

Ontario Disability Support Program – Income Support Directives

4.8 Life Insurance Policies

Summary of Policy

Funds up to \$100,000 held in trust that are derived from an inheritance or the proceeds of a life insurance policy received upon the death of the policy holder are not considered assets for the purpose of determining financial eligibility for income support. Interest earned from such a trust and re-invested into the trust is not considered income.

The cash surrender value of life insurance policies up to \$100,000 is not considered an asset for the purpose of determining financial eligibility for income support. Life insurance policies which have no cash surrender value are also exempt. A loan taken against a life insurance policy, which is used for Director approved disability related items or services is not considered an asset.

The \$100,000 is a combined maximum of inherited funds in trust, proceeds of life insurance and the cash surrender value of an owned insurance policy.

Payments from a trust or from a life insurance policy, gifts or other voluntary payments, used for non-reimbursable, approved, disability related items or services, or education or training expenses incurred because of a disability, are not included as income.

Interest or dividends earned on life insurance policies that are reinvested in the policy, used to pay the premium or used for disability related items or services, or education or training expenses incurred because of a disability, are not charged as income. The income and asset exemptions apply to the interest or dividends earned on life insurance policies provided that the recipient files an annual report documenting all income and expense transactions made against the policies.

Payments from a trust, life insurance policy, gifts or other voluntary payments up to \$6,000 per member of the benefit unit for any twelve-month period are exempt from income charges.

Income charges will not be applied to the portion of a payment received from the sale of an asset that is applied, or if the Director approves, will be applied towards the purchase of a principle residence; the purchase of an asset necessary for the health and welfare of a member of the benefit unit; the purchase of or conversion to an exempt asset; or the purchase of or conversion to an asset as prescribed in [Section 27 of the ODSP Regulation](#).

The portion of a personal loan, student or trainee grant or award approved by the Director for training or post-secondary education costs is exempt as income and assets,

so long as the person is attending the program or training for which the loan was taken or the payment was intended. The funds are to be applied to the training or education costs within a reasonable period of time

Legislative Authority

[Sections 28\(1\)\(19\), \(20\) and \(21\); 28\(3\); 43 \(1\)1.i.v; 43\(1\) 2.1, 6, 9, 9.1, 11 and 13; and 43\(5\) of the ODSP Regulation.](#)

Summary of Directive

Exempt and non-exempt assets are explained in relation to treatment of the cash surrender value, dividends, redemptions and loans against life insurance policies. Demutualization of insurance companies and its impact on recipients is also explained.

Intent of Policy

To exempt the cash surrender value of a life insurance policy up to the maximum permitted in the regulation. To allow the conversion of an asset into an exempt asset or to a non-exempt asset which together with all other assets does not exceed the allowable asset limit for the benefit unit.

Application of Policy

Exemption on Cash Surrender Value of Life insurance Policies

The cash surrender value of life insurance policies up to \$100,000 for members of the benefit unit are exempt from inclusion as assets. If the person also has a trust fund, the combined value of the cash surrender value of the life insurance policy and trust fund must not exceed the \$100,000 limit. This does not apply to a "Henson" type trust, which is without limit. (See [4.7 Funds Held in Trust](#))

Until it is cashed in, the cash surrender value of a policy must be verified annually prior to the anniversary date of the policy since the cash surrender value will continue to increase over time. Some policies might show the cash surrender value by means of a schedule attached to the policy. Policies will also show the name of the policy beneficiary and the name of the policy holder who can cash in the policy.

If a member of the benefit unit has an exempt life insurance policy and uses interest or dividends on the policy for an exempt purpose, an annual report must be filed documenting income and expense transactions relating to the life insurance policy.

Term life insurance policies generally do not build up cash surrender values. Life insurance policies which have no cash surrender value are exempt as assets.

Cash Surrender Value as an Asset

If the cash surrender value of the insurance policy is greater than \$100,000 and the amount over \$100,000, combined with all other non-exempt assets, exceeds the asset limit for the benefit unit, there is no financial eligibility for ODSP. If the policy terms and conditions permit, part of the cash surrender value may be redeemed in order to bring this asset in line with the allowable exemption. Annuities, deferred annuities and segregated funds purchased from a life insurance company are treated in the same way as life insurance under ODSP.

Payments received from the sale of an asset including the partial redemption of a life insurance policy may be used to purchase a principal residence for the benefit unit; an asset that is necessary for the health or welfare of a member of the benefit unit; assets that are exempt; or an asset that together with other assets does not result in the benefit unit exceeding the prescribed asset limit.

Partial redemptions may also be used for the purchase of disability-related items and services including education and training expenses.

In addition, a partial redemption of the cash surrender value of a life insurance policy to a maximum of \$6,000 in a 12 month period per member of the benefit unit who has a policy, can be used for any purpose. This is in keeping with the provision in the regulation that exempts payments from a trust or life insurance policy or gifts or other voluntary payments.

A written statement as to the recipient's intention for disposition of the money should be obtained at the time the asset is cashed. The purchase of an exempt asset or an asset below the prescribed asset limit must be made within a six-month period. Unless otherwise exempt, money realized when a policy is cashed will be income in the month received and assets in the month after.

