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DISABILITY INSURANCE

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How to find disability coverage that's right for you

CONTRACTS CAN VARY WIDELY, DEPENDING ON HOW MUCH YOU WANT TO PAY AND HOW BENEFITS ARE STRUCTURED

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The purchase of a personal disability income (DI) insurance policy is not a life or death decision, but variations in contract provisions can result in significantly different benefits at the time you file a claim. For some, the best DI policy is the one designed to have the most comprehensive benefits available. For others, a reasonable benefit structure combined with the lowest price may be the most attractive. Either approach to selecting a DI policy is valid, assuming you have a full understanding of the differences in product features when you decide to purchase a policy.

When you consider buying a policy, evaluate these features carefully:

- the definition of disability;
- the provisions related to residual (or partial) disability benefits; and
- inflation protection.

The gold standard of DI protection long has been based on the "regular" occupation definition of disability, also known as "true own occupation." Only a limited number of policies recognize explicitly your particular medical specialty as your regular occupation.

Under this definition, if you cannot perform the principal duties of your regular occupation, you would be considered totally disabled—even if you choose to work in another occupation and regardless of how much you earn. The true own occupation definition of disability may best meet your personal requirements and business realities.

Alternative definitions of disability are available, of course. The primary difference concerns how income earned from another occupation—while disabled in your regular occupation—is treated in calculating benefit payments. With "modified own occupation" policies, benefits may be reduced by such earnings, or even terminated if the policy does not include a residual disability feature. With a "transitional own occupation" policy, benefits may be capped once the combination of disability benefits and other earnings exceeds your pre-disability earnings. In general, DI policies that include these definitions are priced lower than true own occupation products.

RESIDUAL BENEFITS ARE CRITICAL

Because not all disabilities will be total, "residual" or "partial" disability benefits are a critical element of disability protection. Regardless of the severity of an injury or illness, getting back to the practice of medicine as soon as possible is likely to be a high priority for you. The purpose of a properly structured residual disability feature is to provide financial support for your efforts to return to your practice as soon as you are able, even if it can only be part-time.

In virtually all DI products that include residual benefits, payments are based on a minimum income loss, which is expressed as a percentage of pre-disability earnings. Most insurance carriers require at least a 20% income loss, which results directly from a disabling sickness or injury. A few carriers have a 15% income loss requirement. The lower threshold percentage can be an advantage, because you could qualify for residual disability benefits sooner and longer than policies with a 20% minimum loss requirement. It's also important to note that some carriers require evidence of a loss of time or duties in addition to their prescribed minimum income loss.

During the initial period of a residual disability, most policies will pay a minimum benefit of 50% of the monthly indemnity for the first 6 to 12 months. A few will pay up to the actual dollar loss for as long as 12 months and may not require proof of a loss of time or duties.

After a disability ends, many contracts pay a "recovery" benefit if a loss of income continues and is related directly to the disability. The maximum recovery period varies by contract, from 12 months to the full benefit period of the policy. These may seem like subtle differences, but these product features determine how benefit payments are paid, so they should be important criteria in choosing a DI policy.

Inflation protection is important because even a modest rate of inflation will erode your purchasing power over time. You can protect yourself from inflation in two ways:

- Update your coverage regularly to reflect your current level of earnings. Guaranteed increase or future purchase options—which guarantee your medical insurability—are essential to keep your coverage current.
- Cost of living adjustments (COLAs) will increase the benefits that are payable to you over time. With most policies, a COLA rider must be added to secure this benefit. Formulas for COLAs increases vary. Those that base increases on both a fixed and compounded rate of increase are the most beneficial. The ability to keep any COLA increases paid after a period of disability is another attractive feature, especially if you are not charged for keeping the additional coverage.

Other notable features that may be included in an individual DI policy include provisions that cover retirement plan contributions or that provide short-term benefits for earnings forgone while you care for a severely disabled family member. Consider these features, however, only after you've studied the core features described previously.

If you're interested in a DI policy with the most comprehensive benefits and price is a secondary consideration, look for the following:

- a policy with a definition of disability that protects you in your medical specialty and allows you to engage in another occupation or pursue a new business opportunity while continuing to receive total disability benefits;
- residual coverage that has the lowest income loss requirement, does not have a loss of time or duties requirement, and will pay benefits for your actual loss of earnings during the initial period of residual disability;
- recovery benefits payable after you have returned to work full time but continue to suffer a loss of earnings, with such benefits payable for up to the entire benefit period of the policy;
- a policy that waives the elimination period if you suffer a new period of disability within at least 12 months, or longer if it is available;
- a COLA based on a compounded rate of at least 3% to determine the annual increases you will receive while on claim; or
- a guaranteed insurability feature that allows you to increase coverage annually if you qualify financially for additional coverage.

If price is a concern, consider the more generic versions of DI coverage. These policies usually contain the following features:

- A modified or transitional own occupation definition of disability that protects you in your occupation, but which may reduce benefits based on your earnings from another occupation.
- Residual coverage that requires a minimum 20% income loss to qualify for benefits and includes a loss of time or duties requirement.
- Residual coverage without recovery benefits, or a maximum recovery period of 12 or 24 months.
- Mental, nervous, drug, and alcohol benefits coverage that is shorter than the policy's overall benefit period.
- A COLA based on simple interest calculation or one that's tied to the consumer price index, with no minimum adjustment percentage.

Whether you choose to purchase coverage based on maximum benefits or a lower overall price, it is important to review all aspects of your DI policy annually with your insurance agent or DI specialist to make sure the coverage you have in place is adequate for your current situation. ME

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