Q & A With DrDisabilityQuotes.com

[Editor's Note: We're just a few weeks away from announcing the WCI Medical School Scholarship winners! Today's sponsored post is written by Platinum Level Sponsor, Bob Bhayani from DrDisabilityQuotes.com. 100% of revenue from sponsored posts by the 5 Platinum Sponsors goes to scholarship winners. Bob asked me what he should write about and I told him to address the common questions we both get about insurance from readers. I hope you find the post educational and be sure to thank Bob for supporting the WCI Scholarship.]

11 Essential Questions Doctors Ask About Disability and Life Insurance

#1 How Much Term Life Insurance Should I Carry?

Bob Bhayani, Managing Partner of DrDisabilityQuotes.com

Term life insurance is a type of policy where you are buying protection for a specific period of time. If you die within the term of the policy the insurance company will pay a tax-free death benefit to your beneficiary. The term period you choose should be enough to cover your dependents until you are financially independent.

Physicians tend to purchase larger amounts of term life insurance. As a rule of thumb, a physician should carry about 10 times their income. However, you want to take into account your personal financial circumstances. Your term life insurance policy should cover an amount enough to protect your dependents, mortgage balance, debts, education for children, and privately guaranteed, or refinanced, student loans.

One of the strategies we often use is laddered policies (e.g. layer 10-year, 15-year, 20-year, and 30-year) to establish cost efficiency and avoid paying for unnecessary coverage. For example, if you have a 2-year-old and a 3-year-old son, getting a $1 million 20 year policy and a $1 million 30 year policy would cover you for $2 million for the first 20 years. Your children will then be 22 and 23 years old, and hopefully, have begun their own careers. Although you might not need $2 million worth of coverage after the 20-year mark, you still may not have reached financial independence. From years 20-30, you will be covered for $1 million to still cover your remaining debts, mortgage balance, etc. Your student loans will most likely be paid off at that point and your children put through college so you might not need the full $2 million coverage after the 20-year mark. This is where the ladder plan may work best to align with your financial goals.

#2 Do Two Doctor Couples Really Need Life and Disability Insurance?

The entire idea of buying life and disability insurance is to provide safety and security for yourself and your loved ones.

There is no math or science in my logic as it is based on reality. I had an attending who became disabled at an early age of 33 due to a diagnosis of myasthenia gravis. His medical condition left him debilitated. He could function no more than 4 to 5 hours a day. He was married to an oncologist, who within two years of his disability met someone else and divorced him. Today, his disability policy is the only source of income he has.

To assume your spouse will support you for the rest of your life in case of a long term disability is not pragmatic. In some instances, I come across residents, who are married to a physician, and opt to buy no coverage. I find that to be a risky strategy. In the case of death or disability, there is a loss of income that will impact the family emotionally and financially. Having life and disability insurance can soften that blow. However, I do believe that you do not need to have the highest level or maximum coverage if you are a dual physician household.

#3 At What Age, Asset Level, or Distance From Financial Independence Does it Make Sense to No Longer Purchase (or Drop) a

COLA Rider on an IDI Policy?

The COLA rider, also known as the cost of living adjustment rider, gives your policy benefits (after you file a claim) an increase each year that you are collecting claim. For example, a 3% COLA rider will increase your $5,000 benefit year one to $5,150 per month year two. The percentage of increase will depend on the type of policy that you buy. Each company offers a different type of COLA rider. Guardian has a 3% compounded annually, Ameritas 3% simple annually, and Principal offers up to 3% tied to the inflation rate. All companies offer a 6% rider also, but those tend to be tied to inflation as well. For example, if you are on claim and during year one the inflation rate is 2%, your increase at year two will only be 2% (not 6%).

In most instances, you can buy the cola rider and drop it off later (when it is less beneficial). But if you start without it, you may not be able to add this rider at a later point.

There is no given age that one drops a cola rider. The decision to drop the cola rider should take into account the level of financial independence you have achieved. You want to take into consideration the result if you are disabled permanently. Ask yourself if your benefit amount and your assets will keep pace with inflation for 20 to 30 years in case of long term disability.

#4 Do Attendings Who Are Already at Peak Earnings Really Need to Pay Extra for a Future Purchase Option Rider? How Expensive Are They Really?

