

Disability Insurance: Why You Should Buy it Now

In this early stage of your career, your most valuable asset is your ability to work and earn an income in the future. Now is the time to protect that asset, by selecting and purchasing a good disability insurance policy.



Why Purchase a Disability Insurance Policy?

Your ability to earn an income is your most valuable asset. It allows you to repay your debt, accumulate wealth and develop a lifestyle for yourself and your family. You might ask, "What are the chances of someone my age becoming disabled?" As the chart on page 23 indicates, approximately one in three young physicians will suffer a long-term disability before they reach age 65. With odds as great as these, and substantial earning power at risk, a long-term disability could leave a physician financially devastated. A properly structured disability insurance policy will provide you with the necessary income to maintain your standard of living.

Why Purchase a Policy Early in Your Career?

Lock into policy provisions. Most young physicians are not sure where they will be employed when they complete training, what benefits will be provided, or how long they will remain in that position. Once you purchase an individual, non-cancellable, guaranteed renewable policy, 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 also would not be affected by any additional disability coverage provided by a future employer.

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Lock into lower premium rates. Insurance companies base their rates on several factors, including age. The younger you are when the purchase is made, the lower the cost of the insurance. For example, a 28-year-old male FP buys a policy with the following features: \$2,000 monthly benefit, payable to age 65, 90-day waiting period and residual disability rider. The annual premium would be approximately \$650. If he waited until age 38

to purchase this, the premium would increase to \$900. Assuming he remained insured to age 65, the difference in premium outlay would be negligible; however, if he became disabled before purchasing the policy, he would have forfeited \$834,000 in tax-free disability benefits!

Protect your insurability. Two years ago I met with a physician who was going to enter private practice and was in the last year of her infectious diseases fellowship. When we met, she told me that disability insurance was a good idea but she was going to delay the purchase as she was not “planning on becoming disabled.” The following year she anxiously contacted me to go ahead with the policy that I had proposed. When we met to complete her application, she revealed that she had been diagnosed with ulcerative proctitis. Unfortunately, she no longer qualified for disability income insurance. Had she purchased a policy before the diagnosis, not only would she have the necessary insurance, but she

would have had the ability to increase her coverage, in the future, regardless of her health.

Protect future earnings in advance. When working with physicians, I often hear two reasons for not purchasing a policy early in their careers. They state that at their current income level, they don’t earn an income that’s worth protecting or simply believe that they can’t afford it. Insurance companies have tailored their policies to meet the unique needs of young physicians, so neither of these issues should deter you from purchasing a disability insurance policy.

Most insurance companies will issue disability insurance coverage equal to approximately 60% of income, however, senior medical students, interns, residents, fel-

lows, and newly practicing physicians are provided with “special limits.” These special limits allow them to purchase benefits in excess of what their current earnings would normally allow. Understanding that these individuals have minimal or no income at present, but that their earning potential is substantial, the benefit eligibility rules have been liberalized.

Most insurance companies also offer “step rates” that allow young professionals to pay lower premiums while they are establishing their careers, enabling them to afford more insurance protection during their initial earning years. In addition, some companies also offer “annual renewable disability insurance” to lower initial costs even more.

How Policies are Offered

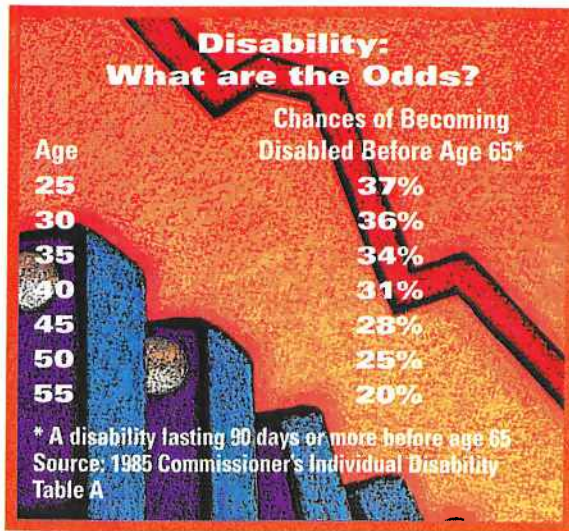
Disability insurance can be purchased on either an individual or group basis. Group insurance is usually provided by your employer or purchased individually from a sponsoring medical association. Although initially low in cost, group policies have several limitations. They can be canceled (by either the association or the 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.

Surge of Physician Claims

With physicians’ income levels and job satisfaction decreasing as a result of managed care, insurance companies are convinced that physicians are more inclined to claim on their disability insurance policies than ever before. This understanding, along with a significant increase in claims, has forced many insurance companies to drastically change the way they will insure physicians. Fortunately, some high-quality individual disability policies still exist. The key is knowing which companies are still offering them. This is why you need to employ the services of a professional insurance agent who specializes in working with physicians.

What To Look For in a Disability Policy

Non-cancellable and guaranteed renewable. With a policy that is “non-cancellable” and “guaranteed renewable,” you are in control of your financial security. The insurance company cannot cancel, increase your premiums, change any provisions or add restrictions to the policy. I have a client who purchased a policy as an



ophthalmologist earning \$700,000 in the 1980s. Today, that same ophthalmologist earns \$300,000. If he became disabled, he would receive benefits based on his \$700,000 income. Remember, the insurance company cannot change any provisions of his policy, including the monthly benefit.

“Own occupation” definition of disability. An “own-occupation” policy offers protection against the loss of your own occupation. With an own-occupation policy, a surgeon would continue to collect full benefits if he could no longer perform surgery, even if he returned to medicine in some other capacity, such as teaching or doing research. Although difficult to find, particularly if you perform invasive procedures, a policy with this clause is advantageous. Check to see how long the own-occupation coverage lasts. Many policies have shortened the time that such benefits will be paid. Ideally, you want a policy that is own occupation to age 65 or longer. The weakness with this type of coverage is that when you are able to return to work in your own occupation, benefits will often cease unless a residual disability rider was added to your policy.

Residual disability rider. This rider pays benefits based on your loss of income due to a disability, rather than the loss of the ability to work in your own-occupation. There are many afflictions that could reduce your effectiveness (and therefore, your income) but still allow you to work in your own occupation. With combination coverage (own occupation with a residual rider), you would collect full benefits if you could not practice your medical specialty. If you returned to your occupation on a limited basis, you would collect benefits proportionate to your loss of income. There are, however, 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 to age 65 or longer.

Cost-of-living adjustment rider (COLA). A cost-of-living adjustment rider helps offset the effects of inflation after disability benefits have been paid for twelve months. This adjustment can be a flat annual percentage or tied to the Consumer Price Index. Ideally you want a COLA that is adjusted annually, on a compound interest basis with no “cap” on the monthly benefit.

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 as 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. This could mean limits on the own-occupation period, as well as higher premiums for the additional policies that you will be purchasing.

Summary

Purchasing high quality disability insurance coverage has never been easy. 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 insurance needs. ■

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