



How Bad Disability Insurance Can Destroy Your Life

By Kurt Rosentreter, CA, CFP, CLU, FCSI, CIMA, TEP

Meet Susan.

Susan, is a Vice President at a growing private company in the media industry in Toronto. She is 46, married, with two children, aged ten and twelve. Susan's annual compensation is a salary of \$120,000, a bonus that she says is "guaranteed" annually at \$40,000, a health and dental plan and a defined contribution pension plan where the company matches the 6% that she contributes annually. She is happy with her compensation and likes the company she works for. She feels she has potential there and she appreciates the flexibility they have provided when she has taken time off with children's activities.

Susan is the main income provider to her family of four: her husband earns \$90,000 a year in a management position in the retail industry that he describes as "shakey". He has no benefits and relies on Susan's group plan for dental coverage. Both children are also covered under Susan's health plan. They own a home worth \$1Million today and have a mortgage of \$300,000. Like many of us, they are busy raising a family, busy with careers, busy with life.

Two years ago I met Susan as part of an "executive financial planning session" that her employer had paid for on her behalf. I was brought in to meet for an hour with all of the executives and provide a review, strategy and opinion on different aspects of their finances that they choose: retirement planning, Wills, children's savings, investments, tax planning, debt, and insurance policies.

To cut to the chase, when I met with Susan I pointed out that her disability insurance was insufficient. She had no private disability insurance and was relying on the company provided disability insurance offered through her group plan. When I asked her what she knew about the quality of the coverage she admitted she had never read the group benefits booklet. I went through the booklet with her and pointed out that her employer's coverage did not insure the maximum allowable percentage of her income, would not pay tax free benefits, may not pay benefits for life if she could not work and the coverage could be further lessened or weakened in the future since the employer controlled it. I also pointed out she would lose the coverage if she ever quit or was fired. I finished by saying that she is the ideal candidate to buy private disability coverage because of such poor group coverage and because she is the key income earner for a family of four, has \$300,000 in mortgage debt and has a go-go lifestyle.



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Susan looked concerned and asked what private coverage would cost. I said \$2,000 to \$5,000 a year depending on the type of policy we put in place. She immediately said the cost was too high and said she would stick with the group coverage. I asked her to reconsider, stating this is more important than RRSP savings. She said she would think about it but I never heard from her after that meeting two years ago.

Until last week.

She called and she was apologetic and frantic at the same time. She told a story of a car accident in the months that followed our meeting. She remembers little of the actual accident or the two months in the hospital and rehab. She said it has been a long road back – she has permanent damage to her back that prevents her from sitting for long periods of time. She also has trouble concentrating and remembering due to the severe concussion that she said still gives her headaches. She talked about being grateful for her family support and the fact that her employer has paid her much of her base salary for the last two years – although not all of it.

I asked her why she is calling me now.

She felt the need to tell me how her reluctance to buy the private coverage I recommended two years ago may now ruin what remains of her life.

Because the company disability insurance didn't cover her bonus pay, they had to take the kids out of private school as their annual tuition was being paid from her bonus. They were also putting some of this money towards their mortgage which has become overdue now since it has been a lot tighter to cover the mortgage on her smaller, taxable disability payments. Her husband has to take time off work to care for her so his lower income hasn't helped. She mustered a joke that at least there hasn't been a need to pay for vacations during the last two years so they saved money there.

I asked if they were planning to put the house up for sale because I knew what she was going to say next.

She said she called me specifically because of a letter she just got in the mail.

She read the letter to me over the phone. I have seen these letters before. The letter was from the insurance company that pays her disability benefits. It stated that due to a clause in her employer's group benefits booklet, her disability insurance coverage switches from "own occupation" coverage to "any occupation" coverage on the first day after two years of her being off from work. They request her



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to attend a physical examination by their doctors to assess if she can work anywhere – doing anything – for any pay. If she can work in any role, they will cut off her disability insurance benefits forever.

Basically if she can sell donuts at a window for \$11/hour, she will no longer get her sizeable disability benefits.

She started to cry. She regretted not buying the extra coverage we talked about. She said she can see that their good quality of life may come to an end forever unless she can get fully healthy again – and that is not on the horizon at all. She couldn't believe she resisted buying quality disability insurance protection for a few thousand dollars a year when it would now cost her millions in lost compensation and more in lost lifestyle and family time. Her ignorance may not only seal her fate of a terrible life but also doom her husband and children to a much, much poorer quality of life.

Ladies and gentlemen, your health and your ability to generate an income to support you and your family is your greatest asset. Don't put a price on your ability to work – buy the best disability insurance coverage you can get, while you can get it, and happily write that cheque knowing your dreams will never be taken from you.

In all the group insurance plans I review for executives in a year, I have NEVER seen a top-notch disability insurance policy provided by an employer. Greedily, why would they? They know you aren't reading the employee benefits booklet either.



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