



STRATEGIC INCOME PROTECTION PLANNING FOR RESIDENTS AND FELLOWS

ABSTRACT

This summary offers information regarding the examination and acquisition of income protection plans while a physician is engaged in or is soon to complete a graduate medical education training program.

Strategic Income Protection Planning for Residents and Fellows

Understanding Income Protection Plans

When most physicians think of income protection, they think of disability income insurance. This insurance product is often a key component of virtually every physician's plan but few understand the important distinctions that exist in these products and how these distinctions will impact them should they become sick or hurt and find their ability to practice limited.

A properly designed plan of disability insurance provides protection for today as well as the future. This white paper will offer insight as to the issues physicians need to make themselves aware of and the planning choices available to them as a resident or fellow that can help them guarantee a sound plan of income protection years into the future.

Basic Questions A Physician Must Consider

How Do I Acquire Disability Income Insurance?

Young physicians will typically be presented many opportunities to begin purchasing these insurance contracts during medical school, residency and fellowship. It is common practice for schools and graduate medical education programs to offer some form of coverage which is temporary while in school or training. It is also common practice for individually owned policies to be offered during this time and the ability to acquire these plans can be an important benefit offered by the school or GME program.

Why Consider Programs While In Training?

Simply stated, these plans often include features which make them attractive.

- Discounted premiums
- Gender neutral pricing
- Guaranteed future purchase options

- Abbreviated underwriting
- High quality definitions and provisions

Disability insurance premiums are based on many factors which include gender (ex: women pay significantly more than men for the same coverage), occupation (ex: invasive specialists pay more than noninvasive specialists), and geography (ex: residents of some states have higher premiums than others). Age is a significant determinant and “locking in” rates at a younger age can save you thousands of dollars.



Important Insight

If you can obtain coverage while in training that is “discounted and gender neutral” you will often be able to secure this same pricing for future purchases of disability income insurance and will save thousands of dollars over the course of your career.

How Much Does A Disability Income Policy Cost?

A plan of disability insurance is truly a sum of its parts. You can build a plan which includes strong definitions of disability, cost of living features to increase the benefits during a long term claim, partial disability benefits to offset earnings loss when you are impaired but still working, future purchase options allowing the policy to more than double in monthly benefit without proof of medical insurability and other important features.

A typical plan for a physician who has completed training might include these features and have an initial monthly benefit of \$5,000. The rates will vary depending on the determinants noted earlier. One significant difference will be the discounts and if gender neutral pricing is offered.

Below are samples of monthly pricing for a program of this type from one of the major disability insurers:

Specialty	Male Age 32	Female Age 32	Gender Neutral Age 32
Internal Medicine	\$209.68	\$350.06	\$172.95
Otolaryngologist	\$258.51	\$435.35	\$204.04
Thoracic Surgeon	\$321.09	\$529.55	\$316.61



According to a 2011 study by the Henry J. Kaiser Family Foundation, the gender distribution of graduates from medical schools in the United States was almost equal. Of the 17,364 graduates, 8,968 were male and 8,396 were female.

As evidenced by this analysis, savings for males are valuable but the savings for females are significant and can make the difference in the plan being affordable.

With females representing a growing population of residents and fellows, the ability to obtain gender neutral pricing now and into the future is extremely important.

How Much Coverage is Enough?

One of the first considerations in designing an income protection plan is the amount of coverage that will prove adequate at the time of need. This is a very personal decision and one not easily answered. It is impacted by the circumstances surrounding a disabling event, such as:

- The severity of the disability
- The duration of the disability
- The timing, for example early in their career or later when other resources may be available

In general, without prior knowledge of future events, this is a question with no good answer. A physician must plan to the best of their ability and find the best insurance program at a reasonable price.

However, it is important to understand that an insurance company has definitive practices around how much income protection insurance they will offer (the issue limits) and how much they will allow to be in force on any one individual (the

participation limits). Each insurer has their own formulas and they vary based on factors like income, age of the insured, practice specialty, the type of insurances being applied for or in force, etc. Having a professional advisor with deep experience in the marketplace will be invaluable when assessing options for coverage availability.

Important Insight

Not all carriers offer the same “issue and participation limits” but it is almost guaranteed that an appropriate plan designed to grow with your practice will include at least two different insurance carriers’ products so you can take advantage of the higher participation limits!

Future Purchase Options And Why They Are Important To A Young Physician

One thing is likely certain, the first disability insurance policy you purchase will likely not be your last.

Your income will grow and your responsibilities will change. You have invested at a minimum 35,000 hours (a board certified Internal Medicine physician) to as much as 50,000 hours (certified Thoracic Surgeon) in training and study. Your ability to provide for your family and to pay back the almost certain debt you incurred during your journey to become a physician hinges on your ability to generate an income.



A mechanism offered in most high quality plans of disability income insurance that provides you with some guarantees to increase your coverage is often referred to as Future Purchase Options.

These options will allow you to increase your coverage in the future based on your qualification due to income but will waive or mitigate your requirement to pass medical underwriting. Many applications for disability income coverage are declined or offers are modified to reflect the results of the medical underwriting practice.

These options vary greatly among the insurance companies and great care should be taken to fully examine the provisions and possible restrictions offered.



Important Insight

The ability to increase your coverage without proving medical insurability is crucial to a well-designed plan of disability income insurance.

What Is Medical Underwriting And Why Should I Care?

If your application for disability income insurance is medically underwritten, the insurance company will make a medical assessment at the time you apply based on your medical history, current and past medication usage, results of paramedical testing which may include a bodily fluids analysis and other testing requirements which may be requested.

