

Disability insurance

# Wage loss replacement plan

Advisor guide

Information accurate as of October 13, 2020

**Not for use with clients**

## Table of contents

<b>What is a wage loss replacement plan?</b> .....	<b>2</b>
<b>Basics of a wage loss replacement plan</b> .....	<b>2</b>
<b>Premium reductions</b> .....	<b>2</b>
<b>Benefits of wage loss replacement plans</b> .....	<b>2</b>
Benefits for the employer .....	2
Benefits for the employee (the insured).....	3
Benefits for the advisor .....	3
<b>Comparing wage loss replacement plan to other forms of individual disability insurance</b> .....	<b>3</b>
Summary of taxation on disability insurance funding methods .....	3
<b>Comparing wage loss replacement plan to group long-term disability</b> .....	<b>5</b>
Group long-term disability .....	5
Individual disability insurance under a wage loss replacement plan.....	5
<b>Who can be insured?</b> .....	<b>6</b>
Employees .....	6
Shareholder-employees (owner-managers).....	7
Partners and sole proprietors .....	7
Incorporated professionals .....	7
<b>Disability insurance plans</b> .....	<b>7</b>
<b>Employment insurance — second payor to a wage loss replacement plan</b> .....	<b>8</b>
<b>Setting up a wage loss replacement plan</b> .....	<b>8</b>
<b>Transfer of ownership</b> .....	<b>8</b>
<b>Taxation</b> .....	<b>9</b>
Tax treatment of wage loss replacement plans .....	9
Monthly disability benefits .....	9
Premium .....	9
<b>Technical interpretations</b> .....	<b>9</b>
Transfer of ownership .....	9
Shareholder benefits .....	10
Inclusion of return-of-premium benefits in wage loss replacement plan policies .....	10
Canada Revenue Agency publications .....	11
<b>To make changes</b> .....	<b>11</b>
<b>Appendix A — Sample board resolution</b> .....	<b>12</b>
<b>Appendix B — Determining cost difference for personally-owned versus wage loss replacement plan disability insurance</b> .....	<b>13</b>
Step 1 — Gather essential information.....	13
Step 2 — Perform calculations .....	13
<b>Appendix C — Sample copy of the wage loss replacement plan rider acknowledgement and agreement</b> .	<b>15</b>

## What is a wage loss replacement plan?

A wage loss replacement plan is an arrangement made between an employer and employees to help provide income during a period of disability. A wage loss replacement plan can be created by grouping two or more individual disability insurance policies under a common plan that is established by the employer for the benefit of employees.

Any employer (corporation, partnership or sole proprietorship) may establish a wage loss replacement plan for its employees. In order to ensure that the Canada Revenue Agency recognizes the plan as valid, certain steps and guidelines should be followed. This advisor guide will provide a step-by-step process to follow, as well as highlight key advantages and features of wage loss replacement plans.

### Basics of a wage loss replacement plan

- Two or more employees must participate to establish a wage loss replacement plan.
- The employer is the owner of the disability policy and pays the premium. If a Health and Welfare trust is used to administer a wage loss replacement plan, the trust would be the owner.
- The premium is tax-deductible for the employer.
- The premium (except relating to accidental death and dismemberment benefit) is not included as an employee benefit in the income of the employees.
- Disability benefits are paid to the employee and will be taxable; therefore, a higher maximum issue limit will apply. Lump-sum accidental death and dismemberment benefit is not taxable.
- Only the employee's salary will be calculated as earned income in determining the wage loss replacement plan insurance coverage. This includes salary, wages, commissions and bonuses.

### Premium reductions

Disability policies issued under a wage loss replacement plan will qualify for a wage loss replacement plan 5 % premium reduction. The premium reduction is only available at issue. Premium reduction will be applied to new policies issued under a future insurability option rider, as long as the premium reduction criteria continues to be met. This premium reduction may also be combined with the following premium reductions, if applicable:

- Premier value premium reduction - 10%
- Group complements premium reduction — 10 %
- Upgrader plus premium reduction — 5 %
- StartRight disability insurance grad program — contact your regional marketing centre for details

Refer to the disability insurance advisor guide (2781 CAN) for more information regarding these premium reductions.

