

# Top Long-Term Disability Features for Physicians

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By now you've either decided to purchase an individual long-term disability insurance (LTDI) policy or are doing research to make a well-educated decision.

Given the cumulative time, effort, money (and stress!) it's taken to get you to this point in your medical career, it is important to sufficiently protect a very valuable asset - your future earnings potential (also known as your human capital).

Most physicians begin their careers with a negative net worth (a.k.a. financial capital) due to student loans and a lack of ability to invest during medical school, residency and fellowship.



Your future earnings (a.k.a. human capital) as a physician are a substantial asset, however. For example, a physician earning \$250,000 annually would earn \$7.5 million during her career. If we adjust the future earnings for inflation and raises, the number is much greater.

*Not only may a disability limit your ability to pay for day-to-day living expenses, but it also can sabotage your ability to save for future goals such as retirement and college for your children. It can also limit your ability to pay off your student loans and other debt.*

Therefore, it is important to appropriately design your LTDI policy to provide adequate protection against an injury or illness that may substantially reduce your future earnings.

As follows is a summary of the "must have" LTDI policy features as well as other features that may be very valuable to your specific situation. This guide is designed to provide you with a foundational knowledge of the topic, however I advise you to consult with a financial professional who has experience helping physicians craft their LTDI policy to sync with their financial planning needs.

## **"True Own-Occupation" Definition Provides for the Greatest Protection and Career Flexibility**

A True Own-Occ definition of total disability allows you to work full time in another occupation and still collect your full disability benefit. A True-Own Occ definition considers you to be totally disabled when you are unable to perform the duties of your own occupation.

Here's an example of a "True Own-Occ" policy in action. If you are a cardiac surgeon and experience a neural event that leaves your dominant hand with a tremor, you may still work full-time diagnosing and treating patients while receiving your full disability benefit. You may even change careers and decide to teach full-time and still receive your full disability benefit.

Other definitions of total disability, such as Modified Own-Occ, sound close but don't be fooled. There will be more hoops to jump through to work and, at the same time, collect your full disability benefit.

I cannot emphasize strongly enough how important it is for you to have an accurate and thorough understanding of how each policy defines total disability.

## **Partial Disability Benefits Protect Against a Partial Loss of Income**

Sometimes an illness or injury leaves you with the ability to work in your occupation but, due to limitations from the incident, you are unable to earn as much as before. Perhaps you are unable to work as many hours or unable to perform the same job duties. A Partial Disability benefit is designed to provide financial support as you work your way back to full-time employment. Most Partial Disability benefits consider you to be totally disabled if you experience a 75% or more loss of income.

A basic Partial Disability benefit will provide payments in proportion to the loss of income up to your benefit. Benefits are typically paid out once you suffer a 20% or greater loss of income.

An Enhanced Partial Disability benefit will provide a benefit with a smaller loss of income, typically 15%. This rider will continue to pay you a benefit, even after returning to work full-time, if you continue to suffer a loss of 15% of income due to disability.

## **The Ability to Increase your Coverage as your Income Grows**

Young physicians commonly experience significant increases in their income during the early years of their careers. A Future Increase Option rider gives them the opportunity, typically annually, to increase their coverage without having to undergo another medical exam and interview. This can be of great benefit if the physician experiences a medical event that would otherwise result in a premium increase or being declined for coverage.

## **An Option to Pay Off those Pesky Student Loans if a Disability Hits**

A severe, if not total, loss in income in the early years of your medical career can be devastating; especially if you have a large loan balance. A rider that pays off your student loan balance can provide peace of mind as you are establishing your medical practice. This feature will make the loan payments during the first 10 to 15 years of your career. You may customize the period of time loan payments are made – typically between 10 and 15 years – as well as the amount of monthly loan payments to be made – typically between \$250 and \$2,000 per month.

## **Options to Cover Retirement Contributions if Disabled**

You likely started saving for retirement at a later age than your non-physician friends. Since you are in catch-up mode, your retirement contributions can ill-afford to be derailed by a disability. Some policies offer a rider that provides a lump sum benefit at age 60 to augment your retirement contributions. Another rider provides a monthly benefit that insures your retirement contributions as well as an employer match.

## **Extra Protection in the Event of a Severe Disability**

Some illnesses and accidents result in the need for extra assistance or house and transportation upgrades, not covered by your base LTDI policy, that help improve daily life for you and your family. A Catastrophic Disability Benefit rider, which can be customized to provide a cost of living or inflation adjustment to your benefit, provides extra funds when needed. In fact, it is possible to combine various riders to augment the base policy benefit to provide up to 100% income replacement.

## **Coverage for Mental and/or Substance-Related Disorders**

Some policies will provide a benefit for conditions such as depression, anxiety and alcohol and drug abuse. Certain professions, such as medical and legal, experience a higher-than-average level of stress. The same is true for certain

medical specialists – emergency room physicians are an example. This additional coverage can therefore be very important in certain circumstances.

### **Disability Payments Can be Taxable or Tax-Free**

When after-tax dollars are used to pay LTDI premiums, the benefits will not be taxable as income. This is typically the case with individually purchased policies. It can go both ways with group disability policies which are available through an employer. If you pay your group premium using pre-tax dollars then disability payments will be taxable thereby reducing the effectiveness of the coverage. Some employers allow you to gross-up your compensation by the amount of the group premium, however, thereby resulting in a future tax-free disability benefit.

### **Be Aware of the Limitations of Group Disability Insurance**

The primary benefits of group LTDI are low premiums and the ease of getting the policy issued.

There are some disadvantages to be aware of however:

- Many group policies do not offer a “True Own-Occupation” disability definition.
- The employer owns the policy which means that you have no control over policy terms that can change annually when your employer renews the policy with the carrier. This means the group policy can be cancelled and premiums may increase.
- Premiums on group policies typically increase every few years since the premiums are not guaranteed as they are with an individual policy.
- The policies are typically not portable meaning you can’t take them with you when you leave your employer.
- Partial disability payments can require a far greater loss of income than would otherwise be required by a partial disability rider on an individual policy.
- Most of the riders discussed in this article are not available on a group policy which reduces your ability to customize your policy design around your unique needs.

### **A Financially Strong Disability Carrier Known for Serving Physicians**

Lastly, make sure to consider the financial condition of the carrier. Some disability carriers have all the bells and whistles, but their financial strength is considerably weaker than other companies. I believe it’s important to select a carrier with a proven track record in covering the specialized needs of physicians.

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***A financial professional with experience placing LTDI policies with physicians can simplify the policy design process and give you confidence that your policy meets your needs as well as those of your family.***

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*Eric is a founding partner of the independent wealth management practice, Wealth Impact Advisors, LLC. He has provided financial guidance to medical professionals, business owners and families for over two decades. He is proud to serve clients in a fiduciary capacity as a CERTIFIED FINANCIAL PLANNER™ practitioner and an Accredited Investment Fiduciary®.*

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