Physician's Guide to Disability Insurance
Preface

Disability insurance is one of the most misunderstood financial products by physicians of all ages, nationalities, and specialties. The combination of intentional misrepresentation by insurance companies and very little time for proper study and evaluation by physicians leads to many unfortunate surprises when disabilities happen and insurance policies are relied upon for financial protection. The purpose of this paper is to educate you on disability insurance so that you may learn how to evaluate different policies and obtain the coverage you truly desire to have. It has been made concise by design, but is also very thorough, in order to meet your informational needs while keeping your time constraints in mind.

Companies

There are many companies in the US that provide disability insurance. Some of them create policies to address the needs of blue collar workers. Others build policies with uninsurable or less healthy clients in mind. There are also a few that have purposed to present policies to the public which are specifically fitted for meeting the needs of physicians. It is also important to know that some companies simply do not specialize in physician disability insurance. Unlike many other commoditized products in our society, disability insurance hinges on the companies and their contracts and must be examined closely on more than just price. The correct company will not only be in business long enough to protect you for your entire career but will also have a contract that defines disability in the way that physicians need: own-occupation.

Own-Occupation

The best way to understand own-occupation disability insurance is to understand its opposite coverage: any-occupation. Any-occupation policies will reduce or stop your benefit payments if, after the disabling event, you are able to work in any occupation. This means that if you are working as a physician and making $250,000/year, you may not receive any of your disability benefit if you are disabled but still able to make $30,000/year in some other occupation.

By contrast, own-occupation policies will pay the full benefit to a physician if he or she is unable to perform the duties/procedures of his or her specialty, even if they are gainfully employed in another occupation. This includes physicians who are disabled and precluded from performing all of their duties/procedures but can still serve as a physician. One example of this would be if
an interventional radiologist was disabled and unable to perform procedures. In an any-occupation policy, he or she would receive a reduced benefit or forfeit their benefit altogether if they continued practicing as a non-interventional radiologist. In an own-occupation policy, that same radiologist would receive the full benefit regardless of his or her post-disability occupation or income. This means that own-occupation policies protect the duties and procedures that you have been trained for and the income you have earned.

**Elimination Period**

All long-term disability policies have an elimination or waiting period to receive the benefit. The most common elimination period is 90 days. This means that you must be disabled according to the definition of the policy for 90 days before the policy will begin paying you the benefit. If you choose a shorter elimination period, it will increase the cost of the policy. Inversely, if you increase the length of the elimination period it will decrease the cost of the policy. One factor to consider in choosing the elimination period is how long you can cover your expenses from short-term savings.

![Graph showing workers' opinions on how long they could continue to pay for normal living expenses and bills in case of disability]

**Maximum Benefit Period**

Most disability insurance policies have a maximum benefit period which must be established when the policy is purchased and is measured in years or a certain attained age. You can choose benefit periods from 2 to 10 years or set the benefit period to expire at age 65, 67, or 70. Longer
benefit periods (or potential benefit periods) are more expensive since the insurance company has a greater potential liability. Most policies are set up with a maximum benefit period of age 65 so that the cessation of disability insurance income ends around the time that other programs increase assistance to the disabled and retired. While some feel that these benefit periods may be too long given that most accidents are recoverable within a shorter amount of time, it is important to note that 90% of disabilities are caused by illnesses rather than by accident\(^1\).

---

2012 CDA Long Term Disability Claims Survey Disability Claims by Diagnosis

See appendix for a description and examples of each diagnosis.