### Wage loss replacement plan benefits

#### Benefits for the employer

- Helps protect against the cost of paying salary to disabled employees
- Excellent employee benefit/employee retention strategy
- Premium is a fixed cost and is treated as a tax-deductible business expense
- Employer selects employees (designated by class) to be covered
- Flexible choice of benefits for different categories classes of employees
- Disability benefits are paid and administered by the insurance company

## Benefits for the employee (the insured)

- Employer pays the cost of the premium
- Premium (except relating to accidental death and dismemberment (AD&D) benefit) is not a taxable benefit to the employee
- Provides individual non-cancellable disability coverage, which may be portable if employment terminates
- Clear definitions of disability and ability to add partial or residual disability benefits, as well as other lifestyle protection plan contract provisions and optional riders

## Benefits for the advisor

- Multiple policies with one sale
- Useful prospecting concept for the business market
- Contact and ongoing access to employees involved in the wage loss replacement plan

## Comparing wage loss replacement plan to other forms of individual disability insurance

Three methods to fund an individual disability policy are:

1. Personally paid, personally owned
2. Employer paid, personally owned
3. Wage loss replacement plan – employer paid, employer owned

Wage loss replacement plan is the most cost-effective of these methods. The following chart summarizes the tax treatment of each option.

### Summary of taxation on disability insurance funding methods

Premium payment method	Premium tax-deductible?	Premium included in employee's taxable earnings?	Tax on monthly disability benefit?
Personally paid, personally owned	No	No	No
Employer paid, personally owned	Yes, by the employer (since it is reported as part of the individual's personal income)	Yes (reported on the individual's T4 as a taxable benefit)	No
Wage loss replacement plan	Yes (by the employer)	No (except relating AD&D benefit)	Yes (except for lump-sum AD&D benefit)

**Example** — to illustrate how the taxation of each payment method works when applied:

Jane is a shareholder-employee of ABC Ltd. She wants to know how much it would cost to provide disability coverage for herself under each of these methods. Jane is also interested in a strategy to insure one or more of the key employees of the corporation as part of its retention strategy. As an owner-manager, we must look at her employment earnings for consideration under a wage loss replacement plan, and not any corporate profits or other benefits she enjoys as an owner of the business.

In reviewing the application, noted is the following:

- Jane is a female, 40-year-old, non-smoker, occupation class 3A
- She earns \$80,000 per year in employment income
- Her average tax rate is 24 % and her marginal tax rate is 39 %
- Jane is eligible for either a \$4,400 tax-free monthly disability benefit or a \$5,750 taxable monthly disability benefit

Two questions must be answered for the client:

1. Are these two different (non-taxable and taxable) monthly benefits really comparable?
2. Which of the three funding methods is the most cost-effective?

**1. Non-taxable versus taxable disability benefit**

Since the monthly disability benefit under a wage loss replacement plan is taxable, then the maximum issue limit can be grossed-up in order to help compensate for the tax payable. Under a wage loss replacement plan, an employee can be provided with approximately the same after-tax income as he or she would receive if the policy is personally owned and benefits are non-taxable.

Premium payment method	Maximum monthly issue limit	Tax on monthly disability benefit (24 % average tax rate)	Total after tax disability income
Personally paid, personally owned	\$4,400	\$0	\$4,400
Employer paid, personally owned	\$4,400	\$0	\$4,400
ABC Ltd. pays under a wage loss replacement plan	\$5,750	\$1,380	\$4,370*

\* Example assumes Jane is participating as an employee, not as a shareholder. It also assumes there are no other sources of income during disability. The taxable wage loss replacement plan income may cause other sources of income to be taxed at a higher rate than if the client was receiving non-taxable disability insurance benefits. Therefore, the overall after-tax income from all sources could be lower with a wage loss replacement plan.

