Business Overhead Expense

INSURANCE ADVISOR GUIDE

For advisor use only.

PLAN CODE

906

PRODUCT TYPE

Business protection

SALES TIP

Many students purchase income protection while still studying for their professional career, but they often delay the purchase of Business Overhead Expense (BOE) coverage until they are actually operating a business. Meanwhile, these same students accumulate significant debt which needs to be protected should they become disabled. Consider accelerating the BOE purchase and at the same time protecting your client's debt load with the RBC Insurance® unique Student Business Overhead Expense coverage. Prior to maintaining an office or business, this coverage can play a significant role in helping your clients pay off student loans or any other debts. Once they do maintain an office or business, the coverage automatically reverts to a more traditional BOE coverage.

PURPOSE AND MARKET

The Business Overhead Expense policy is designed for principals of closely held businesses or practices and owners of small businesses. It is an expense reimbursement policy that covers those fixed monthly business overhead expenses required to keep the business viable until the return of the owner, after a period of disability. This allows the business operations to continue until the insured either returns to work or makes a decision regarding the future of the business.

It is most vital with businesses and practices in which the owner's ability to come to work makes the difference between the office being open or closed for business. Ideal prospects are physicians, lawyers, accountants, engineers and other individuals who own firms that depend on the owner's ability to generate income to pay the bills.

All of these features, plus the fact that premiums are tax-deductible as a business expense, make the Business Overhead Expense policy a key component of any business owner's financial security plan. It ensures that business continues when a disability occurs.

RENEWABILITY

The Business Overhead Expense policy is non-cancellable and guaranteed continuable until age 65. After age 65, the policy is conditionally renewable while the insured is employed and responsible for the expenses of maintaining an office or business. Rates and benefit periods are subject to change after age 65. The insured may continue the policy for the total disability benefit up to age 75. After age 75, the total disability benefit will be reduced by 50%.

UNDERWRITING GUIDELINES

Occupational classes:	4A, 3A, 2A, A			
Minimum monthly benefit:	$450 (may use a base benefit of $100 plus additional covered overhead expense rider)			
Issue and participation limits:	**4A***	**3A**	**2A**	**A**
	$20,000	$15,000	$7,000	$5,000

* Amounts in excess of $20,000 up to a maximum of $30,000 will be considered on an individual case basis subject to financial justification and underwriting approval of the complete file.

The issue and participation limits for business overhead expense coverage are over and above the regular issue and participation limits for income protection coverage. However, if income protection coverage already in force exceeds our issue and participation limits or if the applicant is overinsured under any other disability product, the policy cannot be approved. Also, the policy will not be approved if the applicant is not earning the minimum income required for income protection coverage.

Issue ages, benefit periods and elimination periods:

Age*	Class	Benefit period	Elimination period
18 – 60	4A, 3A, 2A	15, 24 months	15, 30, 60, 90 days
18 – 60	A	15, 24 months	30, 60, 90 days

* Rate quotes are available for ages 61 – 63 from your local sales office. (Available to class 4A and 3A only. Some restrictions apply.)

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

DEFINITIONS OF DISABILITY

TOTAL DISABILITY

Insureds are totally disabled if due to injury or illness if,

1. they are unable to perform the important duties of their regular occupation; and
2. they are receiving care and treatment by a physician.

PARTIAL DISABILITY

Insureds are partially disabled due to injury or illness,

1. they are unable to perform the regular duties of their occupation at least half the time usually required; or,
2. they are unable to perform one or more of the important duties of their occupation; and
3. they are receiving care and treatment by a physician.

POLICY BENEFITS

TOTAL DISABILITY BENEFIT

In the event that the insured is totally disabled and satisfies the elimination period, we will reimburse the insured for incurred expenses subject to the maximum monthly benefit payable. Covered expenses are expenses that are necessary in the operation of the insured's business or profession. Please refer to the Underwriting Requirements section of this profile for a list of the covered expenses.

PARTIAL DISABILITY BENEFIT

In the event that the insured is partially disabled and satisfies the elimination period, we will reimburse the insured for a portion of his/her covered expenses. The partial benefit is equal to 50% of the maximum monthly benefit for a maximum of three months provided it does not exceed the maximum total benefit. Partial disability does not have to follow a period of total disability.

Benefits paid are subject to the limitations and exclusions set out in the policy.

ACCUMULATION BENEFIT

When the covered expenses in any one month are less than the maximum monthly benefit payable, the unused benefit can be carried forward to a later month when covered expenses may exceed the maximum monthly benefit payable. The total benefit amount payable cannot exceed the monthly benefit times the number of months in the benefit period. This benefit applies when the insured is totally disabled.

