



## Physician Disability Insurance Guide

This guide will educate you about definitions of disability, policy provisions, types of policies, how insurance companies determine the amount of disability coverage they will issue, premiums and whether they will insure you, what provisions your policy should have, and where to find coverage. Basically everything you need to know about **Disability Insurance (DI) for physicians**. It will not provide “chances of disability” statistics. These can be found on any number of websites, including ours: <https://www.DI4MDS.com>

Every physician should establish, maintain and update disability insurance throughout his or her career. The ideal time to establish coverage is when you are young and healthy and beginning practice. However, many times this coverage must be increased or established later due to income increases, changing practice situation, leaving the military, etc. These life events must be taken into consideration when implementing or increasing coverage.

**Disability Insurance ideally** pays a monthly benefit if you are totally or partially disabled from practicing your medical specialty due to sickness or injury. Benefits begin after a certain period of time, known as the Elimination Period, and will be paid for a certain number of months or years, known as the Benefit Period. However, all policies are not created equal. What you think constitutes a disability and what the disability policy states may be vastly different.

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### POLICY PROVISIONS:

The heart of any disability policy is the **Definition of Disability**. And, like the human heart, a comprehensive disability policy will cover the four “chambers” or **four types of disability: Total, Partial/Residual, Recovery, and Presumptive**. The following paragraphs will give a brief overview of definitions of disability.

**Total Disability** - should protect you in your medical specialty, and your policy should contain precise wording such as “inability to practice the material and substantial duties of your occupation.” Occupation should mean “if you have limited your practice to a specialized area of medicine,” that will be deemed to be your occupation. Beware of contracts that have the words “completely,” “any and every,” “all,” “any occupation,” etc. If you want to add coverage later in your career, age 55 or over, you may want to consider an “any occupation” definition to reduce premiums.

**Partial/Residual** - disability will pay you a percentage of the total disability benefit if you work in your specialty on a part-time basis, or can work full-time but are not able to perform your duties as efficiently as prior to disability. Partial disability should not have to follow a period of total disability in order for you to receive benefits and should serve to satisfy the elimination period. In addition, if you work in another area of medicine or any occupation, that should not be considered partial disability and reduce your benefits. Typically, partial benefits begin after a



15% – 20% loss of pre-disability income. Many association plans require that total disability benefits are paid before partial/residual benefits become available.

**Recovery Benefit** - allows benefits to continue following recovery from disability and is intended to fill the income gap when you are no longer medically disabled but have not yet begun to receive income. Recovery benefits usually end when you are receiving 80-85% of your pre-disability earnings.

**Presumptive Disability** - is the worst type of disability, and requires the “loss of use of two or more limbs, sight, speech or hearing.” In the event this occurs, you are “presumed” disabled and receive total disability, even if you work in your specialty or another occupation. The better policies pay presumptive disability benefits for life.

**Elimination Period** - is the waiting period from when the disability occurs to when benefits begin. Options are between 30 to 365 days, with the longer the elimination period, the lower the cost. The most cost-effective elimination period is usually 90 days. There is not a large premium savings if you lengthen the elimination period, but if you are in a practice situation that will provide monthly income for a period of time in the event of disability, or have a long receivables period, a longer elimination period should be chosen. Keep in mind benefits will not be received until 30 days after the elimination period. Make sure days of partial disability count towards the elimination period and the elimination period can be satisfied in a number of non-consecutive days.

**Benefit Period** - is the maximum length of benefit payments for a period of disability, and is typically between 5 years to Age 67. Again, the shorter the benefit period, the lower the premiums. The recommended benefit period is to Age 65 or Age 67.

**Future Purchase Option/Benefit Increase Rider (FPO/BIR)** - is a must for most physicians establishing disability coverage before age 40. This provision allows an increase of monthly benefit in the future, regardless of health, as long as your income qualifies. This should be exercisable annually and guarantee that the new policy increase be issued with the best risk class possible. If you are establishing or adding on to coverage after age 50, this option is not available or as necessary.

**Cost of Living Adjustment (COLA) Rider** - this rider increases the monthly benefit after one year of receiving disability benefits, either by a fixed percentage or based on the Consumer Price Index, up to a predetermined cap – usually 3% to 6%. This rider is an expensive option, and mathematically may not be cost-effective, especially if you are establishing coverage after age 40.

**Catastrophic Disability Benefit (CAT) Rider** – is designed to pay an additional monthly benefit for loss of sight, speech, hearing, use of two or more limbs, or inability to perform 2 or more activities of daily living.



**Typical Exclusions** - Disability due to war, committing or attempting to commit a felony, normal pregnancy, intentionally self-inflicted injury, normal pregnancy for the first 90 days

**Unique Exclusions** - Disability occurring during training, action or conflict while part of an auxiliary/contracted unit of the military

**Typical Limitations** - Two year max benefit for disability due to mental/nervous disorder (unless hospitalized) and/or substance abuse, no coverage for pre-existing conditions for the first two years of the policy, no benefits while outside North America, Canada, or Mexico

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## **TYPES OF DISABILITY POLICIES:**

An **Individual** policy - is a contract between you and the insurance company. Such policies should be Non-Cancellable and Guaranteed Renewable, which means the premiums never change and are guaranteed level. The policy can never be cancelled, contractual provisions changed, or exclusions added so long as the premiums are paid. This type of policy should be the foundation of your disability protection.