If you are an attending already at peak earnings and your disability insurance policy covers the maximum amount possible for your income, then the future purchase option rider may not be necessary for you. If you are at peak earnings but your individual disability insurance plan is limited due to a group disability insurance policy, then it may be beneficial to pay extra for the future purchase option rider. There are instances where you may consider another employer in the future or to join a private practice, therefore potentially losing your employer long-term disability insurance policy entirely. In this situation, you will be able to increase your individual plan to ensure the most amount of income is covered.

There are different types of future purchase option riders. The Benefit Update (BU) Rider with Principal or the Benefit Purchase Rider (BPR) with Guardian both come at no cost, while the Future Increase Option (FIO) Riders come at an additional cost with Ameritas or Guardian. The BPR and BU Riders come at no cost because these future increase riders are a “use-it or lose-it” deal. They allow only 1 increase every 3rd year but if you qualify for an increase at the end of a 3rd year period and you decide not to increase, you will lose the increase rider for the remainder of your policy. The FIO Rider is more flexible in the sense that you choose when you want to increase as long as it is near the policy anniversary date. There is an additional cost to this rider as you pay to have this flexibility.

#5 How Does A Retirement Rider Really Work on A Disability Insurance Policy?

The Retirement Rider would place an additional monthly benefit into a retirement account for you in the event of a disability in addition to receiving the full disability benefit. The retirement trust would be accessible to you beginning at the age of 65 and funds will only be contributed during the length of disability. The value in the Retirement “Trust” would accrue interest over time just like any other normal retirement plan. You will need to already be contributing into your retirement account at the time you apply for a plan in order to be able to get this rider.

#6 How Does the Student Loan Rider Work on A Disability Insurance Policy?

A standard long-term disability insurance policy helps cover all of your expenses if you are disabled. If you have a significant student loan debt that will last for 10 to 15 years, the disability benefit may fall short of covering your monthly expenses. The student loan rider will cover some or all of your student loan payments while you are totally disabled to prevent you from having to allocate this expense in the base disability benefit. It can be a relatively inexpensive option to add to your disability insurance policy.

The student loan benefit will only be paid in the event of total disability, not if you have a residual (partial) disability. This rider will only be available for 10 to 15 years depending on which option you choose. The period begins on the date the policy is issued, not the date your disability benefits begin. For example, if you choose a 10-year student loan rider and incur a disability 5 years after the purchase the policy, your student loans will be covered for 5 years. Insurance carriers cap the student loan benefit at $2,000 or $2,500 a month and the minimum coverage amount ranges from $100 to $500 a month. Payments will be made directly to the student loan lender every month you are collecting total disability benefits. Guardian, Ameritas, Standard, and MassMutual offer the student loan benefit riders. There may be limits on some degree, professions, and states that qualify for this rider. Please contact us to determine if you would qualify for this rider.

#7 Lots of People Say Guardian Has the Very Best Contract for Docs, Although it Often is Not the Cheapest. If I Want "The Best" Should I Always Purchase a Guardian Policy?

Guardian has an enhanced True Own Occupation definition of total disability, which is a stronger definition compared to other insurance carriers. The enhanced specialty language for physicians adds extra language that provides one more way to qualify as totally disabled based on how you earn your income, even if you continue working in your practice, or you work in another occupation.

If you are an MD or DO and more than 50% of your income is from surgical procedures or hands-on patient care, and you can no longer provide the hands-on patient care or surgical procedures due to your disability you will be considered totally disabled even if you are working in your practice or another occupation. For example, surgeons spend 30% of their time performing surgical procedures but this makes up about 70% of their income, whereas they spend most of their time doing clinical work and this makes very little of their income. If a surgeon develops a hand tremor or any other disability comprising their fine motor skills, they can no longer perform procedures but they could still do clinical work. In this scenario, Guardian considers the surgeon as totally disabled and will pay out the total disability benefit while other insurance carriers may consider the surgeon as only partially disabled since the surgeon lost less than 75% of their income and they could still work in a clinic.

If this enhanced feature will not apply to you and your specialty, you will get a similar definition of total disability from most other insurance carriers – you will be considered totally disabled if you were unable to perform the material and substantial duties of your occupation (specialty) even if you are working in another occupation or specialty. When you are not a proceduralist or surgeon, you will need to review the different riders to determine which plan would meet your needs.

