

TMAIT Insurance Guides for Physicians

# Long-term Disability Insurance



TEXAS MEDICAL ASSOCIATION  
INSURANCE TRUST

## **TMAIT INSURANCE GUIDES**

The TMAIT Insurance Guides are intended to help physicians make sound insurance decisions for themselves and their families. Created by the Texas Medical Association (TMA), TMAIT has more than 50 years of experience meeting the insurance and financial-planning needs of Texas physicians, and you can count on us to provide comprehensive information you can use.

*Note: The purpose of this guide is to provide information and education about all types of long-term disability insurance and its related coverages. TMAIT may not offer all types of long-term disability insurance discussed in this guide.*

Disability insurance (sometimes called “*income protection*”) provides a weekly or monthly cash benefit to make up for wages or income lost as the result of a total or partial disability.

## What is long-term disability insurance?

When it comes to insurance, a “disability” is defined as any kind of serious illness or injury that can interfere with your ability to work and earn an income over a long period of time.

Disability insurance may also protect credit and may prevent bankruptcy—because the inability to work doesn’t release a person from obligations to creditors or other financial responsibilities.

Unlike home and auto insurance policies—which are nearly identical across providers—disability insurance is a variable and complex product. Each long-term disability policy may have a different definition of what it means to be “disabled.” Also, long-term disability policies differ widely when it comes to how much and for how long benefits are paid. A few words or provisions in the policy you purchase can make a significant difference in the protection you receive.

### Note

*This guide focuses primarily on long-term disability insurance and its related coverages, such as office overhead insurance and cost-of-living insurance. But other types of protection, and how they differ from long-term disability, are discussed later in the guide.*

## Who should buy long-term disability insurance?

Anyone who depends primarily on his or her employment income (as opposed to a spouse, a trust, or other source of income) to pay expenses and maintain lifestyle should strongly consider disability insurance. Disabilities are not infrequent freak occurrences, nor do they happen only to older or more vulnerable people. Disabilities are more common than you might think. Consider the high likelihood of experiencing a disability:

- More than 51 million Americans are classified as disabled, representing 18 percent of the population.<sup>1</sup>
- In the last ten minutes, 498 Americans became disabled.<sup>2</sup>
- Unexpected illnesses and injuries cause 350,000 bankruptcies per year.<sup>3</sup>
- Three in ten workers entering the work force today will become disabled before retiring.<sup>4</sup>

<sup>1</sup> U.S. Census Bureau, Public Information Office, November 2008  
[http://www.disabilitycanhappen.org/chances\\_disability/disability\\_stats.asp](http://www.disabilitycanhappen.org/chances_disability/disability_stats.asp)

<sup>2</sup> The National Safety Council, Injury Facts 2008 Edition  
[http://www.disabilitycanhappen.org/chances\\_disability/disability\\_stats.asp](http://www.disabilitycanhappen.org/chances_disability/disability_stats.asp)

<sup>3</sup> “Illness and Injury as Contributors to Bankruptcy,” *Health Affairs*, February 2, 2005  
[http://www.disabilitycanhappen.org/chances\\_disability/disability\\_stats.asp](http://www.disabilitycanhappen.org/chances_disability/disability_stats.asp)

<sup>4</sup> Social Security Administration, Fact Sheet January 31, 2007  
[http://www.disabilitycanhappen.org/chances\\_disability/disability\\_stats.asp](http://www.disabilitycanhappen.org/chances_disability/disability_stats.asp)

## Why long-term disability insurance is especially important for physicians

### Higher risk

The medical profession requires higher on-the-job risk. Aside from a more dangerous work environment, physicians have high rates of musculoskeletal disorders and mental conditions, according to current claims data.<sup>5</sup>

### Specialized skills

Physical and mental disabilities can dramatically alter a physician's career. A transition to another type of employment may not be acceptable to a physician who has invested years in training.

### Financial investments

In paying for medical school and financing a practice, physicians can incur significant debt. For physicians bearing the burden of significant debt, the inability to practice medicine and the loss of income may have life-altering consequences.

## The main types of long-term disability insurance

### Employer-sponsored group disability

Most mid- to large-size companies offer group disability as a subsidized benefit or through payroll deductions. Many of these plans are limited, providing only 50 to 60 percent of your income if you become disabled, leaving you with an income gap.

### Individual disability

Individual disability insurance can be purchased directly from an insurance provider and may offer more options and broader coverage than an employer-sponsored plan.