**2. Total pre-tax costs to employer**

The employer will want to compare the cost of providing disability income to an employee for a personal policy to the cost of providing income by setting up a wage loss replacement plan. Participants in wage loss replacement plans are often executives who are also shareholders of the corporation. The example\* below provides this form of comparison for Jane.

The policy has a \$4,400 monthly benefit, 90-day waiting period, to age 65 benefit period and the following optional riders — regular occupation period extender, residual disability and cost-of-living (maximum 8 % per year). In the wage loss replacement plan example, the monthly benefit amount has been grossed-up to \$5,750 to allow for taxation of the disability benefit and the premium includes the wage loss replacement plan premium reduction.

Method of funding	Personally paid, personally owned	Employer paid, personally owned	Wage loss replacement plan
Monthly disability benefit	\$4,400.00	\$4,400.00	\$5,750.00
Annual premium costs	\$3,265.08	\$3,265.08	\$4,041.46**
Additional salary needed to pay tax (assumes 39 % marginal tax rate)***	\$2,087.51	\$2,087.51	n/a
Pre-tax costs to the employer			
• salary to provide benefit	\$5,352.59	\$2,087.51	\$0.00
• premium		\$3,265.08	\$4,041.46**
• <b>total</b>	<b>\$5,352.59</b>	<b>\$5,352.59</b>	<b>\$4,041.46**</b>

\* Based on standard rates quoted with Canada Life Concourse illustration software.

\*\* Includes a 5% wage loss replacement plan premium reduction.

\*\*\* For a personally owned policy, assumes the company will provide additional funds (i.e. salary) so that Jane has money to pay the premium on an after-tax basis where the policy is personally paid, or the taxes on the taxable benefit if the policy is employer paid.

See **Appendix B** for a two step process to help you determine the cost difference for personally owned versus Wage loss replacement plan disability insurance.

## Comparing wage loss replacement plan to group long-term disability

The key to a successful sale when comparing a wage loss replacement plan using Canada Life's lifestyle protection plan to group disability insurance is in the relative strength of policy features.

### Group long-term disability

- **Advantages**
  - May be lower cost than individual disability insurance. Group long-term disability is usually structured to take second payor status to employment insurance and some other benefits. When this is considered, its cost advantage is not as attractive.
  - May be easy to set up and administer.
- **Disadvantages**
  - Premium and policy benefits may change from year to year.
  - The employee may lose the benefit if employment is terminated.
  - Definitions are often more restrictive than Canada Life's lifestyle protection plan.
  - Generally, no partial or residual benefits are available.

### Individual disability insurance under a wage loss replacement plan

- **Advantages**
  - Non-cancellable contract with guaranteed premium and policy benefits
  - Employee may take ownership of the contract if employment terminates
  - Definition of disability designed to better suit the employee's needs.
  - Access to optional benefits, such as partial and residual benefits, cost of living, etc.
- **Disadvantages**
  - Lifestyle Protection plan is generally more expensive than group long-term disability given similar provisions but comes with greater flexibility.
  - Each individual will be underwritten at time of application and the policy may be issued with exclusions or coverage may be declined.

## Who can be insured?

Employees, including shareholder-employees, of corporations may be covered under a wage loss replacement plan. In the case of partnerships or sole proprietorships, only employees may be covered.

### Employees

Employees of corporations, partnerships or sole proprietorships may be insured under a wage loss replacement plan. To qualify, the employer named as owner of the policies under the wage loss replacement plan must pay the employee's salary. Also, coverage must be offered to all employees within a select class (e.g. administrative, senior executive, etc.). All employees within that class must have a common factor, such as job classification or duties and all such employees must be offered the opportunity to participate in the plan. The level of benefit should be similar for all employees insured within that class. Where some of the insureds are both shareholders and employees, coverage must be provided to the insureds in their capacity as employees, not shareholders.

