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Life events: Disability

Financial checklist

A disability for you or a close family member such as a child will create new challenges for you and your family. Your lifestyle may be affected and you will want to ensure that challenges can be anticipated and dealt with as efficiently as possible. Your advisor can certainly help you in dealing with any financial pressures resulting from the disability and will also have further information about dealing with lifestyle challenges. When meeting with your advisor consider asking the following questions:

- What are the government sources of financial support for those who are disabled?
- Will my individual or group insurance cover me or a disabled child?
- If I have to sell assets to raise money, how should I go about this?
- What sort of services do the provincial or municipal governments provide to the disabled?
- How will a disability affect my tax situation?
- How should I plan for the welfare of my disabled child after I am gone?
- How does a Registered Disability Savings Plan work?
- How does my financial plan change if I become disabled?

Sources of income

When faced with a disability, one of your main concerns will be maintaining your income while you are unable to work. Although you can draw on savings, insurance may be an important source of income. Depending on your situation, there may be several sources of insurance benefits in the case of a disability.

Government disability benefits

Canada Pension Plan (CPP)

Although most people tend to think about CPP as a source of retirement income, there are also benefits provided to eligible participants in the case of disability. If you have been contributing to the CPP through your employment you may be eligible for benefits.

Eligibility – Generally, you need to have contributed to CPP in four of the last six years and your disability needs to be severe and prolonged, indicating that you are unable to do any job.

Amount of the Benefit – The benefit consists of a fixed portion of approximately \$466 per month plus an additional benefit based on prior CPP contributions. The maximum total payment is about \$1,265 per month and is considered taxable income.

Duration of the Benefit – the benefit will last until age 65, the traditional retirement age. At this point the disability benefit will stop but the standard CPP retirement benefit will start which will be essentially the same amount in most cases.

Dependent benefits

If an individual is eligible to receive CPP disability benefits their dependents may also be eligible to receive a monthly benefit of approximately \$225. Eligible dependents would be those under 18 or between 18 and 25 and enrolled full time in a recognized academic institution.

Employment insurance

Employment Insurance or EI is designed to compensate those who have temporarily lost their jobs. Those unable to work due to a disability would typically qualify. The conditions for eligibility will depend on the hours worked in the previous year and will vary across the country depending on the unemployment situation in a region. The general requirements are 420 to 700 hours of service in the past year depending on where you live and the unemployment situation in that area. The benefits will be paid after a two week waiting period for 19 to 50 weeks depending on your place of residence. The maximum benefit is approximately \$450 per week and is considered taxable income. Your advisor will be able to provide you with more information and resources. Alternatively, you can visit a Service Canada office.

Worker's compensation

Worker's Compensation programs are maintained and administered at the provincial/territorial level and the eligibility, amount of benefits and other factors will vary across the country. Your advisor will have additional information or be able to direct you to more information. Here are a few of the basic principles:

- benefits are paid as a result of injuries sustained 'on the job'
- benefits are awarded regardless of fault – the employer and employee waive the right to sue employers fund the system

Group insurance

If your employer provides group insurance, there will probably be the opportunity to receive disability benefits (short term or long term) through the plan. In some cases the company will have opted out of the EI disability program and instead will provide short-term disability coverage to employees. The definition of disability will vary from plan to plan but is usually related to the employee's ability to perform the usual functions of their job. The amount of the benefit will be a specified percentage of pre-disability pre-tax earnings such as 75%.

Individual insurance

Individual disability insurance is the most comprehensive type of coverage and not surprisingly, the most expensive. But if a disability has occurred it could be very beneficial to have it in place. The amount of the benefit will generally be in the range of 60% to 70% of your pre-tax salary. If you were paying the insurance premiums personally (aftertax) then the payments will be received tax-free and the actual amount received after-tax from the insurance should not be appreciably different from that received while you were working. The duration of the benefit will also depend on the specifics of the policy. For example, a policy defining disability as 'own occupation' will continue to pay the specified benefit provided the beneficiary cannot do the particular duties of their own occupation. You should review the details of your disability policy and contact your insurance agent to ensure that you thoroughly understand your rights and privileges.