

Business Disability Insurance and Your Medical Practice



Although most physicians are aware that one of the greatest risks they face is becoming disabled and unable to perform the “material and substantial” duties of their medical specialty, most are unaware that

myriad types of disability insurance policies exist to protect their medical practices. These types of policies can assure that ongoing business expenses can be met, that creditors can be paid, and that the medical practice or value of their business interest(s) will be preserved in the event that he or she is unable to return to the practice of medicine. My first article in this series is focused on the benefits of “key person replacement insurance.”

Key Person Replacement Insurance

As a business owner, you probably rely on one or more key people throughout the day to keep your practice running effectively. A “key employee” is someone who contributes significantly to the financial success of a business. This person may be an office manager, a physician’s assistant, an employee physician, or even another physician owner. If any of these key people died or became disabled, what would that mean to the future of your practice? How would cash flow, revenues, profitability, and morale be affected? What would patients and creditors think? The loss of revenue could be devastating.

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dle the loss of a key employee as a result of disability or death. The employer pays the premium and is the owner of the policy insuring the key employee in the event of a total disability. If the key employee becomes

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totally disabled, the employer receives benefits from the policy to offset costs such as recruitment and training, temporary staffing needs, and short-term revenue replacement. As mentioned, often a similar type of policy can be purchased to protect the practice in the event of a key person’s premature death.

Perhaps one of the best applications of key person disability insurance is in the case of a medical practice that is owned by a husband and a wife. In these situations, traditional disability buy-out insurance would normally be unavailable. However, with key person disability insurance, as long as a nonmajority insured (owns ≤50% of the practice) meets the definition of total disability, the owner of the policy receives either a lump-sum payment or a combination of monthly and lump-sum payments, depending on how the policy is structured.

Premium Rates

Premium rates are dependent on many factors, including, but not limited to, age, gender, occupational classification, smoking status, benefit amount, elimination period, and riders selected. However, when multiple business owners and/or employees purchase a combination of disability income and business protection policies from the same insurance company, large discounts can typically be obtained. Additionally, these same discounts can be made available to employees interested in purchasing individual coverage. For these reasons, physicians and other business owners should consider working with the same insurance agent to design a plan to meet the individual needs of themselves and their businesses and to make sure that the policies purchased are integrated and coordinated, and that they take advantage of any available discounts.

Summary

Although most physicians are keenly aware of the need to purchase individual disability insurance coverage, few are cognizant of the variety of disability insurance policies designed to help meet the needs of self-employed physicians and/or the shareholders of a medical practice. These include, but are not limited to disability business overhead expense insurance, key person replacement insurance, and disability buy-out insurance. ●

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