

# What You Need to Know About Disability Insurance



I have written a lot about [disability insurance for physicians](#) in the past, but I haven't written in years about this important financial topic. I have partnered with Pattern in providing this crash course video. The purpose of the rest of this post is to give a broad overview of the "must-know" information about this complicated type of insurance.

## Top 10 Disability Insurance Questions

These are the most common questions I get from readers and listeners about disability insurance:

### 1. Who Do I Buy Disability Insurance From?

Disability insurance should be purchased from an independent agent. An independent agent can sell you disability insurance

from any of the “Big 5” disability insurance companies. These include The Standard, Guardian/Berkshire, Principal, Ameritas/Union Central and Mass Mutual (+/- Ohio National.) Each of these offers a strong “own-occupation” disability insurance policy appropriate for physicians. I keep a list of those I consider the [best disability insurance agents](#) in the country. Save yourself the work of finding a good one you can trust and use the same agents that have been used by thousands of WCI readers in the past. You do not need someone local that you can sit down across the table from. It is better to have someone who has sold policies to hundreds of docs this year working with you by phone, Skype, and email than someone you can sit down with who has only sold four policies. In addition, if there is some issue with one of these agents, I can usually help you resolve it quickly.

## **2. How Do I Buy Disability Insurance?**

The key is the independent agent. The agent is going to be paid a great commission by the insurance company no matter which policy you choose. Assuming policies with similar benefits, the commission isn't going to be all that different. Plus, these agents get plenty of business and none of them are starving, so they have little incentive to sell you an inferior policy for a slightly higher commission. Their reputation is worth far more than a few extra dollars in commission. Since you are (indirectly) paying the agent a very nice commission, don't feel bad about using their time and expertise to fully understand this complicated product. For most docs, this is a purchase that is only done once or twice in their life. Have the agent quote you policies from each of the Big 5 companies and show you the strengths and weaknesses of each. If you have a policy from work or your professional association, bring it in with you and have it included in the comparison. Then you can know you made an educated decision

and you can buy it and forget about it. Also be sure to ask for a discount. The vast majority of doctors will qualify for a 5-30% association or employer-related discount and a top-notch agent will help you get that.

### **3. When Should I Buy Disability Insurance?**



Luckily insurance companies don't ask about extreme tubing

You should buy disability insurance just before you become disabled. Since you don't know when that time could be, earlier is generally better. However, disability insurance is also expensive, and when you are young and poor you have lots of other great uses for your money. A good compromise is to buy a small policy as you enter residency and then upgrade it just before leaving residency. The younger you are, the healthier you are, and the fewer dangerous hobbies you engage in, the cheaper your premiums will be for the same benefit.

### **4. When Can I Quit Paying**

## **for Disability Insurance?**

Disability insurance is a temporary type of insurance, like [term life insurance](#). When you no longer have a need for it, or it is no longer a good deal, [you should cancel it](#) and use what you would have spent on premiums to save, spend, or give more than you now do. The idea is to have the disability insurance in place from the time you start earning money until the time when you no longer rely on that earnings stream. Since any type of insurance is, on average, a losing proposition, you should only insure against financial catastrophe. Acquiring a long-term disability while your family relies on your income is a financial catastrophe. Becoming disabled after you are already [financially independent](#) or for only a short period of time is not. So when you reach financial independence, you can cancel your disability insurance (and your term life insurance.) In addition, since most disability insurance policies only pay out until age 65 or 67, as you age, the possible payout becomes less and less. As you move into your 60s, you may decide it is no longer worth the premiums to only get a few years of benefits in the event of long-term disability.

## **5. What Is the Most Important Feature of Disability Insurance?**



The most important feature is the definition of disability. Unlike life insurance, where life and death are pretty black and white, disability has fifty shades of gray. You want a policy with a strong, broad definition of disability that will cover any possible type of disability. That means “own-occupation, specialty-specific” and no limitations on things such as psychiatric conditions or addictions. This is the main difference between the “Big 5” companies and others. Even among the “Big 5” there are slight differences. It is okay not to purchase the policy with the very best definition of disability, but the weaker the definition, the bigger the discount you should expect.

## **6. How Much Disability Insurance Do I Need to Buy?**

As a resident, you typically cannot afford to buy as much as you need, but you should be able to do so even as a brand-new attending. Basically, you need to buy enough to cover both your living expenses and your retirement savings if you were to work to age 65, but not your taxes. Disability insurance payouts are generally tax-free since they are usually paid with post-tax dollars. Note that how much you need has little to do with your income and everything to do with what you spend. The less you spend, the less insurance you need to buy. Insurance agents would love to sell you the largest possible

policy (which usually works out to be about 2/3 of your gross income, but it is possible to combine two companies to get even more) so you'll need to decide how much you need on your own. Resident physicians typically buy a \$5K per month benefit and attending physicians typically buy a benefit in the \$10-15K per month range, but there are plenty of docs who buy both more and less. If your plan in the event of disability is to rely on the income of your spouse, you [may not need disability insurance at all.](#)

## **7. How Much Does Disability Insurance Cost?**

Unlike cheaper insurance policies like term life and umbrella policies, disability insurance is expensive, although not quite as expensive as your malpractice insurance. The reason it costs so much is it actually gets used. The likelihood of you acquiring a long-term disability during your working years is approximately 7 times as high as your risk of dying in those years. A typical policy bought on a healthy doc in her 20s or 30s will cost something between 2 and 6% of the benefit. So if your monthly benefit is \$10K, expect to spend \$200-600 per month for that. Perhaps the sticker shock you get upon being quoted prices will motivate you to reach financial independence as soon as possible so you can cancel the policy.

