

DISABILITY INSURANCE AUDIO/PODCAST

“10 Minutes with Tate”

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CHRISTIAN: INTRODUCTION

CHRISTIAN: Tate, We are talking about disability insurance today. What exactly is disability insurance?

TATE:

Disability insurance is an insurance plan that will replace your income or percentage of your income should become injured or sick and unable to go back to work. It will begin to pay a monthly benefit after a certain period of time of being disabled, often referred to as the “waiting period” or “elimination period”. The Elimination Period is the consecutive number of days for which NO benefits are payable at the start of a claim. An insured must be disabled all of those days before benefits are payable. Typical elimination periods are 30, 60, 90, 180 **your plan** will continue to pay as long as you are considered disabled, according to your policy’s legal definitions, up to, but not exceeding the stated maximum benefit period.

CHRISTIAN: You mentioned benefit periods. Are there different types of plans depending on how long they pay a benefit?

TATE: Generally there are 2. A person can purchase a short term and/ or a long term disability insurance policy. Short term disability insurance plans may pay a benefit up to 6 month or a year and Long term disability insurance plans pay a benefit to age 65, 67 or possibly for the rest of your life.

CHRISTIAN: How do these disability insurance policies differ from Social Security Disability or Worker’s Compensation?

TATE:

There are major differences which I will detail later. In general, Qualifying for SOCIAL SECURITY disability benefits is very difficult because the disability must prevent you from doing ANY kind of work - not just your usual job. And the monthly benefits are minimal, making it very difficult for many people to survive financially.

Worker’s Compensation only covers job related sickness or injury. In addition, these benefits are limited.

CHRISTIAN: OK then what is the important feature or component of a disability insurance policy that one should have?

TATE:

As a doctor, the most important policy feature to have in your disability contract is an [own-occupation definition of disability](#). Simply stated, this means that if you are unable to work in your specialty due to an injury, accident or illness the policy will pay you a benefit, even if you choose to work in another occupation. For example, if you get injured and can no longer practice as an Orthopedic Surgeon, the policy will pay you a benefit even if you can earn an income in another specialty or occupation.

This definition differs greatly from many less expensive or group plans. Many of them say you must not only be disabled from your occupation, but unable to work in any gainful occupation.

CHRISTIAN: We have our first email today, "Do companies still offer disability insurance policy's to physicians which protect them in their medical specialties with the own occupation benefit rider?"

TATE:

*Yes, as we just spoke of this benefit rider and it is currently available in all states, but only a few insurance companies offer these comprehensive plans to **physicians** today. The true "own occupation" benefit rider is the most important policy feature for a physician to have in his/her policy. Why? Because it is the definition of total disability which determines whether or not you will be paid a benefit.*

CHRISTIAN: What else should a physician look for in a comprehensive disability insurance policy?

TATE:

First, make sure the plan is non cancelable and guaranteed renewable. This means the insurance company cannot cancel your policy, increase your premiums or change policy provisions if you keep paying premiums due until you reach age 65.

Second,

*When you are reviewing a group, hospital, association or individual disability policy, you should immediately go to the section, **Total Disability**, and carefully read the definition, as this will describe under what terms you would be eligible for benefits in the event of a total disability. A comprehensive plan example should state: "you will be considered totally disabled if, solely due to injury or sickness, you are not able to perform the material and substantial duties of your occupation, even if you are gainfully employed in another occupation." A comprehensive true own occupation policy should be very clear.*

CHRISTIAN: What is an example of a disability insurance policy that does not offer own occupation?

TATE:

The marketing materials and illustrations for disability insurance policy's from many associations, group hospital plans and some individual plans often give the perception of an own occupation benefit policy by using terms like "protecting a physician in their medical specialty or occupation", in the event of a total disability. However, a closer analysis of the underlying terms in the specimen policy will show that it does not offer the true own occupation benefit rider with respect to total disability. These policy's may state:

"you are totally disabled if, because of injury or sickness: you are unable to perform the substantial and material duties of your regular occupation; and you are not at work in another occupation"

or,

"you are not engaged in any other gainful occupation in which you could reasonably be expected to perform satisfactorily in light of your education, training experience, and physical and mental capacity.

CHRISTIAN: What about the group disability insurance offered at work?

TATE:

Many physicians are offered group disability insurance by their employer. Here are some things to consider:

Group plans may be changed or canceled at any time. This could leave you without coverage when you need it.

Most group plans can't be taken with you if you should decide to switch employers.

Most group plan benefits are taxable.

Many group disability plans have a restrictive definition of disability. They require you to be totally disabled before they will pay a benefit. In other words, if you have the ability to do any type of work, benefits may not be payable.

CHRISTIAN: WHAT ARE THE CURRENT INDIVIDUAL DISABILITY INCOME BENEFITS OFFERED TO MEDICAL RESIDENTS?

