

Financial underwriting

for disability insurance



What are the advantages of complete financial information?

The advisor and the client benefit in the following ways:

1. Underwriting time may be reduced as less time is spent determining income.
2. Income verification isn't requested during the customer interview if appropriate proof is submitted with the application.
3. Future claims assessment will be handled more efficiently; the chances of a policy being rescinded for material misrepresentation of income are reduced.
4. A full picture of the insured's income will be obtained, possibly allowing for more coverage than anticipated.

What about confidentiality?

Financial evidence is treated with the same degree of confidentiality as medical information. No information is released without signed authorization from the insured.

Why is financial underwriting necessary?

Disability insurance experience shows a close correlation between over insurance and adverse claims results. This makes the accurate assessment of the insured's earned income an important underwriting step.

The amount of insurance allowed needs to provide adequate protection to the insured, but be limited enough to provide sufficient incentive to return to work.

How do you determine the earned (insurable) income?

How a client earns income will depend on whether the individual is:

- a salaried employee
- a commissioned employee
- an unincorporated business owner
- an incorporated business owner

The table in this brochure shows what income is considered to be earned and insurable.

When is financial documentation required?

The table also shows when financial documentation is required and what is acceptable. Policies eligible for the Canada Life™ StartRight disability insurance grad program do not require financial documentation.

What is unearned income?

Unearned income is the net annual income that the individual receives from:

- investments
- rent
- pension
- other sources that will continue during a disability

Generally, the greater of \$24,000 per year or 15 per cent of earned income will be disregarded. Complete the unearned income and net worth questions in the financial information section of the *Application for critical and disability insurance* (F541 CL) if the unearned income exceeds \$24,000 per year or if the insured's net worth exceeds \$5 million.

Financial underwriting requirements

	Earned (insurable) income	Required financial documentation	Monthly income benefit (MIB) amount applied for plus inforce from all sources	Number of years of required documentation
Salaried employee (no ownership)	<ol style="list-style-type: none"> Salary plus Bonus, if earned on a consistent basis 	Pages 1, 2, 3 of Personal T1 General Return, including total income and net income sections*	Up to \$8,000	0**
			\$8,001 and over	1 year
Commissioned employee	<ol style="list-style-type: none"> Commissions minus business expenses plus Bonus, if earned on a consistent basis 	Pages 1, 2 and 3 of Personal T1 General Income Tax and Benefit Return, including total income and net income sections*	Up to \$1,500	0**
			\$1,501 to \$6000	1 year
			\$6,001 and over	2 years
Unincorporated business owner (sole proprietorship/partnership)****	Owner's share of the business's net income (after business expenses and before taxes).	Pages 1, 2 and 3 of Personal T1 General Income Tax and Benefit Return, including total income and net income sections*	Up to \$1,500	0**
			\$1,501 to \$6,000	1 year
			\$6,001 and over	2 years
Incorporated business owner	<ol style="list-style-type: none"> Salary plus Bonus, if earned on a consistent basis plus Owner's share of the net corporate profits*** 	Pages 1, 2 and 3 of Personal T1 General Income Tax and Benefit Return, including total income and net income sections* and complete corporate financial statements	Up to \$1,500	0**
			\$1,501 to \$6,000	1 year
			\$6,001 and over	2 years

Underwriting reserves the right to request financial documentation as deemed necessary on a case by case basis.

*Required financial documentation is pages 1, 2, and 3 of Personal T1 General Income Tax and Benefit Return, including total income and net income sections. If any dividend income, rental income, capital gains or other income is reported in the total income section, the full and complete personal tax return (all pages) should be submitted to avoid the need to go back to the client for the required sections. For farmers, we require all pages of the full Personal T1 General.

**Full disclosure of earned income is required on the application.

***The owner's portion of the net corporate profits will be considered if there are no more than three owners; few employees; and the business has been in operation for several years and has shown a consistent pattern of profits. Net corporate loss may be deducted from other earned income received. Retained earnings will not be considered as earned income. Dividends will not be considered as earned income.

****Business owners and fee for service professionals, who have at least 20 per cent ownership in the company, can enhance the insurable income used to calculate the amount of insurance for which they are eligible by 20 per cent (to annual maximum of \$40,000). To be eligible for the 20 per cent enhancement, all individuals must submit financial documentation.

Notes:

- For future insurability option and future insurability with return-of-premium option (FIO)/FIROP elections, pages 1, 2 and 3 of the most recent year's Personal T1 General Income Tax and Benefit Return, including total income and net income sections are required for amounts over \$8,000 (applied for and inforce from all sources). If the insured is an incorporated business owner, the most recent year's corporate financials will also be required for these amounts.
- If the most recent year's earned income is considerably higher than the prior year's income, or if earned income fluctuates, it will be averaged over the past two to three years to determine the insurable income. If the earned income has been decreasing over the past year or two, unless a reasonable explanation is provided, the application may be declined until earnings have stabilized for a few years. If it is not clear what earned income is to be used, consult with the underwriter.
- Projected earnings or overtime will not generally be insured.
- A "draw" is not considered insurable income.
- Income not declared to the Canada Revenue Agency (CRA)/Revenu Quebec will not be insured (i.e. any undeclared income or personal benefits).
- Other income earned as a result of regular employment (for example, club membership and automobile) **which is reported for tax purposes** may be considered as earned income.
- Depreciation and amortization are considered business expenses and will not be included as earned income (exceptions are made for farmers only).
- For a business owner, income split with a spouse for tax purposes will be considered for disability insurance depending on the spouse's contribution to the business. A full explanation should be supplied, and pages 1, 2 and 3 of the spouse's Personal T1 General Income Tax and Benefit Return, including total income and net income sections will be required. Income splitting questionnaire (F17-8314) should also be submitted with the application.
- Pension and profit sharing contributions made by the company on the insured's behalf can be considered as additional earned income if they cease during a disability.
- If the insured is also an owner of a management or holding company, the financial statement of that company should also be supplied.
- A Notice of Assessment is not an acceptable form of financial documentation.
- For individuals residing in Quebec, a copy of the Personal T1 General Return is required.

The Canada Life Assurance Company, a subsidiary of the Great-West Life Assurance Company and a member of the Power Financial Corporation group of companies, provides insurance and wealth management products and services. Founded in 1847, Canada Life is the country's first domestic life insurance company.

In Quebec, advisor refers to a financial security advisor for individual insurance and segregated fund policies; and to an advisor in group insurance/annuity plans for group products.