

DOCTOR
DISABILITY[®]



Resident and Fellow's
Guide to Disability Insurance

Introduction

My experience with disability insurance started at a really young age when my father (who was 45 at the time) had his first heart attack. I was only five when it happened, but I have vivid memories of him coming home after his open heart surgery and seeing the staples running down the length of his chest. It was scary to see the man who weeks before was strong and healthy, completely dependent on my mom for everything.

We didn't know it at the time, but he would never return to work again. He had another heart attack just six months later followed by a series of strokes up until his death at age 53.

As difficult as it was, I don't remember money being an issue at any point in my childhood. During his illness, my dad wasn't earning an income and my mom only worked part time, but we always seemed to have everything we needed. Even after he died, my mom never worked more than 20 hours a week.

It wasn't until many years later that I learned how this was possible.

Around the time I was born, my dad purchased disability and life insurance from a friend. After his open heart surgery, the disability policy, along with his employer's group disability plan, provided enough income to keep the bills paid. After he died, the life insurance enabled us to stay in our home and gave my mom the financial cushion to work part time. There was even enough to pay for a significant portion of my college.

I never met the man who sold the insurance policies to my father. I don't even know his name. I do know that if I made a list of all of the people who have had the greatest positive impact in my life, he would be near the top of that list. Losing my dad was a horrible experience, but the work that he did kept my world from completely falling apart.

I know first-hand that there are no guarantees in life. Many years ago I lost my father, but I could have lost so much more. My hope is that the information in this guide helps you feel confident in providing for you and your family's financial security.

Charles Krugh

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What is disability insurance?

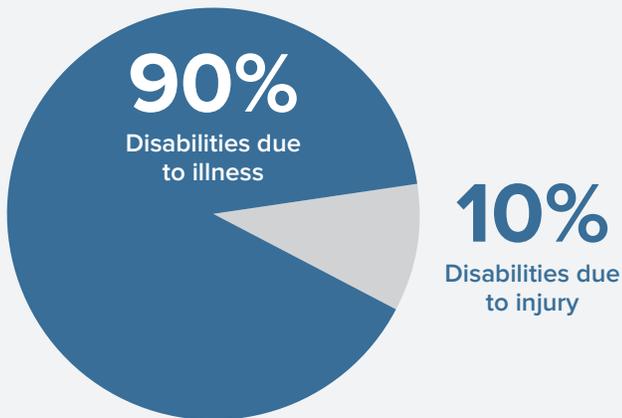
The chance of becoming disabled is greater than most people think.

Disability insurance is designed to replace a portion of your monthly income if you are unable to work due to an illness or injury. The monthly benefit from disability insurance can help cover expenses, maintain your standard of living and provide financial stability until you return to work.

Your income is the foundation of your entire financial plan. It's the thing that makes everything else possible. Think of disability insurance more as income protection – something that keeps your larger financial plan intact, no matter what.

Illness causes most disabilities.

The top causes of disabilities include back pain, nervous system disorders and heart disease.



Source: JHA 2002 U.S. Group Disability Rate and Risk Management Study

1 in 4 of today's 20-year-olds will become disabled at some point during their career



Source: Social Security Administration, Basic Facts, Feb 7, 2013



Disability Insurance Protects Your Most Important Asset—Your Income

“It’s better to be safe than sorry” might be a cliché, but that doesn’t make it untrue. Even if you are an exceedingly cautious person who has enjoyed robust health, you never know when you might need disability insurance to cover a long-term absence from work. It can be a lifeline in your time of need and get you through a period where you are unable to earn an income.



A 35 year-old earning
\$200,000
a year could earn more than
\$9.5 MILLION
by the age of 65.
(health permitting)

When Should I Buy Disability Insurance?

“When exactly should I start paying for disability insurance? I've gone this long without the insurance and feel comfortable "gambling" for another year or so before signing up for it. Is there an added incentive to starting earlier as opposed to just waiting a few more years even if there will be only slight augmentations to my annual income and (hopefully) no significant changes to my general health? As a resident, I feel like I don't have much to lose in forgoing the insurance at this point.

- From a first year surgical resident

The Top 5 Reasons to Buy Disability Insurance as a Resident

1. Residency and Fellow Discounts: Insurance companies love young, healthy doctors – so much so that they offer discounts if you buy their policies while still in training. Premiums are based on your age when you purchase the policy so buying at a younger age locks in the lower rate for your entire career.

