

**PRACTICE  
MANAGEMENT****What every ophthalmologist needs to  
know about disability insurance**

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**Physicians  
must pay  
closer  
attention to  
policy  
specifics as  
changes in  
coverage  
occur.**

**by Lawrence B. Keller Exclusive to EyeWorld**

With physicians' income levels and job satisfaction decreasing as a result of health care, insurance companies are convinced that physicians are more likely than before to file claims on their disability insurance policies. This understanding, with a significant increase in claims, forced many insurance companies to dramatically change the way they 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 when purchasing a policy or supplementing your coverage.

**How policies are offered**

Disability insurance can be purchased on an individual or group basis. Group coverage is usually provided by an employer or purchased individually from a sponsoring medical association. Although initially low in cost, group policies have several limitations. They can be canceled (by the association or insurance company), rates increase as you get older, and premiums are subject to adjustments based on the claims experience of the group. Finally, group and association contracts often have 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 purchase is made, the lower the cost of the insurance. Additionally, I know of one company that places ophthalmology residents in a higher occupational class than practicing ophthalmologists. This allows residents to qualify for a policy with liberal definitions at a lower premium cost.

In recent years, it has become more difficult for females to purchase affordable coverage. Insurance companies have gone from unisex rates to sex-distinct rates, costing women 40% to 50% more than men. However, unisex rates may be achieved using a multilife billing structure. Here, individual policies are purchased, with one sent to a sponsoring employer. Even a sole practitioner could qualify for multilife by providing minimal coverage for her office manager or other staff member. In this way, the total premium outlay for both policies is less than the ophthalmologist would have paid for her policy alone. Additionally, the practice is entitled to a tax-deductible premium on the employee's behalf.

**Purchase a noncancellable, 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 premiums, change 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 stay 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 ophthalmology and/or perform ophthalmic surgery. With an own-occupation policy, an ophthalmologist would collect full benefits if he or she could no longer perform ophthalmic 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 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 last longer.

### **Purchase a policy with a residual disability rider**

This rider pays benefits based on your loss of income due to disability, rather than loss of ability to practice ophthalmology and/or perform ophthalmic surgery. If your afflictions could reduce your effectiveness and your income, but still allow you to continue in your occupation. With combination coverage (own occupation with a residual disability rider) you would collect full benefits if you could not practice ophthalmology and/or perform ophthalmic surgery and continue to receive benefits, proportionate to your loss of income, if you returned to ophthalmology on a limited basis. Without a residual disability rider the policy can be viewed as a bare-bones policy that pays benefits only in case of total disability. Therefore, if you could practice ophthalmology and/or perform ophthalmic surgery (even one day a week), you would not be entitled to any benefits. There are a few points to watch for with combination coverage - the residual rider should pay benefits even if you never suffer a total disability, and benefits should be payable until age 65.

### **Purchase a policy with a COLA rider**

A cost of living adjustment (COLA) 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 rider adjusted annually, based on a compound interest rate, and which has no cap on the monthly benefit. Although important, if cutting the cost of coverage is an issue, the COLA rider 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 coverage, regardless of your medical condition, as your income rises. When the rider is exercised, some companies amend your original policy to reflect your new income 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 new definitions, terms, and premium rates that may differ from your original policy. This might mean a limited own-occupation period and/or 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% 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 \$10,000 per month. Therefore, if you have a policy with a future purchase option rider, you might be subject to the rules that were applied at the time you bought the policy. In that case, you might be able to purchase coverage of more than \$10,000 per month. Another possibility would be to supplement your individual policy with association coverage, provided it allows a higher cap on monthly benefits.

**Think carefully**

Disability insurance benefits are generally received on an income tax-free basis. However, if your practice provides you with coverage and takes a tax deductible premium, the benefits are taxable when received. This means that you could lose as much as 50% 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's premium. You will owe taxes on the bonus, but the practice retains the tax deduction, and your benefits remain income tax-free.

**Summary**

Purchasing a high-quality disability insurance policy has never been easy. In the past, the types of policies that were once commonplace are virtually impossible to find today. The availability of certain policy provisions varies widely among the insurance companies. It is important to take the time to make sure that you completely understand the contract provisions of the policies you are considering. The best approach is to meet with an independent insurance agent who specializes in disability 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 insurance needs.

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**About the author**

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