<table>
<thead>
<tr>
<th>Claim Diagnosis Category</th>
<th>New*</th>
<th>Existing*</th>
<th>New*</th>
<th>Existing*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td>2011</td>
<td></td>
</tr>
<tr>
<td>Musculoskeletal/Connective Tissue</td>
<td>28.0</td>
<td>30.3</td>
<td>28.9</td>
<td>30.5</td>
</tr>
<tr>
<td>Nervous System-Related</td>
<td>7.4</td>
<td>13.7</td>
<td>7.5</td>
<td>13.9</td>
</tr>
<tr>
<td>Cardiovascular/Circulatory</td>
<td>9.2</td>
<td>12.6</td>
<td>8.7</td>
<td>12.3</td>
</tr>
<tr>
<td>Cancer and Neoplasms</td>
<td>14.7</td>
<td>8.8</td>
<td>14.4</td>
<td>8.9</td>
</tr>
<tr>
<td>Mental Disorders</td>
<td>9.1</td>
<td>7.9</td>
<td>9.2</td>
<td>8.1</td>
</tr>
<tr>
<td>Injury and Poisoning</td>
<td>10.2</td>
<td>7.8</td>
<td>10.6</td>
<td>7.7</td>
</tr>
<tr>
<td>Respiratory System</td>
<td>2.3</td>
<td>3.0</td>
<td>2.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Infections and Parasitic Diseases</td>
<td>2.6</td>
<td>2.9</td>
<td>2.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Symptoms, Signs and Ill-defined</td>
<td>2.8</td>
<td>2.9</td>
<td>2.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Digestive System</td>
<td>2.6</td>
<td>2.2</td>
<td>2.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Endocrine, Nutritional and Metabolic Diseases, and Immunity Disorders</td>
<td>1.4</td>
<td>2.2</td>
<td>1.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Genitourinary System</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Complications of Pregnancy, Childbirth and the Puerperium</td>
<td>5.1</td>
<td>1.3</td>
<td>5.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Skin and Subcutaneous Tissue</td>
<td>0.7</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Congenital Anomalies</td>
<td>0.6</td>
<td>0.8</td>
<td>0.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Blood and Blood-Forming Organs</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Other</td>
<td>1.0</td>
<td>0.6</td>
<td>1.0</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*“New” claims are those approved in the survey year; “existing” claims are ongoing but were approved in prior years. Source: 2012 CDA Long Term Disability Claims Review.
Riders

So far, we have discussed the basic provisions that are included in most disability insurance contracts and their base price. Now we will look at the optional benefits that you may or may not choose to add to your policy. These optional benefits are called “riders” since they are added to the base policy and “ride” along with the policy. Some are very helpful and highly recommended for physicians. Others are too expensive for the benefit they add and should most likely be avoided by physicians. For the purpose of this paper, we will focus on the helpful riders.

Residual/Partial Disability

In order to receive the full benefit from an own-occupation disability insurance policy, you must not be able to perform the material and substantial duties of your occupation or specialty. However, what happens if you are able to perform these duties but you are simply unable to perform them for as long or as much? In these cases, you will most likely lose significant income but will not meet the definition of disability in your policy since you are still able to perform your duties or procedures.

An example of this would be a urologist who has some type of cardiac event that makes him more easily fatigued. He would still be able to perform all of his duties/procedures but may experience a reduction in the number of procedures or hours he can work. This often results in a partial loss of income which would not be recovered without a residual or partial disability rider. This rider allows you to receive a percentage of the benefit equal to the percentage of income you have lost from the partial disability. Statistically, more physicians receive benefit from residual/partial disability riders than from the base total disability benefit.

Benefit Purchase/Benefit Update Rider

Since long-term disability insurance is made to protect your after tax income, it normally has a maximum benefit equal to between 50-60% of your gross (pre-tax) income. This means that as your income goes up over time, you will need to increase your benefit in order to protect the maximum amount of your salary possible. The only problem is that if you apply for a new policy in order to increase your coverage, you will have to go through a physical, new set of labs, and full medical underwriting. If this is several years from the date of the first policy, your health may have changed to the point that the increased coverage may be much more expensive.
or you may be precluded from increasing your coverage at all. The way to avoid this scenario is to have a benefit purchase or benefit update rider. It allows you to increase your coverage, based on your increased income, without going through any medical underwriting. It basically guarantees you the right to increase your coverage regardless of what happens to your health over time. One thing to remember is that in most cases you can only increase your policy through one of these riders until age 55 even though your policy may last beyond that age.

**Catastrophic Disability Rider**

One of the less frequently used riders that is important for physicians to have is the catastrophic disability rider. This rider provides additional benefit to your base benefit should you become catastrophically disabled. The definition of a catastrophic disability is the inability to perform two or more of the Activities of Daily Living (ADLs). If you are disabled to this extent, your increased cost of living, mainly added healthcare expenses, may use a large portion or all of your base benefit, leaving you with very little or nothing to live off of. For example, in the 1st year following a paraplegia, total living expenses for disabled individuals average $259,531. That is why, even though this rider is seldom used, it should be seriously considered if you want a policy that provides complete peace of mind.

