Disability insurance needs overhaul to support Canada’s aging workforce

Insurance industry called to be "proactive" about plan designs

Insurance News

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As Canada’s demographics shift and employers retain older workers, income protection through long-term disability insurance is becoming increasingly necessary.

A new study by the Canadian Institute of Actuaries has shown Canada’s aging workforce needs different options for long-term disability benefits, which usually end at age 65.

The report found that age-based limits in long-term disability (LTD) insurance affect workplace equity and fairness, leaving older workers vulnerable as they lose important income protection in the event of injury or illness.

Authors Joe Nunes (pictured on the left) and Mathias Link (pictured on the right) spoke to Insurance Business about the reforms that need to happen in the insurance industry to accommodate Canada’s shifting demographics.

“I think there is already a gradual shift within insurance,” said Nunes, co-founder and executive chairman at Actuarial Solutions Inc.

“I'm hearing from brokers and insurance executives that coverage plans are evolving to extend beyond age 65. It's case by case, depending on cost estimates and how those costs are distributed.”

‘Timing is right’ to revisit age cap on long-term disability insurance

For Link, the timing is right for LTD insurance to evolve. Canada, like many other developed nations, is experiencing a significant demographic shift in its workforce.

A growing number of Canadians are choosing to delay retirement, either by necessity or choice. Financial pressures, such as inadequate retirement savings or the need to support extended family, are pushing older workers to remain in the workforce. According to Statistics Canada, as many as one in five seniors aged 65 to 74 worked in 2022.

“If you look back to the mid-2000s, that's when mandatory retirement in this country was largely phased out and it became unlawful to force someone to retire at 65,” said Link, a partner at Fasken Martineau DuMoulin, LLP. “For the past 16 to 18 years, people have been able to consider working beyond 65.”

The need for more options for LTD insurance has become more relevant in certain industries, helped along by litigation challenging the age 65 cap as discriminatory.

The combination of older workforce demands, employer experience, and recent case law has pushed this shift, according to Link. As a result, employers face liability risks if their benefits plans are not responsive to their workforce.

“The time is now to explore (changes to LTD insurance plans) further,” Link said. “There's clearly a growing need and demand for addressing this, and it will likely increase over time, even though the number of affected employees may remain relatively small.”

Though the authors argued that age should still be used to determine insurance eligibility and length of coverage, they said age 65 as a cut-off may not be appropriate for every workplace.

“There is no one-size-fits-all solution and every employee group, union and non-union, will need to negotiate the best arrangement for their circumstances,” Nunes said.

Insurers and brokers must be “proactive” with plan designs

Nunes called on insurers to be proactive in conversations with employers about their group benefit plan designs. “Start the conversation with employers now, asking, ‘Have you considered your group’s demographics and the potential need for new plan designs?’” he advised. “It's important to price this in advance.”

Employers should also consult employees in the process as there is a possibility that premiums will increase, leading to higher overall costs for those paying into the plan. LTD insurance is often provided on a group basis through an employer, with the employer sometimes paying the premiums and sometimes passing those premiums on to employees directly through payroll deductions.

Link said: “We suggest that employers and insurers collaborate to create these plans. However, we clearly state in the report that this should not be done by trying to invalidate a negotiated collective agreement.

“In unionized contexts, employers won’t bear all the costs alone—there will likely be trade-offs between different benefits. Until we have more data, it's unrealistic to assume premiums won’t increase.”

Brokers, on the other hand, should encourage their clients to get ahead of the issue and work on solutions before they lead to employee dissatisfaction or potential litigation.

“The best approach is for employers and employees to discuss and decide whether new plan designs are necessary or if the current setup, which ends at 65, works fine for their workforce,” Nunes said. “The goal is to avoid being forced into changes that increase costs for something they may not need.”

Do you think it’s time for long-term disability insurance to evolve?