

By Tim Landry

# TOOLBOX

## FILLING THE GAPS

Explain to clients that employer-provided disability insurance may not be there when they need it.

On my office door, I have a sign that reads, “Anyone who is relying on their group long-term disability is living in a fool’s paradise.”

Let me bring that point home by talking about my brother. Chris was president of the Canadian subsidiary of an American corporation and had a full package of benefits, including long-term disability. But the company was sold and Chris got the golden handshake. He proceeded to set himself up as a graphic designer working from home, but there was no way to provide him with disability insurance (DI) during the transition. He’d been fully covered while still employed and now had no established income (a coverage requirement) while setting up his business. He was ultimately forced to take his chances, and lost.

En route to the airport on Easter weekend 1988, he was involved in a head-on collision. He survived, but contracted Hepatitis C from the blood transfusions needed to save his life. Despite all of this, Chris is in a far better situation than a similar driver would be today, simply because his accident happened before Ontario introduced no-fault auto insurance. He was able to sue the other driver, a choice that’s no longer available, and win enough cash to give him at least some cushion.

The event woke me up to a skewing of priorities in our industry. I can’t think of any advisors who would accept his or her clients having 100% of their life insurance through group insurance plans with their employers. But, if a client states he or she has 100% of DI insurance provided by an employer, many don’t bat an eye.

Those reactions should be reversed, because the job



picture is changing and the days of one career, one employer are long gone. With frequent job changes, and gaps between employment periods becoming more common, it simply doesn’t make sense to rely on employer-provided disability programs.

So, what are the traditional markets for individual DI? In my experience, nearly all sales go to professionals and to the self-employed. I regularly get requests to provide benefits for someone who’s been let go from a long-term job for some reason. But I’m almost never asked to quote on someone who has group insurance but is worried about its adequacy.

More often I’m asked to quote on individual DI plans which wrap around an existing group plan. There are two primary reasons for these requests:

- The amount of the group benefits is insufficient (due to ceilings on the group plan) or because the client may have

Continued on page 17

Continued from page 15

earned income which does not qualify for insurance by a group plan. Non-qualifying income can include bonuses, split income with spouses, a share in corporate profits for small businesses, and perks; or

- The group plan has a two-year regular occupation period. That means that after two years, the client must be unable to do any reasonable job, not just the job he or she currently holds, to qualify for benefits. Many insured persons are worried their group plans will cease paying at that point, and that's a valid fear.

For these clients, we offer the additional coverage and establish a waiting/elimination period of their choosing. Next, I show clients the cost of a program with a two-year elimination period that coincides with the expiry of the regular occupation period.

There are two potential problems. The first is the possibility the client's group plan may not consider him or her to be totally disabled. That's worrisome because group plans generally don't cover partial disabilities—such as the recovery period after a heart attack, or the early stages of cancer, multiple sclerosis, or any other progressive disability. Second, because we're no longer a country of loggers and miners, it's very hard for people to be deemed totally disabled. The majority of today's jobs involve knowledge or communication skills, and that means almost any injured worker will ultimately face the expectation that he or she will return to some job in the future.

Insurance companies are willing to issue individual policies for people covered under group plans because they contain a clause stating that if the

OCCUPATION RISK				
The industry divides occupations into classes, with 4A being the lowest risk and B being at the other extreme. This example uses a non-smoking male, age 40.				
Class	Five-Year Benefit Period		Benefits Payable to Age	
	Maximum	1/2 Maximum	Maximum	1/2 Maximum
4A	1%	0.6%	1.4%	0.8%
3A	1.6%	0.9%	1.9%	1%
2A	2%	1%	2.6%	1.4%
A	2.7%	1.4%	3.3%	1.7%
B	3.8%	2%	4.5%	2.4%

group policy pays benefits, the individual plan will reduce its benefits by that amount. In return for this potential reduction in benefits, the premium charged for an individual plan is reduced, usually by 10%.

But why would a client pay for protection he or she may not receive? There are several reasons:

- The price difference between the two-year elimination period and a 90-day elimination period is tiny. The problem with the two-year elimination period is that it only helps if the client is still protected by the group plan and if the group plan considers him or her to be disabled. Most clients will consider the cost difference to be worth paying.
- The client is protected at the age he buys the individual policy, and not at the age at which he may be when group protection is lost due to being let go from a job.
- The client is protected based on her state of health at the time the individual policy is purchased, and not a possibly worsened state later.
- The client can be protected based on the income being earned at the time the individual policy is pur-

chased, and not at a possibly lower or indeterminate income that results from an unexpected job change.

- An individual DI company will upgrade a client's status based on factors such as job stability (how long she's been in that occupation and with a particular employer), income stability, and the number of employees she supervises. Any or all of these factors can change as the result of a job switch.

So, how do I raise the issue with clients? I start by asking how long they've worked with their current employers. I ask how many jobs or careers they've had since starting to work full-time. I ask if there have been layoffs by any of those employers, or any rumours of layoffs. Then, I ask if they know anyone who has gone through job or career changes and try to ascertain whether they're concerned about the possibility of such things happening to them.

Over time, I've found the best prospects for this approach are clients who have worked for the same job in a given industry for five or more years. I look for clients with an established level of

Continued on page 18

# TOOLBOX

Continued from page 17

income who have several employees reporting to them at their jobs, because the insurance industry rewards people with a track record of stability, income and responsibility with a more liberal occupational classification. That, in turn, leads to a more generous policy wording and lower premiums.

Let's look at a non-smoking male, age 40 (see Table, page 17). There's an approximate price (based on percentage of income required to pay the cost of a disability program) charged for the maximum benefit available, given a known level of income, and a price for half of that amount. Prices are illustrated based on the company paying up to five years for any one disability, and a plan which pays benefits all the way

to the normal retirement age of 65.

Generally speaking, Class B employees cannot be upgraded, but workers in the various A classes can. Using one company's rules, a business owner or employee may be upgraded one class (for example, A to 2A; 2A to 3A; or 3A to 4A) if he has five years of related experience and either at least two previous years with 20% or more ownership in the company (for owners) or a stable work record (for employees). Upgrades can take place, but a Class-A or 2-A risk must have earned at least \$55,000 for the past two years; and a class 3-A risk must have earned at least \$70,000 for the last two years.


A Class-B business owner who meets either the five years of related experience or two years of business owner-

ship requirement may be upgraded to Class A if his earned income has been at least \$55,000 for the past two years. Likewise, a Class-A business owner may be upgraded to Class 3A (or a Class 2A may be upgraded to 4A) subject to the same experience requirements but with at least \$100,000 in income for the two previous years.

By asking the right questions, and making people aware of their options, I can use the balance of my career to ensure my clients don't suffer the fate my brother narrowly avoided—namely, facing a disability with no income to cover costs.

AE

*Tim Landry is director, living benefits for MSA Financial Services, an MGA based in Montreal. [advisorsedge@rmpublishing.com](mailto:advisorsedge@rmpublishing.com)*



*"Take better care  
of our planet"*

## Investments to change the world.

We all have issues we care about deeply – global warming, human rights, our children's future. When you recommend **Ethical Funds**<sup>®</sup>, your clients are investing in a select group of companies that get it; companies that are chosen for their financial performance, plus their commitment to improving environmental, social and business practices.

**Ethical Funds** is Canada's leader in sustainable investment management with fifteen funds including the **Ethical Advantage Series**.

To learn more about our award winning funds, call us or visit our website.

[ethicalfunds.com](http://ethicalfunds.com) 1.877.ethical (384.4225)

Make money. Make a difference.<sup>®</sup>

The  
**Ethical  
Funds**  
Company<sup>®</sup>