**Cost of Living Rider**

For many physicians over the age of 50, this rider may not make sense. However, for most physicians under the age of 50 this is an important part of any long-term disability insurance policy. Before a disability, physicians keep ahead of inflation by advancing their career and receiving salary increases and bonuses. If you are disabled, you lose that ability and instead will now be relying on your disability insurance policy as a main source of income for you. Without this rider, this income will be static or level and not keep up with inflation. This means that as prices in the overall economy go up, your income will remain the same which means you will actually lose purchasing power year after year. In the unfortunate event that you have to rely on the policy for income over a long period of years, you may find the original benefit purchasing half of what it originally could. The solution is to have a cost of living rider which will increase your income from the policy each year that you are on the benefit in order to help your income keep up with inflation.
Group Coverage

Many physicians rely on their group disability insurance policy to protect their income. While this is certainly an economical way to protect your income, group coverage has three major flaws.

1. Portability – Most group disability insurance is not portable. This means that if you change employers, the policy will not go with you which could leave you without coverage if your health has changed and your future employer does not offer coverage.

2. Taxability – If your group coverage is employer paid, it will provide you with a taxable benefit. This means that if your group plan is covering you for 60% of your salary, you will have to pay taxes on that benefit once disabled which will leave you with approximately 60% of 60% of your original salary or around 36%. Most physicians do not realize this until they are disabled and are forced to live off of approximately 40% less after taxes than before and have to make major life changes.

3. Disability Definition – Most group coverage does not provide true, own occupation protection. This means that if you are relying only on your group coverage, you may find that you will receive a significantly reduced benefit or no benefit at all if you are still able to work in any occupation.

For these three reasons, most physicians should obtain their own disability insurance regardless of what group coverage their employer provides.

Discounts

At certain stages of your career, there are discounts available from most companies on their disability insurance policies. The most common stage where discounts are available is training. Residents and fellows have access to discounts that, if secured in training, will last for their entire career and can be as much as 40% off of the normal rates. It is important to understand these discounts, however, since some of them will not apply to future increases in your policy benefit and some may require membership in certain associations.
When to Buy

The best time in your career to purchase disability insurance is while in training due to the significant, career-long discounts available during that time. After training, the answer is “as early as possible”. As you get older and unforeseen health changes occur, the price of disability insurance increases dramatically and could even become unavailable depending on the severity of the health issue.

Who to Trust for Help

Most physicians should employ the services of a financial professional to assist in their acquisition of disability insurance. These analysis services are generally free and very helpful. However, it is important to use independent, unbiased advisors and not single-company insurance salesmen. Physicians typically should not buy a disability insurance policy solely based on the recommendation of anyone who only can represents one company as they are biased and are not looking at other options which may actually be better for you and your unique life circumstances. Independent advisors can shorten your research time by providing an unbiased analysis of your best options that is focused on fitting the best company and policy to your specific situation.

Summary

Disability Insurance is one of the most important financial protections for physicians to have since in most cases it protects the largest asset they own: their future income. Also, since 33% of all people between the ages of 30 and 64 will become disabled sometime in their lives⁴, it is one of the more likely utilized insurance coverages you can own. Knowing which companies provide true, own-occupation contracts is the place to start. From there, understanding the base features and riders will help you to analyze your own-occupation options and proceed confidently in purchasing a disability insurance policy.
For assistance in obtaining your own-occupation disability policy, please contact us at 888-848-0786 or obtain free disability insurance quotes by clicking the link below and completing the brief questionnaire.

**Click Here to Get an Unbiased Analysis of Your Disability Insurance Options**

1. *Council for Disability Awareness, Long-Term Disability Claims Review, 2012*
2. *National SCI Statistical Center, 2005*
3. *Health Insurance Association of America*

Investment Advisory Services offered through OnCall Wealth Partners, LLC, an investment adviser registered with the State of Nebraska. Insurance products and services are offered through OnCall Advisors, LLC. The aforementioned are affiliated companies. Material presented is believed to be from reliable sources and no representations are made by our firm as to another parties' informational accuracy or completeness. All information or ideas provided should be discussed in detail with an advisor, accountant or legal counsel prior to implementation.