

At the pinnacle of peril: Physician insured for disability but not covered

by W. Ben Utley, C.F.P.



You have disability insurance, right? Sure you do. You bought your first (and maybe your only) policy while you were in training. Yet you still have a nagging feeling that something bad might happen to you, and you're not certain you will be ready to provide for your family if your practice becomes impractical.

Your fear is well-founded. According to the Council for Disability Awareness, a typical professional aged 35 and in good health has a 21% chance of becoming disabled, with a 38% chance that the disability will last more than 5 years.

In the past 15 years of doing financial planning for young doctors, I've found that most physician families are poorly prepared for this, the pinnacle of financial peril. Inadequate insurance and insufficient savings leave gaping holes in the safety net many physicians weave for themselves, while the demands of practice push this important-but-not-urgent issue to the bottom of the pile of priorities.

You may have disability insurance but you're probably not covered. You have no real plan for the aftermath, and it's time for you to do something about it.

Insured but not covered

If you haven't done a thorough review of your coverage, you may find that your insurance contract will pay little or nothing when you make your claim.

Your monthly benefit amount is probably too low. Most physicians are sold a disability policy while they're

still in training. The monthly benefit in policies is based on some fraction of earned income. Given that residents earn about \$4,000 per month and benefits equal about two-thirds of that, you might find that the policy you bought as a resident pays you no more than \$2,700 per month. As a practicing ophthalmologist, you may be earning—and spending—ten times that much to support your family. A resident-sized monthly benefit will leave much to be desired by your practitioner-sized budget.

Your policy's definition of disability may be needlessly narrow. Most policies cover the catastrophic disability known as "total disability," but the way that total disability is defined varies greatly from policy to policy. For example, if your policy says, "The insured is totally disabled when both unable to perform the principal duties of the regular occupation and not gainfully employed in any occupation," then you have what is known as an "any occupation" definition of disability. It means that if you go back to work doing anything at all, you will lose your benefits.

For ophthalmologists, there is no substitute for coverage bearing the "own occupation" definition of disability, which might read like this:

Total disability means that, because of sickness or injury, you are not able to perform the material and substantial duties of your own occupation. You will be totally disabled even if you are at work in some other capacity so long as you are not able to work in your own occupation.

High quality policies will recognize a surgical specialty as your own occupation, so you can keep your options open during disability. For example, if you can't do surgery any more, you may still be able to practice general ophthalmology. Your earnings plus your benefits may come close to what you were making before you became disabled.

Policy limitations and exclusions might cause your claim to be denied. Have you experienced anxiety, depression, or marital difficulty that caused you to seek counseling or psychiatric treatment? If you disclosed this in your insurance application, there may be a rider excluding claims related to this issue. The language in some policies places a 2-year limit on benefits for mental and nervous claims, regardless of your health at the time you made your application. Before you gloss over this limitation, consider the findings from a 2005 study in the *Archives of General Psychiatry*: One in five U.S. citizens is bound to suffer from a serious mental disorder in any given 12-month period.

No plan for the aftermath

You may be surprised by how long it takes to get a benefit check. Income disability insurance policies include a co-insurance-like "elimination period" that may run from 30-365 days, with the majority of policies bearing a 90-180 day elimination period. During the elimination period, you will be disabled but you won't be paid. In fact, once the elimination period ends and the benefit period begins, you won't get a check until the end of the month. That means 4-7 months could pass before you can cash the first check.

You probably don't have an emergency fund. Even though it's a fundamental part of financial planning, physicians often overlook the emergency fund in their rush to buy a home, fill the 401(k), and pay off student loans. I find that physician families spend \$10,000 per month on average, while medical specialists who are married with children may spend \$15,000 or more. By parking \$40,000-\$120,000 somewhere safe and easy to reach, you'll be ready to bridge the gap during the elimination period.

Ophthalmologists in private practice have one more thing to worry about: business continuity. Payroll, rent, office expense, and interest on business loans continue to run while you're disabled. Business overhead expense (BOE) insurance can pay all of these expenses and may even cover part of what you pay a *locum tenens* physician to see your patients while you recover. Having BOE coverage means you won't need to spend personal assets to keep the doors open, and it also prevents your partners from bearing the burden of your portion of the unallocated overhead. These policies have elimination periods that run 30-90 days, so it makes sense to maintain an emergency fund for your practice as well as your family.

Not urgent, but important

Preparing for a disability is not difficult but it can be time consuming. Once you've made it a priority, you can follow these steps to get ready.

1. Gather complete copies of all your insurance paperwork, including correspondence. Call the insurance company and request fresh copies if necessary.

Correspondence is crucial since it gives you clues about changes in your policy over the years. If you become disabled, the contract is the first thing your attorney will ask you to produce.

2. Review your policies. Read through and circle key elements in each contract: monthly benefit, definition of total (and partial) disability, elimination period, premium schedule, limitations, exclusions, and clauses that may let you get more coverage without more underwriting. Review the letters and the riders, too. If you don't understand what you're reading, find an attorney or insurance consultant for help.

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3. Think about how your situation has changed since your policy was placed. Has your back injury healed? Has it been 2 years or more since you saw a counselor or took an antidepressant? Has your income increased by more than 10%? Use the answers to improve or increase your coverage.

4. Re-shop your insurance.

Approach this as if you have no coverage at all. This way, you can learn whether or not you are insurable, what the limit may be on your total monthly benefit, and which features are available in new policies. Don't buy any insurance (yet).

5. Compare new insurance to old. Weigh the benefits of your old policies with those from new coverage, and consider the cost-per-thousand of benefit from both. Think about adding or replacing coverage based on your findings.

6. Max it out. Insurers base their offerings on the size of your earned income, subject to a maximum limit. Even if your cost of living is less than the maximum benefit, get all the coverage you can. Most benefits end at age 65, and you need to be prepared for disability beyond that point. Plan to use the excess benefits you receive to cover your expenses during retirement.

7. Build an emergency fund.

Set aside at least enough cash to see you through the elimination period plus one more month. Keep the money safe in a certificate of deposit with a bank or credit union. This is your backup plan, so don't take unnecessary risks by investing it.

When you're done, meet with your partners or your practice management consultant and decide what you need to do to keep your business running smoothly, too.

It's time to do something about it

You spent decades getting an education and years building your practice. As the months roll by, a disabling accident or illness becomes more likely. A split second can mark the end of your days as a profitable physician and the beginning of your life as a disabled doctor—be certain that life is a good one.



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