

Disability Insurance Part 6 – Other types of disability insurance

Disability Insurance Part 6 – Other types of disability insurance

This is part 6 in a series of posts on disability insurance. Here we'll cover some various types of disability including group disability policies, key-man policies, retirement protection policies, and business overhead policies. Parts 1-5 can be found [here](#).

Group disability policies

Residents and fellows (and sometimes even students and attendings) are often provided with a group disability policy as a benefit. There are three issues with group disability policies. First, their definition of disability is nearly always much weaker than you get with a good individual policy. The employer knows few doctors (much less residents) know much of anything about disability policies, and look at this as a “free” benefit. So they want to spend as little on it as possible. If you're in this situation, read the group policy and compare it to a similar policy for a good individual policy. In disability insurance, you generally get what you pay for, and your employer's motivation is to pay as little as possible. In most cases, you'd probably be better off if the employer would just give you the money it is spending on the policy in your salary. I cannot imagine the disappointment associated with finding out that your disability policy doesn't cover the disability keeping you from working. The second issue with group policies is that they limit your ability to get an individual policy. An

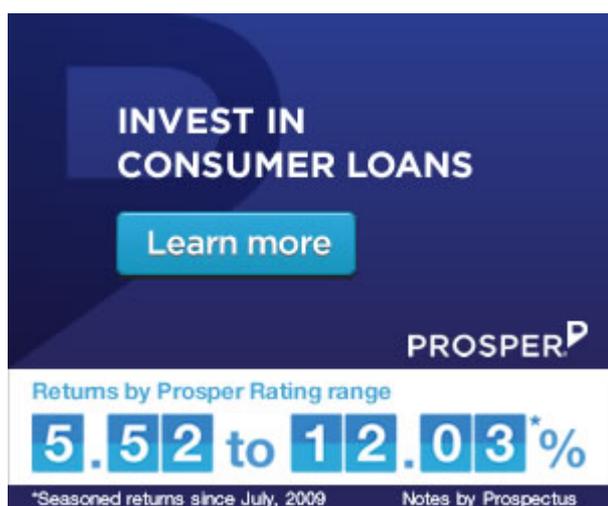
insurance company doesn't want you to make more disabled than you did working, so they take your current policies into account before deciding how much more to sell you. If you are already covered by a group policy, they may not sell you an individual policy at all, and if they do, it will only be for a small percentage of your income. You could opt out of your "free" disability insurance at work, but your employer is unlikely to add the cost of the premiums to your salary. The last problem with group policies is that like other benefits, they are pre-tax. The employer gets a tax deduction for it, so the benefits to you are fully taxable. It doesn't take a rocket scientist to realize that \$5K pre-tax is not the same as \$5K post-tax. In general, assuming you qualify, I recommend everyone own an individual disability policy.

Key Man Disability Insurance

These are specialized policies sold to businesses (such as a medical practice) that pay the business in the event that a financially valuable employee becomes disabled. The employee ought to be covered by his own policy that will pay for his personal needs during the disability, but this policy covers the business losses as a result of the disability. Consider a practice of three physicians. What would happen if one of them became disabled? Consider that normally 1/2 of the income generated by each physician goes to overhead, paying nurses's salaries, rent, malpractice insurance, billing staff etc. If one doctor can't work, the overhead, at least in the short term, is the same. Now the other two physicians are paying 3/4 of the income generated in overhead. This, obviously, cuts their take-home pay in half. The alternatives, rapid lay-offs and restructuring of the business, or outright failure of the practice, are just as unappetizing. Key-man insurance generally pays either a lump sum or payments for 6-24 months. It is anticipated that within that time another "key-man" can be trained or hired and the business can continue on without major financial

catastrophe. There are limited options out there for these policies, and you'll need an experienced agent to help analyze the value of a particular person and select an appropriate policy. Many doctors don't need a policy like this, but there are many who do and never even considered what might happen to their business if one of their partners became suddenly disabled.

Business Overhead Insurance



This is a similar type of policy bought by a business. Consider a one-physician practice where the doctor has a year long disability. Without a policy like this, the practice will go out of business, all of the staff will be laid off, and the patients will have to rapidly and unexpectedly find a new physician. If a business overhead disability insurance policy is in place, then the staff can continue to be paid, the utilities and rent can continue to be paid, and even a locums physician can be hired to cover the practice. Again, benefit periods usually don't exceed 24 months, and they are deductible as a business expense (with the benefits being fully taxable, of course.)

Disability Buy-Out Insurance

This type of policy is designed to be used in the event of long-term disability of one of the partners. If one partner becomes disabled, the policy pays out money that is used by

the remaining partners to buy out the disabled partner's equity in the business at an agreeable price. This benefits everyone. The disabled owner is guaranteed a willing buyer at a good price. The remaining owners don't have to come up with the cash to do the buy out, nor relinquish control to an outside investor. These policies generally have a lump sum payment made after an elimination period of 1-2 years, to ensure the partner really does have a long-term disability and won't be coming back.

Retirement Protection Disability Insurance

If you are unable to buy enough personal disability insurance to both pay your living expenses AND to save for retirement, you might be able to increase the amount of coverage you have by buying one of these policies. Basically, if you become disabled the policy pays a certain amount each month (up to ~\$4K a month) into a special trust where you invest the money. At age 65, the money is distributed to you to help supplement your retirement income. In general, I suggest you steer away from these plans UNLESS you are unable to purchase enough disability insurance in a typical policy. [Mixing insurance and investing](#) is generally a poor idea.

I don't own any of the policies noted above. But I am also a member of a larger group, where the loss of a single partner would not have an overwhelming financial effect on the other partners or on the business. Doctors in a single-physician or single-dentist practice or a small partnership would be wise to discuss each of these options with an experienced disability insurance agent.

Next, [comparing disability policies](#).