EXTENSION OF BENEFITS

When the insured is totally disabled for the entire benefit period and the benefit paid during that period is less than the maximum total benefit, we will continue to pay the total disability benefit while the insured remains totally disabled, up to the maximum total benefit.

PRESUMPTIVE TOTAL DISABILITY

If the insured irrecoverably loses sight in both eyes, speech, hearing in both ears or the use of two limbs, he/she will be considered totally disabled and will receive the total disability benefit.

SURVIVOR BENEFIT

In the event of the death of the insured prior to age 65, and while receiving total disability benefits, the beneficiary will receive a cheque for 1.5 times the maximum monthly benefit payable at the time of death. Payment of this benefit cannot exceed the maximum total benefit amount.

EXCHANGE PRIVILEGE

The insured may request an exchange of his/her BOE policy to a substantially equivalent individual RBC Insurance disability policy. It is available with an equal monthly amount to a maximum of $5,000 or the maximum covered monthly expense benefit, whichever is less, subject to financial underwriting and prior to age 60. These guidelines apply to currently offered BOE plans. Some of the older plans do not provide for a $5,000 maximum amount.

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 original age, rates and class as of the date of issue of the BOE policy. However, the new policy will be dated currently. Any exclusions and/or ratings on the original policy apply to the new policy.

The new policy benefit period will be two years. The elimination period (EP) will be the same, unless the original policy had a 15-day EP, then a policy with 30-day EP will be issued. Longer EPs may be requested.

If the BOE has a six-month additional covered overhead expense benefit, then this portion will be converted to an AMI with a six-month benefit period.

RECURRENT DISABILITY

After a period of disability ends and if the insured becomes disabled again from the same or related causes within six months, we will consider it a continuation of the previous disability.

ACCUMULATION OF DAYS

Periods of total disability from the same or related causes, separated by 12 months or less, will be accumulated and considered continuous to satisfy the elimination period.

WAIVER OF PREMIUM

After the insured has been disabled for 90 days, we will pay premiums that come due while the insured remains disabled. We will refund premiums paid during those first 90 days.

EXCLUSIONS

We will not pay benefits for disability due to:

- an act or accident of war, whether declared or undeclared; or
- normal pregnancy or childbirth, but we will cover disabling complications of either of these.

OPTIONAL BENEFITS

EXTENDED PARTIAL DISABILITY INJURY AND ILLNESS BENEFIT (H782)

When the insured is partially disabled, either from the date of injury or illness or after a period of total disability, he/she will receive 50% of the maximum monthly benefit for a maximum of six months. This replaces the partial disability benefit in the policy. Available to classes 4A, 3A, 2A; ages 18 – 55.

RESIDUAL DISABILITY BENEFIT (H856)

This provides a long-term residual benefit when the insured is receiving care and treatment by a physician and when covered fixed expenses plus costs of sales or service exceed the insured's business monthly gross income by at least $200.

The benefit begins after a period of total disability ends or after the elimination period has been satisfied, whichever is later. During the first six months of residual disability, the benefit will not be less than 50% of the maximum monthly benefit. The maximum amount payable is the covered monthly expenses plus the monthly amount of "cost of sales and services items" less the business' monthly gross income.

The benefit paid cannot exceed the maximum monthly benefit payable. Benefits can be extended beyond the benefit period until either the maximum total benefit has been paid or the insured's 65th birthday, whichever is first. If residual disability begins within three months of the insured's 65th birthday, benefits will be payable for three months. Available to classes 4A and 3A; ages 18 – 55.

FUTURE COVERED MONTHLY EXPENSE OPTION BENEFIT — FCEO (H862)

This benefit allows an insured to purchase additional coverage in the future, regardless of his/her health or occupation, as long as he/she has adequate expenses to qualify for the increased amount at the time he/she decides to exercise the option.

This benefit is available to classes 4A, 3A, 2A and A; ages 18 to 50.

The maximum total option amount of the FCEO benefit is automatically calculated on our proposal system. Please refer to the Maximum Total Option Amount chart on the next page for more details.

On each policy anniversary, up to age 55, the insured may exercise all or part of a unit of increase. Up to one unit of increase may be carried over to the next anniversary date if all or part of it is not exercised. However, no more than two units can be exercised at one time. One additional unit of increase may be purchased on any anniversary date up to age 50. The total amount of all of the units of increase exercised cannot exceed the maximum total option amount. Increases are available in $100 to $1,500 unit amounts (in multiples of $50), depending on class.

