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# Disability Insurance: Protect Your Most Valuable Asset

Andy G Borgia

Disability Insurance for Physicians

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As an emergency physician you have invested at least 25 years to prepare for your medical career. Your ability to practice your medical specialty is your most valuable asset and, as with any important asset, it should be protected. Fortunately there is disability insurance, the only insurance that pays YOU. Coverage can be established that insures 50 – 65% of your income.

## WHAT ARE THE CHANCES?

The following statistics come from the Council for Disability Awareness (CDA) Personal Disability Quotient (PDQ) disability risk calculator<sup>1</sup>:

A typical female, age 35, 5'4", 125 pounds, non-smoker who works an office job (less demanding than most emergency physicians), leads a healthy lifestyle and with no existing medical conditions has the following risks:

- An 18% chance of becoming disabled for 3 months or longer during her working career;
  1. with a 38% chance that the disability would last 5 years or longer,
  2. and with the average disability for someone like her lasting 82 months.
- If this same person used tobacco and weighed 160 pounds, the risk would increase to a 41% chance of becoming disabled for 3 months or longer.

A typical male, age 35, 5'10", 170 pounds, non-smoker who works an office job, leads a healthy lifestyle and with no existing medical conditions has the following risks:

- A 13% chance of becoming disabled for 3 months or longer during his working career;
  1. with a 38% chance that the disability would last 5 years or longer,
  2. and with the average disability for someone like him lasting 82 months.
- If this same person used tobacco and weighed 210 pounds, the risk would increase to a 45% chance of becoming disabled for 3 months or longer.

A sample of factors that increase the risk of disability: excess body weight, tobacco use, high risk activities or

behaviors; chronic conditions such as diabetes, high blood pressure, back pain, anxiety or depression, frequent alcohol consumption or substance abuse.

## COMMON CAUSES OF DISABILITY

- According to CDA's 2011 Long-Term Disability Claims Review<sup>2</sup>, the following are the leading causes of new disability claims in 2010:
  - Musculoskeletal/connective tissue disorders caused 27.5% of new claims.\*
  - Cancer was the 2<sup>nd</sup> leading cause of new disability claims, at 14.6%.
  - Injuries and Poisoning caused 10.3% of new claims.
  - Cardiovascular/circulatory disorders caused 9.1% of new claims.\*\*
  - Mental disorders caused 9.1% of new claims.
- Cancer claims were lower as a percentage of new disability claims in 2010, although cancer remains the second leading cause of new disability claims and the fourth leading cause of ongoing claims.
- The most common causes of existing disability claims in 2010 included: diseases of the musculoskeletal system and connective tissue (30.1% of all existing claims), diseases of the nervous system and sense organs (13.4%), diseases of the circulatory system (12.7%) and cancer (8.4%).
- Approximately 95% of disabilities are caused by illnesses rather than accidents.

\* This category includes claims caused by neck and back pain; joint, muscle and tendon disorders; foot, ankle and hand disorders, etc.

\*\* Examples in this category include claims caused by heart and circulatory disorders, strokes, etc.

Because being an emergency physician is a demanding, active, invasive profession, establishing a personal disability policy is 1 of the wisest financial decisions you will make. Disability Insurance is marketed through insurance agents and organizations. Due to the complexity of the policies, it is prudent to seek the services of someone who specializes in disability coverage for physicians.

As with most types of insurance, premium rates are based on risk. For disability insurance the risk factors are: age, health status, location, gender, avocations, and medical specialty. Disability insurance premiums are higher for females (almost 40%) and also for invasive physicians, such as in emergency medicine, than for non-invasive physicians.

The older you are, the higher the premiums; if you have some health issues the premiums may be higher than normal, the condition may be excluded, or the policy may not be issued at all. A number of companies, for example, will not issue coverage if you are taking medication for a mental condition. In regards to avocations, the activity (such as rock climbing) may be excluded. Premiums also vary slightly by state; in general, more populated states have higher premiums.

Due to the fact that individual policy premiums remain level to age 65 or 67, it is advantageous to establish coverage while you are young and healthy.

## TYPES OF POLICIES

There are three (3) main types of disability policies: Individual, Group and Association.

