

A guide to disability insurance



This guide is designed to help you understand disability insurance and explain what your options are for income replacement in the event you become disabled. More information – and help – is available from your insurance agent, insurance company or group benefits administrator.



Canadian Life
and Health Insurance
Association Inc.

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des compagnies d'assurances
de personnes inc.

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You Told us What You Want to Know about Disability Insurance

This guide brings together the answers to typical questions that Canadians ask about disability insurance.

It will help you:

- *decide how much disability coverage you need;*
- *find out how much coverage you already have;*
- *learn what the options are for disability insurance;*
- *understand what happens when you apply and when there's a claim; and*
- *identify questions to ask your group benefits administrator or insurance agent.*

*A **guide to disability insurance** is produced by the Canadian Life and Health Insurance Association. We do not promote any one insurance company or any particular type of disability insurance product. We leave those choices up to you, the consumer.*

We hope this guide will help you make the most of your disability insurance coverage.

Caution: *This guide presents a wide range of general information on disability insurance as simply and accurately as possible, but it is not a legal reference. New legislation and regulations as well as technological and competitive developments may change some of the rules, conditions and industry practices described. If you have specific questions, check your policy details and contact your group benefits administrator, insurance company or insurance agent.*

1 THE BASICS

What is disability insurance?

A disability – whether it’s sudden or because of a degenerative condition – can rob you of your ability to earn a living. Disability insurance is a type of coverage that gives you protection against the chance of losing income if you become disabled and you are not able to pay your expenses.



Why should you purchase disability insurance?

Most people recognize the need for life insurance, but many do not understand the need for disability insurance. The fact is, when you are disabled because of an illness or injury, your income stops – but your bills don’t.

Did you know that:

- 1 in 3 people, on average, will be disabled for 90 days or more at least once before they reach age 65?
- A disability can last for months or even years?

Consider these situations:

- A person spends months recuperating from a car accident.
- A carpenter breaks an arm while skiing and can’t work for eight weeks.
- An overworked doctor must “take it easy” after a heart attack.
- Chemotherapy saps the energy of a busy store manager.
- A stroke affects a computer programmer’s ability to reason with numbers.
- An individual has been diagnosed with major depressive disorder following a traumatic event.

2

SOURCES OF DISABILITY INSURANCE

Who provides disability insurance?

Disability insurance coverage is available through a variety of sources such as:

- Individual insurance plans
- Group insurance plans (offered through e.g., an employer, union or association)
- Special purpose plans
- Government plans

Disability benefits typically replace up to 60 to 85 per cent of your regular

income. Some plans pay tax-free benefits while others are taxable. You can receive disability benefits from more than one source, but these plans are usually coordinated to make sure that all the benefits you receive are not greater than your normal income.

You may have other coverage that may be available from a variety of special purpose plans such as creditor's insurance (e.g., credit card or mortgage protection), your auto insurance plan and long term care or critical illness plans. There are also disability insurance plans designed for people who are self-employed.

3

TYPES OF DISABILITY INSURANCE

Individual plans

You can arrange your own disability insurance plan through a life and health insurance agent. In fact, close to one million Canadians have their own policies. There are advantages to owning an individual disability policy. While group coverage ends when you change jobs or leave your association, an individual plan does not. Because you pay the premiums, benefits are received tax free.

An individual plan can give you the most comprehensive and flexible coverage available because it can be tailored to your needs. On the other hand, it is usually more expensive than group coverage.

Generally, there are three types of individual disability insurance plans:

- **Noncancellable** The policy cannot be cancelled and the price cannot be increased during the period of time set out in the contract. This is also called "*noncancellable guaranteed renewable*".
- **Guaranteed renewable** The insurance company must renew the policy but it can raise the premiums for everyone in a certain class or category. They cannot raise individual premiums.
- **Commercial** On the anniversary of the contract, the insurance company can refuse to renew the policy, or they can charge more because of any previous claims you may have had.

For some plans, the payment of benefits is based on the loss of income instead

of the complete inability to work. This helps if, because of an accident or sickness, you can still work but not like you did before. In other words, you might not be able to work for the same number of hours or do the same type of work you did before you became disabled.

Many plans will include a feature that waives your premium payments while you are disabled. Other plans will offer a guarantee that you can increase your coverage (at certain times and within limits) without having to answer additional health questions.