While disabled, an insured may exercise one FCEO option. This increase will be effective on the 91st day of disability following the date of purchase.

When options are exercised, the premiums for the additional amount will be based on the insured's attained age and our current rates.

All increases are subject to financial verification and our maximum issue and participation limits. The combined total of all inforce coverage and future expense options cannot exceed maximum issue and participation limits. Financial verification will be based on the insured's earned income for the last complete tax year.

MAXIMUM TOTAL OPTION AMOUNT

The maximum total option amount (increase) available by class under the FCEO benefit is equal to the lesser of:

1. two times monthly base benefit;
2. 55 less insurance age (age nearest) times FCEO option amount chosen; and
3. class maximums (4A – $20,000, 3A – $15,000, 2A – $7,000, A – $5,000) less the base benefit.

Maximum option amounts:

Class	Option amount
4A	$1,500
3A	$1,000
2A	$500
A	$200

HEALTH CARE PROFESSION BENEFIT (H1134)

The Health Care Profession benefit is mandatory (unless denied for underwriting reasons) to the following health care professionals: medical doctors, dentists, dental surgeons, chiropodists/podiatrists, professional lab technicians, dental hygienists, dental assistants, denture therapists, denturists, denturologists, acupuncturists (MD and non-MD), nurses (RNs, RNAs, LPNs, including nursing directors, instructors and nurse practitioners), respiratory therapists, respirologists, massage therapists doing acupuncture, physiotherapists doing acupuncture and paramedics.

As a qualified health care professional the insured may be at risk of exposure to HIV or Hepatitis B and C. Under this benefit, if the insured meets one of the following conditions, they are not required to be under the care of a physician in order to qualify for disability benefits provided the insured is HIV impaired or Hepatitis impaired, and due to the impairment,

- the insured is restricted or prohibited from performing the important duties of their occupation; or
- the insureds patients refuse treatment from them because they have to disclose to their patients any impairment as required by law or by a written policy of general application of a medical regulatory body or medical licensing body.

For the purpose of this rider, “your occupation” means the occupation or occupations in which the insured is regularly engaged at the time that the insured becomes disabled.

The premium for the Health Care Profession benefit can be changed at any time; however once changed, the premium is locked in for five years. If the Future Covered Expense Option is included in the insured’s policy, the Health Care Profession benefit amount will increase automatically as this benefit is applied.

ADDITIONAL COVERED OVERHEAD EXPENSE RIDER (H721)

Additional coverage payable to the 180th day is available in flexible amounts provided it is added to a base policy of at least $100 per month. The elimination period on this benefit must be the same as on the basic coverage. The purpose of the benefit is to allow the insured to provide an additional amount of coverage during the first six months of total disability when expenses will be greater. The benefit does not increase the partial disability indemnity otherwise payable under the policy.

STUDENT BUSINESS OVERHEAD EXPENSE COVERAGE (A718)

The Student Business Overhead Expense coverage (Student BOE) is available to those professionals (classes 4A and 3A) who qualify for our Student Limits as indicated in our Underwriting Guidelines.

This amendment allows for business overhead expense coverage before the insured begins a practice or business. Initially this coverage can play a significant role in helping the insured pay off student loans or any other debts. The Student BOE automatically reverts to the more traditional BOE coverage once the insured becomes responsible for expenses of maintaining an office or business.

Maximum benefit payable: The Student BOE will pay 25% of the monthly BOE benefit purchased, up to a maximum of $500. For example:

Monthly BOE benefit purchased	Student BOE benefit payable (lesser of 25% of the BOE amount and $500)
$1,000	$250
$2,000	$500
$3,000	$500

OTHER BUSINESS PROTECTION PRODUCTS

Business owners should consider how a disability may impact all facets of their business. In addition to Business Overhead Expense protection, consider the rest of our portfolio of business products including:

DISABILITY BUY SELL

Disability Buy Sell coverage is designed to provide funding for the remaining owner(s) to purchase the business interest from the disabled owner(s).

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 when 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.

LIFESTYLE PROTECTION PRODUCTS

Overhead expense protection will cover certain business expenses. But what about protecting the insured'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

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 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.

UNDERWRITING REQUIREMENTS

1. ELIGIBLE PROSPECTS

Professionals who are class 4A are eligible for Business Overhead Expense coverage if they are:

- self-employed professionals whose income depends on personal and regular attention to professional duties and who are responsible for the cost of maintaining their own office (this applies to sole proprietorships or partnerships);
- shareholders of a professional corporation, if they agree to indemnify the corporation for overhead expenses which are incurred during a period of disability. In this situation the corporation should be the owner of the policy.

