



INCOME PROTECTION INSURANCE

Will You Get What You Paid For?

Ever wonder if there is any real difference between income protection coverage under different Long Term Disability (LTD) plans? Does it really matter much beyond the premium paid? Are board paid LTD plans the best arrangement?

The reality is that LTD plans are not created equal. Differences between LTD plans can impact you in ways you would not realize until you find yourself filing a claim or receiving income replacement from your LTD plan.

Who sponsors the plan and advocates for you, who is allowed to join the plan, what are the benefit provisions and who pays the premium are some factors that will determine if you will get full value for premium dollars paid.

What determines the dollar amount of the LTD benefit you receive if you are disabled?

- The plan's benefit level - This is the percentage of earnings you receive when your disability claim is approved. Under the CPCO LTD plan, the benefit level is equal to 55% of gross monthly salary.
- Taxability status of the benefit - If the board pays the premium for your LTD coverage, you will be required to pay income taxes on the LTD benefits you receive. If you pay the premium for your LTD coverage, your LTD benefits will be tax-free.
- The plan's maximum benefit payable - LTD plans have a limit on the monthly benefit amount payable. Under the CPCO LTD plan, the maximum monthly benefit is equal to \$8,000. This limit is sufficient to insure an annual salary of \$174,545.
- Reductions from other direct sources of income - The LTD benefit amount is reduced by the amount the claimant receives or may be entitled to receive from government programs like the Canada Pension Plan disability benefits or the Workplace Safety and Insurance Board (WSIB). This provision is common among LTD plans.
- The "All Source Maximum" for other direct and indirect sources of income - The amount of benefit available through an LTD plan is also limited to a percentage (commonly 85%) of pre-disability earnings, less any direct and indirect sources of income.

An example of an indirect source of income is a disability benefit from another group plan. This provision ensures that a person does not take home more in after tax dollars as a claimant than he or she would have been receiving while working full time.

The purpose of Long Term Disability insurance is to protect your

income. More precisely, to protect your after tax take home pay. How much LTD coverage do you need? When looking at adequacy of LTD benefits, the key is to compare LTD benefits after any applicable income tax deductions against salary while working, net of income tax and other deductions.

What will the CPCO LTD plan provide?

Let's say you earn an annual salary of \$100,000. The monthly benefit payable would be equal to 55% of gross salary or \$4,583. Assuming you have no other direct or indirect sources of income, the 85% All Source Maximum will be \$5,095, as calculated below:

Gross monthly salary	\$8,333
Federal & Provincial Income Tax on salary	<u>2,339</u>
Salary net of taxes	5,994
85% All Source Maximum	\$5,095

The above indicates that your \$4,583 benefit would not be limited by the 85% All Source Maximum.

Now let's compare the monthly LTD benefit payable with your net monthly salary:

Gross monthly salary	\$8,333
Estimated OTPP contribution	<u>822</u>
Taxable salary (after OTPP contribution)	7,511
Federal and Provincial Income Tax on salary	2,032
CPP and EI contributions on salary	<u>542</u>
Net monthly salary	\$4,937
Take Home Replacement Ratio	92.8%

At the 55% benefit level provided under the CPCO LTD plan, the \$4,583 LTD benefit would result in your receiving 92.8% of your pre-disability net income (or net monthly salary) of \$4,937.

Districts Participating in the CPCO Benefits Program

- Algonquin and Lakeshore CDSB
- Durham CDSB
- Eastern Ontario CDSB
- Halton CDSB
- Huron-Perth CDSB
- Niagara CDSB
- Nipissing-Parry Sound CDSB
- Northeastern CDSB
- Ottawa Catholic DSB
- Peterborough, Victoria, Northumberland & Clarington CDSB
- Simcoe Muskoka CDSB
- St. Clair CDSB
- Thunder Bay CDSB
- Toronto CDSB
- Waterloo CDSB
- Windsor-Essex CDSB
- York CDSB

What if you are covered under a board paid LTD plan?

If you are covered under a board paid LTD plan, any LTD benefits you receive will be taxed.

Most board LTD plans offer a benefit level of about two-thirds of salary or 66.7%. Again, assuming an annual salary of \$100,000, what is the take home replacement ratio for this taxable plan?

Gross monthly salary	\$8,333
Monthly LTD benefit (66.7% of salary)	5,558
Federal and Provincial Income Tax on benefit	<u>1,245</u>
Net monthly LTD benefit	\$4,313
Take Home Replacement Ratio *	87.4%

*Net monthly LTD benefit of \$4,313 divided by net monthly salary of \$4,937

Provided the LTD plans are similar in all other respects, there is a higher premium cost associated with a taxable plan, to provide a take home replacement ratio equivalent to a non-taxable LTD plan offering a 55% benefit level.

In order to achieve the equivalent take home replacement ratio under a member paid plan with a 55% benefit level, the board paid LTD plan would have to have a benefit level of at least 70%. All else being equal, the premium for a taxable LTD plan with a 70% benefit level would be 27% higher than a non-taxable LTD plan with a 55% benefit level.

The CPCO LTD Plan Advantage

From a financial planning perspective, it makes sense for a principal or vice-principal to assume the cost of LTD coverage. The dollars that a board spends on a LTD plan can be re-allocated to other areas of benefits, where the members can benefit the most without any adverse tax implications. Examples of more

effective use of board dollars are an enhanced Health Care plan or increased salary, which also results in increased pension benefits. At the same time, the member maximizes the benefits of the LTD plan when needed most: at the time of a claim, with a tax-free benefit.

The tax-free benefit (and high net replacement ratio) is a significant reason why the CPCO LTD plan is appreciated by the members participating in it. Here are some other reasons:

- The members have control over their coverage, which option to select, when to switch and when to terminate coverage when it is no longer needed.
- As a CPCO owned group policy, the members, through local representation and the CPCO office, have control over the plan design. Premium rates are primarily based on the experience of the Catholic principals and vice-principals.
- CPCO provides support and advocacy for members before, during and after the claims process.

For more information on the topics covered in this article or on the CPCO Benefits Program generally, please contact Johnson Inc. at 1-800-461-4155 or CPCO at 416-483-1556.


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