Concerning the length of coverage, some plans pay benefits:

- for only specified lengths of time (usually two to five years),
- for as long as you remain disabled or to age 65, whichever comes first.

Lifetime benefits may also be an option.

Tip

The longer your waiting period before benefits begin after you become disabled, the lower the premiums you pay. Discuss with your insurance agent the pros and cons of waiting 180 days for your benefits instead of 30 or even 90 days. You could consider using the money you save to buy other options such as a cost-of-living or inflation protection increase, or to extend the length of time you are covered for benefits.

Group insurance plans

Group disability insurance plans provide 4.6 million Canadians with short term disability coverage and more than 10 million with long term disability protection.

Typically, a group plan through your place of employment provides three different levels of coverage:

Sick leave

If you are sick or injured, you receive full pay for a short period of time (usually a few days or up to a few weeks, sometimes longer, depending on the employer). This is coverage provided by the employer, usually at no cost to you.

Short Term Disability (STD)

This coverage begins when your sick leave runs out. Most short term disability plans pay a percentage of normal earnings – for example, 70 per cent – up to a certain length of time. Typically, this can be up to 15, 26 or 52 weeks. Some employers, however, choose not to provide short term disability benefits, relying instead on Employment Insurance (EI) disability benefits.

Long Term Disability (LTD)

This coverage starts when your short term disability (or EI) benefits run out. Typically, the goal is to replace 60 to 70 per cent of your normal income, but there is always a maximum dollar amount (e.g., \$5000 per month). Given this, if you earn a high income, group LTD plans may replace less than 60 to 70 per cent of your pre-disability earnings.

LTD benefits are usually paid for **up to two years** if you are unable to

Tip

Benefit plan options are determined by your employer when the plan is set up with the insurance company. Some plans may offer you the ability to choose how much LTD coverage you would receive. Remember to check your employee booklet carefully for the details of your coverage.

perform your **regular occupation**. After that period of time, you may have to be disabled from performing **any occupation** for the benefits to continue.

Many plans include rehabilitation provisions designed to assist you in getting back to work. In most cases, you are required to participate in programs that are appropriate to aid in your recovery.

LTD benefits are usually reduced (or “offset”) by any benefits you may receive from CPP, QPP or WCB/WSIB. You can also receive disability benefits from other sources that could be taken into account when your group disability benefits are calculated by the insurance company. Read your benefits information carefully to find out what types of other benefits or situations could lead to a reduction in the benefits from your group disability insurance plan.

Your employer may pay the full cost of your disability coverage, or you might have to contribute through payroll deductions. Generally, if you pay the full cost of the premiums, any disability benefits that you receive will be tax free. If your employer, union or association pays all or any part of the premiums for you, then any disability benefits you receive will be taxable.

Administrative Services Only plans

Are your benefits offered through an Administrative Services Only plan or an insured plan? Although most group plans are purchased from an insurance company by a plan sponsor and are insured plans, some large employers elect to pay the costs of group plan benefits themselves, using an insurance company only to administer the plan. These plans are called Administrative Services Only (ASO) plans. Since these plans are not insured, the insurance company does not guarantee benefits.

Tip

Have you read all of your group benefits information? Take the time to review it. Your benefits are valuable and you may not be fully aware of what your group benefits cover. Discuss any questions with your Human Resources Department or benefits administrator.

Association plans

Many professional associations, business groups such as a Chamber of Commerce or Board of Trade or even university alumni groups, offer disability insurance to their members. These types of plans may be useful for people who are self-employed. Others join these plans to top up their employers' group benefits or to ensure they are covered if they change jobs. Be aware that premiums for association coverage usually increase as you get older and coverage has to be renewed every few years. This means you may have to provide evidence of your insurability, such as answering a detailed health questionnaire, when your coverage is renewed.

Note: With any group disability insurance plan, the employer, union or association is the **owner and manager** of the group policy. This means they could decide to change your coverage, change insurance companies or even terminate the group plan altogether (this is not common) and your coverage could end. Then, depending on your health, you may or may not qualify for continued coverage.

Disability Insurance for the Self-Employed

If you are self-employed, your financial responsibilities go well beyond yourself and your family. Your business partners, employees and creditors also depend on your ability to work.

