

Not-For-Profit Insurance

Why does OMA Insurance operate as a not-for-profit trust and what does that mean to you?

Both the quality of the insurance plans and the administrative charges paid to the insurance companies are negotiated by OMA Insurance. Premiums not used to pay claims and expenses are refunded each year to the OMA (as the group policyholder). Once OMA Insurance covers its own costs, the balance of the funds are distributed in December to members insured under the group life, disability income, and professional overhead expense insurance plans.

Here is how that looked for the year ending August 31, 2004:

Premiums Collected	\$57,288,094
Premium Refunds	
From Insurers	28,117,511
OMA Insurance Revenue	2,408,961
OMA Insurance Expenses	(4,699,217)
Taxable Interest	281,136
Adjustments	50,830
Refunds to Insured Members	26,159,221

Lifestyle Choices – Are These Disabilities?

By Sun Life Financial

Given the severe consequences of a disability, all of us should actively work to avoid one. Fortunately, many types of disabilities are preventable – often by simply maintaining a healthy lifestyle.



When we are young and starting out, many of us derive a great deal of positive energy and satisfaction from building our future through hard work and long hours. As we start to achieve our life goals this is the time we should sit back and reflect on whether we need to continue to work at the same pace. Making the decision to work only 40 hours a week, versus the 70 hours that we had for many years, is a personal choice that will help promote a healthier lifestyle by allowing for a greater balance in life.

We often hear about the importance of this so-called “balance in life” – a balance between work and home – and how this is important to having a successful career and family life, providing personal satisfaction and keeping you physically healthy. This is a choice that we make about our lifestyle.

When we see our physician for our regular annual exam, he or she reminds us of the importance of physical exercise, not smoking, eating properly and using alcohol in moderation. Listening to this advice, or not listening to it, is a personal lifestyle choice that each of us must make.

So what does this have to do with disability? Let’s consider the case of John Smith who is overweight, smokes, works long hours, and has poor dietary habits. His physician counsels him to lose weight, eat better, stop smoking, and cut back on the work hours. The decision to listen to this advice and adopt these changes is a lifestyle choice – only John can decide whether or not to do it.

Say John soon suffers a heart attack, and following the normal recovery period, heeds his doctor’s advice and improves his lifestyle. This includes reducing his

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Is Professional Overhead Expense Insurance Really That Important?

Professional Overhead Expense (POE) insurance is designed to reimburse you for overhead expenses you have to pay when you have no professional income due to a sickness or accident.

But do you really need it if you have adequate Disability Income insurance? Ask yourself this question, “If I become totally disabled would my Disability Income insurance be enough to cover all my personal and family living expenses plus pay my overhead costs? Would I really want to have to pay office rent, utilities and staff salaries from my savings or

from my Disability Income insurance?” Even if you are not responsible for office rent and salaries, you likely have other overhead expenses that would continue if you become totally disabled. How soon could you stop paying CMPA, professional association dues, college membership fees, business portion of car costs and accounting fees?

Unless you work in a larger group or are paid under a capitation system it is likely your income will stop suddenly if you become totally disabled. You should consider the impact on your financial health.

Can You Risk Not Insuring Your Office?

By Katherine Ionni, CIP, Assistant Vice President, Willis Canada

A loss on your office premises can take many forms, all of which can be costly. Fire, a burst pipe, a patient who falls; all of these perils can threaten your livelihood and the assets you've worked hard for.

What about litigation?

Commercial General Liability will not only defend you from litigation from people who are injured on your premises but will also protect you should you or your staff accidentally damage the building where your office is located. Something as simple as a tap left on overnight can cause substantial damage to the building, your own unit and any adjoining units. \$5,000,000 of tenant's legal liability, in most cases, should be enough to ensure you are sufficiently protected.

What if my business is interrupted?

If your business is interrupted due to an insured loss, your insurance should respond to cover your lost income, and assist you in the financial burden of setting up a temporary office at a new location while the loss is being settled.

How much insurance should I buy?

The best way to protect yourself and your business property is to insure 100% of the full replacement cost. The amount you select for the business contents and/or building coverage must accurately reflect the actual replacement cost of the building and/or the contents. This amount, at the

absolute minimum, must be within 80 percent of the actual replacement cost for you to be fully compensated by the insurance policy, subject to any deductible.

If you fail to maintain at least 80% of your building and/or property coverage the insurer will apply a co-insurance penalty against any recoverable amount.

If you have \$100,000 of business property and chose to insure to \$80,000 you will have met the minimum 80 percent requirement and thus will be compensated for the amount of the loss less the deductible. (e.g. \$80,000 - \$500 deductible = \$79,500 in the event of a total loss.) But, if your coverage had been only \$75,000 the amount paid in the event of a total loss would be only \$55,750 (75% of \$75,000 - \$500 deductible).

With so much to lose from a major loss, a comprehensive medical office insurance policy insured to the full replacement cost is the best way to give yourself peace of mind and to protect the assets that you have worked hard to accumulate.



In the Fall/Winter 2004 issue of *The Source*, an article entitled, "Should My Professional Corporation Pay My Insurance Premiums", outlined the options and the impact on the corporation paying the premium for Life, Disability Income and Professional Overhead Expense insurance.

