PHYSICIANS THRIVE®

THE PHYSICIAN'S GUIDE TO DISABILITY INSURANCE

CONTENT

OVERVIEW

- A complete understanding of how important a comprehensive disability income protection plan is to new physicians.
- The key components of disability insurance for physicians and how they work together to provide maximum protection.
- An understanding of the difference between a customized, individual disability insurance plan and group disability plans along with the pros and cons of each.
- An understanding of the importance of utilizing a disability insurance specialist in developing physician-specific disability coverage.

Most physicians begin their careers way behind the starting line in terms of money and time. It can difficult for the average person to fully understand or appreciate the monetary and time investment that goes into preparing for a medical career. But for physicians, it's vital they realize the financial implications of their investment and begin their careers with a strategic plan to protect it.

Even before they face the lifelong challenge of building wealth and a medical career, many physicians are in a deep financial hole.

• As a result of their extended educations, physicians enter the workforce much later in life leaving them with fewer earning years.

• With an average school-related debt of $170,000, many physicians are forced to allocate a greater part of their income to debt payments in their first years of practicing.

• The ongoing demands of continuing education and practice development precludes many practitioners from being able to allocate sufficient time to acquire the most essential knowledge and skills for managing both their personal and business finances.

While some established physicians may have the opportunity to accumulate sufficient capital to cover a temporary loss of income, newer physicians are less likely to withstand an earnings loss for an extended period of time. For them, their earning capacity is their biggest asset. According to the Council of Disability Awareness, for men and women, the chances of becoming disabled for a period of 3 months or longer is almost 25 percent. 38 percent of those disabilities are lasting five years or longer.

Even mid and late-stage physicians risk a significant depletion of their capital should a disability keep them out of work for an extended period of time. The point at which an individual has a sufficient amount of wealth to self-insure against a long-term disability without threatening their financial security may be well into the future for many physicians.

Physicians, with their substantial investment of time and money and the potential to earn millions of dollars in return, have much more at stake than most other people. It is for this reason that physicians should consider purchasing a disability insurance policy as early in their career as possible when the need is greatest and the cost is least expensive.

DISABILITY INSURANCE PLAN ESSENTIALS

Disability Insurance is intended to replace the income of an insured individual who, as a result of an accident or an illness is unable to work or is limited in their ability to work in their occupation. This insurance policy typically pays a monthly income until the insured is deemed by a physician to be healthy enough to return to work full time, and the amount payable depends not only on the income of the insured, but also on the type of disability coverage he or she owns.

The process of obtaining the right kind of disability coverage and collecting benefits is somewhat more convoluted than most types of insurance, so it is important to have a good working knowledge of disability insurance at the outset.

DEFINITIONS OF DISABILITY

The definition of "disability" is one of the most important parts of a disability insurance contract as it is the primary basis for determining if benefits will be paid when totally disabled. For physicians in search of a disability insurance policy, it is important to understand that there are numerous basic definitions of disability commonly used in policies that are issued today.

REGULAR OCCUPATION WITH MEDICAL SPECIALITY WORDING ("TRUE OWN OCCUPATION")

Under the "regular occupation" definition of disability with speciality language, an individual is considered totally disabled if they are unable to perform the essential duties of their regular occupation; that is the occupation in which they were engaged at the time of disability. The "speciality" clause states "If you have limited your occupation to the practice of a specific medical speciality, your speciality will be deemed to be your occupation." They must be under the care of a physician in order to receive benefits.

For example, if an orthopaedic surgeon has an accident and loses a finger which prevents her from performing her specific duties, she still receives a full income benefit, even if she is able to work as a hospitalist or teach at a medical college.

REGULAR OCCUPATION (ALSO REFERRED TO AS "TRUE OWN OCCUPATION")

This definition of total disability is the same as the prior version but it does not have language in the policy that clarifies medical or dental specialities. The definition reads:

"Total disability means that, due solely to impairment caused by injury or sickness, you are unable to perform the material and substantial duties of your regular occupation and you are under the regular appropriate care of a physician."

The definition stops short of adding the speciality clause we see in the first definition of total disability.

TRANSITIONAL YOUR OCCUPATION

Under a Transitional Your Occupation (TYO) definition, the insured would receive a total benefit if they are unable to work in their occupation. The full benefit payment is made until the combination of the monthly benefit and any income that is earned in another occupation is equal to or greater than the monthly income that they were earning prior to becoming disabled.

TRANSITIONAL YOUR OCCUPATION EXAMPLE

An anesthesiologist is earning $300,000 per year, or $25,000 per month. While healthy, she increases her disability insurance policy to receive a maximum of $12,500 from her policy if she were to become totally disabled. Then, a back injury from a car crash prevents her from working as an anesthesiologist. After satisfying the 90 day elimination period, the doctor begins to receive $12,500. After a year, she decides she is unable to do anything in her field.