Good planning can save your business. When you can't work, routine bills can quickly eat up your investments, RRSPs and even home equity. And if you miss quarterly income tax instalments, the Canada Revenue Agency can demand full payment *plus interest* after one year . . . and garnish your disability benefits. Finally, worried creditors can force you into receivership or bankruptcy.

To guard against all of this, individual disability plans can be tailored to provide you with not only income replacement, but also to:

- cover business overhead costs;
- pay off your deferred income taxes; and
- pay most bank loans, or at least the associated interest.

If you are in a partnership, your business can buy disability insurance

for each partner. This would ease the impact from temporary disability and provide the funds to buy out a disabled partner if the disability is permanent. The business can also be insured against the disability of key employees.

Special purpose plans

A wide range of other types of insurance plans may ease the cash crunch in the event of disability under certain circumstances:

- **Auto insurance:** This pays income benefits if you are injured in a traffic accident. Depending on the province where you live, your auto insurance provider may be the **first** or **second** payer of disability benefits. This means the auto insurance company will pay you either first (*before* other disability income or health benefits plans) or second (*after* other disability income or health benefits plans). Either way, the benefits that you are entitled to receive from all sources will be coordinated. If your province has **no-fault** auto insurance, you may not be legally allowed to sue for lost income except in catastrophic situations.
- **Creditor's insurance:** Sometimes offered with a mortgage, a bank loan, car financing or other debts, this type of insurance covers your loan payments, usually for a certain amount of time, if you become disabled. Some credit card balances can also be insured. Some mortgage plans cover your monthly payments for a set period of time. Be aware that if your mortgage is re-negotiated, you will need to re-apply and re-qualify for this type of coverage.

- **Dismemberment coverage:** Built into many insurance policies, this pays a lump sum for full or partial loss of use of a limb, hearing or vision.
- **Critical illness:** This coverage offers a one time, lump-sum payment in the event you are diagnosed with a critical illness. The purpose of the lump-sum payment is to provide additional financial resources for your needs at a time when you may be off work, undergoing treatment and focusing on recovery. People often use this extra money for things such as home care, child care, and travel outside of the country for specialized treatments that may not be available locally, or to help supplement their family income so a spouse or partner can also stay home. Benefit amounts vary depending on the amount of coverage that you choose, such as \$10,000, \$50,000 or more. The benefit is payable only once. Insurance companies can differ in how they define a 'critical illness.' Typically, it includes conditions such as cancer, stroke, heart attack, multiple sclerosis, coma, paralysis, organ transplant and more.
- **Long term care:** This type of benefit provides protection if ever, at some point in your life, you need to enter a long term care facility or receive special medical care in your home. This coverage is available to people of almost any age. Although we may think of long term care as a need for the elderly, a severe illness or injury can incapacitate a young person. Consider your needs if you couldn't look after yourself. There are benefits available, ranging from basic to comprehensive. Some plans allow you to choose the type of care you



will receive, such as care in a facility or care by a family member. There are also waiting periods for benefits, usually from 30 to 90 days after becoming incapacitated. Typically, to qualify for long term care benefits, you must be incapable of performing two or more activities of daily living (such as bathing, dressing, feeding, etc.) or, you must be incapacitated because of a deteriorating disease, such as Alzheimer's.

- **Travel insurance:** In Canada, your provincial health insurance plan looks after your hospital and medical expenses and you rarely see a bill. But, once you travel outside of Canada or even outside of your home province, coverage under your provincial health insurance plan is limited, and only a fraction of these expenses may be covered. Travel insurance is designed to pay for certain unexpected costs that can happen when you are traveling. These

can include emergency hospital or medical costs, trip cancellation, lost baggage, companion travel costs and accidental death insurance. But not all plans cover all of these components. Check to see what your plan includes. For more information about travel insurance coverage, see *A Guide to Travel Health Insurance* available on our website at www.clhia.ca

- **Life insurance:** Many life insurance policies have a **disability waiver of premium** that lets you stop making premium payments while keeping your life insurance coverage, if you are disabled for at least six months. For example, if your group long term disability benefits and group life insurance are with the same insurance company, there may be a provision that will automatically waive the premiums for your life insurance once the long term disability benefits are approved. Please review the details of your group life insurance plan.