**Association** plans - are contracts between the insurance company and the Association. Premiums increase, and the premium schedule and any policy provisions are subject to change. Partial disability benefits are typically only paid after total disability benefits. This eliminates coverage for virtually all illnesses. The insurance company can cancel the policy at any policy renewal. Due to the uncertain nature of these policies and more restrictive policy provisions, Association policies should only be used to supplement individual policies.

**Group** plans - are usually provided by and paid for by your employer, and therefore any benefits received are taxable income, unlike Individual or Association policies. Again, contractual provisions are restrictive and the policy is subject to ERISA. This basically means if benefits are denied you are forced to exhaust an administrative appeals process before taking legal action. If the insurance company loses a suit, it is only required to pay what it would have originally paid for the claim. If you change employers the policy does not go with you. As a result, group policies should also be used as supplements to individual policies.

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## **Don't Forget to Consider:**

**Practice Overhead Coverage** – If you are in private practice, you are responsible individually for your practice overhead. Approximately 60% of overhead expenses, such as rent, malpractice, billing, some employee salaries, etc. are set expenses. This type of coverage will enable you to pay these expenses if disabled. The policies are identical to individual disability insurance except that the benefit periods are usually one to two years. After that period of time you will either sell/close the practice or be recovered. Premiums are lower than for individual



coverage due to the benefit period and are tax deductible, and benefits are non-taxable since they offset expenses.

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## **Premium and Underwriting Factors:**

**Premiums are based on age, gender, medical specialty, state of residence, health, monthly benefit, policy provisions and policy type.** The younger you are, the lower the premium. Males are a lower risk for disability and, as a result, their premiums are approximately 30% - 40% lower than for females. Rates for Invasive Physicians are approximately 10% higher than rates for Non-Invasive, and Anesthesiologists, the highest risk category with some companies, and probably all in the future, have approximately 20% higher premiums.

Where you live/practice is also a factor; generally, more populated states have higher rates. Health issues can have a severe impact on rates and, in fact, disability coverage is the hardest type of insurance to qualify for, with almost 50% of applications resulting in a policy issued other than as applied.

Premiums for a \$5,000 per month policy, with a 90-day elimination period, benefits to Age 67, with Own Occupation, Partial benefits, and including an option to increase coverage for a healthy 40-year-old will range from \$175 to \$750 per month, depending on gender, specialty, state of residence, and policy provisions/riders.

Your current or past health issues will determine whether your policy is issued with an exclusion for a pre-existing or current condition, a higher than normal premium, or if a shorter benefit period is offered. Your representative is extremely important in securing the best possible insurance offer for your unique situation. The monthly benefit issued for both individual and association policies is based on verifiable income. For physicians new in practice, usually \$5,000 to \$7,500 a month without income documentation is available. After one year in practice, pay and/or income statements will be needed to determine the amount of coverage, with the maximum monthly benefit available approximately 50% of income from individual companies to a maximum of \$25,000 per month -- up to \$50,000 per month if group coverage is later added. An experienced insurance representative can advise you on how to obtain the maximum benefit available.

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## **Recommendation:**

As stated previously, the heart of any disability policy is the definition of disability. Your policy should state that you will be paid your monthly benefit in the event you are unable practice your medical specialty due to a covered injury or illness. Make certain the policy is non-



cancellable and guaranteed renewable (premiums never increase, and the policy cannot be cancelled or changed by the insurance company except for non-payment of premiums). Obtain the maximum monthly benefit possible, and budget your expenses accordingly. Early in your career, also make certain the policy has a **Future Purchase Option** so you can increase coverage as your income increases. Make certain this can be accomplished annually, and no restrictions are placed or the option removed if you do not exercise a certain amount. If you are incorporated, your practice can pay policy premiums and deduct them; however, any benefits received will be taxed as income. How you pay premiums can be changed from corporate to personal in the future. Typically you can qualify for a higher monthly benefit per income amount if the policy is corporate or employer paid. After the policy has been in force for one tax year the premium payment source can be changed to personal and render your disability benefits non-taxable.

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## Where to Find Coverage:

The financial industry is like medicine, there are specialists. Seek an individual who represents all the main disability insurance companies, not just one, and who is familiar with, knowledgeable about, and experienced with physicians and their unique disability income needs. It should be clear what a disability specialist does from the beginning, with no misdirection as a “financial” or “investment” advisor, loan consultant, etc., only to learn later that in reality they represent one insurance company. Find out who pays their rent. Many insurance agents who specialize in disability insurance for physicians have access to discounts, and choosing a competent agent not only will make certain you are approved with the best policy possible taking into consideration your health, but will also be able to assist in the claims process to ensure claims are handled properly.

You’ve read our guide – now decide – if we can be of further assistance by contacting us below. Feel free to share this guide with your colleagues. We wish you continued success.

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