2. Your Health: The best time to buy disability insurance is when you are young and healthy.

At the risk of sounding like a fear monger, bad stuff does happen. MS, car accidents, needle sticks, brain tumors, skiing accidents, ruptured discs, depression, anxiety – just a few of the conditions that could prevent you from EVER buying disability insurance.

Not long ago I spoke with a 4th year plastic surgery resident who severed a tendon in her operating hand as she was emptying glasses out of her dishwasher – yes, she was disabled by a dishwasher. It's been more than six months and she still has limited mobility and no feeling in her thumb. The insurance companies said they wanted a minimum of two years of complete healing before they would consider covering her hand. If you wait to buy, and then have health issues, those issues could potentially result in a limitation on the benefit period, restriction on optional riders, pre-existing condition exclusions, or denial.

The "it will never happen to me" response seems perfectly reasonable until it happens to you.

3. Lock in a Guaranteed Option to Increase Your Coverage: Buying disability insurance now gives you the guaranteed option to buy more coverage as your income rises and your family grows, regardless of your health status at the time of increase. Buy a small, inexpensive policy today and have the GUARANTEED option to increase it later –with no medical questions asked.

I'm in my early 30s, a cyclist, a runner, and by all accounts very healthy, but was diagnosed with a relatively serious condition while in grad school a few years ago. I was a student so I had no income to insure but now I'm essentially uninsurable for the one condition for which I will likely need disability insurance. The chances of these things popping up only increase as you age. A little bit of guaranteed income protection is better than none at all.

- 1st year cardiology fellow

4. Cover Your Student Loans: According to the Wall Street Journal, the average medical school debt in 2013 was \$180,000. Some loans are forgiven in the event of disability, but only if the disability is deemed TOTAL and PERMANENT. If you have the ability to work in any capacity, your debt will not go away. Consequently, a young resident who suffers a serious illness or injury could place themselves in trouble financially. Being unable to work is bad. Being unable to work AND responsible for a \$300,000 loan is catastrophic.

5. Your Future Earning Potential: It may not feel like it, but you already have a lifetime earning value of TEN to TWENTY MILLION! You've already done most of the hard work – you just have to get across the training finish line. Waiting puts everything at risk. Something as simple as a contaminated needle stick could cost you millions of dollars in lost income.

What should I look for in a policy?

Is the policy **Non-Cancelable and Guaranteed Renewable?**

A non-cancelable and guaranteed renewable policy provides considerable security, since the insurance company can't raise your premium or cancel the policy for as long as you pay the premiums. A policy that is only "guaranteed renewable" can increase premiums under certain circumstances.

Know the **Definition of Disability**

When you buy disability coverage, you're essentially buying the insurance company's definition of disability. There are two basic definitions that include "own occupation" and "any occupation," disability.

Own Occupation - This refers to the occupation or medical specialty you were working in just prior to your disability. If your "own occupation" is protected, the policy will not require you to work in another occupation. This is sometimes referred to as "regular occupation" or "your occupation."

With a **Modified Own-Occupation** definition of Total Disability, you would typically be eligible for total disability benefits when you are unable to perform the material and substantial duties of your occupation solely due to injury or sickness and you are not gainfully employed.

A **True Own-Occupation** definition of Total Disability makes it possible for you to work in another occupation/medical specialty and still be eligible for total disability benefits. Typically, you would be considered totally disabled if, solely due to injury or sickness, you are unable to perform the material and substantial duties of your occupation/medical specialty.

There are two variations of own occupation.

With a “True” Own Occupation definition, if you have the energy, interest, and motivation to pursue another occupation, while totally disabled in your occupation, you may do so and still be eligible for your total disability benefits.

Any Occupation - Some policies will not pay benefits if you can perform "any" occupation you are suited to, based on your education, training and experience. This definition tends to be very restrictive and is often found in group disability contracts.

As a physician, it's important to make sure your policy considers you disabled if you cannot perform the substantial and material duties of your own regular occupation.

Elimination Period - The elimination period is the number of days you must be disabled before policy benefits become payable. Options are 60 days, 90 days, 180 days and 365 days. The longer the elimination period, the lower the premium. The most common elimination period is 90 days.

Maximum Benefit Period - This is the maximum period of time for which benefits are paid for any one period of disability. Typical options are 2 years, 5 years, to age 65, to age 67 and to age 70. The longer the benefit period, the higher the premium. The most common benefit period is to age 65.

Residual Disability Rider - Not all disabilities are “total”. You may suffer a partial (or residual) disability that limits your ability to work and results in decreased income.