There are other important benefits that may be attached to life insurance policies. For example, an individually-owned life insurance policy may also have a **disability income rider** that replaces a portion of income. Many insurance companies also offer, on a compassionate basis, **living benefits** in the form of partial pre-payment of death benefits to life insurance policyholders who are terminally ill. A few companies offer policy riders that allow for payments to people who are not terminally ill but have certain other major medical problems. Check with your insurance company to see what applies to your policy.

Other specialized products

There are a number of specialized products available to cover specific needs. One example is hospital stay coverage that pays you a set amount (for example \$50), for each day you are hospitalized because of an accident or sickness. Some policies may cover only accidents. Others cover only certain illnesses (e.g., cancer). You can also buy special coverage to pay for funeral costs.

Veterans' benefits

If you have a health condition linked to military service, contact Veterans Affairs Canada (www.vac-acc.gc.ca) about their Disability Pension Program.

Foreign coverage

You may be covered by another country's social security plan for the years you worked there. Some plans are integrated with CPP/QPP.

Government programs

You may know that provincial **Workers' Compensation Boards (WCB)** – [Workplace Safety and Insurance Board (WSIB) in Ontario or in Quebec, Commission de la santé et de la sécurité du travail (CSST)] -- provide disability benefits to sick or injured workers, but you may be surprised to learn that **Employment Insurance (EI)** and the **Canada/Quebec Pension Plans (CPP/QPP)** also have disability benefits. To be eligible, you must satisfy their definitions of disability and have paid adequate premiums into their plans. They also provide very basic coverage and have quite limiting definitions of disability. For example, to qualify for CPP/QPP disability benefits,

your condition must be deemed “severe and prolonged.”

Your employer or union can answer questions about workers’ compensation benefits. For information on EI, contact your Human Resources Department or the federal government

department, Human Resources and Skills Development Canada (HRSDC) (www.hrsdc.gc.ca). CPP is also run by HRSDC while QPP is run by Quebec’s Régie des rentes du Québec (www.rrq.gouv.qc.ca).

	Workers’ Compensation	Employment Insurance	Canada/Quebec Pension Plans (C/QPP)
Who administers it?	Provincial Agencies	Federal Government	Federal/Quebec governments
Who pays for it?	Member employers	Employers and employees through EI premiums	Employers and employees through C/QPP contributions
What is covered?	Work-related illness and injury. Tax-free benefits are paid from the date of disability until the return to work. Benefit amounts vary among provinces.	Disability does not need to be work related. Taxable benefits start after 2 weeks, but if you received sick leave benefits from your employer, the waiting period may be waived. Benefits run for 15 weeks but under certain circumstances, may run up to 50 weeks if combined with other EI benefits. The benefit is capped at 55% of maximum insurable earnings, to a set limit overall. You must meet eligibility requirements that include work history and EI contributions.	Only disabilities that are severe and prolonged. Taxable benefits start after 3 months and can continue as long as you remain disabled until C/QPP pension begins. Benefits are available for the claimant and each dependent child. You must meet eligibility requirements for C/QPP contributions.
What are the limitations?	Does not apply to all industries. Permanent disability may be re-assessed periodically to see if the individual is able to do any other type of work.	Excludes self-employed. Employees must have paid EI premiums and worked for the required number of hours in the last 52 weeks, or since the last claim.	Must have paid into CPP or QPP for at least four of the last six years, or if you have worked at least 25 years, three of the last six years.

4

CALCULATING YOUR DISABILITY INSURANCE NEEDS

What you should consider

How much disability insurance should you have? That depends on many things:

- *Lifestyle*: What does your current standard of living cost and how do you feel about having to cut back?
- *Family responsibilities*: How many people depend on your income? Are you a single parent or a non-custodial parent with financial responsibilities? Do you have parents or siblings who depend on your income?
- *Employment flexibility*: Would you be willing and able to change jobs?
- *Debts*: Who would make your mortgage and car loan payments, if your pay cheque stopped? How long would your savings last?
- *Financial resources*: How dependent are you on your pay cheque? Do you have savings, or investments that give you an income? How long would they realistically last?
- *Dreams*: What would happen to your future plans for your family, yourself

or your retirement if your disability lasted long enough to wipe out your savings?