## **Shareholder-employees (owner-managers)**

Since a wage loss replacement plan must be established for employees only, a shareholder-employee should only be insured for the salary he or she receives from the corporation. If a shareholder-employee has other types of income, such as corporate profits or dividends, the non-salary income will not qualify under a wage loss replacement plan but should be considered for insuring under an individually-owned disability insurance policy.

The Canada Revenue Agency may determine that a business owner may not qualify as an employee for the purposes of the wage loss replacement plan if he or she receives benefits from the corporation in his or her capacity as a shareholder. The Canada Revenue Agency presumes the benefit is received as a shareholder unless there is evidence to the contrary. The Canada Revenue Agency may examine whether the level of benefits paid under the policy and the distribution of the cost of the premium between the employer and the shareholder-employee are the same as they are for all other arm's-length employees covered under the plan.

Where the individuals are the only employees of a corporation and are also shareholders, this does not mean a benefit is received as a shareholder. If it is reasonable to conclude that the benefit has been provided as part of a reasonable remuneration package, the Canada Revenue Agency may consider it to be received as an employee.

If the owners are included in the plan as participants and other employees in the class are excluded, the Canada Revenue Agency may determine that the disability insurance benefits are provided as shareholder benefits and not as employee benefits. The determination of whether benefits are provided by virtue of employment or shareholdings is subject to interpretation.

## **Partners and sole proprietors**

Partners and sole proprietors are not eligible to participate in wage loss replacement plans, only their employees. However, they may still be eligible for individual disability insurance.

## **Incorporated professionals**

Where professionals are allowed to incorporate, the professional corporation can establish a wage loss replacement plan for its employees. The professional may qualify for coverage under a wage loss replacement plan as an employee of the corporation, subject to the same considerations as noted under shareholder-employees above.

## **Disability insurance plans**

The following plans are available for use with wage loss replacement plan:

- **Lifestyle Protection Plan**
- **Independence Plan**



## Employment insurance — second payor to a wage loss replacement plan

In the event of a disability claim, employment insurance may become second payor in relation to a wage loss replacement plan. Employment insurance benefits would be reduced on a dollar for dollar basis by any benefits received from the individual policy sold under a wage loss replacement plan. This means that individuals covered by employment insurance can have any waiting period on the total amount of coverage and would not have to offset any amount for 120 days, as may be required with individually-owned disability insurance.

### Setting up a wage loss replacement plan

The set-up of a wage loss replacement plan can be broken down into five simple steps.

1. Select the class or classes of employees who will be covered.
2. Determine the prior year (T4) insurable income for each employee to be covered. Remember that if your proposed insured list includes shareholder-employees, you must consider the eligibility restrictions which may apply and ensure only their salary is insured under the wage loss replacement plan.
3. Determine the monthly disability benefit amount, waiting period, benefit period and optional riders for each class of employee.
4. The employer should consult with its professional tax and/or legal advisor to determine the appropriate documentation for the plan. Without a documented plan, the tax treatment highlighted below may not be allowed by the Canada Revenue Agency if the employer is audited.
  1. In the case of a corporation, a board resolution is commonly used (sample included in Appendix A). If a wage loss replacement plan is to be administered through a formal trust arrangement, a Health and Welfare Trust document would need to be drafted and signed by the parties.
  2. For partnerships or sole proprietorships, the documentation may take the form of an agreement between the employer and employees.
  3. This documentation is the responsibility of the employer and its legal advisor. Canada Life is not a party to any agreement.
5. Complete applications for each employee to be covered. The application contains an acknowledgment and agreement that clearly summarizes some important details of the wage loss replacement plan. See Appendix C for an example of the acknowledgment and agreement. The application must show the employer or Health and Welfare Trust as the owner. Premium must be paid by the owner (corporation, Health and Welfare Trust, partnership or sole proprietor).

### Transfer of ownership

An employee may leave the employer and want to assume ownership of a policy that was issued under a wage loss replacement plan.

