

Disability Matters

Don't disregard disability insurance as a key element of a client's financial plan. People are more likely to face this than die prematurely. **Lorne Marr** explains



While injuries are the leading cause of death for Canadians under age 44, a person is 14 times more likely to sustain an injury and survive it to face the medical, psychological, financial, and rehabilitation consequences.

And because of improved forms of healthcare, older people are living longer with physical (stroke, Parkinson's, etc.) and cognitive medical conditions (Alzheimer's, etc.) that leave them unable to care for themselves independently.

While most insurance brokers do a good job of stressing the importance of protecting a client's family in the event of a death, our industry needs to turn the conversation to protecting families in the event of a disability. As Tim Landry, a 45-year industry expert, puts it: "The importance of disability insurance *exactly* matches the importance of your income. If you are so rich that your ability to earn an income is meaningless to you, then you don't need disability insurance. If your health and your income have any meaning for you, *nothing* is more important than disability insurance."

How do insurance companies define disability? In the broader sense we define an individual as having a disability "if they had difficulty performing tasks as a result of a long-term condition or health-related problem," and if they "experienced a limitation in their daily activities" as a result. In other words, if you are involved in a car accident, a workplace incident, or a slip and fall, or if you suffer a chronic, long-term, severe, or life-threatening illness that has the potential to leave you unable to perform necessary daily tasks, unable to work, or unable to pay medical expenses and rehabilitation costs, then disability insurance could help.

Now, not all disabilities are severe. Statistics show that 26 per cent of persons with disabilities were classified as very severe, 22.5 per cent were classified as severe, 19.8 per cent were classified as moderate, and 31.7 per cent were classified as mild in 2012. However, even the non-severe forms of disability can impact your ability to work — in addition to racking up medical expenses. Plus, you may need to renovate your home to accommodate your accessibility needs, you may need someone to come into your home to provide you with personal care, or you may need a loved one to stay home from work during your recovery time. Whether this corresponds to a short-term healing process or a long-term lifestyle change, those costs can add up quickly.

For all of these reasons, disability insurance forms the foundation for most people's living benefit insurance needs. But besides mentioning disability insurance to clients, advisors also need to understand the different types of disabilities. Most insurance policies recognize three definitions of disability insurance: Own Occupation, Regular Occupation, and Any Occupation.

Under **Any Occupation**, total disability becomes defined as the inability to work at any occupation, not just your current profession. For instance, if you suffer an injury or illness that leaves you unable to work as a computer consultant, but

you can still gainfully work as a checkout clerk, your insurer will not provide you with compensation.

With **Regular Occupation**, total disability is defined as the inability to work at your regular occupation, so you will be eligible for compensation if your injury or illness renders you unable to work at your regular job, but your compensation level may be restricted based on your ability to partake in other forms of employment.

Own Occupation is the gold standard definition, where total disability represents the inability to work at your regular occupation, enabling you to receive compensation regardless of whether you work in another gainful occupation.

The type of disability policies to recommend to clients depends on a number of variables, including affordability and type of occupation. For the most part, the better or clearer the definition of disability, the higher the monthly premium. This is because clearer definitions that speak more specifically to your circumstances are more likely to result in a payout.

The Any Occupation definition leaves a large grey area, which means a lot more possibility for your claim to be denied. However, the Own Occupation definition may not be as valuable an option for all careers, even though it does provide the most value in highly skilled occupations. For instance, a surgeon could suffer an injury to their hand that prevents them from working as a surgeon, but still allows them to work as a family physician. Even though they are still able to receive gainful employment, the Own Occupation definition would still enable them to collect benefits. On the other hand, an office manager or lawyer would be a lot less likely to collect under the Own Occupation definition because the skills that tie them to those positions are a lot less specific.

Disability Insurance Versus Critical Illness Insurance

Disability insurance provides a strong base to begin building your living benefit; other forms of insurance will provide a strong complement to the disability definition you choose. For instance, opting for critical illness insurance in addition to disability insurance will give you the flexibility you need to cover certain lump sum costs that may coincide with your illness or injury. This is because disability insurance provides you with compensation over time — it is structured to operate as a substitute for your paycheck — while critical illness insurance most often provides you with a one-time, lump-sum payment to help with the immediate costs of the illness or injury (there are also no stipulations on how your critical illness benefits need to be used, whether you decide to use them to cover medical costs, to pay off debt, or to plan a trip to help with physical or psychological recovery for you and your family).

Critical illness insurance may also be a better option for certain higher risk occupations, as well as retired individuals and stay-at-home parents. **■**