She then attends law school and obtains a new job as an attorney earning $180,000 per year ($15,000 per month). To determine how the TYO policy pays, we add the $15,000 of earned income to the monthly disability benefit of $12,500. Total is $27,500. Since this is less than the $30,000 monthly income that she was earning as an anesthesiologist , she continues to receive the $12,500 per month. After a promotion to Jr. Partner in the law practice, she is now earning $240,000 per year ($20,000 per month). At this point, the monthly disability benefit is reduced from $12,500 to $10,000. Once her income from her law practice reaches $300,000, the disability benefit is reduced to $0. The "transition" to a new occupation has been completed and benefits stop. If she had a "true own occupation" policy, she would be able to earn the $300,000 at the law firm and would receive the $12,500 monthly benefit from her disability insurance policy. The total benefit would be paid until reaching the end of the benefit period or when the attorney could return to being an anesthesiologist .

MODIFIED OWN OCCUPATION

A modified own occupation definition will require that the insured is unable to do the duties of their occupation in addition to NOT working in any job. If they are working, earning anything greater than 20% of the income from the prior job, they are not totally disabled.

ANY OCCUPATION

This definition can be found in some group plans. It requires that an individual is unable to work in their occupation, in addition to NOT being able to work in any occupation, based on education, experience, and work history. Some group plans have definitions of total disability that change MID claim. You get hurt and cannot work at all. The first 24 months of that claim could be "True own occ" but...once you cross the 24 month threshold on that claim, you could need to satisfy the more restrictive "any occ" clause. A surgeon with a hand tremor that was approved for total disability would likely see their monthly benefit changed.

THE ELIMINATION PERIOD

The period of time between the onset of a disability and the time you become eligible to receive benefits. The elimination period can vary, with choices ranging from 30 to 365 days. With a longer elimination period, the premium cost of the policy is reduced.

It is generally recommended that a new physician who does not have adequate savings start with a 90 day elimination period. It is important to note that the first disability check is not received until the end of the first month. After factoring in another day or two of delivery time for the physical check, it may not be until day 122 or 124 after suffering a disability before the first monthly benefit payment is received.

Insurance companies allow the policy holder to modify the plan in a way that reduces risk to the insurance company without requiring any further medical underwriting. With that being the case, a younger physician could purchase a policy that has a 90 day elimination period with the intent to modify to a 180 day elimination period when there is enough savings to justify this change.

The premiums on policies with a 30 day elimination period are the highest, so the cost savings realized by choosing a 90 day elimination period are significant. With elimination periods longer that 90 days, the cost savings are fairly negligible.

The best way to approach the elimination period is to calculate the cost savings of a longer elimination period and then evaluate the ability to divert those cost savings into an emergency fund that can be used to self-insure for short-term disability.

THE BENEFIT PERIOD

The benefit period is the length of time a disability insurance contract will pay a monthly benefit. Off-the-shelf disability policies typically have an option of a 2 year benefit period, a 5 year benefit period, a 10 year benefit period, or benefits paid until age 65 or 67. With people increasingly working after age 65 or 67, newer disability policies might have the option to purchase a "To age 70" benefit period. Some policies include options that allow the insured to receive a "lump sum disability insurance benefit" when they reach the end of the regular benefit period.

SECURE A SAFE AND PREDICTABLE FUTURE

PARTIAL DISABILITY VS. TOTAL DISABILITY

If you become disabled but are still able to work in a reduced capacity (less hours or limited duties) in your original occupation (speciality), you are considered to be residually disabled. Disability policies that include a residual benefit will pay a partial monthly benefit proportionate to your lost income or based on a specific clause in the contract. Policies without a residual benefit would require you to be totally disabled and unable to work before you can receive any benefits.

Statistically, you are more likely to become partially disabled than totally disabled. Keep in mind, many illnesses that lead to someone being totally disabled could take years to progress to the point of total disability. If a disability policy did not include the right clauses for residual benefits, you could go through a period during which your income is collapsing, while still needing to make payments and receiving no payout from the insurance company. It is very important for a policy to include a residual benefit, so take a moment to review your existing policy if you have one. The good news is, most of the top insurers offer a residual or partial disability benefit.

As with "total disability," there are numerous versions of "residual disability" that are offered in today's marketplace. The key to all clauses is there is a percentage loss of income that is required to receive residual benefits.

