



A Practice of Your Own

What you need to know
about insurance coverage



TEXAS MEDICAL ASSOCIATION
INSURANCE TRUST

So you've finally finished medical school, completed your residency, and you're ready to open your own practice.

It's an exciting time in life—you're realizing one of your dreams.

But where do you start? Unfortunately, most medical schools don't teach you how to address the challenges of opening your own practice—challenges such as securing loans, finding medical office space, purchasing computers and software, hiring staff, and deciding what insurance benefits you'll offer to your employees.

Providing group insurance for your employees is one of the biggest potential operating expenses for practice owners, and when it comes to providing group insurance, medical practices face tough, complex choices. In our current economic environment, offering insurance to employees while keeping costs down is a challenge. However, offering a comprehensive benefits package is crucial to attracting and keeping quality employees.

This guide will help you understand your options for insuring employees and offer tips on how to make group insurance coverage more affordable.

Health coverage for your employees

When you start a group practice, you'll have to decide what types of insurance benefits you're going to offer to your employees. Will you offer medical insurance? Life insurance? Vision? Dental? There are many options—and as the owner of your business, you'll have to decide how much you can afford to offer your employees, and what you need to provide to attract quality talent.

In Texas, groups with as few as two members may be eligible for group health insurance. Typically, the larger the group, the more options are available and the lower the premiums, because the risk is distributed across more members. In most group plans, the employer pays for a portion of the premium costs for the employee.

The law requires that a minimum percentage of eligible employees participate in the plan, which prevents employers from only offering coverage to healthy employees in order to get better group rates.

Group insurance options

Based on what fits the budget of your medical practice, you may want to offer your employees a combination of the following:

Medical

Medical insurance is designed to compensate for eligible medical expenses. Usually, medical insurance pays a high percentage of eligible expenses above a certain dollar amount. Up to that dollar amount, the patients pay the lion's share of the costs incurred. As the employer, you can choose to cover some, or all, of your employees' premiums for medical health insurance.

Life

Beneficiaries of a life insurance policy receive cash (a "death benefit") to help pay for funeral costs and ongoing living expenses after the death of the policyholder. Most employer-sponsored life insurance plans offer up to \$500,000 of coverage and are offered to the employee as a "term" policy, which means the employee is covered as long as he or she is employed by the company or medical practice offering the policy.

Long-term disability insurance

This coverage offers protection against the devastating financial implications of a disability that strips the policyholder of the ability to make a living. It also provides the policyholder with income for a long period of time, such as two years, five years, or until retirement.

Short-term disability insurance

Short-term disability protects a policyholder's income for a short amount of time (up to two years) in the event of disabling injuries or illness. Short-term disability cannot replace income in the event of long-term, disabling injuries or illnesses.

Vision insurance

This insurance provides coverage for a portion of the expenses of eye treatments, discounts on eyewear, and services given by ophthalmologists.

Dental insurance

Dental coverage pays all or a portion of the costs incurred on dental care, such as fillings, crowns, root canals, and dental check-ups.

Long-term care insurance

Long-term care insurance offers protection for people who want to preserve their assets in the event they require in-home or nursing-home care over an extended period.

Insurance for your practice

In addition to group policies for you and your employees, there are also several other insurance plans you may want to have in place to protect your practice. These include:

Key-person life and long-term disability

When it comes to insuring your practice, "Key-person insurance is very important," says James Prescott of Texas Medical Association Insurance Trust (TMAIT).

A "key person" is someone who is important to the business, perhaps the owner/founder of the practice or another key employee.

There are two types of insurance that offer key-person coverage:

Key-person life insurance

The death of a key individual can leave a void in your practice's expertise and lead to potential loss of income while a suitable replacement is identified. The benefit of life insurance purchased for that individual can be used to maintain the solvency of the organization and assure creditors of the continuity of the business.

Key-person long-term disability insurance

This coverage provides for payment of a monthly benefit to the business during the total disability of an essential employee. The amount of benefit is typically high, reflecting the value of the essential employee, and is separate from any benefits issued individually. The benefits can be used by the practice to pay the salary of a temporary or permanent replacement. The funds can also be used to shore up credit, offset loss of profit, or contribute to the solvency of the practice until a suitable replacement is recruited and trained.

Opening a solo practice

Even if you're the only physician in your practice, remember you may still be considered a "group" according to Texas law. You could purchase a group policy for you and for your office manager or nurse, for instance.

Offering group insurance to your employees may have tax advantages for you, the practice owner.

With group insurance, the physician is required to pay at least 50 percent of the employees' premiums, but is not required to pay the premiums of the employees' family members covered on the plan. Another option for helping your employees to pay for individual health insurance policies is to raise their salaries so they can pay for their own, individual policies.

Office overhead expense

With office overhead expense (OOE) insurance, you can help protect your practice and your employees in the event you suffer a disabling injury or illness.

OOE insurance pays your actual monthly overhead expenses, up to the benefit amount you select. And during the time you are disabled, your coverage may be continued at no cost to you. With some plans, you can receive benefits in the event you suffer even a partial disability, if that disability negatively affects your income.