The residual benefit protects you by paying a partial benefit if you have a partial disability. If you are sick or injured and have a loss of income but still working in the same occupation, you would be eligible to receive a benefit equal to the percentage of your lost income.

For example - if you have a disability policy with a \$10,000 monthly benefit and suffer a disability that results in a 50% loss of income, you would be eligible for \$5,000 of monthly benefit.

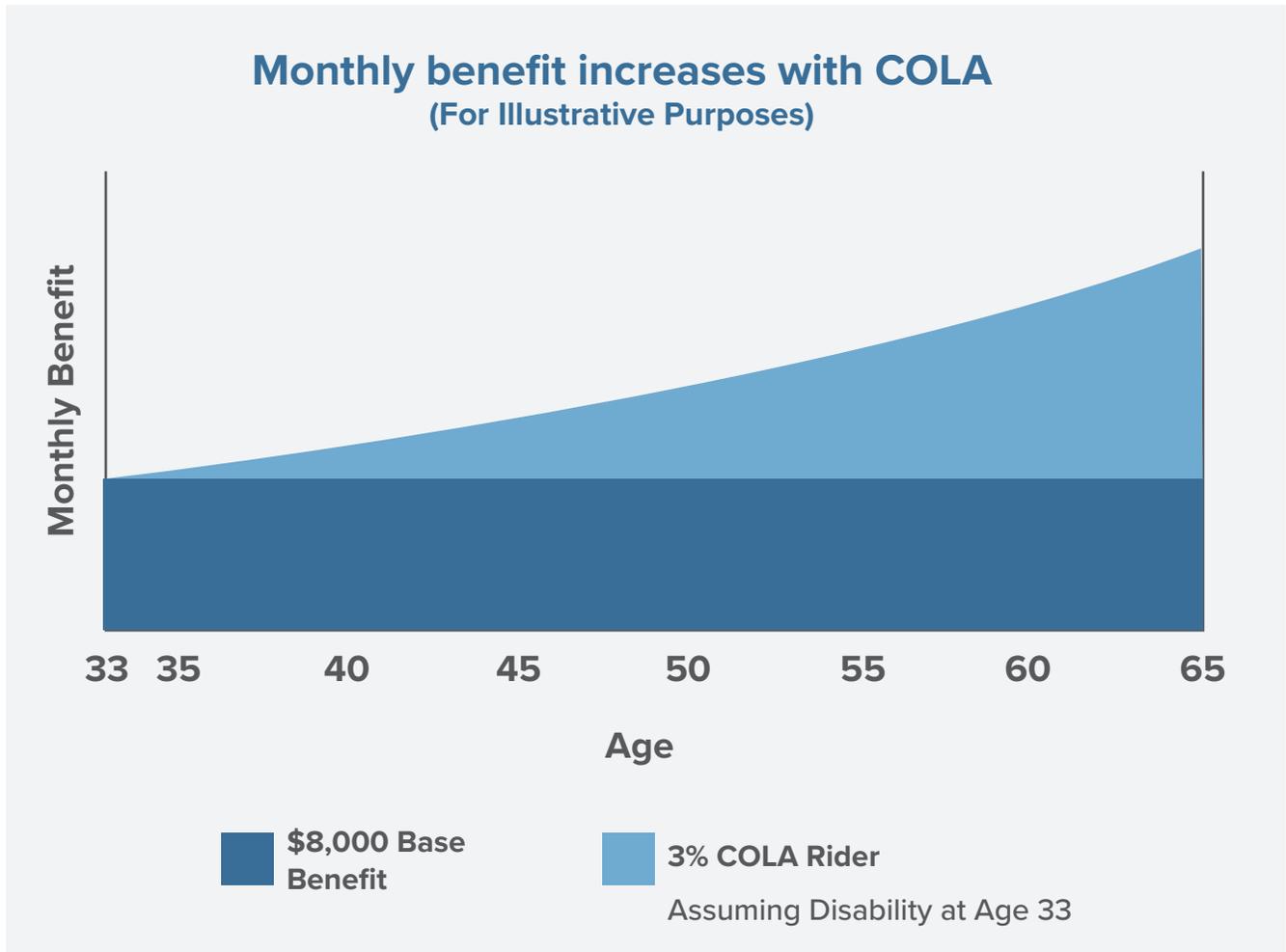
The residual rider is important - Without it, a person diagnosed with Parkinson's or Multiple Sclerosis could see their income drop substantially and not receive any disability benefit from their policy until they were totally disabled.