## **8. Which Riders Are Worth Purchasing?**

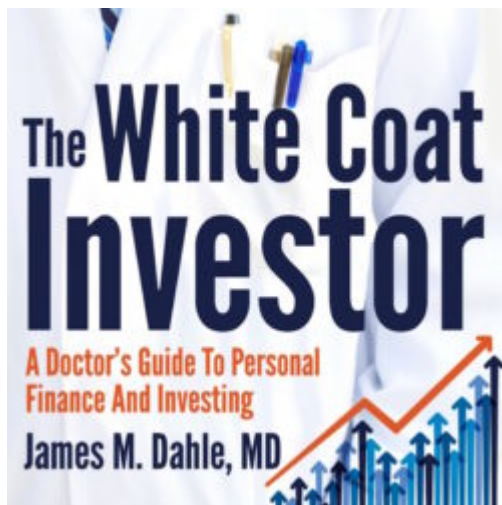
Disability insurance is typically sold with a handful of riders, each of which comes with an additional cost (and commission for the agent.)

- **Residual disability**– This rider should be purchased by

everyone. It covers not only a partial disability but also provides a partial benefit as you recover from your disability.

- **Inflation Protection-** This rider indexes your benefit to inflation, usually starting one year after you become disabled. This is a particularly important rider if you are disabled at a young age, so I recommend it for anyone buying a policy in their 20s-40s. If you are already 55, and the policy is only going to pay until you are 65, you can probably skip this rider.
- **Future Purchase Option-** This rider allows you to buy a larger benefit at a later date without any pesky questions about your health or hobbies. If you are in a position (such as a resident) where you cannot afford as much as you need, purchase this rider.
- **Catastrophic Disability-** This rider pays out an even larger benefit if you are REALLY disabled, usually defined as not being able to do 2 or more activities of daily living. Unless you are already up against the maximum amount you can purchase, I think you are probably better off just buying a larger primary benefit instead of this rider.
- **Retirement Benefit-** This rider, in the event of disability, causes the insurance company to put some money into some type of retirement vehicle for you in addition to paying your monthly benefit. Unfortunately, these are generally high-expense, [insurance-based investing products](#) and not the best way to save for retirement. You are better off purchasing a larger primary benefit with the money that would have gone toward this rider. Just don't forget you need to continue to save for retirement using your disability benefit money since the policy will only pay to age 65 or you will be living only on your Social Security benefits.

## 9. What Is Excluded?



Disability insurance policies generally exclude any medical conditions you have at the time of applying for insurance. For example, if you already have chronic back pain, the policy will not provide a benefit if you are disabled due to a back condition. In addition, if you admit to participating in dangerous activities such as SCUBA diving, rock climbing, flying, and sky-diving, the policy will likely be issued with a rider that excludes those activities from coverage. [Other exclusions](#) may also apply, such as acts of war, normal pregnancy, and foreign travel.

## 10. Is My Employer's Plan Good Enough?

The most important rule of disability insurance is that any disability insurance is better than no disability insurance. If you are disabled without disability insurance, you will be limited to what is offered by the [Social Security Administration](#), which provides relatively low payouts and can be difficult to qualify for. My last Social Security statement says my disability benefit would be \$2,471 a month. Living on that would be a dramatic decrease in our standard of living.



## Your Estimated Benefits

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<b>*Retirement</b>	You have earned enough credits to qualify for benefits. At your current earnings rate, if you continue working until...	
	your full retirement age (67 years), your payment would be about.....	\$ 2,881 a month
	age 70, your payment would be about.....	\$ 3,606 a month
	age 62, your payment would be about.....	\$ 1,931 a month
<b>*Disability</b>	You have earned enough credits to qualify for benefits. If you became disabled right now your payment would be about.....	\$ 2,471 a month
<b>*Family</b>	If you get retirement or disability benefits, your spouse and children also may qualify for benefits.	
<b>*Survivors</b>	You have earned enough credits for your family to receive survivors benefits. If you die this year, certain members of your family may qualify for the following benefits:	
	Your child.....	\$ 1,961 a month
	Your spouse who is caring for your child.....	\$ 1,961 a month
	Your spouse, if benefits start at full retirement age.....	\$ 2,615 a month
	Total family benefits cannot be more than.....	\$ 4,577 a month
	Your spouse or minor child may be eligible for a special one-time death benefit of \$255.	
<b>Medicare</b>	You have enough credits to qualify for Medicare at age 65. Even if you do not retire at age 65, be sure to contact Social Security three months before your 65th birthday to enroll in Medicare.	

Many employers (and professional associations) also offer disability insurance. If your employer is paying the premiums, be sure to take advantage. If they are not, you will have to compare the group policy to the individual policies that an independent agent can sell you. As a general rule, individual policies have a stronger definition of disability and higher (but flat) premiums but can be taken with you from one job to the next. Group policies are less expensive (although premiums generally rise as you age), often don't ask pesky questions about your health and hobbies, but cannot be taken with you when you leave. In some cases, an individual policy is best. In other cases, the group policy makes sense. Occasionally, it can [make sense to have both](#). Owning a pre-existing individual policy may limit how much of a group policy you are allowed to purchase.

What do you think? What have you learned about disability insurance that everyone ought to know? How have you structured your coverage? Comment below!