The result of this process may be to offer you coverage “as applied for” or to extend a counter offer with limitations and/or higher rates. Many times the result of a medical underwriting is to deny coverage.

Why is this important to a young physician exiting training? Residency can take its toll and the medical and psychological challenges brought on by stress and long hours can make medical underwriting a difficult process.



According to a study published in the May 2013 issue of Academic Radiology conducted by the University of Washington, Seattle Department of Radiology, 53% of trainees surveyed experienced symptoms of stress at least weekly.

In general, if you can avoid medical underwriting it will make the process easier and offer a known result, the offer of a disability insurance policy without limitations or premium increases.

Important Insight

A program offered to GME graduates that limits medical underwriting is often referred to as a Guaranteed Standard Issue plan. A policy issued under this plan will generally not limit coverage for pre-existing medical conditions or impose higher rates due to health history.

Employer Provided Group Long Term Disability Insurance

Upon exiting training, many physicians today are joining large practices which are more likely to require the physician to participate in a group long term disability plan (LTD).



Leading physician recruiter

Merritt Hawkins released a prediction in 2012 that over 75% of newly hired physicians in 2014 will be hospital employees.

A recent study by *Health Affairs* found that among physicians filing Medicare claims, 35.6% worked in groups of more than 50 physicians, up from 30.9% in 2009.

LTD plans, while cost efficient for the practice, come with potential concerns that a physician must take into account when assessing the adequacy of an income protection plan.

Some of the potential concerns include:

- Coverage may not cover all forms of compensation, including performance bonuses or contributions to a pension or profit sharing plan.
- Typically these plans do not provide a cost of living feature to increase your benefits during a long term disability claim.
- Many plans require mandatory return to work or allow the insurance carrier discretionary authority to determine if you are working to maximum capacity.
- Claims made under a Group Long Term Disability (LTD) policy are almost always governed under the terms of the Employee Retirement Income Security Act of 1974 (ERISA). ERISA is a complex body of law which prescribes the processes and remedies available to you should you have a claim denied by an insurance company. In general, ERISA favors an insurance company and does not provide the same level of review and appeal available to you when you are claiming benefits under an individual disability income policy.

Important Insight

A Group Disability Insurance Policy provided to you by your medical practice is subject to the terms of ERISA which may significantly impact your ability to obtain benefits if your claim is contested by the insurance company. Individual disability insurance policies provide stronger guarantees and assurances of claim.

Standard Insurance Company

A list of some of the current GME programs offering Standard Insurance Company Guaranteed Standard Issue programs:

Indiana University School of Medicine
Los Angeles County Harbor UCLA Medical Center
McGaw Medical Center of Northwestern University
Montfiore Medical Center
University of California David Geffen School of Medicine
University of California Davis Health System
University of California Irvine Medical Center
University of California San Diego Medical Center
University of California San Francisco School of Medicine
University of Colorado Denver School of Medicine
University of Michigan
University of Nebraska Medical Center College of Medicine
University of Pennsylvania Health System
University of South Florida Morsani College of Medicine
University of Southern California Medical Center
University of Utah Medical Center

Important Terms

Definition of Disability – often referred to as the cornerstone of any disability income policy. The definition of disability determines under what circumstances a carrier will consider the insured disabled and eligible for benefits.

Total Disability – typically defined as the inability of the insured to perform the material and substantial duties of their occupation.

Own Occupation – the duties the insured was engaged in just prior to the claim event. This may be limited to the practice of a recognized medical specialty.

Elimination Period – the number of days an individual must be disabled prior to benefits accruing. These days may be accumulated in a stated period of time or required to be continuous.

Benefit Period – the length of time the insurance carrier will pay benefits for a continuous period of disability. This is often expressed as “to age 67” or in the case of an employer provided group policy the Social Security Normal Retirement Age or other similar duration.

Non-Cancelable Policy – the insurance company cannot cancel, modify or change the rate of this type of insurance policy until the expiration of the non-cancelable period. This is typically until the policy anniversary after the insured reaches age 65.

Future Purchase Options – a provision which allows the insured to purchase additional disability benefits without having to prove medical qualification.

Cost of Living Benefits – increases in the monthly claims benefits when the insured is disabled for long periods of time. The monthly benefits are typically indexed by a known

calculation such as the published cost of living index or a set amount. Increases may be based upon simple or compound interest as specified in the insurance contract.

Residual Disability Benefits – a policy provision which provides payment when the insured is working but suffers a loss of earnings due to a current or past disability.

Issue and Participation Limits – the amount of monthly benefit a carrier will (a) issue on their own “paper” and (b) the amount of total coverage they will “participate” with in determining the maximum benefit allowed.

Exclusions – every disability policy will exclude certain causes of disability from payment. This may be causes such as self-inflicted injury, participation in a riot or crime, acts of war or attempted suicide.

Mental, Nervous, Drug and Alcohol Limitation – many policies will limit the possible claim benefits to a stated period of time (typically 24 months) for disabilities caused by these reasons.

Medical Underwriting – the process an insurance company will use to evaluate the insurability of an applicant. Data examined includes medical statements from the insured, reports from treating physicians, and examinations and tests requested by the insurance company and performed by a paramedical examiner.

Guaranteed Standard Issue – a program utilized by an insurance company to offer disability income insurance without requiring the applicant to submit full medical evidence of insurability. These plans will typically include discounted premiums and gender neutral premiums.