### Association-group disability

Association-group disability insurance is offered as a benefit to individual members of a professional association or other group. These plans generally provide features, benefits, and coverage similar to that offered by an individual plan.

For optimal income protection, purchase an individual or association disability policy first, then participate in your employer's plan. Combining policies and adding optional policy riders or coverages is a good way to limit income gaps in your long-term disability coverage.

 *Tip*

<sup>5</sup> JHN Disability Fact Book, 5th Edition, 2008

## Why you may need more than an employer-sponsored plan

Employer-sponsored long-term disability plans offer an easy way to get long-term disability coverage. Typically, the plan is offered as part of your employer's benefits package and the premiums may be paid by your employer or deducted from your paycheck.

One thing to keep in mind, though, is that while these plans are convenient and free or inexpensive, they may have more limitations and exclusions, may not be customized for your needs, and the benefit may only cover 50 to 60 percent of your income. The benefits it does provide are taxable. It's important to make sure you know what your employer-sponsored plan does and does not cover. Also keep in mind that you can't take employer-sponsored coverage with you if you change jobs.

Individual and association-group disability policies may offer broader coverage (up to 70 percent of your income) and may have fewer limitations and exclusions, so that they may provide benefits in more situations. They also may offer you the ability to take the policy with you if you leave your job and tax-free cash benefits. However, no single type of long-term disability plan will replace 100 percent of your income.

### *Tip*

Talking with an insurance professional to ensure you have the coverage you need—rather than finding the cheapest quote—is the best way to approach disability insurance.

## What to look for in a long-term disability policy

### Tailored to physicians

Disability definitions, coverage, and policy features should accommodate a physician's specialized skills, a provision sometimes referred to as "own occupation." Without this provision in your disability insurance, you may not receive benefits as long as you can manage *any kind* of employment.

### *An example*

Consider a neurosurgeon who develops a hand tremor and can no longer perform surgery. If he has a long-term disability plan, the neurosurgeon will receive benefits for a set number of years. With an "own occupation" or specialty provision, the physician will still receive his cash benefits if he is able to secure comparable work—such as teaching, consulting, or administration—that uses his specialized skills and provides a significant portion of his former income. In other words, the long-term disability provider won't stop paying benefits simply because the physician is able to take *some kind* of job.

### **Solid claims-paying reputation**

Make sure that claims will be reviewed and, if approved, paid in an efficient, hassle-free manner. Remember that some employer-sponsored group plans may limit coverage in more situations, so it's good to find out what your employer-sponsored plan covers before you file a claim.

### **Portability**

Be sure you have a disability policy you can keep with you if you move or change jobs. Most employer group plans are contingent upon employment. Individual policies or association-group plans typically are portable if you change jobs, but make sure you talk to an insurance advisor and read the policy carefully to find out if your policy is portable in all situations, even if you move out of state.

### **Non-cancelability**

If it's "non-cancelable," a disability policy cannot be cancelled and premiums won't change as long as premiums are paid and the insurance company continues to offer the product. The next best option is a policy that is "guaranteed renewable." These policies can make periodic changes to premiums and coverage. It is important to note that these changes can be positive ones, such as rate decreases as well as product enhancements.

### **Benefits until retirement**

Make sure you have options for how long you want the benefits to last, including an option that pays benefits until what is known as Social Security Normal Retirement Age.

### **Broad coverage and flexible provisions**

Mental disorders are one of the most common disability claims for physicians, but some long-term disability plans exclude them from coverage. Also consider avoiding policies with clauses that exclude pre-existing medical conditions.

### **Optional coverages and riders**

To round out your disability protection, look for plans that offer additional protection in the form of optional coverages or riders.

*Cost-of-living riders* can keep inflation from eating up your disability benefit.

*Buy-sell protection* allows partners in a medical practice to buy out or sell a portion of ownership to prevent reduced income from hurting the practice.

*Office overhead expense* coverage can provide further protection by covering you for staff salaries, rent, and other expenses of running a practice.

*Future-increase riders* allow you to increase your disability coverage limits in the future.

*Catastrophic disability riders* provide additional benefits, on top of the monthly benefit, if you are catastrophically disabled and unable to perform two or more activities of daily living or are cognitively impaired.

## When to purchase long-term disability coverage

Most financial planners and disability experts recommend purchasing disability when you are young and in good health. In fact, many physicians purchase disability while they are still in residency. That's because it's usually easier to pass the health requirements as a younger person. And when you purchase *individual* long-term disability coverage as a younger person, you may have the opportunity to lock in lower rates than if you purchased the policy ten years later.

