Disability Insurance – It's about quality

By William (Billy) Gwaltney, ChFC, CLU, REBC

Disability insurance is one of the cornerstones to a properly structured financial plan. Why? Because your most important asset is usually not your retirement account or real estate…it is your ability to get out of bed every day, go to work and earn a good income. You and your family's way of life depend on this asset. So if something happens to derail its performance, it is vital to be sure this asset is properly insured.

Yet in my years of experience as a disability insurance broker working with physicians, I have found that often there is a dis-connect between the quality of coverage a physician thinks he/she has, and what he/she actually does have.

If it's not in writing, it doesn't exist

Disability insurance is about contract language. As a result, the first thing to remember when it comes to evaluating coverage is simple…if it is not in writing, it does not exist. At claim time, the insurance company is going to go by what the policy says, not what you may or may not have been told by your agent or benefits person. The saying "the devil is in the details" is particularly true in this arena.

While there are multiple features that need to be considered in deciding which coverage alternative is best for you, there are two base-line components that it would be wise to confirm. While this is not an exhaustive list, covering these would be a very good start.

True Own-Occupation vs. The 'Other' Own-Occupation Definitions

The first component to confirm in disability protection is the definition of disability, which is crucial in determining what must occur before someone can collect policy benefits. While there are several definitions available, for physicians it is generally recommended to have an "Own Occupation" definition of disability, which pays benefits if you are unable to perform the duties of your current occupation.

However, there are multiple versions of Own-Occupation, and they are *not* created equal. This is where we often find a significant level of confusion. "Modified" Own-Occupation is a version found in many individual policies and in a large percentage of employer-provided group policies. This definition states that you are considered disabled if, due to injury or illness, you cannot perform the material duties of your current occupation. But it also states that benefits are reduced – or in some cases eliminated – if you *ever* earn income from another occupation.

Conversely, as of the time of this writing, the ideal definition for physicians is "True" or "Specialty" Own-Occupation, which also states that you are considered disabled if you cannot perform the material duties of your current occupation. However, this version does <u>not</u> penalize you if you then earn income from another source. In other words, if you become disabled from your current occupation, you can then earn income in another occupation without jeopardizing policy benefits.

If done properly, this true specialty definition can cover AMA-recognized subspecialties. For example, an electrophysiologist can be disabled from electrophysiology, then later work as a general cardiologist and not jeopardize his/her disability policy benefit.

While similar in some ways, these definitions are quite different in actuality. A significant percentage of disabilities are not catastrophic. Many people on claim are still able to make valuable contributions for which they can be compensated. And with technology allowing us to communicate worldwide without leaving our home, it can be important to have options and flexibility over the long-term.

What if I medically recover from a disability, but my income does not 'recover'?

Another important component to confirm in disability protection is called the Recovery Benefit. According to the Counsel for Disability Awareness (www.disabilitycanhappen.org), the average long term disability claim is a little over 31 months. This means that there is a reasonable chance that if you become disabled, you will eventually be medically cleared to return to work. While this is good news from a health standpoint, it could cause a problem from a livelihood standpoint. If you have been out of work for almost 3 years or perhaps longer, your employer has quite possibly moved on and your level of expertise in your field may not be as high. You may have lost industry certifications in addition to confidence and stamina. With this in mind, it is not a stretch to assume that your post-disability income might be lower than it was before the disability. And in actuality it may never return to the pre-disability level.

However, if your disability policy has a long-term Recovery Benefit, the financial impact of this scenario can be reduced significantly. The Recovery Benefit provides a benefit if you return to work after a disability and your post-disability income is less than your pre-disability income. For example, if your post-disability income is 30% lower than your pre-disability income, you would receive 30% of your disability policy benefit.

In a real world situation, a physician client of ours suffered a stroke and was out on disability for 18 months. After 18 months of collecting policy benefits, he had fully recovered medically and returned to work full time. But he had lost a significant patient base and, as a result, his income was much less. This was over 9 years ago and his income still hasn't recovered. Yet because his policy had a long-term recovery benefit provision, he still collects a benefit from his disability policy even though he has been fully functional and back to work for over 9 years.

Most group policies and many supplemental policies do not contain a long-term Recovery Benefit. Yet as physician compensation continues to become more variable and performance-based, it has never been more important to be sure your policy has this feature.

Can I afford quality disability coverage?

Some might assume that they cannot afford disability coverage with these comprehensive benefits. But you may be surprised to know that a policy with these key features and benefits is often not much more – if any more – expensive than a policy without these features.

A physician can expect to spend 1.5-4% of his/her income per year to properly insure that income. There are also various ways to potentially further reduce this cost without jeopardizing the features and benefits that matter the most.

For these reasons and others, it would be advisable to work with a broker who specializes in disability insurance. You have worked hard and invested thousands of hours to become good at what you do. If you cannot perform your duties due to a disability, it's crucial to make sure you have an income protection program that helps you maintain your and your family's standard of living.

Because you are insuring your most important asset, you want to get this part of your financial life exactly right.

William (Billy) Gwaltney, ChFC, CLU, REBC
Professional Planning Group, Inc.
1914 J.N. Pease Place, Suite 140
Charlotte, NC 28262
Cell 704.707.5788
Office 704.918.1174
Fax 704.918.1820
billy@ppgcarolinas.com
www.ppgcarolinas.com