Certain expenses (e.g. heat, water, telephone, rent or mortgage interest, electricity, property taxes) may be limited or denied if the business and residence addresses are the same.

The key measure for eligibility of a partnership or professional corporation is the clear and significant loss of income to the business should one of the partners or shareholders become disabled. Partnerships and professional corporations comprised of five or fewer shareholders are generally eligible, while those including more than five members do not normally qualify. Those professional partnerships or corporations consisting of six to 10 principals may be eligible for amounts of up to $15,000 if the need can be demonstrated and provided the corporation or partnership does not employ other individuals of the same or similar professions or in supporting occupations.

All other class 4A, 3A, 2A, and A are eligible under the following guidelines: sole proprietorships or two-person partnerships are eligible if a) they have no more than three full- or part-time employees; b) the business and residence addresses are not the same; and c) they are engaged in a business requiring their special, personal services. If they have up to six employees, a letter must accompany the application clearly establishing that the applicant's personal services are essential to the continuation of the business.

We will consider class 4A or 3A business owners who have up to 10 employees provided that no more than three employees or other owners have similar duties to those of the applicant. A detailed letter or covering memo must accompany the application establishing firmly the essential services of the applicant that will be lost in the event of disability and the economic impact of that loss.

Applicants in the following occupations are ineligible for consideration in the "up to 10 employees" category and no exceptions will be considered: construction industry, real estate development and retail sales.

Insurance representatives will be considered for Business Overhead Expense coverage if:

a) their business and residence address are not the same; and

b) they are not receiving full or partial financing from their affiliated company; and

c) they do not have more than three full- or part-time employees.

Business Overhead Expense coverage is not available to individuals whose business and residence addresses are the same, except for the following select 4A professionals: accountants (CA, CMA, CGA only), actuaries, architects, chiropodists, professional engineers, lawyers, notaries (Quebec), optometrists, osteopaths, pharmacists, physicians and surgeons, podiatrists and psychologists (with PhD only). Certain expenses may be limited or excluded.

Business Overhead Expense coverage is also not available to farmers, truck drivers or class B risks.

2. AUTOMATIC FINANCIAL REQUIREMENTS

There are no routine financial requirements for stand-alone Business Overhead Expense applications unless the inforce coverage and coverage applied for exceeds:

- $3,000 per month; or
- $10,000 per month for selected 4A professionals. Selected 4A professionals are accountants (CA, CMA, CGA only), actuaries, architects, attorneys, chiropodists, professional engineers, lawyers, notaries (Quebec), optometrists, osteopaths, pharmacists, physicians and surgeons, podiatrists and psychologists (with a PhD); provided this documentation is not required for any types of coverage applied for concurrently.

A breakdown of overhead expenses is required on the application unless income documentation, including expense breakdowns, has been submitted. Please refer to the Financial Documentation Chart in the Underwriting Guidelines for more details.

Proof of earnings and expenses are required at claim time. Please refer to the Underwriting Guidelines for more details.

The following financial information should be clear on the application or included in a covering memo:

- the applicant's share of current eligible expenses must be correctly recorded on the application. Ineligible expenses should not be included;
- unstable and unusually high expenses must be clarified;
- if other professionals are employees, do not include their salaries.

3. CO-ORDINATION WITH OTHER BOE PLANS

If RBC Insurance Business Overhead Expense policy is issued in addition to an existing BOE policy, either with RBC Insurance or with another company, a signed statement will be required on delivery, acknowledging the inclusion of a non-duplication rider in the policy.

4. BENEFICIARY DESIGNATION

Complete the beneficiary section of the application so that benefits may be payable under the survivorship benefits in the event of death.

5. OWNER

The owner is the insured unless otherwise designated. If the business is a corporation, it should be the owner of the policy. Refer to the RBC Insurance Tax Guide for details concerning implications of policy ownership.

RBC Insurance Business Overhead Expense policy is a guideline of covered/non-covered expenses. Individual consideration will be given to expense items not listed here.

