

# “The Basics”

Physician’s Disability Insurance

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### Physician’s Disability Insurance

By Ron Cohen, RHU, RR

Imagine buying a car for need sake only. No frills. An engine and four wheels will get you down the road. That’s all we really need, but, not what we want, nor what we buy. As individuals we seek those products that reflect our personalities and personal needs. No two physicians are alike in this respect. Neither are insurance companies that issue disability insurance for physicians.

#### **Different Companies-Different Viewpoints**

Some carriers view certain medical specialties more favorably than others. Thus, the policies (or contracts) that are offered to these specialties usually have lower rates and in most cases more liberal definitions and verbiage. Still some things remain constant. So what should you be aware of?

#### **Non-Cancelable & Guaranteed Renewable**

Let’s begin with: What type of disability coverage should a physician purchase? As Medical Economics has suggested since the 1960’s, the bedrock of a physician’s coverage should be; Individual Non-Cancelable and Guaranteed Renewable coverage.

This means that once you buy it, you own it as is. The carrier cannot cancel the policy, modify or place any restrictions on the contract. The premiums are stated in the contract and guaranteed. In almost every case, these premiums are level to age 65. The exceptions to the rule are called step rated policies. These policies usually afford young physicians the opportunity to purchase benefits at lower initial rates (usually for 5 years) and then level rates to age 65.

Unlike Group coverage, which can usually be canceled, modified, and changed at the drop of a hat, individual coverage offers guarantees that are typically recommended by most financial planners and advisors.

#### **The Definition of Total Disability**

The heart of any quality disability contract is the “**definition of disability**”.

As mentioned earlier, no two physicians are alike and therefore each must consider their own needs and specialty when choosing a policy.

The best definition of disability is defined as “The inability of the insured to perform the material and substantial duties of your occupation.” Some companies will go further and say, “If your regular occupation is limited to recognized medical specialty certified by the American Board of Medical Specialties they will deem that to be your regular occupation. In a nutshell, this means that if you cannot do your

specialty, you are considered disabled. If you can work at another occupation, full benefits will be paid.

### **Medical Care Requirement**

You should also be aware of the medical care requirement within the definitions of disability. In other words, in order to collect benefits, typically you will find that after disability is defined, there will be a clause stating that you must be under the care and treatment of a licensed physician (other than yourself). The quality policies will usually include a provision stating that “if in the opinion of the physician future care would be of no benefit, this provision will be waived”. This clause is typically not removed with Group or Association coverage.

### **Presumptive Disability or Specific Loss**

The waiver of medical care within the quality contracts is important for several reasons. The most unrealized being the presumptive disability or specific loss provision. This clause states that if you suffer the loss of use of sight, speech, hearing, one arm and one leg, etcetera, we will waive the elimination period and benefits will be paid from the first day, whether or not the insured can perform the duties of his or her occupation. The medical care requirement will be waived and the insured will be paid for the full benefit period, even for life.

### **Waiver of Premium**

The last thing you need during a disability is to be paying premiums. Generally you will find that your premiums will be waived after the elimination period and during your claim. If you have a 90 day elimination period and continue to be disabled beyond this period, the companies will waive your premiums and even refund those premiums paid during disability.

### **Avoiding Total Only**

One point to be made here is the need to avoid a TOTAL only situation. If you have the 90 day elimination period, you **MUST** be totally disabled for that period of time before you are eligible for benefits. The more realistic scenario demands that you consider the addition of the Residual Rider. By adding this rider (note below), the elimination period can be satisfied by a combination of Total and Residual disability.

### **Residual Benefits- A Must**

We’ve already seen what would happen if you were totally disabled and went to work doing something else. In most cases, that’s not the case. Most disabled physicians either remain unable to do their specialties, or they recover and return to what they know...their medical specialties. The average disability that last beyond

90 days continues for just under 5 years. Still, long term coverage is a must. Don't be caught without coverage to at least age 65.

Imagine being disabled and recovered. Not hardly. Typically, a disabled physician will find a period of recovery necessary. A disability policy must allow for recovery. By including a RIDER called Residual Disability at an additional cost, the physician can now receive benefits if: 1) you are unable to perform some of the duties of their occupation. **OR** 2) You have a loss of time. **OR** 3) You have a loss of income of at least 20% of prior income. Residual also provides for minimum benefits of 50% for the first 6 months, or the actual loss of income, whichever is greater. If you continue to lose 20% or more beyond the 6 month period, benefits will continue to be paid, even to age 65. The rider also states that if your actual income loss is greater than a certain percentage, usually 75%-80%, FULL benefits will be paid.

### **Rehabilitation**

Suppose you were disabled and truly wished to return to your medical practice. Some physicians fear the loss of any disability benefits should they return to work. Residual benefits as explained should calm that fear.

The more obvious fear lay with the insurance company. Obviously the insurance company would prefer you recover, rather than pay you disability benefits. Thus, it is in their interest to try and rehabilitate you. With the inclusion of a rehabilitation clause, disability payments continue to be paid as well as expenses (paid by the insurance company) for your rehabilitation.

### **Exclusions and Limitations**

The typical exclusions are War, Incarceration, Normal Pregnancy, Self Inflicted Injury or Attempted Suicide, and suspension, revocation or surrender of your professional license.

As far as policy benefit limitations go, (Florida and California have different rules,) typically, carriers will pay benefits for 24 months for mental and nervous disorders and substance abuse. These limitations will vary from company to company.

### **Riders**

As you have already seen the Residual rider should be added. If you are a young physician, you should consider the Future Purchase Option or Guaranteed Insurability rider as well. This rider allows you to purchase additional benefits down the road as your income increases. It does not require medical evidence of insurability, only proof of income to qualify for increased benefits. Typically, a tax return will do it. In most cases, it also guarantees that even though the company no longer sells the particular policy you purchased, you still will be allowed to purchase

the same policy as the original with the same provisions, benefit periods and definitions.

Inflation riders or Cost Of Living Adjustment (COLA) riders are another story.

The addition of this rider can increase the cost of the policy by 25% or more.

Generally, the rider when purchased (from 3%-6%), will begin in the 13 month of a disability. It will inflate the Base Benefit using the CPI (consumer price index) in that given year up to the percentage purchased. Some contracts will just inflate the benefit according to the percentage purchased. Should you become disabled for a long period of time, obviously the cost was worth the benefits. It should also be noted, some carriers will freeze the benefit reached during disability, and should you return to work, the monthly benefit would remain at the higher level.

As each of these contracts, benefits, definitions, costs and optional riders vary from company to company, comparing a few carriers would be recommended. Finally, don't be afraid to ask questions.