A Guide to Income Protection Planning

CIBC Wood Gundy

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Income Protection Planning

Protecting your most valuable asset – your ability to earn income

For many of us, our ability to earn income is our most valuable asset. The cash flow it provides, funds our current lifestyle and future retirement. But, if your ability to earn an income was interrupted by a serious disability, illness, or even premature death, it could have a material impact on your financial future and that of your family.

While many of us prefer to think that this will not occur during our lifetime, the reality is that we are all at risk, regardless of age, gender, or occupation. For this reason, it is important to ensure that you and your family are financially prepared should you be forced to deal with one of these unexpected life-altering events.

Likelihood of becoming disabled, critically ill or dying before the age of 65

Risk	Male, age 40 non-smoker	Female, age 40 non-smoker
Death	6%	4%
Disability	33%	35%
Critical illness	26%	18%
Risk of death, disability or a critical illness*	49%	45%

(Source: Manulife, March 2012)**

Safeguarding your future with income protection planning

Income protection planning is essential to shelter you and your family from the financial hardships that can result from a loss of income. It can be divided into three types of insurance coverages: term life, disability and critical illness. We take into account all aspects of your finances: lifestyle needs, liquidity, existing assets and insurance in order to develop an income protection plan that will help ensure you have prepared for the financial security of your family. Our goal in this process is to deliver to you:

Personal service

We aim to provide a highly professional level of service and build long-lasting relationships with our clients by helping them navigate through the important issues of income protection planning. Together, we identify your particular needs so we can tailor a program that suits your evolving financial needs and goals.

Independent advice and product knowledge:

We work with all major insurance providers to offer you competitive options in coverage, features and pricing, all in consideration of your individual needs.

Financial security planning:

We complete a review of your financial situation and employer-sponsored insurance plan to identify effective options and solutions to achieve your objectives. We revisit your program periodically to confirm that it is still in line with your life circumstances and recommend changes where necessary.

*The probability of at least one event occurring is less than the sum of the probabilities for all three events, as individuals may incur multiple events.

Term Insurance

Term life insurance is a low-cost policy that provides coverage for a specified period of time. It offers financial stability by protecting your family from the loss of income and potential expenses that arise in the event of a premature death, but has the flexibility to be converted for long-term needs such as wealth accumulation and tax and estate-planning.

Generally, term coverage runs for 10 or 20 years and the cost of the coverage is fixed for the duration of the period. Most policies can be renewed at the end of each term with higher premiums, or converted to a permanent plan, regardless of changes in your health.

Purchasing Life Insurance Through Your Employee Benefits Plan

Many companies offer their employees the option of purchasing life insurance through their group benefits plan. While this is often a convenient option, it may not be the most cost-effective. Some things to consider before purchasing life insurance coverage through your group plan include:

- How much coverage do I need?
- How much would I pay for coverage?
- Are the rates guaranteed?
- How often do the rates increase?
- Will the coverage continue if I leave the company?

Current and Future Financial Obligations final expenses, mortgages, education costs, cash flow for surviving family, etc	**LESS**	**Existing Resources** survivors' earnings, pensions, savings and investments, existing life insurance	**=**	**Life Insurance Needed**

If the insured dies during the term, the death benefit will be paid tax-free to the beneficiaries. Life insurance proceeds can help pay immediate costs including, funeral expenses, final estate settlement costs, taxes and other lump-sum obligations such as outstanding debts and mortgage balances. It can also help your family cover future financial needs such as living expenses, money for college or your spouse's retirement. Many people are surprised to learn that replacing $100,000 of earned income for 25 years requires $1,793,554 in capital today, assuming a 3% inflation rate.

Mortgage or Creditor Insurance vs. Term Insurance

Mortgage insurance or creditor insurance is group life insurance coverage offered by most banks and lending institutions that pays off the balance of your mortgage if an insured person listed on the mortgage passes away. A term life insurance policy is often a better option for the same purpose because it provides additional benefits and flexibility as discussed below.

Feature	Creditor insurance	Term insurance
Ownership of the policy	The bank owns the policy.	You own the policy.
Choice of beneficiary	Upon death, the benefit goes directly to your lender to pay off the mortgage.	Upon death, the insurance proceeds go directly to the beneficiaries of your choice.
Customized coverage and benefits	Your lender will insure you for the balance of your mortgage only. As you pay down your mortgage, your coverage amount decreases but the premium does not.	You select the amount of coverage. You can decrease your coverage, lowering the cost, renew it or convert it to permanent protection.
Portability	If you move your mortgage to another provider, coverage ends and you must re-qualify to obtain new coverage.	Your coverage is not affected by a change in your mortgage provider.

Disability Insurance

Accidents and illnesses are a fact of life. They could happen to anyone at any time. While most people think that it won't happen to them, the reality is that 1 in 3 people, on average, will be disabled for 90 days or longer at least once before age 65. Becoming disabled through an injury or sickness can mean a significant loss of income. One way to mitigate this financial impact is through individual disability insurance, which provides *tax-free* income replacement benefits that will help ensure your basic needs continue to be met. Many people are surprised to learn that losing $100,000 of earned income for 25 years translates to a loss of $2,744,676* in after-tax dollars for your family.

