

Optional riders to consider when purchasing disability insurance

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While my last *EM Resident* article (June/July 2003) focused specifically on the definitions of "disability" commonly offered to emergency physicians—and which one should (ideally) be included in your policy—this article will focus on the optional riders available, as well as the income tax treatment of disability benefits when received.

OPTIONAL RIDERS

Residual Disability Rider

Unless your policy contains a residual disability rider, you may have to be totally disabled to collect any benefits. While an "Own-Occupation" policy protects your ability to practice emergency medicine, it may not sufficiently protect your income level. There are many disabilities that might allow you to continue working in your occupation, on a limited basis, while experiencing a loss of income.

This is especially true for physicians that are compensated based upon the number of hours that they work as opposed to receiving a guaranteed salary (which is often the case in academic institutions). Adding a residual disability rider to the policy would allow you to continue receiving benefits, proportionate to your loss of income, if due to an injury or sickness, you were forced to reduce the number of shifts that you could work or the number of hours that you could work per shift.

Furthermore, with policies such as Modified "Own-Occupation" or "Any Occupation", this rider might allow you to continue receiving benefits if you decided to work in another occupation, or if the insurance company determined that you could work in another "reasonable" occupation based upon your education, training, and experience level with reduced earnings.

Generally, to qualify for residual disability benefits, you must experience an income loss of at least 20 percent compared to your pre-disability earnings. Additionally, if your loss of earnings is equal to or greater than 75 percent or 80 percent, depending upon rider provisions, then 100 percent of your monthly disability benefit would be paid.

Cost of Living Adjustment (COLA) Rider

During an extended disability, traditional fixed dollar benefits may not allow you to maintain your standard of living. A COLA rider is designed to help your disability benefits keep pace with inflation and allow you to maintain your monthly purchasing power. This adjustment can be tied to the Consumer Price Index (CPI) or based on a fixed percentage regardless of the CPI. Ideally you want a COLA that is adjusted annually on a compound interest basis with no "cap" on the monthly benefit.

However, it is important to note that the COLA only goes into effect after you have collected disability benefits for twelve months. Unfortunately, if a disability does not take place for

twenty years, your monthly benefit will not increase until that time. It is for this reason, regular increases in a disability policy are needed to protect your rising income.

Although important, the COLA is generally the most expensive of the optional riders available. As such, if cutting the cost of coverage is an issue, this might be the first optional rider to consider excluding from your policy.

Future Purchase Option Rider

This rider provides you with the ability to increase your disability coverage, regardless of your future health, as your income rises. This benefit is relatively inexpensive and a must for young physicians who may only qualify for limited disability benefits during their residency, fellowship, or early years in practice.

It is important to know when you can increase your coverage, as well as by what increments, on any given option date. Some companies may allow you to use your entire increase option in one year as long as your then current income warrants the increase; others, however, may limit the amount that you can purchase. Surprisingly, I know of one company that will even allow you to exercise your Future Increase Option Rider while you are disabled, and collect on it during your existing disability!

REDUCE THE TAX BURDEN

Personal disability insurance benefits are generally received on an income tax-free basis. However, if your practice or employer provides you with coverage and takes a tax deduction for the premiums paid on your behalf, 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 or employer give you a bonus equal to the policy's premium. At the end of the year, you will owe taxes on the bonus, but the practice retains its tax deduction and your disability benefits remain income tax-free.

SUMMARY

Unfortunately, due to adverse claims experience, the individual disability insurance marketplace has become more complicated for emergency medicine physicians. Policies today differ dramatically in terms of contract language, underwriting guidelines, and premium structures from those available only a few years ago. The best approach is to employ the services of a professional insurance agent who specializes in working with physicians. He or she will not only be familiar with your occupation, but with which companies' policies are best suited for your medical specialty. Then you and the agent can decide which insurance company's policy best meets your individual insurance needs. ■

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