Working it out

The following three worksheets can help you calculate how much disability insurance is right for you. The first worksheet (A) helps you calculate what your income needs would be in the event of a disability. The second and third worksheets (B and C) help you determine what financial resources you would have available.

A. What you need:

Add up your cost of living and see how far you're willing to cut back if you became disabled from an illness or injury. In the first column, list your current monthly expenses (for annual expenses, divide by 12). Then, list your expenses if you became disabled. If you spend a lot for clothes, commuting and lunch, you might think your expenses would be lower if you can't work -- but maybe not. You may need special care, medical equipment or even home renovations.



Expenses	Today	If Disabled
Housing:		
mortgage or rent		
property taxes		
utilities		
insurance		
maintenance & repairs		
Food:		
Transportation:		
public transit		
car loan or lease		
car insurance & license		
gas, parking & maintenance		
Clothing:		
Health Care:		
services & products		
insurance premiums		
Financial Security:		
life insurance premiums		
RRSP deductions		
regular savings		
special savings		
Education:		
Recreation & Vacations:		
Other: (include spending money, debts, business & tax obligations)		
TOTAL MONTHLY EXPENSES		

B. What you have:

This worksheet will help you determine the sources of income you could draw on in the event of a disability. List your current coverage. Be aware that when more than one plan applies, benefits are usually coordinated and capped at 85 per cent or less of your normal earnings.



	Are you covered?	Monthly Benefit (if known)
Government		
Workers' Compensation		
Employment Insurance		
C/QPP		
• self		
• dependents		
Group		
Sick Leave		
Short Term Disability		
Long Term Disability		
Individual		
Special Purpose		
To cover loans		
To cover mortgage		
To cover business overhead		
Critical Illness		
Long Term Care		
Other		

C. Is there Other Money You Could Draw on?

Source	Amount Available	Considerations
Your spouse's income (if applicable)		
Emergency savings		If you saved 5% of your earnings each year, six months of disability could wipe out 10 years of savings.
Investments		Are they locked in? Could you get a fair market price?
RRSPs		Tax will be deducted at source. Amounts withdrawn cannot be replaced.
Borrow against home		May be difficult to do when you are not working and may increase your monthly expenses while you're disabled.
Borrow against life insurance		Reduces death benefit.

THE BOTTOM LINE

How does your coverage compare to your expenses?

Discuss your disability insurance needs with a professional for sound advice.

Applying for group coverage

For group coverage through work, your employer (or union) enrolls you. Usually there are no medical questionnaires to complete if you work for a large company. But if it's a smaller organization, you could be asked to provide medical information or undergo a physical exam. Depending on the outcome of this evaluation, you could be offered or refused coverage for medical reasons. (Employees of a large organization may not have to answer medical questionnaires because, with a large group, the risk is spread over a greater number of people. But with a small group, the insurance company assesses each applicant, since the risk cannot be spread over as many individuals.) The need for medical information may also be required for certain benefit amounts.

Tip

There are rules for the amount of time you have to apply for disability insurance once it is offered. Be sure you understand what those time limits are and what the implications will be if you decide to decline insurance coverage, and then wish to join the plan sometime later.

Applying for individual coverage

For an individual plan, the process is more involved as your application for a policy must first be evaluated by the insurance company. Your insurance agent completes a form with details on your health, job, earnings and hobbies. You may also be asked to undergo a physical exam or provide other medical or financial information.

Many people applying for individual disability insurance benefits are issued policies. A small per cent of applicants are rejected. Some applicants receive the coverage, but with exclusions, higher rates, or no increase in rates but with smaller benefits, occupational ratings for hazardous work, longer waiting periods or shorter benefit payment periods.

Note: Even if you have medical problems, don't assume you cannot be insured. Consult your insurance agent, especially if you've been healthy for several years. Be aware that it's possible to be accepted for life insurance but declined for disability insurance.



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QUESTIONS TO ASK ABOUT YOUR DISABILITY COVERAGE

The following are some questions that you should ask your benefits administrator or insurance agent.