In general, the following conditions will apply:

1. The owner will have to transfer ownership of the policy to the insured in writing (as completed in the application for changes to the wage loss replacement plans).
2. Canada Life will review the request for transfer. If approved, in accordance with the rider included with the policy, Canada Life reserves the right to reduce the monthly disability benefit, lengthen the waiting period, or both in accordance with Canada Life's summary of issue and participation limits then in effect, or that were in effect on the policy date.
3. The monthly disability benefit would not be less than the non-taxable equivalent of the original taxable benefit as published in our maximum issue and participation limit table at that time.
4. With financial income verification, Canada Life may undertake an underwriting review to determine if the applicant may qualify for a similar monthly benefit amount albeit on a non-taxable basis.

## Taxation

### Tax treatment of wage loss replacement plans

The current tax treatment for a wage loss replacement plan is outlined below.

*The tax information provided in this guide is of a general nature only and is based on current Canadian tax legislation and interpretations for Canadian residents and should not be relied upon as providing legal or tax advice. Clients are encouraged to consult with their own professional tax and/or legal advisor about their particular circumstances.*

### Monthly disability benefits

The monthly disability benefits paid to a disabled insured employee are considered taxable income to the insured. However, the benefit amounts available at time of application may be grossed-up to help offset taxes. Canada Life will tax report all disability benefits received under a wage loss replacement plan.

Note: A lump-sum accidental death and dismemberment benefit is not taxable.

### Premium

The premium for a policy under a wage loss replacement plan is paid by the employer and deductible as a business expense. The premium (except for accidental death and dismemberment benefit) is not included as an employee benefit in the income of the employees.

Premium paid by an employer for an accidental death and dismemberment rider is considered a taxable employee benefit.

## Technical interpretations

### Transfer of ownership

If a disability insurance policy is transferred out of a wage loss replacement plan to the individual insured, the employer may have conferred on the individual a taxable employee benefit pursuant to paragraph 6(1)(a) or shareholder benefit pursuant to subsection 15(1) of the income tax act (Canada) ("the Act"). In such a case, the fair market value of the policy, if any, would have to be computed by the employer and reported as a taxable benefit.

In technical interpretation #9411015 dated July 12, 1994, a case involving individual disability insurance policies issued under a wage loss replacement plan, the Canada Revenue Agency stated where a policy was transferred to an employee after his or her coverage under the plan was discontinued:

“... the former employee would be required to include in income any benefit arising as a result of the transfer of the ownership of the policy. Such a benefit would arise where the level of benefits or amount of premium payable for the policy is favorable in relation to that which the individual could purchase separately.”

The Canada Revenue Agency also confirmed that:

“any future benefits received under the policy after the transfer had occurred would not be required to be included in income under paragraph 6(1)(f) of the Act provided that such benefits were not in any way conditional on coverage under the policy during the period of participation in the employer's plan.”

In respect of life insurance, the Canada Revenue Agency has provided guidance that may be instructive in the valuation of a disability insurance policy at the time of transfer. In the context of a business valuation, the Canada Revenue Agency has indicated in paragraph 40 of Information Circular IC 89-3 “policy statement on business equity valuations” dated August 25, 1989, the factors to be considered include: cash surrender value, policy loans, face value, state of health of the insured and his or her life expectancy, conversion privileges, other policy terms and replacement value.

Although similar factors have not been provided in the case of a transfer of a disability insurance policy, product features such as a return of premium benefit should be considered. This approach would be similar to that expressed by the Canada Revenue Agency in technical interpretation #5-8067 dated June 28, 1989, involving a situation where a life insurance policy was transferred prior to the time when the policy had a cash value (which occurred in the 20th year of the policy). The Canada Revenue Agency stated its view on the matter as follows:

“The value to the employee or shareholder would be determined by reference to the fair market value of the policy at the time of transfer having regard to all pertinent information such as; the age and health of the individual, the paid-up option in the policy, the cash surrender value of the policy arising in later years (and presumed to have been earned in earlier years) and the total amount of premium paid by the corporation on the policy to the date of transfer.”

