



[Back to Roseman: Are your disability benefits at risk?](#)

## Roseman: Are your disability benefits at risk?

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If you have a long-term disability plan at work, you need to ask if the plan is underwritten by an insurance company.

Some companies have moved to a self-insured arrangement, under which they set aside money to pay for their employees' disability benefits.

You may not be aware of this until your employer gets into financial trouble, putting your future payments and living standards at risk.

About 400 Nortel employees were on long-term disability leave when the cash-strapped company filed for bankruptcy protection in 2009.

Last December, they found their disability benefits were cut off — even though Nortel was holding money for these payments in a tax-sheltered health and welfare trust.

The disabled employees received a lump sum from the trust that will cover them for a couple of years — not until age 65, as they had been led to believe.

“Nortel never made it clear for the average person that the benefits were in fact self-insured,” says Josée Marin, a former employee who became disabled in 2002 when she was 33 years old.

The company paid for half her salary if she was on long-term disability, so she opted to buy extra coverage to get up to 70 per cent of her salary. Now she's lost some of her own money in the liquidation.



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The Ontario courts made every self-insured plan totally unsafe, Marin says, referring to the stripping of Nortel's health and welfare trust to pay creditors.

Jerry Dhillon, a disabled employee, learned that the disability benefits were self-insured only after Nortel sought creditor protection.

“This was a shock to me. I thought I was insured through Sun Life. There was never any indication from Nortel or Sun Life that it was otherwise.”

While Sun Life handled administration and communication for Nortel's long-term disability benefits, it didn't cover the payments.

Diane Urquhart, an independent financial analyst, is working for the Nortel disabled workers along with her husband Hugh. They want to publicize the problem of self-insured benefits to avoid complacency by other employees.

So, here's what you need to know to understand the risks.

Q: How many Canadian workers are in employer-sponsored long-term disability plans that aren't underwritten by insurance companies?

A: The total is 1.1 million people — or seven per cent of the workforce — according to the Canadian Life and Health Insurance Association.

Q: Do companies have to disclose their self-insured status to employees?

A: Alberta and British Columbia require disclosure of the self-insured status. But Ontario, where Nortel has its headquarters, hasn't passed such a law.

Q: How much protection do I get if my benefits are underwritten by an insurance company?

A: First, insurance companies are regulated for solvency by the Office of the Superintendent of Financial Institutions. They must set aside reserves to pay for current and future claims.

Second, when insolvent insurance companies are liquidated under the federal winding-up and restructuring act, policyholders come ahead of creditors in the pecking order.

Third, all life insurance companies must become a member of Assuris. This non-profit organization protects policyholders if the company fails and works to keep their benefits flowing without interruption.

Q: If my employer goes under and I lose my self-insured disability benefits, can I get any money from the government?

A: Yes, you can get disability benefits under the Canada Pension Plan. While the maximum is \$1,150 a month, the average benefit is \$820 a month. That's \$10,000 to \$14,000 a year in taxable income.

With CPP disability benefits, you can expect a major cut from what you were getting under your employer's disability plan. (Some company plans provide non-taxable benefits.)

My advice: Ask about your disability benefits — and if you find they're paid by the employer, start shopping around for private coverage.

**Want to learn more about managing your money?** I'm leading a free workshop, Financial Basics, on Tues., Nov. 22, from 5.30 to 9.30 p.m., at Ryerson University's Chang School of Continuing Education, 297 Victoria St., 7th floor, Peter Bronfman Room, in Toronto. You don't need to register in advance. Just show up.

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