Physicians who wait may end up paying higher rates because of past health history. Or, because of pre-existing conditions, they may not qualify for any disability coverage at all.

## When to stop carrying long-term disability coverage

As you near retirement, the need to maintain employment income may be less critical. You may have other assets accumulated that you can rely on in the event of a disability. It might be in your best interest to stop carrying disability insurance and apply for a long-term care policy. Long-term care policies cover the cost of caring for someone who is not necessarily disabled by illness or injury, but who needs help with daily activities.

## Other common questions about long-term disability

### **I hear about health and life insurance, but not disability. Why?**

That's partly due to human nature—most people don't think they'll become disabled despite statistics that show otherwise. It's also common for people to mistakenly believe that some kind of safety net exists, or that family will be able to step in and help. What's more, some human resources professionals who handle employee benefits may not have the deep expertise to provide guidance about disability insurance beyond the provisions of the group plans they offer.



**What's the difference between long-term disability insurance and short-term disability, Family Medical Leave, Social Security, and Workers' Compensation?**

With the exception of short-term disability, the types of protection listed below are U.S. government programs and laws. These programs are entirely separate from private, commercial disability insurance offered by employers, associations, or sold directly by providers to individuals.

*Short-term disability*

Employers usually offer short-term disability as part of a group plan, covering a portion of an employee's income. Most policies don't require a physical exam and benefits are capped at two years. Short-term disability cannot replace income in the event of long-term, disabling injuries or illnesses.

*Social Security Disability Insurance*

The Social Security Administration pays monthly benefits to disabled citizens who qualify. Social Security benefits are not disbursed automatically—the application process can take a few months and less than half (39 percent) of those who apply receive benefits.<sup>6</sup> The average monthly Social Security Disability Insurance award is \$830.

*Family Medical Leave Act (FMLA)*

The Family Medical Leave Act is a federal law that requires companies or organizations with 50 or more employees to offer 12 weeks of leave for childbirth, adoption, caring for a sick family member, or caring for one's own disability or illness. It's important to note that the Act does not require your employer to pay you during the time you are on leave.

*Workers' Compensation*

A legally mandated form of insurance that requires employers to provide some kind of compensation—medical expenses, wages, or death benefits—for disabilities or death resulting from a person's occupation or work environment. Workers' Compensation does not cover a person who develops a serious illness or disease or who experiences an accident outside of work. However, such situations may be covered by disability insurance.

<sup>6</sup> Social Security Administration, Office of Disability and Income Programs, as reported by the Disability Awareness Council, July 5, 2009.

## Long-term disability insurance rates and premiums

It's difficult to list a set or average premium amount for a long-term disability policy because so many factors are considered in calculating the cost. Below are the main factors that determine premiums:

- Age
- Individual health characteristics
- Tobacco use
- Gender (Women generally pay slightly more for an individual policy because they tend to file more costly claims)
- Specific specialty and risk class. For example, a general practitioner might have a lower risk (and lower premium) than an ER physician.
- Design of the policy (the waiting period, optional riders, and coverage amounts you choose)

## Applying for and using long-term disability insurance

Employer-sponsored group disability plans are typically offered as part of a larger benefits program at the workplace. For an individual or association policy, the physician usually begins by reviewing options with a broker or advisor, completing an application, and getting a health exam. Physicians must choose the monthly benefit amount, the waiting period (the amount of time they're willing to wait before the benefits begin), the age at which benefits stop, and any optional policy riders.

In the unfortunate event that you experience a disabling illness or injury, disability works like other types of insurance. You file a claim, and once it's reviewed and approved and a set waiting period passes, you start to receive benefit disbursements on a weekly or monthly basis.



**Tip**

You can save money on individual or association-group disability insurance simply by choosing a longer waiting period (the period before benefits start, usually 30 or 90 days) or selecting a lower amount of coverage.

Contact us today and speak with an experienced Advisor—we're available online or by phone.

Insurance policy terms, premiums, application requirements, and claim processes vary by provider. To make the right choices, it's best to consult an Advisor.



*Online*

Visit [www.tmaid.org/quote](http://www.tmaid.org/quote)



*Phone*

Call **1.800.880.8181**

*Monday–Friday, 7:30 a.m. – 5:30 p.m. CST*

### **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.



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