



Protect your practice from disability

by **Diane Angelucci** Contributing Editor

Physicians discuss the benefits of business overhead expense insurance for ophthalmologists.

What would you do if you were disabled in a car accident? You probably have disability insurance to cover your personal expenses, but would you have the financial resources to pay your office rent, utilities, staff salaries, and other practice expenses?

It's a nagging concern for Marguerite B. McDonald, M.D., F.A.C.S., clinical professor of ophthalmology, Tulane University, and director, Southern Vision Institute, New Orleans, who is a solo practitioner and has a clinical trials unit that depends solely on her income.

"'Game over' if I get sick for a while," Dr. McDonald said. "I'd have to let all my good people go, and by the time I came back, they would all have new jobs. It would be a disaster."

Dr. McDonald isn't alone in her concern. Many physicians don't realize that business overhead expense insurance is available to pay operating expenses while they recover. Insurance sales people often stop short of recommending it, said Robert Kaplan, CPA, CFP, Kaplan Financial, Encino, Calif.

Coverage

Policy elimination (or waiting) periods typically range from 30 to 90 days. This is the period of time between the onset of a disability, and the time you are eligible to receive benefits.

However, if a physician selects a 60-day waiting period, for example, he should not expect to receive a check until the third month, said Lawrence B. Keller, CLU, ChFC, RHU, LUTCF, founder, Physician Financial Services, Woodbury, N.Y.

The maximum benefit available is \$30,000 per month, depending on the physician's verifiable overhead (recurring tax-deductible operating expenses excluding the physician's salary) expenses and the policy purchased. Benefits typically are paid for 12 to 24 months, depending on the benefit period selected, giving the physician time to recover or, if necessary, sell his business.

Unlike a personal disability policy, which pays a specific benefit each month, business overhead expense insurance is a reimbursement policy, which pays only your actual expenses up to the level specified.

Therefore, if you have a \$10,000 per month policy, but only had \$8,000 in expenses in a given month, you would be paid \$8,000.

However, Mr. Keller said, with a policy including extension of benefits, if you do not use the full amount each month, the extra will remain in the pool and extend your benefit period while you are disabled.

Business overhead expense insurance premiums are tax deductible as a business expense (Rev. Rule 55-264, 1955-1 CB 11).

Group practices

Although business overhead expense insurance is considered essential for sole practitioners, it may be beneficial in small group practices.

“All physician/owners of the practice should have overhead expense insurance to protect their partners from the financial burden of paying increased operating expenses during a period of disability. Insurance transfers the burden to the insurance company. Presume that two of four partners are unable to work for a period of time, how would that impact the practice? Revenue and expense allocation?” Mr. Kaplan said.

Purchasing a policy

Before shopping for a policy, make sure that you need it and that you’re not covered by another policy you already own, said Murray A. Golden, C.O.E., executive director, Sarasota Cataract and Laser Institute, Sarasota, Fla.

Comprehensive business policies may include overhead expense coverage along with other coverage. “Sometimes you can get comprehensive policies that cover all of those things, and it is usually a lot cheaper,” Golden said.

While investigating policies, consult a few agents, as well as people outside the insurance field. “Make sure you talk to your colleagues, Golden said. “Make sure you talk to other clients of the insurance company — and not necessarily the ones the agent gives you.”

Golden also consults similar practices carrying the type of insurance he’s seeking to determine a company’s track record and reputation. Physicians also may want to discuss options with their accountant and financial planner.

Physicians should be sure the insurance company is stable. “They should definitely look at the independent rating services like Standard & Poor’s and A.M Best to make sure that a company has a high financial rating. To simplify the various ratings, ask for the insurer’s ‘Comdex’ rating,” Mr. Kaplan said. “I like to see them within the top 15 percentile of the highest financial ratings

that are offered by different rating services.”

Understand exactly what your policy covers and excludes.

Look for the following features, which may be included in the policy or may need to be added as a rider:

- A policy that is non-cancelable and guaranteed renewable. This guarantees that the insurance company can never raise its rates, cancel its policy, or modify its policy for any reason, Mr. Kaplan said;
- “Own-Occupation” definition of disability. Be sure that you will be protected if you cannot work in your specialty;
- Waiver of premium. When you are disabled and receiving benefits, premiums are waived;
- Future Increase Option Rider. “This basically says that they can buy more coverage in the future without ever doing another exam, blood, or urine test, without ever answering a medical question,” Mr. Keller said;
- Automatic Increase Rider. Benefits automatically increase each year for inflation while you are not disabled;
- Residual Disability Rider. This provides protection when you are at work but suffer an income loss due to a disability; and
- Salary Replacement Benefit Rider. This protects the business by giving you the flexibility to hire another ophthalmologist during your disability.

Editors’ note: Mr. Kaplan and Mr. Keller sell insurance as part of their financial services. Dr. McDonald and Golden have no financial interest in services mentioned in this article.

Contact Information

Golden: 941-921-7744, fax: 941-921-3783, mgolden@sarasotacataract.com

Kaplan: 800-827-7775, fax 818-783-7620, robert@kaplanfinancial.net

Keller: 516-677-6211, fax 516-677-7911, lkeller@physicianfinancialservices.com

McDonald: 504-896-1250, fax 504-896-1251, margueritemcdmd@aol.com

How much can you expect to pay?

Monthly premiums vary widely for business overhead expense insurance, depending on the company, policy, and monthly benefit selected, as well as the physician’s age, gender, location, specialty, and other specifics.

For example, Lawrence B. Keller, CLU, ChFC, RHU, LUTCF, founder, Physician Financial Services, Woodbury, N.Y., estimated that a 45-year-old male cataract surgeon with a \$10,000 per month policy with a 90-day waiting

period, 18-month benefit period, and residual disability rider, would pay approximately \$1,919 per year with the Berkshire Life Insurance Co. of America and \$1,475 with the Union Central Life Insurance Co.

Contact Information

Keller: 516-677-6211, fax 516-677-7911, lkeller@physicianfinancialservices.com



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