

# Everybody Sells Disability Insurance but do You Want to Buy an Insurance Product or Protection?

**NOT ALL INSURANCE PRODUCTS ARE CREATED EQUALLY** and while there are myriads of different insurance products out there, many will not address your specific needs or may not be right for you.

In the area of disability insurance, there are two main sources of coverage: first, through a group plan, like those offered as part of your employment package or through your association (i.e. the CPCO Benefits Program); second, through an individual plan, where you purchase an individual disability policy through an insurance agent or broker.

We also now see some insurance products sold by banks as part of their mortgage offer (creditor insurance). While for the most part the banks were more interested in having a mortgagee sign up for life insurance coverage tied to the mortgage, we now also commonly find critical illness and disability coverage tied to mortgage offers.

You insure your car and your home. It makes sense that you would insure your most valuable asset: your ability to earn a living. Statistically, it is far more likely to become disabled at some point in your working life, even if only for a short term, than to die. The financial consequences can be far-reaching if the short term does indeed become long term.

**Which plan is right for you? Only you can make that decision. Some questions you need to ask:**

|   | Group   | Individual  | Bank   |
|---|---|---|--|
| Who owns the policy?                    | Employer or Association   | You   | The bank   |
| Can the policy be changed?              | The policyholder can make changes to the plan design based on the needs of their members, but any changes do not affect anyone who is already in receipt of benefits. | In some cases, changes can be made, but not always. However the flexibility to design the policy to suit the applicant's needs at the time of application is greater than under a group plan. | The bank controls the policy in its entirety.  |
| What is the definition of disability?   | Inability to perform own occupation for the first 24 months and thereafter any occupation that could provide a close to equivalent income.                            | Generally more liberally defined and closer matched to the own occupation definition found in group policies.   | More strictly defined and closer matched to the any occupation definition found in group policies. |
| How can I get coverage?                 | Available as part of an employment package, or through your association.  | Anytime through an insurance agent or broker.   | Concurrent with a mortgage application.  |
| Is there medical underwriting involved? | In most cases, medical underwriting is not required, unless you are considered a late applicant.  | Medical underwriting is required at all times. The underwriting is generally more extensive than that under a group plan and may result in exclusions applied.                                | Minimal upfront underwriting. The bulk of the underwriting is done at the time of claim.           |

|                                      | <b>Group</b>   | <b>Individual</b>  | <b>Bank</b>  |
|--------------------------------------|--|--|--|
| What is the benefit level?           | Anywhere from 50% to 75%, depending on the group insured and who is paying the premium (due to taxability status).   | Set at a dollar figure based on income at the time of application. Policy may allow for increases to benefit level annually.   | Benefit matches your monthly mortgage payments.  |
| Who is the beneficiary?              | You receive the benefits and use it as you see fit. If you have paid 100% of the premium, benefits are 100% tax-free.  | You receive the benefits and use it as you see fit. If you have paid 100% of the premium, benefits are 100% tax-free.  | The Bank. Even though you have paid for premiums, the benefit is paid directly to the bank against your mortgage.  |
| For how long is the benefit paid?    | As long as you satisfy the definition of disability or until you reach the termination date/age.   | As long as you satisfy the definition of disability or until you reach the termination date/age.   | As long as you satisfy the definition of disability, but generally no longer than 24 months. Sooner if your mortgage expires before that time.   |
| How long can coverage be maintained? | As long as you are an employee or member and have not reached the maximum age under the policy (or retirement date in some cases). You may or may not have the choice to withdraw from the plan. | Generally up to age 65 (or 70) or earlier. You have the choice to cancel your policy anytime.  | For the duration of the term of the mortgage. A new application, with a new questionnaire is required when your mortgage is up for renewal. There may be restrictions in cancelling before the term is up. |
| What is the cost?                    | Cost will vary from plan to plan depending on coverage, but will be the same cost per \$100 of coverage for all members under the same group regardless of individual health, age or gender.     | Individual underwriting will take into account your current health, age and gender. Premium will also depend on the provisions you choose under your contract, such as benefit level, termination date and any additional benefits offered. The flexibility and liberal definition of disability means that the cost of an individual policy may be higher than that offered through a group plan. | Premium is based on age. Dollar for dollar, the cost of coverage through a mortgage offer is more expensive, given there is minimal underwriting performed up front.                                       |

There are pros and cons to any product; however, caution is urged in relying on mortgage insurance for the financial protection of your family for the following reasons:

- The disability policy is strictly tied to the insured's mortgage payment and it does not take into account other expenses like hydro, gas, property taxes, etc. Therefore, if the mortgage payment is \$1,500 a month that is exactly what the disability benefit will be.
- The bank owns the policy and the benefit is paid directly to the bank, not the insured.
- The coverage is not portable. If the mortgage is moved to another bank or if the mortgage is paid off, the coverage is gone. If the mortgage is renewed, there is new disability coverage in place (new underwriting and pre-existing conditions and limitations apply all over again).
- The benefit period is usually limited, in most cases, to 24 months.
- The definition of disability in most cases mirrors the "any occupation" definition, which means that as long as you are able to perform some kind of job, you will not be considered disabled.
- Dollar for dollar, mortgage insurance is generally more expensive.

If you are not sure which plan is better for you, consult a financial advisor. In most cases you will be recommended to take your employer's or association's plan, as it will provide the best benefit and overall coverage dollar for dollar. If it still falls short of your financial needs, your financial advisor may recommend an individual plan as a top up, but not necessarily as a substitute.

This would likely be the same advice a financial advisor would give regarding Life and Critical illness insurance.

According to the CPCO long-term disability (LTD) policy with RBC neither creditor insurance nor individual policies are deductible sources of income. So if you are considering supplementing your CPCO LTD plan with an individual policy or a plan available as part of your mortgage, you may do so without concerns of not being able to collect on all plans. Talk to your advisor before making a decision.

#### **The Program Consultant and Administrator**

Johnson Inc. is retained by CPCO to provide consulting, administration and claims advocacy services in connection with the CPCO Benefits Program.

In addition, Johnson Inc. makes available to CPCO members individual insurance products such as Critical Illness, MEDOC® Travel Insurance, and Home and Auto Insurance.

Johnson Inc. is one of Canada's leading insurance and benefit providers for professional associations and employers, serving over 2,500,000 plan members across Canada.

**More Information**

For more information on the CPCO Benefits Program, visit the CPCO website at [www.cpco.on.ca](http://www.cpco.on.ca) or contact Nelly Kelders at 416-483-1556.

If you would like to confirm the coverage you currently have under the program, visit Johnson Inc.'s Members Only website at [www.johnson.ca/cpco](http://www.johnson.ca/cpco) or call 1-800-461-4155. For more information on the MEDOC® Travel Plan, call 1-866-60-MEDOC. For a Home/Auto quote, call 1-800-563-0677.

The benefits advisory committee is always looking at ways to improve the coverage and services offered with the program. If you have any comments or suggestions, or if you would like to share an experience you have had with the program, email us at [nkelders@cpco.on.ca](mailto:nkelders@cpco.on.ca).

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