Critical illness insurance

Critical illness insurance pays a lump sum benefit to the insured upon diagnosis of several defined critical illnesses. Among these are heart attack, stroke, life-threatening cancer, Alzheimer's disease, and organ transplant. The lump sum is typically tax-free and is paid directly to the policy owner. The benefit can be used however the policyholder wishes—perhaps to pay deductibles, unpaid medical bills, or for assistance around the home.

Accident insurance

Accident insurance pays a lump sum if you're permanently disabled or if you die as a result of an accident. A portion of the total benefit is also available if you lose the use of your limbs or become blind due to the accident. Benefits may also include limited day care expenses, tuition expenses, and the expenses your spouse may incur (for school, training, etc.) to prepare to re-enter the workforce.

Buy-sell agreements

A life insurance policy can be structured to fund a "buy-sell" agreement. This would ensure that the remaining partners in the practice have the funds to buy the practice interests of a deceased owner

at a previously agreed upon price. That way, the partners get the business and the beneficiaries of the deceased get money they may need.¹

Long-term disability, accident insurance, and critical-illness policies also can be structured to have a buy-sell agreement in the unfortunate event that one of the physician owners becomes too ill or injured to contribute to the company.

How to keep costs down

As insurance is likely to be one of the major expenses of your medical practice, controlling insurance costs is a key way to manage the overhead costs of your business. To keep your practice's insurance costs down, consider doing the following:

Adjust contributions

Some medical practices pay for 100 percent of their employee's premiums. However, if your practice cannot afford to do that, the National Association of Insurance and Financial Advisors (NAIFA) recommends you ask yourself these questions before determining an appropriate contribution level:²

- What can your practice afford?
- What level of contribution will make your employees feel valued?
- What message are you trying to send to employees through your contribution level?
- What level of contribution are other employers in your industry offering?

¹ Life and Health Insurance Foundation for Education, Sept. 21, 2009, <http://www.lifehappens.org/life-insurance/who-needs-it>

² Keeping Employee-Benefit Costs Down, by Jason Lombardi, Oct. 2009, <http://advisortoday.com/200910/employeebenefits.html>

Also, NAIFA recommends keeping the employee contribution for spousal coverage on the higher side. When it's less expensive for a spouse to be added to your plan than it is for that spouse to maintain coverage through his or her employer, you unnecessarily create additional plan costs.²

Consult an experienced advisor

Another way to keep costs down is to consult an insurance advisor who specializes in medical practices. Medical practices, physicians, and their staff have unique needs not found in other business environments, and an experienced advisor can work with the carrier of your choice to obtain the coverage you need.

An experienced advisor can also help you determine which types of insurance can give you the “most bang for your buck” when it comes to offering your employees a robust benefits package, and which plan types employees might be willing to purchase themselves.

The advisor should also work with your medical practice to design a program that meets your unique needs, and help you only get the coverage you need—nothing more.

With a little research and the help of a knowledgeable insurance advisor, your annual enrollment can be a little easier—and you can help your medical practice thrive in these difficult economic times.

Advice from a physician and business expert

“Healing is an art, medicine is a science, and health care is a business,” says Dr. Asa Lockhart, an anesthesiologist who also has an MBA from the University of Houston at Clear Lake. “Physicians have a command of healing and science, but the business aspect is another story.”

Dr. Lockhart's passion is to teach physicians the business of medicine. That's why he developed, and now serves as Course Director for, the 100-hour Certificate of Business Administration (CBA) course for the American Society of Anesthesiologists.

“In the past, the business of medicine was ignored, even vilified, in the medical community,” Dr. Lockhart says. “But in light of the political environment and the national health-care-reform discussions, it is crucial for physicians to have business knowledge in order to survive in the health care arena.

“These days, physicians are going to have to educate themselves on a lot of non-medical issues, a lot of traditional non-medical areas in order for them to provide the art and science of medicine,” Dr. Lockhart says. And for physicians who own their practice, one of the most important non-medical issues is buying insurance for themselves and their employees.

If you'd like more information on the CBA course, contact Dr. Lockhart at ACLHart@aol.com.

To consult an insurance advisor who specializes in group insurance for medical practices, call TMAIT at 1.800.880.8181.

² Keeping Employee-Benefit Costs Down, by Jason Lombardi, Oct. 2009, <http://advisortoday.com/200910/employeebenefits.html>

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Call [1.800.880.8181](tel:18008808181)

Monday-Friday, 7:30 am - 5:30 pm CT,
to speak directly with a TMAIT representative.



Getting to know TMAIT

The Texas Medical Association Insurance Trust (TMAIT) was created by the Texas Medical Association (TMA) in 1955 as an exclusive benefit to its members. TMAIT's mission is to help Texas physicians get the insurance coverage and financial planning they need.

What TMAIT offers physicians:

Personalized Service

We pair each physician who contacts us with an experienced insurance Advisor.

Convenience

We do the legwork to find quality, competitively priced insurance products that meet the unique needs of physicians.

Experience

We have been serving Texas physicians for more than 50 years.

Peace of Mind

We were created by the TMA, an organization dedicated to serving Texas physicians.