This follow-up article addresses what will happen at the time of claim if your professional corporation pays the premiums for Professional Overhead Expense coverage and how you should reflect this on your own personal and corporate tax returns.

Reporting Overhead Expense Benefits If You Are Incorporated

By Kyle Warrington, C.A., Vice President, Haddad, Warrington & Associates Inc.



As indicated in a previous issue of *The Source*, your corporation cannot be named as the "owner" of your Professional Overhead Expense (POE) benefit. Regardless of how the premium is paid, your POE benefit, as well as any premium refund (dividend), will be paid directly to you, as the insured physician. The POE benefit, however, is taxable and the premium paid is tax deductible.

Given that you have the option to incorporate your practice, there may be some issues related to reporting the benefits received under POE insurance. If you are incorporated, you will need to complete and submit special forms to the Canada Revenue Agency (CRA) to avoid paying personal income tax on the benefits received.

Insurers like Sun Life Financial will issue a T4A slip to you showing the POE benefits paid during the prior tax year. A copy of this T4A slip is provided to the CRA as required by law. The CRA will compare this to what is reported in your personal tax return for the year. If the income reported on the T4A slip does not show up on your income tax

return, the CRA will reassess the return to include this income.

The POE benefit pays for expenses that you actually incur. If you have an incorporated practice, these same expenses will appear as part of your corporation's financial statement. Therefore, it is important that your corporation continue to report these expenses on its financial statements.

The way to avoid personal income tax on this amount on your personal tax return (T1) is to report the benefits paid as "other employment income". You are required to have the Declaration of Conditions of Employment form (T2200) signed by your employer (your corporation) which effectively states that you are required to pay for certain employment-related expenses out of pocket. You can then deduct those expenses on your T1 tax return. (The nature of the 'expense' is the amount of money received in POE benefits, as reported on the T4A slip.) As a result, there will be an amount for "other employment income" and an offsetting amount for "other employment expenses" and the net result will be

zero with no personal income tax paid on this amount.

Your corporation must show the T4A income on its financial statement. Your corporation has two options for reporting the POE benefits received. It can:

- 1) insert a separate revenue line called "Overhead Insurance Proceeds", or
- 2) reduce the actual expenses covered by the POE proceeds. (This is a more involved process but will result in the same net effect on the bottom line of your corporation.)

Either way, you should discuss this situation in detail with your financial advisor.

This article is a brief overview of the tax impact of POE benefits when an insured physician operates his/her practice through a corporation. It is highly recommended that you seek financial advice from your accountant in all situations.

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workweek from 70 hours to 40 hours. Can his ensuing loss in income (from shorter working hours) be attributed to his disability? The answer is "no". This is a lifestyle choice – a healthy choice because there was recognition of the need for a balance in his life. This choice is not a limitation as a result of the heart attack.

There must be a medical impairment that results in specific limitations (i.e. the actions which someone is unable to per-

form) for a disability to exist. In this example, the diagnosis was a heart attack – and that is a real medical condition. Once the diagnosis was made, the treatment program selected by the treating physician would have begun in order to alleviate the condition (perhaps surgery, medication or other medical interventions appropriate to the condition). As for the choice to reduce the number of hours worked, this is a healthy lifestyle choice, not a corrective treatment procedure.

Is Mortgage Life Insurance Worthwhile?

By Jacques Rocheleau, CLU, RHU, Managing Director, OMA Insurance

What is mortgage life insurance and why do banks love to sell it?

Mortgage life insurance is nothing more than life insurance on your life that will pay off the balance of your mortgage if you die while the insurance is in force.

That sounds good – and it might be if you didn't have better alternatives. So, what's wrong with mortgage life insurance sold by banks?

It's expensive. Rates are based on age but there is usually no discount available for non-smokers. You could pay less than half by shopping for alternative term life insurance.

The bank is the beneficiary. That means your family has no choice how to use the insurance money. Why pay off an old 5% mortgage when current rates are higher or when other high-interest loans are outstanding?

Your premium remains the same even as your mortgage balance reduces. This problem is compounded if you pre-pay some of your mortgage (as we all hope to do because mort-

gage interest is usually not tax deductible).

The insurance is not portable. Once you terminate your mortgage with the bank, your mortgage insurance is terminated. If you subsequently obtain a new mortgage, you will have to qualify all over again for mortgage life insurance.

There is no flexibility. If you become uninsurable you will likely wish to maintain the insurance for other purposes, but you will be unable to do so. The amount of your insurance will reduce as the outstanding mortgage reduces.

Rather than insuring your mortgage through the bank (or other financial institutions), you should treat a house mortgage as just another financial obligation that should be used to determine the total amount of life insurance you need. You will be better off with life insurance that is payable directly to your beneficiary and that can be maintained independently from your mortgage.



Funny Corner!

I was reading how a female spider will eat the male spider after mating. I guess female spiders know that life insurance is easier to collect than child support.

Janine DiTullio

A lawyer was attempting to lighten his cross-examination of an anesthesiologist who was a plaintiff in a malpractice case.

"I guess that means you and I are in the same business because we both put people to sleep," the lawyer joked.

"Yes," replied the doctor, "but I wake them up."

Anonymous

"You seem to be recovering nicely," the doctor said. "These x-rays show some damage to the bone, but I wouldn't worry about it."

The patient said, "If your bones were damaged, I wouldn't worry about it either."

Anonymous



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