Expense	Covered	Explanation/comments
Accountant or accounting service	Yes	If it's a recurrent and ongoing expense, the pro-rated monthly amount of the annual charge is covered.
Advertising	Yes	Contract advertising only.
Answering/beeper service	Yes	Generally covered since usually on a fixed monthly basis.
Bad debts	No	
Bank service charges	Yes	
BOE premium	No	
Bonuses to employees	No	Normal wages only are covered.
Business promotion	No	
Capital cost allowance/depreciation	Yes	See Depreciation/capital cost allowance section below
Car insurance, car loan, car lease	Individual consideration	To the extent a vehicle is necessary and used for business purposes, these items will be covered on a pro-rata basis.
Client refunds	No	
Compensation of employees	Yes	COVERED: Administrative and support employees (e.g. nurses, clerks, technicians, secretaries, dental hygienists when an employee). NOT COVERED: Non-support type employees, members of same profession, any person who shares business expenses, performs the insured's duties or any person directly responsible for the generation of income for the business or profession (e.g. dental hygienist when under contract).
Conventions	No	
Credit bureau	No	
Dental supplies	No	
Depreciation/capital cost allowance	Yes	COVERED: E.g. medical/dental equipment; office furniture and equipment; building (if firm owns and occupies). NOT COVERED: E.g. insured's vehicle; airplane; building, if investment. Compute the monthly average expense on the covered depreciable assets. We do not cover the purchase price of major items that are subject to depreciation.
Donations/charitable contributions	No	
Educational expenses	No	
EKG service	No	We do not cover expenses that will be passed on to the patient or client.

Expense	Covered	Explanation/comments
Employee benefits	Individual consideration	Group insurance on employees only. The insured's benefits or those of members of his/her profession are not covered, as we do not cover expenses that are generally considered "perks" of ownership.
Entertainment	No	
GST	Individual consideration	GST is a covered expense for insureds in the medical/dental profession who are not allowed to recover GST from his/her patients.
Income tax	No	Payment of the owner's personal or corporate income tax obligation is not covered.
Insurance premiums	Yes	Property, fire, theft, comprehensive general liability, malpractice.
Interest and principal on equipment loans	Yes	
Lab fees	No	We do not cover expenses that will be passed on to the patient or client.
Laundry	Yes	Regular laundry and uniform cleaning.
Leased equipment	Yes	See rental equipment.
Legal fees	No	
Life insurance	Individual consideration	COVERED: On employees only, as part of their employee benefit coverage. NOT COVERED: Life insurance policies on the owner's life.
Locum fees/wages	No	
Malpractice insurance	Yes	
Management fees	Yes	A breakdown of expenses paid is required and is reimbursed as indicated.
Medical supplies/x-ray supplies	No	
Mortgage on business premises	(see rent/mortgage)	
Moving expenses	No	
Municipal business tax	Yes	Pro-rated monthly amount of annual charge.
Office supplies/expenses	Yes	Only general office supplies are covered. Supplies that are directly consumed while the insured's work is performed are not covered (i.e. medical/dental supplies).
Parking fees	No	
Past due bills	No	Bills for expenses that were incurred prior to disability are not covered.
Payroll taxes	Yes	The employer's portion of EI/CPP is a covered expense.
Petty cash	No	The actual expenditures must be itemized and also must be a covered expense.
Postage	Yes	
Principal and interest on equipment loans	Yes	
Professional dues and memberships	Individual consideration	COVERED: Generally covered since continued membership in professional organizations is necessary to maintain professional status. NOT COVERED: Dues and membership to private clubs, country clubs, etc.
Professional fees	Individual consideration	COVERED: Fees to professional organizations, accounting fees. NOT COVERED: Fees for services performed by individuals or organizations of same or similar profession, or supporting professions.
Property taxes	Yes	Only if the building is owned by the business, houses the business and is not a real estate investment.
Purchase cost of goods sold by the business	No	

Expense	Covered	Explanation/comments
Rent/mortgage business	Yes	Both rent and mortgage are expenses. However, generally they are not together. If the business owns and occupies the building, then mortgage interest and the choice of principal or depreciation are covered. (Cannot rent from itself.) If there are two locations that are occupied by the business, it is possible to have both rent and mortgage (owns one building and rents the other). Minimal physical presence and performance of services will be required.
Rental equipment	Yes	If necessary for ongoing operation of insured's business.
Repair and maintenance	Individual consideration	COVERED: Minor, normal, "wear and tear" type repairs are covered expenses. NOT COVERED: Major repairs.
Salaries of income producing employees in same profession as insured	No	
School loans	No	This is a personal obligation, not a business expense.
Service/maintenance contract	Yes	Contracted equipment repairs and maintenance contract expenses would be covered.
Subscriptions	Individual consideration	The maintenance and renewal of professional materials are covered. (Eg. Subscriptions for medical, legal or accounting journals and research texts.)
Travel	No	
Utilities	Yes	
Worker's comp. insurance/WSIB	Yes	For employees only.



Insurance

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

Underwritten by RBC Life Insurance Company

® / ™ Trademark(s) of Royal Bank of Canada. Used under licence.

VPS950058

83266 (06/2016)