## **Shareholder benefits**

Regarding shareholder-employee participation in wage loss replacement plans, the Canada Revenue Agency was asked for its position on this issue at the 1999 Annual Meeting of the conference for advanced life underwriting. Its response included the following comment:

"In examining a particular case, a negative answer to one or more of the following queries would suggest that the benefits are provided to the recipient in his or her capacity as a shareholder:

- (a) Is participation in the plan made available to all employees, including those who are neither a shareholder nor related to a shareholder? If not, is there a logical reason to exclude some employees?
- (b) Are the benefits available under the plan the same for all employees of the business, in their nature, quantum and cost-sharing ratio?
- (c) When all participating employees are also shareholders, is the benefit coverage similar to coverage given to non-shareholder employee groups for similar size businesses who perform similar services and have similar responsibilities? For example, if wage loss replacement plans generally provide benefits of 70% of the disabled employee's salary and wages after a waiting period of 13 weeks, a similar plan for a company whose employees are all shareholders would be considered a benefit of employment. However, if the level of benefits was significantly higher for the plan in which all participating employees are shareholders or if the waiting period was less, it would be an indication that the coverage was being provided to the employee-shareholders in their capacity as shareholders. However, this is not to say that coverage must be limited to 70% of salary and wages."

## **Inclusion of return-of-premium benefits in wage loss replacement plan policies**

In technical interpretation 2012-0435761C6, the Canada Revenue Agency stated that the existence of benefits other than accident and sickness benefits, such as return-of-premium, would disqualify the plan from being treated as a wage loss replacement plan and the employer paid premium would be a taxable employee benefit under paragraph 6(1)(a) of the Income Tax Act. It does not matter whether the return-of-premium benefit is payable to the employer or employee.

Clients should be strongly encouraged to consult their tax advisors before deciding to add the return-of-premium benefits in a wage loss replacement plan.

Canada Revenue Agency technical interpretations are not law and are not binding on the Canada Revenue Agency. The interpretations reflect the Canada Revenue Agency's view when the interpretation was written and those views can change over time.

## Canada Revenue Agency publications

The following Canada Revenue Agency publications provide further background:

1. Income Tax Folio S2-F1-C1  
Health and welfare trusts  
This Income Tax Folio replaces former interpretation bulletin IT-85-R2 and can be obtained through the Government of Canada website at [Canada.ca](http://Canada.ca).
2. Interpretation bulletin IT-428  
Wage loss replacement plans  
The bulletin can be obtained through the Government of Canada website at [Canada.ca](http://Canada.ca).

## To make changes

The following changes can be made to a wage loss replacement plan by completing the applicable portions of the Application for changes to wage loss replacement plans F525 (CL):

- Add existing disability insurance policy to new wage loss replacement plan
- Add existing disability insurance policy to existing wage loss replacement plan
- Transfer existing disability insurance policy between wage loss replacement plans
- Withdraw from wage loss replacement plan
- Change business name

Send the completed form to the living benefits client service department at head office for processing. The change form is available on [RepNet](http://RepNet).

## Appendix A — Sample board resolution

### Board Resolution Authorizing establishment of an accident and sickness plan

WHEREAS, in the common interest of \_\_\_\_\_ (hereinafter called the "Corporation") and certain of its employees, it is deemed desirable that an Accident and Sickness Plan (hereinafter called the "Plan") be set up to provide an income during disability to the Corporation's key employees;

NOW THEREFORE BE IT RESOLVED:

That Individual Disability Insurance policies will be purchased for each of the covered employees from The Canada Life Assurance Company. Benefits as outlined in the policies will be payable during disability as defined in the policies.

The Corporation will own and pay the premiums on the policies involved in the Plan and benefits will be payable directly to the employee.