Some policies require a loss of income of at least 15%, while other residual definitions require a minimum of a 20% loss. To understand how and when a residual disability payment is made, let us look at the following example:

Some policies require an additional clause to be met, in addition to the 15% or 20% loss. The requirement is either a "loss of time" or some type of "loss of duties", i.e., you used to perform a specific procedure and now you cannot, but you are able to perform other functions of your occupation.

The loss of time requirement is seen most typically as one of three different clauses:

1. You are able to perform all of the material and substantial duties of your occupation but not for the length of time they normally require.

2. Able to perform all the duties of your regular occupation but not able to perform them for more than 80% of the time.

3. You are unable to work full time in your occupation.

Thankfully, there are many great options for finding a policy that provides a strong definition of residual; however, beaware of the details. Keep an eye out for residual clauses that require an INITIAL period of total disability PRIOR TO receiving a residual claim. In this case, many illnesses and injuries that cause people to work part time would not qualify for a residual claim.


Ebrahim Shakir, M

ESSENTIAL OPTIONS FOR PHYSICIANS

GUARANTEED FUTURE INSURABILITY

A physician's income can more than quadruple on day one of their first job after training. At this point an initial disability insurance policy may not provide the coverage needed to replace the increased earnings. Disability policies with a Future Increase Option (FIO) provide the opportunity to increase your monthly benefit every one to three years without any evidence of insurability. Without the FIO, you could be forced to purchase additional disability insurance policies with the risk a medical condition might disqualify you from obtaining the coverage or doing so at a very high cost.

COST-OF-LIVING ADJUSTMENT (COLA)

Most disability insurance policies offer a Cost-of-Living-Adjustment (COLA) as an option. This adjusts the monthly benefit based on an inflation index, a fixed percentage, or a fixed dollar amount. COLA is essential to preserving your purchasing power throughout an extended disability. Whether the insured is able to keep the cost of living increase for future claims (when coming off of a claim in which COLA had already increased from the benefit), and whether or not the added benefit will have an additional cost or if it will be added at no cost, depends on the specific contract you own.

CATASTROPHIC DISABILITY BENEFIT RIDER

If your disability results in an inability to perform two or more of the activities of daily living without assistance, the Catastrophic Disability Rider will pay a monthly benefit. The benefit is intended to cover the costs of assisted care while also receiving the regular benefit. The activities of daily living (ADL) include:

- Bathing
- Continence
- Dressing
- Eating
- Toileting
- Transferring

These benefits are also available if you should become Cognitively Impaired or it is determined that your disability is irrecoverable.

EXAMPLE

A general practitioner runs a busy practice. She sees an average of 20 patients per day and has done so for 10 years. One day, when out running errands, she slips and falls. After going through physical therapy, she realizes she has a bulging disc in her back, but it's not something that prevents her from working as a general practitioner. Her income was $350,000. However, the pain has forced her to reduce the number of patients she can see from 20 to 12-14 per day.

Due to the reduced volume of patients, her income has dropped from $350,000 to $230,000 - a reduction of approximately 34%. Under a residual clause that only requires a loss of income, she could receive a residual benefit. The specific dollar amount received during the initial period under residual is usually greater than the amount over the remainder of a residual claim. After the initial phase, which is typically 6 months or 12 months, most policies would pay a proportion of the total disability benefit. If she owned a policy that had a $10,000 monthly benefit, she could receive $3,400 of monthly benefit (34% of $10,000).

+ ADDITIONAL KEY BENEFITS FOR PHYSICIANS

NON-DISABLING INJURY BENEFIT
An increasing number of physician-specific disability insurance plans include a Non-Disabling Injury Benefit. This benefit will pay for medical expenses incurred as a result of an injury even if it doesn't lead to a total disability. It can be thought of as another form of medical insurance that covers medical treatments using up to 50 percent of your monthly disability benefit. This can be an especially valuable benefit for physicians who have high deductible health insurance and it even pays for expenses that might be covered under a regular health insurance plan.

GOOD HEALTH BENEFIT
Disability insurance plans that include a Good Health Benefit are similar to auto insurance policies that reduce your deductible for every year you are accident-free. A typical Good Health Benefit will reduce the elimination period (similar to a deductible) by one or two days for each consecutive year you don't receive any disability benefits. If you do receive disability benefits, the elimination period is reset to the original number of days.

COBRA PREMIUM BENEFIT
A modified own occupation definition will require that the insured is unable to do the duties of their occupation in addition to NOT working in any job. If they are working, earning anything greater than 25% of the income from the prior job, they are not totally disabled.

POLICY RENEWAL

Most individual disability insurance policies are non-cancellable and guaranteed renewable, which means they must be renewed automatically by the insurer without any changes regardless of your health. This includes your premium rate which cannot be increased as long as your policy remains in force or until the end of the regular benefit period (to 65, to 67, etc).