Guaranteed Increase Option Rider - A guaranteed increase option allows the owner of a disability insurance policy to buy additional disability insurance in the future with no medical underwriting. This is useful for a person who expects their future income to increase and wants a guaranteed option to obtain more coverage.

This rider is especially important for residents, fellows and physicians who have recently started in practice.



Cost of Living Adjustment Rider (COLA) - The cost of living adjustment, or COLA, increases your monthly disability benefit each year you are on a claim to offset inflation. The increase is either fixed (3% or 6%) or based on the consumer price index. The benefit to you is that your standard of living won't decrease during a long-term disability.



COLA is most important for younger workers (under age 40) because of the greater impact of inflation over a longer period of time. Many people will initially purchase a policy with COLA and then remove the rider (to reduce their premium) as they get older.

Catastrophic Disability Benefit Rider - Some illnesses and injuries can be more severe than others, and therefore can lead to more devastating consequences. A catastrophic disability means that due to injury or sickness, you have complete, irrecoverable and irreparable loss of: (i) the use of both hands, or both feet, or one hand and one foot; the sight in both eyes; speech; or hearing in both ears; or (ii) are totally disabled due to Alzheimer's disease or other irreversible form of senility or dementia; or (iii) are totally disabled and have Aphasia; Hemiparesis; Paraplegia; or Quadriplegia.

In the event you become catastrophically disabled you would receive an additional disability benefit on top of your regular disability benefit.

Frequently Asked Questions

How much should I buy?

In most cases, the goal is to buy enough coverage, so that when combined with other sources of income, enables you to maintain your same standard of living that you had while working.

The maximum monthly benefit you can purchase is based on your annual income. Every company uses an income to benefit chart. For example, at \$200,000 of income, you could buy roughly \$9,500/mth and at \$300,000, you could buy approx. \$13,500/mth of benefit. In most cases, the benefit is paid to you tax-free.

If you have group disability coverage, the maximum amount of individual coverage you can buy is reduced by the net amount you would receive from the group disability plan. For example, if your income qualifies you for \$10,000/mth and your group plan will pay you \$3,000/mth, you could buy \$7,000/mth of individual coverage.

What are common exclusions from coverage?

Benefits generally will not be paid for a disability:

- Caused or contributed to by an act of war, whether declared or undeclared
- Due to pregnancy or childbirth (most policies do cover complications of pregnancy)
- Due to your committing, or attempting to commit a felony
- Existing while you are legally incarcerated or detained
- Caused by an intentionally self-inflicted injury

In addition, a medical condition that existed prior to the purchase of your disability policy may be excluded from coverage. Depending on the condition, the exclusion may be permanent or temporary.



What should I know about my employer's group disability plan?

Disability coverage through work is often a great, cost-effective way to protect yourself against a disability. Individual disability insurance adds to that coverage in a number of ways.

- Could you survive on a 50% - 70% pay cut if you became disabled? Group long-term disability insurance is a great start, but may not be enough. Most plans cover 60% of gross income and benefits are usually taxable. In addition, benefits are further reduced by "offsets" such as Social Security, pension benefits, workers comp, income earned in a different job, other group insurance, etc. Individual disability insurance can help fill in the gaps left by group coverage.
- Group disability benefits are not guaranteed, nor are they portable. If you change jobs or if your employer changes or cancels the group disability contract, you could lose your benefits. Individual disability policies are portable and controlled by you, not your employer.
- Many group disability plans contain a weaker definition of disability, which would pay out benefits in fewer scenarios (the worst requiring you to be unable to perform the duties of ANY job).

How much does disability insurance cost?

The cost will depend on a number of factors like your age, medical specialty, gender and the state you live in. As a rule of thumb, you can expect to pay roughly 1-4% of your income for a good policy.

Are there any discounts available?

Multiple Employee Discounts - When three or more people working for the same employer purchase a disability policy at the same time, each employee can save 10% to 15% (females can save up to 40%). Larger groups of physicians may be eligible for even bigger discounts.

Association Discounts - Members of certain medical or dental associations can save 5% - 10%. Let us know about any associations you belong to and we will check to see if the insurance company is offering a discount.

Final Thoughts:

**Disability insurance is a vital part of most medical professionals' financial plans.
At Doctor Disability we specialize in providing peace of mind and financial
security to physicians and their families.**



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www.DoctorDisability.com to protect your
most valuable asset.**



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