TATE:

There are a variety of disability income insurance policies available in the marketplace. The benefits terms and conditions of these policies vary greatly. But medical residents can obtain [Own occupation](#) speciality specific coverage of up to \$3,500/month tax free for Interns and 2nd year residents, and \$5,000/month tax free for 3rd year and beyond residents/fellows.

The Benefit period is to age 65, 67 or lifetime.

There are **NEW** increased limits which are available with Future Increase Option (FIO/FPO) of up to \$10,500/month, which is in addition to the base monthly benefit of \$3,500-\$5000/month depending on your year in residency. You can eventually purchase up to \$15,000/month tax free. Many policies offer this optional feature that will allow you to increase the amount of your benefit when your income increases, even if your health has changed.

Affordable Graded or level premium plans are offered and all plans are Non cancelable and guaranteed renewable.

CHRISTIAN: We have another email, AS A MEDICAL RESIDENT, WHY IS RIGHT NOW THE BEST TIME TO BUY A DISABILITY INCOME PLAN?

TATE:

How would you repay your student loans if you were disabled? Your student loans do not go away if you are injured and can not go back to work.

Rates are based on your age, gender, occupation and health status.

Physicians have physically demanding occupations, which lead to having a higher risk of disability than other professionals.

If you buy a policy before you declare a specialty, you lock in your rates at a better occupational classification than you may be able to qualify for in the future. These lower rates won't change even if you decide to opt for an invasive specialty later on.

You may consider adding a cost of living (COLA) benefit rider to your policy early on in your medical training. For a nominal monthly premium, this COLA benefit rider would protect millions of dollars more in future income if you were to become totally disabled during your medical training.

CHRISTIAN: ARE DISCOUNTS AVAILABLE ON INDIVIDUAL DISABILITY INSURANCE POLICY'S FOR RESIDENTS AND FELLOWS?

TATE:

Yes. Some of the insurance carriers we work with will offer a discount for residents who purchase individual disability insurance plans during their training. The discount remains even when you leave medical resident training. Contact us to find out if your hospital endorses a disability insurance carrier.

CHRISTIAN: BODY TEXT

CHRISTIAN: Getting back to GROUP DISABILITY PLANS OFFERED BY YOUR HOSPITAL. What are the typical benefits and restrictions?

TATE:

Not all hospitals or groups offer their employees group long term disability insurance. For those that do, Many group disability plans have a very restrictive definition of disability. They require you to be totally disabled before they will pay a benefit. If you have the ability to do any type of work, benefits may not be payable.

Group plans may be changed or canceled at any time. This could leave you without coverage when you need it.

Most group plans can't be taken with you when you finish residency. To obtain a personal policy, you must undergo a medical exam. Your age and health will determine your rate.

Most residency group plans will offer a benefit between \$1,500- \$3,500/month. Due to the nature of group plans, this benefit may be taxable leaving you with a lower net benefit.

CHRISTIAN: What are some other important policy riders/benefits one should have in an individual disability insurance policy?

TATE:

Future Increase Option (FIO/FPO): An optional benefit in a disability income policy that allows the insured future increases to the policy monthly benefit at specified dates (typically on insured's policy anniversary), with a requirement of only financial (and not medical) insurability.

Non-Cancelable: **A policy which cannot be cancelled or altered by the insurance company as long as the insured continues to pay premiums on time, and whose premium will not increase up through the insured's age 65.**

Cost of Living Rider: **An optional benefit which provides for increases in the disability benefit during periods of disability. The amount of increase is based on a pre-set percentage or inflation.**

Residual Disability: In better policies, a disability that causes an insured's income to fall more than 20% below its pre-disability level. Some companies include a loss of time requirement or the inability to perform some duties of the insured's regular occupation

CHRISTIAN: What sort of buying advice would you give someone looking to purchase an individual disability insurance policy?

TATE:

Be more concerned with quality of a policy than price. The cost of a policy should not be the first consideration when it comes to disability insurance. You can expect to pay 1% to 4% of your income for a comprehensive individual disability income policy. You must have the OWN Occupation benefit

Look at the insurance company financial ratings. Your disability insurance company could potentially be paying your salary to age 65 or possibly the rest of your life! It's important they be financially sound. All disability insurance companies are rated by third party rating companies.

[Always understand the definition of disability.](#) This can mean the difference between getting paid and not getting paid.

The 90 day waiting period is usually the most cost effective. There is a substantial savings in choosing a 90 day waiting period over a 30 or 60 day period.

Make sure you read the master association contract (not just the marketing pamphlet) so you can understand all of the contractual provisions. Just because your association sponsors it, does not mean it is good. In almost all cases, association plans are group plans.

Make sure your policy is non-cancelable and guaranteed renewable. This means the insurance company can never raise your rates or cancel you policy. Group or association plans typically do not offer this important benefit.

