

When is group LTD insurance not enough?

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If you become disabled and cannot work, do you have enough long-term disability (LTD) insurance to replace your income?



If you are 35 years old today, research shows there is a 50% chance you will become disabled and unable to work for three months or more by the time you're 65. That's why having adequate long-term disability insurance (LTD) during your working years is as important as insuring your life or your home.

Consider the following:

- **Many employers offer LTD as part of their employee benefits package.** Associations or industry groups may also offer group coverage to members. Generally, premiums for group LTD are paid for by employees, so any benefits can be received tax-free.
- **Benefit coverage for group LTD is usually a percentage of pre-tax earnings** up to a maximum, e.g., two-thirds of salary up to \$5,000 per month. There also may be a graded schedule of benefits, such as 67% of the first \$2,500 of monthly pre-disability earnings; 50% of the next \$2,500; and 40% of monthly earnings beyond that. Any other benefits collected from sources listed in the policy, such as CPP/QPP disability benefits, workers' compensation and automobile insurance, will be deducted from group LTD benefits.

- **The typical payment period for group LTD benefits is two years** if you can't work at your own occupation and an additional two years if you can't work at any occupation at all. In some cases, "any occupation" coverage may continue for several more years or even up to age 65.
- **A medical examination is not required to qualify for the basic group LTD benefit.** However, some workplace policies that allow plan members to purchase additional coverage require information about the individual's health status to increase the benefit.
- **Group LTD premiums can change yearly when the employer's policy renews,** depending on the group's demographics and claims experience. Coverage ends on termination of employment, on retirement, at age 65 or if the employer decides to discontinue its employee benefit plan.

So when is group LTD not enough?

- **If the maximum monthly coverage doesn't provide sufficient income replacement** you should consider layering an individual LTD policy on top of your workplace coverage. For example, for an executive earning \$240,000 annually, a \$5,000 monthly LTD payment would replace only 25% of his or her income.
- **If the definition of salary in your group LTD contract often does not include sales commissions and bonuses.** When these payments form a significant part of your income, you may need additional individual LTD coverage to protect you adequately against potential loss of earning power.
- **If you are a business owner, you should consider individual LTD coverage.** This is because if you draw money from the company in the form of dividends instead of salary, this form of compensation will not be protected under your group LTD policy.
- **If you are an employee or are self-employed and have no access to group LTD,** you should investigate individual coverage.

Although individual coverage may initially seem more expensive than group LTD, premiums remain constant until age 65 and, unlike group LTD coverage, the policy remains in effect if you are out of work or change jobs.

Other features of individual policies that can be tailored to meet your needs include waiting periods, benefit levels and coverage to age 65 if you cannot work at your own occupation. A future income rider will allow you to increase your benefit levels as your income increases, without a further medical examination. With more people working beyond age 65,

individual policies that allow coverage to continue in two-year increments beyond that age can deliver added value, particularly if you are self-employed.

Long-term disability insurance is part of the continuum of health insurance, which also includes health care insurance, critical illness insurance and long-term care insurance. Your financial advisor can help you select the coverage you require as part of your overall financial plan.