If a physician would like to keep their policy in place beyond age 65 or 67, they can do so. A letter will be sent to the insured annually where they must validate they are working 30 hours or more and they are not currently disabled. Premiums will increase at these ages and the maximum benefit period ranges from 12–24 months for disabilities occurring after the end of the regular benefit period.

25%

The chances of you becoming disabled for a period of three months or longer.

GROUP DISABILITY INSURANCE

Although most residency programs and medical tra
do offer group plans, residents and new physicians
in danger of being lulled into a false sense of securit
the wording in these plans is not as strong as what i
cancellable, guaranteed renewable plan. Also, thes
permanent. They can be altered or cancelled with c
notice.

Once they leave training, young physicians must eith
employment where a group plan is offered or buy in

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insurance. By not purchasing individual coverage at a younger age, new physicians will end up paying a higher premium for the life of the policy.

Another concern for residents is the risk they develop an illness or become disabled while under a group plan. Once they leave residency and the group plan, they will have difficulty buying an individual disability policy.

INDIVIDUAL VS. GROUP DISABILITY INSURANCE

A SUMMARY OF MATERIAL DIFFERENCES

Feature	Group Disability	Individual Disability
Policy Form	A group product covering many employees under one master policy.	An individually owned policy.
Policy Renewal	Annual renewal process exists, but coverage is not guaranteed to be renewed by the carrier.	Non-cancellable & Guaranteed Renewable to age 65. Conditionally renewable for life, if working 30+ hours per week.
Premium Structure	Rates based on current age of employees. Cost will increase as the group gets older.	Level premium to age 65. Cost is locked in at the age of purchase.
Premium Guarantee	Typically a 1-2 year rate guarantee at most.	Guaranteed to remain unchanged through the age of 65.
Feature Guarantee	Carrier can change or eliminate features annually at plan renewal.	All features & riders are guaranteed to age 65. Only the insured can alter the policy.
Best Definition Available	Own occupation, only if not working in a new occupation, to age 65/67.	Own Occupation to age 65/67/70.
Partial & Residual Benefits	20% income loss (due to illness/injury) required.	15% income loss (due to illness/injury) required
Covered Earnings	Typically base earnings only, but some plans may cover total compensation.	Total compensation.
Underwriting / Claims	Limited health underwriting at the time coverage becomes effective. Preexisting limitations are used at the time of claim.	All underwriting is done at time of application vs. at the time of claim.
Claims	Claims department handles all level of claims from janitors to attorneys / physicians with a one-size-fits-all approach.	Because 98% of all claims are from high end professionals, the claim examiners have a high degree of skill in understanding of these claims.
Rehabilitation Features	Mandatory and automatic return-to-work rehabilitation provisions.	Voluntary and mutually agreeable return-to-work programs.
Benefit Off-Sets	Offsets for Federal Social Security, workers comp, and any other state welfare benefits.	None
Self-Reported Illnesses	Typically plans have limited benefits for self-reported illnesses such as chronic fatigue, etc.	Not limited.
Portability	Not fully portable. Identical benefit amount and plan design features/benefits are not guaranteed.	100% portable at the same rate, benefits, and features.

KEY TAKEAWAYS

• Because the earnings of physicians increase rapidly in the first stage of their careers, their disability income protection often does not keep up. Physician disability insurance needs to be reviewed frequently to ensure their protection keeps up with their income need.

• The definition of "disability" is one of the most important parts of a disability insurance contract because it is the primary basis for determining if benefits will be paid. As important as the definition of total disability is, you do not want to forget about the residual definition. Someone can become partially disabled without ever becoming totally disabled.

• Physicians should consider a "true" own occupation disability policy which defines "total disability" as the inability to perform the material and substantial duties of their specific speciality.

• The Future Increase Option is critical for physicians who expect their incomes to increase over time.

• Group disability plans are fine for a temporary solution or to supplement the coverage of an individual disability policy, but the limitations and more restrictive definition of total disability can't provide the maximum protection physicians need.

• Physician-specific disability insurance is a complex product with a lot of moving parts that should be tailored to your unique needs. Only a disability insurance specialist with access to the top speciality disability insurance carriers, along with access to discounts, has the resources and the expertise to match your specific needs to the right disability insurance policy.

WORKING WITH A DISABILITY SPECIALIST

Disability insurance has become a speciality over the years. Fewer insurance companies offer the coverage, and even fewer offer physician-specific disability insurance. Because it is a more complicated product than life insurance, and it protects such a vital part of your financial life, it is recommended you seek the guidance of an insurance professional who specializes in disability insurance and who is experienced in working with the unique needs of physicians.

STAY CONNECTED

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