CHRISTIAN: HOW MUCH DOES DISABILITY INSURANCE COST?

TATE:

The cost of the policy will depend on several factors including, age, occupation, health status, smoking status and gender.

CHRISTIAN: We have an email question from a young lady, WHAT IF I AM PREGNANT?

TATE:

Check the policy to see if complications of pregnancy are covered. Pregnancy can be covered under a disability insurance policy.

CHRISTIAN: we have another email question from a physician in Los Angeles. CAN I TAX DEDUCT MY DISABILITY INSURANCE PREMIUMS?

TATE:

According to current IRS guidelines, [if you deduct your disability insurance premiums,](#) your benefit (if you become disabled) would be taxable. If you pay with after tax dollars, your disability insurance

benefit is tax-free. But it is always a good idea to consult with your own tax advisor concerning your particular circumstances.

CHRISTIAN: WHAT IF I LEAVE THE COUNTRY?

TATE:

Depending on the policy, some policies will cover foreign travel. Other policies will suspend the contract while you are abroad. If you go on active military duty, most companies will put your policy in suspense until you are off of active duty. Check your policy for these important provisions.

CHRISTIAN: The emails are just rolling in today, here is one from a young medical resident physician from Texas, CAN I PURCHASE COVERAGE IF I HAVE A MEDICAL CONDITION?

TATE:

The type and severity of the medical problems will be evaluated by the underwriters at the insurance company. Generally, one of three things will happen. The insurance company can charge a higher premium for the policy, exclude the condition from the policy, or decline insurance altogether.

CHRISTIAN: CAN MY EMPLOYER PAY OR REIMBURSE MY PREMIUMS TO ME?

TATE:

Your employer can pay for your disability insurance coverage; however it may cause the benefit to be taxable to you at the time of claim.

CHRISTIAN: WHEN IS THE BEST TIME TO BUY A DISABILITY POLICY?

TATE:

Now. Because the best time to buy a disability policy is when you are young and healthy, and the premiums are based largely on health and age.

CHRISTIAN: WHAT IS THE APPLICATION PROCESS?

TATE:

Once you have made a decision on which policy you would like to apply for, we will either meet with you or call you to gather additional information and schedule a medical exam. The exam can be completed at your home or office at no cost to you. Once we receive all completed forms the application is then sent to the insurance company to go through underwriting.

CHRISTIAN: WHAT IS UNDERWRITING?

TATE:

Underwriting is the process by which an insurance company examines, accepts, or rejects insurance risks so as to charge the proper premium for the coverage. The company classifies the

accepted applicants into different risk categories to charge the proper premium.

CHRISTIAN: HOW LONG WILL UNDERWRITING TAKE TO GET COVERAGE?

TATE:

The underwriting process generally takes anywhere from 30 to 90 days, before a decision is made.

CHRISTIAN: Here is a question from a doctor who is moving to another state, WHAT HAPPENS TO MY POLICY IF I CHANGE JOBS, MOVE TO ANOTHER STATE OR CHANGE OCCUPATIONS?

TATE:

If your policy is non-cancelable and guaranteed renewable, the policy benefits typically will not change. Additionally, individual disability insurance policies are portable, so you take them with you if you move to another state.

CHRISTIAN: CAN I SEE MY OWN PHYSICIAN IF I BECOME DISABLED?

TATE:

Yes. Most companies will allow you to see your own doctor if you are disabled. The insurance companies do reserve the right to have their own physicians evaluate you disability

CHRISTIAN: WHAT ARE SOME COMMON EXCLUSIONS?

TATE:

Mental/Nervous Disorder(reduced benefit period)
Act of war
Active Military Duty
Foreign Travel

CHRISTIAN: Again in review for our listeners today, WHAT ARE THE MAJOR DIFFERENCES BETWEEN INDIVIDUAL DISABILITY INCOME INSURANCE POLICY'S AND GROUP POLICY'S

TATE:

In general with individual disability insurance, the benefits are tax free if you pay the premium, higher monthly benefits, and premium rate guarantees to age 65, the policy is owned by you and can be taken with you to a new job or state and generally more liberal definitions within the policy to pay you more money in more claims scenarios.

In general with group disability insurance, benefits are taxable if your employer pays the premium, more restrictive definitions within the policy, policy can be changed or canceled at any time by the insurance company or your employer, no premium rate guarantees, people with poor health can get coverage, less expensive than individual coverage and no medical exam to qualify for benefits.

CHRISTIAN: CONCLUSION

LEGAL DISCLOSURE: The information expressed here in this transcript are based on my work experiences with physicians over the past 18 years as an independent insurance broker and the detailed information provided to me from numerous insurance and investment companies. Please consult me before making any purchasing decisions and/or contact your tax, legal or financial advisers.