Loans Against Face Value

If a recipient takes a loan against the face value of the life insurance policy, the loan will be exempt under asset and income rules provided that the loan is used for approved disability-related items and services. An approved loan for training or post-secondary education costs is exempt as income and assets, so long as the person is attending the program or training for which the loan was taken or the payment was intended. The loan must be applied to education costs or training within a reasonable period of time.

Education costs include tuition, other compulsory fees, books, instructional supplies and equipment, transportation disability-related expenses.

Applicants and recipients will be required to verify the amount of the loan. In addition, verification of the education costs paid from the loan will be required.

Borrowing Against Policies (Encumbered Policies)

Some policies may have been borrowed against prior to the person applying for ODSP. For example, a policy may have a \$2,000 cash surrender value according to the policy schedule. Information from the insurance company, however, indicates that \$500 was borrowed. As a result, the cash surrender value (and value of the asset) now is only \$1,500.

Annuities, Deferred Annuities and Segregated Funds

Income from annuities, deferred annuities and segregated funds is treated as income in the month received and an asset thereafter unless otherwise exempt.

Some recipients may have purchased an annuity, deferred annuity or segregated fund from a life insurance company. Each has characteristics similar to a life insurance policy, including the remote possibility of the existence of a cash surrender value. Under the **Insurance Act**, annuities, deferred annuities and segregated funds purchased through a life insurance company are considered to be life insurance. The \$6,000 exemption per member of the benefit unit for any twelve-month period for payments from a life insurance policy is available.

An annuity is a contract between the policy holder and a life insurance company in which the policy holder provides a sum of money to the insurance company which in turn invests the funds and agrees to pay the policy holder a fixed amount of money (usually monthly) over a specific term or a lifetime.

A deferred annuity provides guarantees on the death of the person whose life is insured and on maturity of the contract. It is a contract of life insurance in which there must be a person whose life is insured and a designated beneficiary who will receive payment following the death of that person.

Segregated funds (also known as individual variable annuity contracts or variable insurance contracts) are similar to mutual funds in that they can be invested in bonds, equities or T-Bills. However, they differ from mutual funds in three ways: a guarantee of principal (ranging from 75 to 100 percent) over a set period of time (usually ten years), the assignment of a beneficiary who will receive the guaranteed amount if the owner of the fund dies, and a degree of creditor protection from seizure in the event the owner of the fund is sued or declares bankruptcy.

If the annuity, deferred annuity or segregated fund does not have a cash surrender value, it is not an asset. If the annuity, deferred annuity or segregated fund has a cash surrender value, the \$100,000 exemption limit would apply.

Demutualization of Insurance Companies

As a result of legislative changes, the federal government is permitting large federally regulated mutual life insurance companies to demutualize. Demutualization is the process by which mutual companies owned by policyholders convert to stock companies owned by shareholders.

Policy holders receive notice that they will be eligible to receive stock (shares) and/or cash in exchange for the ownership rights and interests attached to their life insurance.

Following demutualization, policyholders still retain the value of their insurance policy.

If the amount of cash or value of shares received by an ODSP recipient or a member of the benefit unit is over the asset limit, receipt of the cash or shares may or may not result in an income deduction or assets being in excess. The Regulation provides for the cash or the value of the shares to be exempted when used for certain purposes.

Life insurance policies with a cash surrender value of up to \$100,000 are exempt assets. Recipients who receive shares or cash as a result of demutualization may convert their interest from one asset, the life insurance policy, into another exempt asset.

A recipient may use the amount of any cash received as a result of demutualization or the value of shares that are over the asset limit as follows:

- towards the purchase of a principal residence; this also includes paying down the principal on a mortgage, although this payment may result in a change to the recipient's monthly shelter calculation;
- for the purchase of an item that is necessary for the health or welfare of a member of the benefit unit;
- for the purchase of any asset that is exempt; ([Section 28 of the ODSP Regulation](#)) – motor vehicles, prepaid funerals, tools of the trade, etc) as well as household items that are allowable under the program e.g. furniture, appliances, personal items, etc; and,
- for the purchase of any asset that does not result in the recipient exceeding the asset limit.

In addition, recipients may use the cash payment received as a result of demutualization or proceeds from the sale of their shares in the insurance company for approved disability-related items or services or education and training that will not be otherwise reimbursed.

If the value of shares received by a recipient is over the asset limit, the shares may be sold and the proceeds used as described above. If the recipient retains any cash or shares having a value in excess of the asset limit for the benefit unit, the recipient may become ineligible or temporarily ineligible. When the cash or shares are received, there will not be an income charge as long as the recipient intends to convert the cash or shares into an exempt asset within a reasonable time or to use the cash or shares for disability-related or educational purposes. Recipients should be advised of their alternatives and given a reasonable amount of time following receipt of their shares or cash to convert them to an allowable asset.

Hyperlinks associated with this Policy Directive

Related Directives:

[4.7 Funds Held in Trust](#)

[5.1 Definition and Treatment of Assets](#)

[5.8 Gifts and Voluntary Payments](#)

[5.9 Disability-Related Items and Services](#)