There will always be certain factors that determine the pricing of each plan, such as monthly benefit amount applying for, age, state of residency, riders included, etc. One of the major factors that affect your rates will be your specialty and what occupation class you fall under. The higher the occupation class, the better. For example, a diagnostic radiologist is considered a 5A-M with Principal, 6M with Ameritas, and 4M with Guardian. Ameritas and Guardian will also consider diagnostic radiology as a preferred occupation and attach a 10% discount. When comparing pricing, Ameritas will most likely have more affordable rates compared to Guardian since they consider 6M compared to 4M with Guardian. Ameritas also has very similar benefits than the Guardian flagship product (Guardian Premier). Determining the best contract depends on your specialty but also what benefits you want to add to your plan and if you were looking for a more enhanced plan or basic plan.

#8 In a Claim Situation, What Percentage of the Time Does Having a Less Than Ideal Policy (say a group policy with a weaker definition of disability) Actually Matter?

The type of policy you have has a significant impact at point of claim. Employer-paid group LTD coverage tends to be weak and hard to collect on. Group LTD policies generally do not offer True Own Occupation coverage. Many Group LTD policies offer "Disabled in your own occupation & not working" language and some offer Own Occupation coverage only for two years. This makes it very hard to collect a claim. For example, a Urologist is both a surgeon and clinician. If he/she were to develop an essential tremor and are no longer able to do surgery, a True Own Occupation Policy will pay the full benefit (if majority of CPT billing is surgical). On the other hand, a Group Policy would generally not pay since you are still able to work as a clinician. We always advise supplementing a Group or Employer policy with a private, fully underwritten guaranteed renewable, non-cancellable policy.

#9 Can You Explain the Advantages (if any) of Buying a Policy the Month Before Graduating From Residency Versus the Month After?

Insurance carriers will give you training discounts for up to 90 days post-graduation. There is no particular advantage or disadvantage to buying a policy the month before or after graduation, except for convenience. Residents and fellows tend to get very busy with packing, moving cross country, board exams, a vacation before starting a new job and settling into an Attending position. That amount of transition makes it hard for them to spend the time and focus on evaluating and applying for insurance. It may be worth evaluating and applying the month before graduation as underwriting a policy takes 6 to 8 weeks on average.

#10 What Do You Think About Medical Students Buying Disability Insurance? Is It Possible? Advisable?

One of the biggest obstacles in getting disability insurance is qualifying for it medically. On average, 4 out of 10 applicants either get modified approvals or declined altogether due to pre-existing history. The younger and healthier you are, the more likely you are to get a clean approval for a disability policy. Another factor to take into account is the hectic lifestyle of Residents. They work 60 to 80-hour weeks, don’t sleep enough, don’t eat properly, or do not exercise which can affect their health and insurability from disability insurance perspectives. If, as a medical student you can afford to lock in a small policy with a future increase rider than it is advisable to set it up.

#11 Is it Possible to Buy a Policy That Pays Until Death Rather Than Just Until Age 65 or 67? How Much More Does it Cost?

Only a couple of companies offer lifetime payout. The cost to purchase such a policy is on average 100% more than a "To Age 65" policy", so it is not an economical choice. A lifetime policy may not be truly a lifetime payout depending on age of disability onset. These policies tend to cut down the amount of payout if the disability occurs after age 55. That's why the payout rider is termed as Graded Lifetime benefit. This is a rider I generally don't recommend.

Disability Insurance Marketplace Recent Announcements and Changes

Principal

As of April 15th, you will now have the choice of a Principal policy with unlimited mental nervous coverage or a 24-month limitation with a 10% discount.

Ameritas

As of Friday, May 31st, the streamlined underwriting limits (max you can apply for without lab work) for residents and fellows are increasing. Residents and fellows can apply for $7.5k max if entering practice within 6 months and $6k if not entering practice within that time frame.

Guardian

As of May 19th, Provider Choice is now available in California. June 14th is the last day to submit ProVider Plus applications. In all states, if you initially receive a resident and fellow discount on your plan, this discount will apply to all exercises of future increases even as an attending physician.

Ohio National

On May 3rd, Moody's Investors Service has downgraded the insurance financial strength ratings to A3 and A2. The outlook remains negative for Ohio National and its subsidiaries. This marks the 3rd downgrade in just the past 6 months.

MassMutual

As of August 24th, MassMutual removed their unisex program entirely.