The sample shown above is generic in nature and is provided for discussion and illustrative purposes only. If provision is made for transfer of ownership in the board resolution, certain restrictions may apply as per the terms of the disability insurance contract and related documentation. Clients are encouraged to consult with their own professional tax and/or legal advisor about their particular circumstances.

**Note:** Set out below is a sample form of certification. The certification must include the signature of one signing officer, title, corporation's name or seal.

CERTIFIED a true and correct copy of a Resolution passed \_\_\_\_ day of \_\_\_\_\_ Year \_\_\_\_.

Name of Corporation: \_\_\_\_\_  
Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## Appendix B — Determining cost difference for personally-owned versus wage loss replacement plan disability insurance

### Step 1 — Gather essential information

Annual taxable income	\$
Personal marginal tax rate	%
Corporate tax rate	%
Monthly disability benefit amount (non-taxable) Annual premium	\$ \$
Monthly disability benefit amount (taxable) Annual premium (should include a 5% Wage loss replacement plan premium reduction)	\$ \$

### Step 2 — Perform calculations

	Calculation	Personally-owned	Wage loss replacement plan
Monthly disability benefit			
1 Annual premium			
2 Add: the amount the employer may choose to pay the employee to help ensure after-tax income amount covers the premium	$\left( \frac{\text{Annual premium}}{1 - \text{Marginal tax rate}} \right) - \text{Annual premium}$		
3 Cost to the employer	(1) + (2)		
4 Less: Tax recuperated by the employer	(3) x Corporate tax rate		
5 Annual net cost to the employer	(3) – (4)		
<b>Annual net savings with wage loss replacement plan = \$ _____</b>			

**Example:** Peter is a 44-year-old male, non-smoker, standard risk, who earns \$100,000 per year, with a marginal tax rate of 44 %. He is an executive with an occupation class 4A. He works for XYZ Co., which has a corporate tax rate of 15 %. If we assume he wants the maximum available issue limit on a lifestyle protection plan with the following features and optional riders — 90-day waiting period, benefit period to age 65, own occupation, residual disability, future insurability option (\$5,000), cost of living (maximum 8 % per year) and expense equalizer, using Concourse illustration software, Zoom version 15.2, we can fill in the tables accordingly:

Annual taxable income	\$100,000
Personal marginal tax rate	44%
Corporate tax rate	15%
Monthly disability benefit amount (non-taxable) Annual premium	\$5,200.00 \$2,646.39
Monthly disability benefit amount (taxable) Annual premium (should include a 5% wage loss replacement plan premium reduction)	\$7,075.00 \$3,365.15

	Calculation	Personally-owned	Wage loss replacement plan
Monthly disability benefit		\$5,200.00	\$7,075.00
1 Annual premium		\$2,646.39	\$3,365.15
2 Add: the amount the employer may choose to pay the employee to help ensure after-tax income amount covers the premium	$\left( \frac{\text{Annual premium}}{1 - \text{Marginal tax rate}} \right) - \text{Annual premium}$	\$2,079.31	n/a
3 Cost to the employer	(1) + (2)	\$4,725.70	\$3,365.15
4 Less: Tax recuperated by the employer	(3) x Corporate tax rate	\$708.86	\$504.77
5 Annual net cost to the employer	(3) – (4)	\$4,016.84	\$2,860.38
<b>Annual net savings with a wage loss replacement plan = \$1,156.46</b>			

This example is for illustration purposes only. If a policy is applied for and issued, its terms may differ from those illustrated.

## Appendix C — Sample copy of the wage loss replacement plan rider acknowledgement and agreement

### 18. Wage loss replacement plan rider acknowledgement and agreement (disability insurance)

If applying for disability income insurance intended to form part of a wage loss replacement plan

In this section, *you* and *your* refer to the owner. *We*, *our* and *us* refer to The Canada Life Assurance Company.

