RBC Insurance Wage Loss Replacement Plan

Protect your employees and save money

Insurance

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As an employer, you know today's employees are looking for more than just a competitive salary when choosing a company to work for. Benefits, work-life balance and career development opportunities are also important. Many companies see their employees as their most valuable asset — and a comprehensive benefits package is an effective way to attract and retain skilled staff.

When choosing a disability income protection plan for your employees, it is important to look beyond just the income replacement component. You will need a well-rounded program that provides an attractive and cost-effective income replacement benefit for employees. This can be achieved through a Wage Loss Replacement Plan (WLRP) from RBC Insurance®.

What is a WLRP?

A WLRP is an insurance arrangement put in place by an employer to provide disability income protection for specified employees falling within a defined class. The classes are defined by the employer and typically relate to position, salary level or some other logical grouping. Individual disability income protection insurance policies are purchased, paid and owned by the employer and grouped under a common plan to provide comprehensive and flexible disability income protection throughout the employee's working career.

Why implement an RBC Insurance WLRP?

By grouping individual disability income protection insurance policies together to form a WLRP, you would be converting what would normally be a personal expense for the employee into a tax-deductible expense for your business. Combining the tax savings with possible discounts, you can create an exceptional benefit plan for employees in a cost-effective manner. In addition, a WLRP can result in substantial savings when compared to alternative options for providing similar benefits. A summary of the employer and employee advantages that are provided by a WLRP is provided on page 3.

The advantages as an employer

- You'll establish a well-rounded disability benefit program to attract and retain key employees.
- Premiums are a tax-deductible business expense.
- Only two employees in the same class are required to qualify as a "group" plan.
- Costs of the benefit are stabilized, eliminating the uncertainty associated with future claims experience.
- It's more cost-effective for an employer to pay premiums within the context of a WLRP than it is to increase an employee's salary so they can pay the premiums for an individual disability income protection policy.
- A variety of benefits can be selected for different classes of employees.
- Discounts are available if three or more employees participate.
- Guarantee Standard Issue® is available for plans with 10 or more participants.

The advantages for your employees

- Employees receive coverage without having to contribute to the plan.
- Premiums paid by the employer for the employee's policy are not added to the employee's income as a taxable benefit.
- RRSP contributions can be maintained at the time of a disability, as the benefits paid are taxable and considered to be earned income.

- Disability benefits are paid directly to the employee.
- WLRP policies are issued with broader definitions than those available in group insurance plans, thereby providing broader protection.
- Individual policies may be portable in case of termination for any reason, allowing the employee to keep the original discounted WLRP rate.

Ideal candidates

WLRPs are ideal for small- to mid-sized businesses that either do not have enough employees to qualify for a group insurance disability program or are looking for more comprehensive disability income protection than typically offered in group programs. These arrangements are often set up for management classes that are under-insured based on group limits and their salary level.

Business owners and shareholders of corporations can participate in a WLRP if they also act as employees and receive a salary. In order to qualify in the plan as employees, it is necessary to establish that the shareholder-employees do not derive the benefit by virtue of their shareholdings; each case will depend on its own particular facts.

Note: Coverage must be offered to all employees in a given class. If an employee is not deemed to be insurable by RBC Insurance, that employee can be excluded from the group without violating the concept of the arrangement being offered to everyone in the defined class. In such a situation, it is the insurer excluding the employee, not the employer or the plan.

How does it work?

1. The employer defines the classes of employees to be covered and creates a WLRP plan document. (Plan details could be incorporated into the board resolution in step 2.)
2. The Board of Directors passes a resolution to approve the arrangement.
3. The employer applies for RBC Insurance individual disability income protection policies for each employee in the class.
4. The employer will be the owner of the policies and pay all premiums under the arrangement.
5. The premiums will be tax-deductible to the employer but will NOT result in a taxable benefit to the employees if properly structured.
6. Benefits paid upon disability are payable to the employee and are subject to income tax.*
7. If the employee terminates employment or the employer decides to cease providing the benefit, the insurance policy can be transferred to the employee to continue the arrangement subject to the RBC Insurance guideline for transfer of ownership. This will provide continuous protection for the employee throughout their working career.

*Benefits paid to the insured at the time of disability are taxable earned income. RBC Insurance increases the benefits to compensate for taxation during the disability period.

Cost comparison

The cost of a WLRP is typically higher than a group disability plan. This is because the benefit definitions in a WLRP tend to be broader, the program more flexible, and the premiums may be guaranteed. An example of a cost comparison of a WLRP and an individual employee arrangement funded by the employer is provided below and it is further illustrated on page 7.

ABC Company considers an individual arrangement to be better suited for their benefit program objectives. Before making a final decision, a WLRP is compared to two alternatives: 1) Shared cost: the employer pays the entire premium and the employee ends up with a taxable benefit; and 2) Increased salary: the employer pays out an additional salary to cover the cost of a personal disability income protection policy.

Employer funded	Shared cost	WLRP	Increased salary
Monthly benefit	$5,550	$8,550	$5,550
Less: Tax	0	($3,000)	0
Net after-tax employee benefit	$5,550	$5,550	$5,550
Annual premium	$3,051	$4,577	$3,051
Additional compensation required	0	0	$2,496
Total cost funded by employer	$3,051	$4,577	$5,547
Less: Tax saving from deduction of costs	($1,037)	($1,556)	($1,886)
Net after-tax employer cost	$2,014	$3,021	$3,661
Net after-tax employee cost	$1,373	$0	$0

This example is for illustration purposes only. It's based on a 44-year-old male non-smoker who earns $145,000 and is in class 4A. It includes an elimination period of 90 days, benefits continued to age 65, and a COLA and future insurability option. It's assumed that the employee's marginal tax rate is 45%, his average tax rate is 35% and the corporate tax rate is 34%.

The ABC Company reviewed the two alternatives with no employee participation in costs, and found that the WLRP savings amounted to $640 or 21% over the personal policy option, even before any discounts that may be applicable. These savings would continue to grow as they added more employees to the program. As a result of the savings alone, it made more sense to implement a WLRP.

Choosing your disability policy

RBC Insurance offers a variety of individual disability income protection policies suitable for WLRPs. You can select the plan and terms that best meet your benefit objectives.

To find out how you can provide a Wage Loss Replacement Plan for your employees, speak with your insurance advisor.

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