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# PRACTICE MANAGEMENT

## What Every Otolaryngologist Needs to Know about Disability Insurance

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With physicians' income levels and job satisfaction decreasing as a result of managed care, insurance companies are convinced that physicians are more likely than ever before to file claims on their disability insurance policies. This understanding, along with a significant increase in claims, has forced many insurance companies to drastically change the way they will insure physicians, especially those who perform invasive procedures.

If you have not thought about purchasing or supplementing your current disability insurance coverage recently, you might not be aware of the negative changes that have taken place. This article should help you avoid many common mistakes made when purchasing a new policy or supplementing your coverage in today's marketplace.

### How policies are offered

Disability insurance can be purchased on either an individual or a group basis. Group insurance is usually provided by your employer or purchased individually from a

Additionally, I know of one company that currently places otolaryngology residents in a higher occupational class than practicing otolaryngologists. This allows residents to qualify for a policy with more liberal definitions at a lower premium cost.

### Purchase a noncancelable, guaranteed renewable policy

With a policy that is "noncancelable" and "guaranteed renewable," you are in control of your financial security. The insurance company cannot cancel, increase the premiums, change any provisions, or add restrictions to the policy. Therefore, once you own a policy with liberal definitions and contract provisions, you are guaranteed that it will remain that way, even if the issuing company no longer offers similar policies in the future. An individual policy would also not be affected by any additional disability coverage provided by a future employer.

### Purchase a policy with an "own-occupation" definition of disability

Under this definition, benefits are contingent upon your ability to practice otolaryngology and/or perform head and neck surgery. With an "own-occupation" policy,

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sponsoring medical association. Although initially low in cost, group policies have several limitations. They can be canceled (by either the association or insurance company), rates increase as you get older, and premiums are subject to adjustments based on the claims experience of the entire group. Finally, group and association contracts often contain restrictive definitions of disability as well as less-generous contract provisions.

### Purchase coverage early in your career

Disability insurance coverage should be purchased as early in your career as possible. Rates are based on several factors, including age. The younger you are when the purchase is made, the lower the cost of the insurance.

an otolaryngologist would collect full benefits if he or she could no longer perform head and neck surgery, even if he or she returned to medicine in some other capacity, such as teaching or doing research. Although difficult to find, particularly for surgeons, a policy with this clause is advantageous. Check to see how long the "own-occupation" coverage lasts. Many policies have shortened the time such benefits will be paid. Ideally, you want to purchase a policy with an "own-occupation" definition to age 65 or longer.

### Purchase a policy with a residual disability rider

This rider pays benefits based on loss of income due to disability, rather than the loss of ability to practice oto-

laryngology and/or perform head and neck surgery. There are many afflictions that could reduce your effectiveness and therefore, your income, but still allow you to work in your occupation. With combination coverage (own-occupation with a residual rider), you would collect full benefits if you could not practice otolaryngology and/or perform head and neck surgery and continue to receive benefits, proportionate to your loss of income, if you returned to otolaryngology on a limited basis. Without a residual rider the policy can be viewed as a bare-bones policy that pays benefits only in the event of total disability. Therefore, if you could practice otolaryngology and/or perform head and neck surgery (even one day a week), you would not be entitled to any benefits. There are a few points to watch out for with combination coverage—the residual rider should pay benefits even if you never suffer a total disability, and benefits should be payable to age 65.

### **Purchase a policy with a cost-of-living adjustment (COLA) rider**

A cost-of-living adjustment rider is designed to help your benefits keep pace with inflation after your disability has lasted for 12 months. This adjustment can be a flat percentage or tied to the Consumer Price Index. Ideally you want a COLA that is adjusted annually, is based on compound interest, and has no cap on the monthly benefit. Although important, if cutting the cost of coverage is an issue, this might be the first optional rider to consider excluding from the policy.

### **Purchase a policy with a future purchase option rider**

This rider is a must for young physicians. It offers the ability to increase your disability coverage, regardless of your medical condition, as your income rises. When this rider is exercised, some companies amend your original policy to reflect your new benefit level. This is preferable because the definitions, contract terms, and premium rates are guaranteed to be the same as the original policy that you purchased. Other companies offer the right to purchase a new policy, which would then subject you to definitions, terms, and premium rates that may differ from your original policy. It could limit the own-occupation period, as well as higher premiums for the additional policies that you will be purchasing.

### **Know the maximum benefit level on the policy**

Most insurance companies will issue disability insurance coverage equal to approximately 60 percent of income. However, insurance companies have decreased the amount of coverage they will sell to physicians, regardless of earnings. The most common maximum benefit limit is now \$10,000 per month. This is often a maximum, combining both group and individual policies that you own. However, if you have an old policy with a future purchase option rider, you might be subject to the rules that applied at the time you bought the policy. In that case, you might be able to purchase coverage in excess of \$10,000 per month. Another possibility would be to supplement your individual policy with association coverage, provided it allows for a higher cap on monthly benefits.

### **Think carefully before deducting disability insurance premiums from your taxes**

Disability insurance benefits are generally received on an income tax-free basis. However, if your practice provides you with coverage and takes a tax deduction for the premiums, the benefits are taxable when received. This means that you could lose as much as 50 percent of your benefits at the time you need them most. A better alternative would be to forego the tax deduction or have your practice give you a bonus equal to the policy premium. You will owe taxes on the bonus, but the practice will retain its tax deduction, and your benefits remain income tax-free.

### **Summary**

Purchasing a high-quality disability insurance policy has never been easy. In addition, the types of policies that were once commonplace are virtually impossible to find today. The availability of certain policy provisions varies widely among insurance companies. It is important to take the time to make sure that you completely understand the contract provisions of the policies that you are considering. The best approach is to meet with an independent insurance agent who specializes in insurance coverage for physicians (not a captive agent who must sell only his or her company's products). Then, based on your budget and objectives, you can decide which company's policy suits your individual insurance needs.

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