Ontario Works Directives

4.8: Life Insurance Policies

Legislative Authority

Section 7(3) of the Act.

Sections 14(1), 15.1, 17(2), 32, 38, 39 and 62(3) of Regulation 134/98.

Audit Requirements

All life insurance policies or any actions taken for the surrendering of such policies are documented and on file.

Asset levels are adhered to and applied consistently and fairly in accordance with provincial standards.

Random file reviews are completed to ensure that the above information is documented and filed accordingly.

Application of Policy

The cash surrender value of a life insurance policy is considered an asset when:

1. The life insurance policy has a cash surrender value. For example, "Whole Life" or "Twenty Pay Life" policies have cash surrender value. "Term" insurance policies do not;
2. The policy is redeemable (cashable) by a member of the benefit unit; and
3. The person who could receive the cash surrender amount when the policy is redeemed is a member of the benefit unit.

In situations where a dependent child has a life insurance policy with a cash surrender value that would exceed the asset level, the child may be removed from the benefit unit while the rest of the family may remain eligible.

It is not necessary for the applicant or recipient to cash in the life insurance policy in order to reduce their asset level. However, if the cash surrender value exceeds the allowable asset level, the applicant or recipient may be determined to be ineligible.

When a policy is cashed, the money realized (received) is considered income in the month it is received and as an asset thereafter. The applicant or recipient must be informed of all options and implications around life insurance policies. However, the Administrator may exempt funds received from the sale or disposition of a life insurance policy if they are applied toward the purchase of an exempt asset (e.g., a principle residence for the benefit unit).

Example 1:

An applicant declares that he/she has a life insurance policy with an available cash surrender value that exceeds the maximum asset limit. The applicant is determined to be ineligible for assistance due to excess assets.

The applicant reapplies for assistance the following month and verifies that he/she cashed the policy and received income in the month of reapplication. The applicant is determined to be ineligible if his/her income (as a result of cashing in the insurance policy) exceeds the amount of assistance for which they would otherwise be eligible.

Example 2:

An applicant declares that he/she has a life insurance policy with an available cash surrender value that exceeds the maximum asset limit. The applicant is determined to be ineligible for assistance. The applicant cashes in the policy.

The applicant reapplies the following month and verifies that he/she cashed in the policy the previous month. The applicant verifies that they used the money realized to purchase a principle residence to be used by the benefit unit. The applicant is determined to be eligible for assistance as asset levels at the time of the reapplication are determined to be below the set limits.

Borrowing Against Policies (Encumbered Policies)

Some policies may have been borrowed against prior to applying for assistance. The amount borrowed prior to applying for assistance should not be included in the cash surrender value of the policy. 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 against the policy and the cash surrender value is now only $1,500. In this case the cash surrender value for determining eligibility for assistance would be $1,500.

Annuities

Some applicants and recipients may have purchased an annuity from a life insurance company. Annuities have characteristics similar to life insurance policies, including the possibility of a cash surrender value. The cash surrender value of an annuity from a life insurance company is considered an asset.