

Disability Insurance Planning

Protecting Your Ability to Earn an Income

Although members of the cancer care team will sacrifice their time and energy for the care of their patients, all too often it is done to the detriment of themselves and their families, especially in the areas of personal financial planning. This article focuses on protecting your most valuable asset—your ability to earn an income.

Disability Insurance

Disability insurance can be purchased on an individual or group basis. Group insurance usually is provided by an employer or purchased individually from a sponsoring 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 grow older, and premiums are subject to adjustments based on the claims experience of the group. In addition, group and association contracts often contain restrictive definitions of disability as well as less generous contract provisions.

First, find out what long-term disability (LTD) benefits, if any, are available or provided to you by your employer. You will need the answers to the following questions:

- What percent of your income is covered? Is only your base salary covered or is commission, bonus, and overtime income also included?
- What is the maximum monthly benefit?
- How long must you be disabled before benefits become payable?
- How long are benefits payable?
- Are you contributing to the cost of the coverage or is it paid for entirely by your employer?

- Would benefits paid to you be taxable or income tax-free to you upon receipt? Do you have a choice?
- Is the plan mandatory or voluntary?
- What is the name of the insurance carrier that underwrites the coverage?

Disability Insurance Limits

Insurance companies don't want you to earn a higher income when you are disabled compared with when you were working. For this reason, most insurance companies will limit the amount of disability insurance available.

Ideally, you would like to have 60% of your earned income replaced on an income tax-free basis in the event of your disability. When you have group insurance in place, however, this will limit the amount of individual coverage available to you—even if you were willing to pay for a larger amount of coverage. For this reason, when shopping for an individual disability insurance policy, it is best to provide your agent with a copy of your group LTD plan, the specifics as to how your salary is comprised, your job title, as well as duties. You should also let him or her know if you have any health issues or are taking any prescription medications. They then will go to the marketplace to present you with the options available so you can make a well-informed, educated decision based on your budget and individual needs and goals.

The Cost of Disability Insurance

Premium rates are based on several factors, including the insured's age,

gender, monthly benefit being purchased, and the optional riders selected. The younger you are when the purchase is made, the lower the cost of the insurance. Therefore, you should purchase a policy as early in your career as possible to lock in lower premium rates.

Rates for women are substantially higher and their policies generally cost 50% to 60% more than those for men. Fortunately, many disability insurance carriers offer a "multilife" discount when several employees working for the same hospital or practice purchase individual policies at the same time. Whereas these programs typically produce a savings of 10% to 15% for men, this strategy allows female physicians to save up to 60% on the cost of their disability insurance. Another option is to secure a discount as a result of a professional association in which you are a member or are eligible to join.



Summary

Protecting one's income in the event of a disability is one of the core elements of financial planning. My next article will describe what features should be included in your policy and how to choose the company and policy to best meet your needs. ●

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