!**

The policy, and not something the agent says, will always be the governing factor as to whether you receive disability benefits when you need them.



If you have more questions

**GIVE US A CALL!**

We will guide you to the BEST solution that fits your needs

604.681.6363

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