

## CONVERSION PRIVILEGE

### What you need to know ...

Group insurance providers in Canada typically include a “conversion privilege provision” in the life insurance, accidental death and disablement insurance, extended health and dental, and sometimes disability insurance policies. The conversion privilege provision requires the insurer to allow the insured to switch to an individual policy upon termination from their group insurance coverage without submitting evidence of good health. The insurance company will extend coverage based on the fact that the insured was already approved as part of the group insurance plan.

A conversion privilege also guarantees coverage and set premium payments for a certain number of years regardless of the health status of the insured.

### Benefits terminate with employment

When employment terminates, so do the employee benefits. At that time, employees have the option of converting benefits from policies that include the conversion privilege provision to individual policies. There are specific time requirements for the employee to apply to convert their coverages without providing medical evidence of good health written into the group insurance policies. Both the employer and the employee have responsibilities to ensure the employee is entitled for this privilege of conversion.

### Responsibilities and liabilities - EMPLOYER

The employer is required to give each terminated employee notice of their options and timing to convert their coverage to an individual policy. Employees should have access to this information, for example in the benefits booklet. However, it's also recommended that the employer give each terminated employee a termination package advising him or her of their options to convert their coverage to an individual policy.

Terminations can include retirements, as well as terminations of employment with or without cause. When terminating an employee without cause, the employer is required to provide either reasonable notice or pay in lieu of reasonable notice. Sometimes an employee will contest the reasonable notice period and initiate a wrongful dismissal suit, which can put the date benefits should terminate in question. Standards for reasonable notice vary from province to province. Regardless of location, however, if an employee wins a wrongful dismissal case, the law will find that the employee should be put in the same position that he or she would have been in if reasonable notice had been given. This means that benefits would have continued until the end of that notice period.

Sometimes an additional liability for the employer is created if a terminated employee becomes disabled or even dies before the end of the reasonable notice period. If benefits were terminated by the employer, the insurer will deny the claim. The result is that the employer would be liable for the claim if proper notice was not given.

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**Treat each client as if they were our only client.**

Our value is clear:  
**We are completely independent.** We work for you and offer total flexibility on insurers and plans.

We offer all your group insurance services including administration, brokerage, consulting, and communications.

We provide dedicated client support, customization and flexibility to meet all of your company's benefits needs. And we make **solid group plans simple.**



## Responsibilities and liabilities - EMPLOYEE

Converting to an individual plan is time sensitive. Employees typically have 31 days to convert life insurance, AD&D, and disability benefits and 60 days to convert extended health and dental coverage. If the employee does not meet these timelines, he/she will need to provide medical evidence for each benefit and risk being declined coverage and will not benefit from some plan coverage available to them under the conversion plans.

When terminating an employee on an 'involuntary' basis, the employer should provide benefits during the notice period. However, the employee is also under a duty to mitigate his or her damages. A court may find that the employer cannot be held liable for what the court calls "avoidable losses". If the terminated employee misses the conversion application deadline(s), or decline an offered conversion package, if challenged, the court may decide in the employer's favour.

### Termination package

It is clear that to protect everyone involved, employers should provide all employees with a termination package that describes their options when they lose their benefits. This package should identify the benefits that the employee can convert, the process to convert these benefits, and the necessary forms. For benefits that are not convertible, other available options should be offered.

While this does not guarantee that the employer will not be found liable in a wrongful dismissal suit, it may help mitigate possible losses. Of course, the best possible involuntary termination is one that provides either proper notice or severance in lieu of notice.

### Conversion opportunities

The following are benefits that may be converted to individual plans.

#### Life insurance

Most insurers will permit an employee to convert group life insurance coverage to a maximum amount (typically \$200,000) to an individual policy within 31 days of employment termination (the time limit may vary). This can be completed without the submission of medical evidence, and simply requires the

employee to confirm that he or she wants to convert all, or part, of the coverage in place while employed, up to the maximum amount.

#### Accidental death and disablement

Usually, AD&D coverage can also be converted to an individual policy. The conversion can be completed without the submission of medical evidence, and simply requires that the employee confirms intention to convert all, or part, of the coverage in place while you were employed, up to the maximum amount.

#### Extended health and dental

Many group insurers offer individual extended health and dental coverage that is similar to coverage while an employee. If an employee converts from an insurer's existing extended health and/or dental plan, the requirement for evidence of good health is waived, and the contract will not contain a pre-existing condition limitation. **NOTE:** converting plans does not assume that the employee will receive the same coverage they had with the employer's group plan. Employees may have a few choices of coverage, but rarely will they match the employer's plan.

#### Disability

Not many insurers permit conversion of disability insurance. However, there are personal disability options. Some policies can be issued without medical information, while others require the submission of evidence of good health information.

### We are here to help!

- ✉ Employee letters – we can assist employers in drafting the letter advising the employees of their option to convert
- ✉ Conversion applications – we can work directly with the terminating employee to apply for coverage. This way they are able to meet the tight deadlines for application

## CONTACT US

### Johnstone's Benefits

Phone: 604 980 6227

Toll Free: 1 800 432 9707

Fax: 604 983 2935

Website: [www.jbenefits.com](http://www.jbenefits.com)

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