By signing in section 20, you and the proposed insured understand and agree to the following:

- You intend for the individual disability insurance you've applied for to form part of a group sickness or accident plan acceptable to the Canada Revenue Agency (CRA) for income tax purposes. This is called a wage loss replacement plan. If this plan does not already exist, you must implement it immediately.
- You are responsible for implementing and maintaining the wage loss replacement plan in compliance with all CRA requirements, including the requirement that any monthly benefit is payable to the insured person.
- If a policy is issued, you are responsible for paying the premium due under the policy. We will report any monthly benefit amount payable as taxable income of the insured person.
- If a wage loss replacement plan is not properly implemented or maintained:
  - The CRA may retroactively deny claiming the premium as a tax deductible expense.
  - The CRA may require the insured person to retroactively include the amount of premium paid as a taxable employee or shareholder benefit in calculating his or her personal income taxes.
  - Interest and penalties may apply.
- A wage loss replacement plan rider with terms as set out below will form part of any policy issued.

WAGE LOSS REPLACEMENT PLAN RIDER	
<b>Terms Used</b>	This rider is issued by us as part of the policy to which it is attached and is subject to the provisions of the policy, except as may be modified or amended by this rider. Any modification or amendment made by this rider is only in effect while this rider is in force. The terms used in this rider have the same meaning as indicated in the policy, unless otherwise specified or required in the context of the following rider provisions.
<b>Rider Date</b>	The Rider Date will be the same as the Policy Date, if this rider is included in the policy when it is first issued by us. Otherwise, the Rider Date will be such later date as established by the amendment to the contract to include this rider. The Rider Date is used to determine duration, premium due dates, anniversaries and your age with respect to this rider.
<b>Wage Loss Replacement Plan</b>	<b>Wage Loss Replacement Plan</b> means an arrangement of individual disability insurance policies, properly implemented and maintained by the Owner, in order to constitute a group sickness or accident plan acceptable to the Canada Revenue Agency for income tax purposes.
<b>Return of Premium Benefit</b>	Despite anything to the contrary, if a rider providing for a return of premium benefit is in effect, any return of premium benefit payable in cash under the terms of such rider will be paid to the Owner.
<b>Notification to Canada Life</b>	The Owner must immediately notify us in writing if you are not, or cease for any reason, to be a member of a Wage Loss Replacement Plan.
<b>Evidence</b>	Upon notification to us of such an event, we reserve the right to require evidence, in a form satisfactory to us, of your earnings and eligibility for coverage under the Employment Insurance Act.
<b>Reduction in Benefits</b>	Despite anything to the contrary including, but not limited to, the terms of the Non-Cancellable provision, we reserve the right, based on any such evidence received, to: <ul style="list-style-type: none"> <li>a) reduce the Monthly Disability Benefit, lengthen the Waiting Period, or both, in accordance with our published summary of issue and participation limits then in effect, or that were in effect on the Policy Date, whichever is more favourable to you; and</li> <li>b) reduce the premium, if applicable, to the amount that we would have required for any such reduction as determined under this provision. We will refund the excess premium paid, if any.</li> </ul> Any change to the policy made in accordance with this provision will become effective as of the date of notification to us. We will notify the Owner of any such change.
<b>Overpayment of Benefits</b>	If you are Disabled on the date of notification to us, you must repay to us the amount of any Monthly Disability Benefit paid in excess of the amount that would otherwise have been paid in accordance with the Reduction in Benefits provision. We will notify you of any such amount.
<b>Rider Termination</b>	Subject to the provisions of the basic policy and any riders and benefits included in the contract, this rider will terminate on the earlier of the following dates: <ul style="list-style-type: none"> <li>a) the date of your death; and</li> <li>b) the date on which the policy terminates for any other reason.</li> </ul>



For more information about our products,  
visit Canada Life RepNet™ (<http://repnet1.canadalife.com>)  
or contact your MGA, branch office or a Canada Life  
product solutions centre nearest you:

British Columbia ..... 1-800-663-0413  
Mid-West..... 1-888-578-8083  
GTA/Ontario ..... 1-877-594-1100  
Quebec/Atlantic ..... 1-800-361-0860

