Disability Insurance: what you need to know before you buy

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You may have heard that the disability insurance policies available today are dramatically different from those available a few years ago. Although this may be true — especially for physicians who perform invasive procedures — quality coverage can still be found. It is important to understand how policies are offered and to know what provisions should be included in an individual disability policy.

Disability insurance can be purchased on an individual or group basis. Group insurance is usually provided by an employer or purchased individually from a sponsoring medical association, such as through the American Academy of Dermatology Group Insurance Plans, offered through JLT Services Corporation.

Although initially low in cost, group policies do have limitations. They can be canceled (by the association or insurance company), rates increase as you get older, and premiums are subject to adjustments based on the claims experience of the group. In addition, group and association contracts may contain restrictive definitions of disability as well as less-generous contract provisions.

Most insurance companies will issue disability insurance coverage equal to approximately 60 percent of earned income; however, interns, residents, fellows and physicians just entering practice are provided with "special limits." These special limits permit them to purchase benefits in excess of what their current earnings would normally allow.

COSTS

Premium rates are based on several factors including age, gender, monthly benefit amount, riders added to the policy and the occupational classification the insurance company assigns to your medical specialty. The younger you are when the purchase is made, the lower the cost of the insurance. Therefore, you should purchase a policy as early in your career as possible to lock in lower premium rates.

Although women are considered better risks for life insurance coverage, this is not the case with disability insurance. Rates for females are substantially higher and their policies can cost 50 to 75 percent more than men. The occupational classification assigned by the insurance company, to your medical specialty, will significantly impact the premium rates as well as the policy provisions offered to you. Generally, if you perform invasive procedures, you will be placed in the "surgical" category; where the definition of disability may be more restrictive and the premiums charged will be higher as compared to those of a non-invasive, non-surgical physician. Each insurance company has their own occupational classification guide and insurance companies may treat the same medical specialty differently.

Although it is an invasive specialty, dermatology is unique in that some companies do not place dermatologists in the "surgical" category. As a result, the definition of disability available is more liberal and the premium rates are lower than if had you been classified as a surgeon.

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WHAT TO LOOK FOR

The renewability provision is one of the key features of an individual disability income insurance policy. This provision defines your rights when it comes to keeping your disability policy in force. If you purchase a policy that is *non-cancellable* and *guaranteed renewable*, you can remain in control of your financial security. The insurance company cannot cancel, increase your premiums, change any provisions or add restrictions to the policy — even if the issuing company no longer offers similar policies in the future.

DEFINITION OF TOTAL DISABILITY

Arguably, the definition of disability is the most important aspect of a disability policy. As a physician, you must pay careful attention to the definition of disability found in your policy as it will ultimately determine how any claim you make for benefits will be judged. There are three definitions of "disability" commonly found in the insurance industry, and each has significant differences.

Although difficult to find, **own-occupation** (also known as true or pure own-occupation) is usually the definition of choice for dermatologists as it is the most liberal definition of total disability available. This type of policy pays benefits if you are disabled and "not able to perform the material and substantial duties of your occupation." Therefore, you would collect full disability benefits if you could no longer practice dermatology and/or perform dermatologic surgery, even if you decided to work in another occupation or medical specialty, earning the same or more income than you did as a dermatologist.

More common is **modified own-occupation**. This type of disability policy has become the most prevalent in the industry today and typically pays benefits if you are "unable to perform the substantial and material duties of your occupation *and you are not working*." Although benefits are still contingent upon your ability to practice dermatology and/or perform dermatologic surgery, this definition will not allow you to continue receiving full disability benefits if you are working in another occupation or medical specialty.

The **any occupation** definition — the third and most restrictive of the three described here — is commonly found in group or association policies. Under this definition, you are eligible to receive benefits only if you are found to be "unable to work in any occupation which you are reasonably suited to by your education, training or experience." Unfortunately, it is the insurance company that makes this determination and physicians, being as educated and well-trained as they are, will find it extremely difficult to collect benefits on this type of policy. You should take every precaution to avoid purchasing a policy that contains this definition.

Many policies offered to physicians today might incorporate an own-occupation with a modified own-occupation" definition. Here, the policy would contain a true "Own-Occupation" definition for a limited time period (typically one, two or five years), and then convert to the more restrictive modified own-occupation definition described above. Until recently, in certain states such as California and Florida, and for certain medical specialties, this often was the best definition of disability made available.

OPTIONAL RIDERS

Unless your policy contains a residual disability rider, you may have to be totally disabled to collect any benefits. While an own-occupation policy protects your ability to practice dermatology and/or perform dermatologic surgery, it may not sufficiently protect your income level. There are many disabilities that might allow you to continue working in your occupation, on a limited basis, while suffering a loss of income. Adding a residual disability rider to your policy would allow you to continue receiving benefits, proportionate to your loss of income, if you returned to dermatology on a part-time basis.

Furthermore, with policies such as Modified "Own-Occupation" or "Any Occupation, this rider might allow you to continue receiving benefits if you decided to work in another occupation, or if the insurance company determined that you could work in another "reasonable" occupation with reduced earnings.

A Cost of Living Adjustment (COLA) Rider is designed to help your benefits keep pace with inflation after your disability has lasted for 12 months. This adjustment can be a flat percentage or tied to the Consumer Price Index. Ideally, you want a COLA that is adjusted annually on a compound interest basis with no "cap" on the monthly benefit. Although important, if cutting the cost of coverage is an issue, this might be the first optional rider to consider excluding from your policy.

A **future purchase option rider** is a must for young physicians. It provides you with the ability to increase your disability coverage, regardless of your future health, as your income rises. It is important to know when you can increase your coverage, as well as by what increments, on any given option date. Some companies may allow you to use your entire option in one year as long as your then current income warrants the increase; Others, however, may limit the amount that you can purchase.

Policies vary greatly in terms of the definition of disability made available, the contract provisions offered and the premiums charged. It is more important than ever that you take the time to compare each of the policies you are considering, and understand how and why they differ. The best approach is to employ the services of a professional insurance agent who specializes in working with physicians. He or she will not only be familiar with your occupation, but with which companies' policies are best suited to your particular specialty. Then you and the agent can decide which insurance company's policy best meets your individual insurance needs. RR

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