Customizing a plan to meet your needs

The definition of "total disability" is extremely important in determining the quality of your policy's coverage because it dictates whether your disability is eligible for a claim or not. An individually-owned policy typically uses the following definitions:

	Definition	What this means
Any Occupation	The insured is unable to work in any occupation for which they are reasonably suited by education, training or experience	To receive benefits according to this definition, you have to be unable to work in any occupation, not just your own.
Regular Occupation	The insured is: 1) unable to perform the essential duties of their regular occupation, i.e. the occupation in which they were engaged at the time of disability, and 2) is not otherwise gainfully employed.	If you cannot perform your regular occupation you will receive a disability benefit. If you work in another occupation, you will not receive a benefit.
Own Occupation**	The insured is unable to perform the essential duties of their regular occupation.	You can pursue a new occupation and continue to collect disability benefits.

Disability insurance plans offer a range of benefits and premium options to suit your occupation, income level and budget. Your coverage can be customized to include your choice of benefit periods (how long you can receive benefits), elimination periods (the number of days of disability that must pass before benefits are payable) and premium options. On some policies, you can purchase a rider that will periodically refund a portion of the premiums paid, if no claim is made.

4 Things You Need to Ask About Your Employer-Sponsored Disability Plan

- What is the definition of total disability and does it change after one or two years of benefits?
- How long are disability claims payable?
- Will the plan pay a benefit if I am still able to perform some, but not all of my duties?
- Does the plan offer inflation protection and the ability to increase my benefit as my income increases.

Supplementing your employer-sponsored disability insurance

Even if you already have some disability insurance through your employer, it may not be adequate. A typical group plan offered by an employer will replace up to 85% of your regular after-tax income up to a certain limit which may be much less than your total after-tax income. Bonus income is usually not included and benefits are often offset by other disability payments you may receive under the Canada Pension Plan and/or Worker's Compensation.

Furthermore, most group policies will not pay benefits after 2 years if you are able to work in any job consistent with your training, education and experience. Additionally, if you ever change jobs, your employer-sponsored disability plan will most likely end with your employment.

Critical Illness Insurance

When people get sick, no matter how wealthy they are, their first priority is recovery. Financial concerns can make a difficult situation worse by adding further stress. While some support is available through employee and government programs, these benefits are not comprehensive, and uninsured health care services can be quite costly.

With a critical illness insurance (CI) policy, you receive a tax-free, lump-sum payment 30 days following the diagnosis of a covered condition. This can be used in any way you see fit such as paying down debt, modifying your home or vehicle, or to get alternative medical treatment abroad, thus reducing the need to withdraw funds from your savings or investments.

Common covered illnesses

- Alzheimer's disease
- Aortic surgery
- Bacterial meningitis
- Benign brain tumor
- Blindness
- Cancer
- Coma
- Deafness
- Heart attack
- Heart valve replacement
- Kidney failure
- Loss of limbs
- Loss of speech
- Major organ transplant
- Multiple sclerosis
- Occupational HIV infection
- Paralysis
- Parkinson's disease
- Severe burns
- Stroke

Critical Illness as a complement to Disability Insurance

CI provides financial protection in ways that are different, yet complementary to disability. CI covers specific medical conditions without measuring their impact on your ability to earn income. Not being tied to income, CI is available to a stay at home spouse, whereas disability is not. An event covered by CI, such as a heart attack, may not give rise to a disability claim if recovery occurs within the elimination period. The inverse is also true: conditions that give rise to disability claims, such as lower back injury, are not necessarily covered by CI. In summary, although some events may provide a benefit from both, such as blindness, many more will be covered by only one or the other, which is why they can be seen as complementary.

Taking advantage of additional benefits

Typically, when we consider CI policies for clients, we review the following add-ons to the policy, depending on your situation:

Return of Premium – if you do not make a claim on your policy, up to 100% of the premiums paid are refunded to you.

Loss of Independent Existence – the inability to perform two activities of daily living (bathing, dressing, eating, toileting, continence, transferring and walking) results in full payment under the policy.

The cost of critical illness insurance

Withdrawing money from your retirement savings early can have a material impact on the long-term value of your investment assets. For example, if you have accumulated savings of $200,000 and plan to contribute $20,000 annually over the next 20 years, the value of your investments could be $1,057,609.* If you were diagnosed with a critical illness in year 10 and required $120,000 to recover, the value of your investments at retirement could reduce to $858,345, a difference of almost $200,000.

Using a portion of your savings to purchase CI insurance will help protect your assets from a serious illness. Moreover, if return of premium is included, your policy pays you back if you don't make claim; the only cost is the opportunity cost of your money.

Common expenses associated with the diagnosis of a critical illness

- Loss of income
- Drug and medical expenses not covered by provincial or employer-sponsored plan
- Medical equipment – wheelchair, scooter, home care bed
- Home modifications – ramp, chairlift,
- Vehicle – steering hand controls
- Nurse, housekeeper, child care provider
- Travel to and from treatment – gas, parking

* Assuming a 4% return

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