Disability Buy Sell

Insurance advisor guide

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Product type

Business protection

Sales tip

Do your clients' partners or shareholders have spouses or other dependents? Who would take care of these individuals if they were diagnosed with a catastrophic injury or illness? The partner or shareholder may incur substantial additional expenses, not to mention the additional time off that they may require to care for their loved one. Our Critical Illness Recovery Plan™ policy, with its optional Functional Independence rider, may protect individuals in situations like these.

Purpose and market

The policy is designed primarily for partnerships and professional corporations comprised of two to five principals. Consideration may also be given to corporations and partnerships with six to 10 principals. The Disability Buy Sell policy is most effectively used with partnerships and closely held corporations that employ less than 50 people, have up to $10 million in annual sales and are in stable industries.

The best prospects include:

- accounting firms
- advertising agencies
- architectural firms
- high-tech and computer firms
- medical practices and clinics
- engineering firms
- law practices
- employment agencies
- small manufacturers

Public corporations, husband-wife combinations, parent-child combinations and other relationships that do not meet the "arm's length" test are ineligible for the Disability Buy Sell policy.

The business must have been operating, or the partners must have been associated, for at least three years prior to application. The business must also have a net worth of at least $50,000.

The owner of the policy may either be the corporation or partnership (entity purchase), or alternatively each owner can own a policy on each of the other owners (cross purchase). The entity purchase may be preferred when there are more than two owners involved as a means of reducing the number of issued policies. The existence of a formal Disability Buy Sell agreement is not required at time of issue but will be required at time of claim.

Applicants applying for Disability Buy Sell coverage should have Individual Income Protection coverage in force or should be in the process of applying for such coverage with RBC Insurance®. Furthermore, the partners of the business should be covered by Buy Sell Life to protect the business from an insured partner's/partners' death(s).

All applicants must be active in the business and all eligible partners must apply for Disability Buy Sell coverage or have Disability Buy Sell coverage already in force. We do not insure one-person buy sell situations.

Renewability

The Disability Buy Sell policy offers coverage until the earlier of:

- the insured partner's 64th birthday; or
- the date the insured partner terminates active full-time employment with the business entity for any reason other than total disability; or
- the date the aggregate benefit limit is paid; or
- the date one person owns more than 90% of the business entity.

Both premiums and contract provisions are non-cancellable and fully guaranteed while the coverage is in place.

Underwriting guidelines

Occupational classes: 4A, 3A, 2A

Issue ages: 18 to 60

Minimum issue limits: Monthly installments — $45,000 lump sum

Flexible funding — $25,000 lump sum

Maximum issue limits:

Elimination period	Maximum purchase amount if at least $450/month of Individual Income Protection with a maximum elimination period of 120 days is in force with RBC Insurance	Otherwise
360 days	$2,000,000	$1,000,000
540 days	$2,000,000	$1,500,000
720 days	$2,000,000	$2,000,000

For the monthly installment payout option, monthly payments can be calculated by dividing the maximum business purchase amount by 60.

Issue limits for Disability Buy Sell are over and above the regular limits for Individual Income Protection. Also, Disability Buy Sell will not be approved if the Individual Income Protection in force exceeds the issue and participation limits, or the applicant is overinsured under any other Individual Income Protection.

Elimination periods: 360, 540, 720 days.

Disability Buy Sell coverage for all insured partners of the partnership or corporation must have the same elimination period.

Please refer to the Underwriting Requirements section of this profile for additional information.

Definition of disability

Total disability means that:

- an injury or illness prevents an insured partner from performing the essential duties of his/her regular occupation; and
- he/she is receiving regular and personal care of a physician.

Policy benefits

Payout options

Two payout options are available at time of purchase:

Level monthly installments

This economical payout option provides for benefits to be paid in 60 equal, non-interest-bearing installments. Payments will cease in the event of the death of the disabled insured. However, if the amount payable is less than the maximum business purchase amount, we will refund the amount by which the premium paid during the last 12 months exceeds the premium which would have been payable for the business purchase amount during that time. Level monthly installments provide the security of knowing that a consistent benefit flow is available to fund a buyout.

Flexible funding

Flexible funding means that there is a choice of receiving one lump sum amount, a series of installments or a partial lump sum followed by a series of installments. Installments will be paid in equal monthly amounts over a period not exceeding 10 years. Any portion of the benefit that will be paid in future installments will include interest earned at the rate of secure Canadian Government Bonds, and the interest rates will be adjusted annually. Although this payout option must be selected at time of application, the payout method is selected at time of disability. Benefits paid under the flexible funding payout option will continue if the disabled insured dies before all installments have been made, ensuring the buyout is completed as planned. This payout option maximizes the financial advantages and spreads out the tax consequences of a buyout.