1. Individual policies are established between an Individual and the Insurance Company and usually provide the most comprehensive protection. Policy provisions can be tailored to the individual, as can the amount of coverage. The policy can be maintained as long as the individual continues premium payments.
2. Group policies are usually provided by an Employer, so the policy is a contract between the Employer and the Insurance Company. Policy provisions are set by the Insurance Company and the Employer, with premiums usually paid by the Employer. Since the majority of emergency physicians are considered Independent Contractors, this type of policy may not be an option. One advantage is that, unlike Individual and Association policies, coverage is provided regardless of health. Any benefits received also may be taxed as income since the Employer paid the premiums. Generally, Group and Association plans are intended to supplement Individual Protection.
3. An Association plan is available to members of an Association and is, again, a contract between the Association and the Insurance Company. Therefore it is possible to lose coverage if either the Association or Insurance Company cancels the policy (usually with ample notice) due to claims experience and resulting premium increases. However, if your health has changed, replacement with individual coverage could be a significant problem. Policy provisions are set by the Association, premiums increase as a person ages, and

both can be altered by the Insurance Company at policy anniversary.

A well-designed Individual Policy will protect an emergency physician unable to practice in their specialty due to accident or sickness, even if they can practice/work elsewhere in or out of medicine. If the emergency physician can practice their specialty on a part-time basis, a percentage of the total disability benefit will be paid. Benefits should continue for the entire length of a disability to the policy maximum benefit period, usually age 65 to 67. In the event of a presumptive disability – loss of sight, speech, hearing, use of two or more limbs, etc. – benefits should be paid for life.

The policy should allow future increases in coverage without medical testing if purchased prior to age 52, as long as the physician's income qualifies for the increased benefit. Premiums also should remain level until age 65 – 67, and the Insurance Company should not be able to cancel the policy or alter any provisions except for non-payment of premiums. There should also be an option (for additional premium) at policy inception to increase benefits up to a portion of the Consumer Price Index if disability benefits are received for a period greater than 1 year.

At the end of this article are important Policy Provisions and Definitions to help you evaluate your disability insurance policy options. There are a limited number of insurance contracts that contain the provisions required for a comprehensive policy. Most will differ in their definitions of disability, so review them carefully. Consult with an agent experienced and qualified to assist you in implementing this critical coverage. Some agents have access to discounted plans, and even some guaranteed issue plans for exiting residents at Training Hospitals.

Take advantage of this opportunity – it will make a major difference not only in your premiums (up to 40% for females), but also in covering a medical condition or avocation that otherwise would be excluded. Make certain your policy is adjustable when your income increases to protect yourself and your family as your professional and your personal needs grow. Remember, disability insurance is critical to protect your most valuable asset.

## POLICY PROVISIONS & DEFINITIONS

1. **Definition of Disability** – This is the most important provision when insuring someone in a highly specialized occupation, and determines if benefits are paid. Disability should be defined as “Own Occupation” for the entire benefit period. For example, if an emergency physician can no longer practice emergency medicine but can return to work full-time as a general practitioner, he or she still qualifies for full disability

- benefits under the Own-Occupation provision.
2. **Non-Cancelable** – This provision gives the insured total control over the policy. The Insurance Company cannot raise rates, reduce benefits, or add exclusions after the policy is in force. This provision may also extend the Presumptive Disability benefit to lifetime.
  3. **Residual/Partial Benefits** – Policies pay residual benefits whenever income is reduced by a designated percentage with a loss of time or duties due to disability. For example, if a policyholder earned \$100,000 annually, was disabled and then returned to work earning \$50,000 annually, she would have a 50% loss of earnings, and thus would qualify for a 50% residual benefit.
  4. **Elimination Period** – Also referred to as the Qualifying Period, the Elimination Period is the time during which an employee must be disabled before benefits will begin. Usually this period is 90 days.
  5. **Monthly Benefit** – The amount paid in the event of disability. The amount is established at the inception of the policy and may be increased (see #7 below).
  6. **Benefit Period** – A Benefit Period is the maximum amount of time the insured may receive the monthly benefit for a continuous disability. The insured may select a Benefit Period of 2 years, 5 years, or up to full retirement age of 66 or 67.
  7. **Future Purchase Option Rider** – The Future Purchase Option Rider (referred to as FPO or FIO) allows the insured to buy additional monthly benefits at specific

option dates (usually the Policy's anniversary date). This is regardless of the insured's health as long as the earned income at the time of application for the FPO justifies the increase in benefits.

8. **Cost of Living Rider** – A Cost of Living Rider (also referred to as COLA, "Cost of Living Adjustment") increases the disability benefit each year, according to a percentage derived from the Consumer Price Index measure. This adjustment occurs 1 year after benefits begin to be paid.

#### DISCLAIMER:

This article is Andy G Borgia clu who has been advising physicians and their disability insurance needs for over 20 years. The information contained in the article was provided by him and he is not affiliated with WestJEM and the opinions expressed are his alone.

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1. Council for Disability Awareness (CDA) Personal Disability Quotient (PDQ) calculator. Available at: [http://www.disabilitycanhappen.org/chances\\_disability/pdq.asp](http://www.disabilitycanhappen.org/chances_disability/pdq.asp)
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