All Plans:

- What percentage of income will be paid? Is there a dollar limit? How is it coordinated with other plans (e.g., other benefits you, your spouse or your dependent children could receive)?
- When do benefits begin? Is the waiting period for accidents different than for illness? Is there a new waiting period for a recurrent disability (i.e., when you go back to work and there is a relapse within a certain amount of time)?
- Are there any limitations or exclusions? (such as a **pre-existing condition clause** that may limit or exclude benefits for any conditions you had before the effective date of your insurance).
- Can coverage be increased without evidence of good health?
- How long do benefits run? Are they taxable? Are they indexed for inflation?
- How is 'disability' defined in the plan?
- Is there a **waiver of premium** to cover your insurance premiums while you're disabled? When does it begin? Does it refund premiums you paid after becoming injured or sick?

Group or association coverage:

- If you change employers or leave the association, can you convert to an individual plan without medical evidence of insurability?

Tip

When you sit down with your benefits administrator or agent, have your list of questions already written out. Ask them to point out, in the benefits booklet or contract, where the answers are to each of your questions and make supplementary notes as needed. Don't be afraid to probe further or ask for clarification if you don't understand something they say or that's printed in the booklet or plan.

- Under what circumstances can the plan be cancelled?
- Are benefits reduced as you grow older?
- Will you be covered during a strike or leave of absence?
- How long will the plan remain in place?
- Is it an insured plan or an Administrative Services Only (ASO) arrangement?
- Is renewal in the plan guaranteed? Will evidence of good health be required?
- Is the price schedule guaranteed? If not, do you know how much the cost could increase?

Individual coverage:

- Are benefits paid if you can work but not at full speed?
- If you are self-employed, can the plan be set up to pay your deferred income taxes and/or cover other business expenses?
- Are there options designed to help you meet other financial objectives such as saving for retirement?

- Is there a refund of premiums offered after you've been a member of the plan for a specified period of time but haven't submitted a claim?



7 FILING A CLAIM

What you need to do

Make sure you understand the claims process and obtain all the forms necessary. Your benefits administrator and/or your insurance agent can advise you and help you make sure the papers are filled out correctly before you submit them. **Make sure you file your claim promptly. There may be implications if you don't submit your claim within a certain amount of time after you become disabled. This time frame will be specified in your policy.** Keep your insurance certificates and benefits booklets handy. A relative or adviser may need to access them to act on your behalf.

The role of your doctor

Your doctor (and/or other primary healthcare providers) will likely need to provide information about your condition. The insurance company may ask for more information or that you be examined by a designated physician. Proof of continuing disability will usually be required periodically throughout your disability.

The role of the insurance company

The insurance company will evaluate your claim based on the provisions of your plan. How does your plan define disability? Is there medical evidence to support that you are disabled according to the terms of your plan? Are you unable to perform your regular occupation, or are you unable to perform any form of gainful employment for which your education, training and experience may have prepared you?

Your right to appeal

If your claim is not accepted or if your benefits are terminated, you have the right to appeal this decision if you don't agree with it. Check the provisions of your plan to find out if there is a time limit to appeal, and make sure you know who and where, in the insurance company, to send your appeal information.

If your appeal is turned down and you believe the decision is unjust, you may wish to contact the OmbudService for Life and Health Insurance to discuss your case.



Consumer Protection

Assuris protects Canadian policyholders in the event that their life insurance company should fail. It provides coverage for disability income policies. Assuris guarantees that policyholders will retain up to \$2,000 per month or 85% of the promised monthly income benefit, whichever is higher. For more information contact the Assuris Information Centre at 1-866-878-1225 toll free, or see the Assuris website at www.assuris.ca.

Consumer Assistance

Consumers with questions or complaints about their life and health insurance company or disability insurance coverage can call the OmbudService for Life and Health Insurance (OLHI) for bilingual information and assistance. The OLHI is an independent service that provides free information on, and assistance with complaints about, life and health insurance products and services.

Call the OLHI from anywhere
in Canada: **1-800-268-8099**
and in Toronto: **416-777-2344**
Website: www.olhi.ca

Pour obtenir de l'aide en
français, téléphonez sans frais,
de n'importe où au Canada, au
1-800-361-8070 (de Montréal,
au **514-845-6173**).

This guide is produced by the Canadian Life and Health Insurance Association Inc. (CLHIA), whose member companies account for 99 per cent of the life and health insurance business in Canada. The industry provides a wide range of financial security products such as life insurance, annuities (including RRSPs, RRIFs and pensions), disability income protection and supplementary health insurance to about 26 million Canadians.



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