Buyout expense benefit

In the event that the insured partner is totally disabled and satisfies the elimination period, we will reimburse the actual buyout expense incurred according to the Disability Buy Sell agreement and the value of the business at time of claim, not to exceed the maximum business purchase amount.

The benefit is payable after the elimination period or when the buyout expense is incurred, whichever is later. A Disability Buy Sell agreement must be in effect when total disability begins. Once payment begins, payment will continue whether or not the insured partner remains totally disabled and as long as the owner continues to incur the buyout expense. If the actual buyout expense benefit paid is less than the maximum business purchase amount, RBC Insurance will refund the difference in premium.

Legal/accounting fee benefit

The owner will receive up to $1,000 for the legal and/or accounting fees necessary to perform the Disability Buy Sell agreement. This benefit is not included in the maximum business purchase amount and is payable after the elimination period or when the expense is incurred, whichever is later.

Accumulation of days

Periods of total disability from the same or related causes, separated by six months or less, will be accumulated and considered continuous to satisfy the elimination period.

Waiver of premium

After the insured has been totally disabled for 90 days, RBC Insurance will pay premiums that come due while the insured is totally disabled. RBC Insurance will refund premiums paid during those first 90 days. Waiver definition for the rider is determined by the base policy definition to which it is added.

Transfer privilege

If the policy terminates because the insured partner stops active, full-time work in the business, a new policy with identical coverage will be issued without medical underwriting if:

- the insured partner is under age 55 when coverage terminates;
- the insured partner is not totally disabled and has not received benefits under the policy;
- the insured partner begins full-time work in a business and owns no more than 90% of that business;
- the new business and the insured partner meet our eligibility and financial underwriting requirements; and
- the proposed new owner of the policy and the insured partner complete an application for coverage within 90 days after the policy terminates.

The maximum business purchase amount will be either the lesser of the amount of the insured partner's interest in the new business or the maximum business purchase amount of the policy. The elimination period of the new policy will be greater or equal to that of the current policy. We will use original age and class for the new Disability Buy Sell policy.

Any exclusions to and/or ratings on the original policy apply to the new policy.

Reduction of benefits at age 60

The maximum business purchase amount is payable up to and including age 59. The following schedule is used for benefits that are payable after age 59.

If disability amount begins at age	Business purchase is reduced to
60	80%
61	60%
62	40%
63	20%

Exclusions and limitations

The Disability Buy Sell policy will not pay benefits for injury or illness:

- when it is caused by war, or any act of war, whether declared or undeclared; or
- due to any loss resulting from natural pregnancy or childbirth. This plan will, however, pay benefits for loss caused by complications of pregnancy or childbirth.

Optional benefits

Business insurance option (bio)

This rider protects the insured partner's medical insurability and allows the owner to purchase additional Disability Buy Sell coverage as the value of the business grows. At each option date (every second policy anniversary date), the owner can purchase up to 18% of the maximum option amount available. While financial evidence of insurability is required to increase coverage, evidence of medical insurability is not required.

When an option is exercised, the additional premium is based on the insured partner's current age. This option amount will be for the same type of coverage and with the same terms, conditions and exclusions as provided in the Disability Buy Sell policy.

A special option may be exercised 90 days after the date RBC Insurance begins paying a disability benefit to any other insured partner. This gives the non-disabled business owners the additional opportunity to increase their coverage by up to 18% of the remaining maximum option amount. Minimum BIO amount: $5,000.

Maximum BIO amount: the total amount of BIO that can be purchased is based on the age of the insured at the time the BIO rider is applied for, and is expressed as a percentage of the maximum business purchase amount.

Age	Maximum purchase amount
On or before age 42	Up to 100%
Age 43 to 44	Up to 93%
Age 45 to 46	Up to 64%
Age 47 to 48	Up to 39%
Age 49 to 50	Up to 18%

For the monthly installment payout option, monthly payments can be calculated by dividing the maximum business purchase amount by 60.

When added together, the maximum business purchase amount and the BIO benefit cannot exceed the issue limit for the elimination period chosen.

Other business protection products

Business owners should consider how a disability might impact their business. In addition to Disability Buy Sell protection, consider the RBC Insurance portfolio of business products including:

Business overhead expense

Business Overhead Expense is a reimbursement policy designed to cover fixed office expenses during a period of total or partial disability.

Key person protector

This plan has been developed to provide coverage for a financial loss to an employer due to the disability of a key person.

Business loan protector

Business Loan Protector makes funds available to pay outstanding business loans and loan interest if the business owner becomes totally disabled.

Income protection products

Make sure that your client has protected his/her personal income in the event of a disability. We offer a wide range of income protection products that can be tailored to meet your client's needs. Partners or shareholders must own or be in the process of obtaining an RBC Insurance Income Protection policy.

Lifestyle protection products

Disability Buy Sell protection will help the client to purchase a disabled insured co-owner's interest in the business, but what about protecting your client's lifestyle? Would your client be able to maintain his/her RSP contributions in the event of total disability? If your client suffers from a catastrophic injury or illness, he/she may incur substantial additional expenses. Lifestyle protection products are the perfect complement to business and income protection coverage and provide for your client's independence, dignity and peace of mind.

Retirement protector plan (945)

This benefit helps the insured maintain deposits to a retirement savings program while totally disabled. Issued to age 55, benefits range from $300 to $1,500 but may not exceed 20% of the insured's monthly earned income.

Critical illness recovery plan

(available as a separate policy; please refer to the Critical Illness Recovery Plan facts sheet or Insurance Advisor Guide for full details)

Critical illness coverage is an excellent complement to any disability insurance program. While disability income protection insurance seeks to cover ongoing living expenses, critical illness coverage provides lifestyle protection that pays a lump sum benefit if your client is diagnosed with and survives one of the insured covered conditions as defined in the policy. There are no rules regarding how benefits may be used — seeking medical treatment, securing nursing care, paying down debt — it's your client's decision.

For more information on our Business Protection, Individual Income Protection or Lifestyle Protection products, please refer to the applicable Insurance Advisor Guides.

Underwriting requirements

- Applicants must have a net earned income of at least $12,000.
- Applicants must have a minimum of three years in business.
- The business must have a net worth of at least $50,000.
- Please see the Financial Documentation Chart in the Underwriting Guidelines for financial requirements.
- An inspection report (IR) is not an automatic requirement. However, the underwriter reserves the right to order one depending on the specifics of the case.
- We will consider amounts over the maximum monthly indemnity on a preliminary basis, subject to complete and satisfactory financial documentation. Exceptional amounts of coverage are available only with a 720-day elimination period. We will not offer coverage exceeding $2,000,000 on any case. Any other unusual situation (where all requirements are not clearly outlined above) may also be referred to underwriting for an opinion or submitted on a preliminary basis.
- Coinsurance factors will apply as follows:
  Flex funding: 90%
  Monthly installments (60 months): 100%
- Ownership must be set up as either a cross-purchase agreement or a corporate ownership. The applicant must own at least 5%. The applicant cannot own more than 90% of the business.
- We will participate with other carriers up to a maximum of $2,000,000. A non-duplication amendment will be added to the contract.

To request the exchange, submit a regular application without the medical section completed. No medical underwriting is necessary. All authorizations must be completed since financial underwriting is necessary. Income, issue and participation limits apply.

We will use the attained age and original class of the Disability Buy Sell policy. The new policy will be current dated. Any exclusions and/or ratings on the original policy will apply to the new policy.

This is an underwriting guideline and is not a contractual obligation.

Business valuation

For the purposes of valuing a business for Disability Buy Sell insurance, we use the following formula:

Total Value of Business = Net Book Value + (Adjusted Net Income x Valuation Factor)

Net Book Value is the shareholders' or partners' equity shown on the balance sheet ("total assets" minus "total liabilities").

Adjusted Net Income for Partnerships is the average of the net income shown on the income statement for the past two fiscal years.

Adjusted Net Income for Incorporated Businesses is the average of the net after tax income for the past two fiscal years plus:

- the greater of either 15% of the owners' salaries (for the last fiscal year only); OR
- the excess amount of each owner's salary over $100,000 in the last fiscal year.

Valuation Factor is the appropriate factor in the following chart that pertains to the proposed insured's occupation or business:

Valuation Factor	Type of Business
8	Incorporated Commercial Businesses (excluding Fee for Service Professionals and farmers)
5	Select 4A Fee for Service Professionals: accountants (CA, CMA, CGA only), actuaries, architects, chiropodists, professional engineers, lawyers, notaries (Quebec only), optometrists, pharmacists, physicians and surgeons, podiatrists, psychologists (PhD only) and dental specialists
4	All other Fee for Service Professionals (corporations and partnerships), excluding insurance brokers, general dentists and veterinarians
4	Farmers
3	Insurance brokers
2	General dentists and veterinarians

Note: it may be necessary to reduce the indemnity due to financial risk factors or other underwriting concerns (e.g. unstable industry, pending litigation).

Other requirements

Although the Disability Buy Sell agreement or letters of intent are not requirements to issue a policy, such an agreement should be in effect and may be requested by the underwriter to assess any case prior to approval. As a contract provision, these documents will be required at time of claim. It is therefore important that the provisions of the Disability Buy Sell agreement parallel those of the Disability Buy Sell policy.



Insurance

This Insurance Advisor Guide is a summary only. Actual policy language will prevail. For additional information on the Disability Buy Sell policy or a copy of our illustration system, please contact your local RBC Insurance sales office.

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