# Residents: Your disability insurance coverage may fall short

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As a medical resident embarking on what you hope will be a long and fulfilling career, you probably have not placed buying disability insurance at the top of your priority list. You are young, strong and healthy, and you may be paying off student debt while working at a relatively modest salary. “Why do I need the added financial burden of disability insurance premiums?” you might ask.

Actually, there are plenty of good reasons for fledgling physicians to invest in a good disability policy, say insurance experts. This is a belief shared by the vast majority of American physicians themselves, 77 percent of whom think disability insurance is “essential” and 75 percent of whom have such a policy, according to a report released by AMA Insurance. Their belief may be grounded in experience and observation. The report notes that 60 percent of surveyed physicians have known a colleague who has sustained a disabling accident or injury.

“That’s all well and good, but why do I need to buy a separate policy when the health care organization that employs me already covers me under a disability insurance plan?” you may counter.

There are a number of cogent reasons for purchasing a policy above and beyond what your employer pays on your behalf, and most of them are financial, according to Brian Farmer, national account executive at AMA Insurance.

Take a look at the numbers: Most employers’ disability insurance policies will cover roughly 60 percent of your current income. If you are earning $60,000 as a resident and you experience a disabling accident or injury, you will receive an annual benefit of $36,000. Chances are the monthly benefit of $3,000 would be well below the amount needed to cover your living expenses, medical school loan repayments and other obligations.

If your employer pays the disability insurance premium for you, your benefit amount will be even smaller, because it would be subject to income taxes. Only if your premium comes out of payroll deductions would you not have to pay taxes. That is because you would be paying the premium with after-tax dollars. The latter scenario, though, raises another question, Farmer said.

If you are shelling out your own earnings for a policy, you might consider purchasing an individual disability insurance (IDI) plan, which may offer  additional benefits.

An individual policy that you buy independent of your employer has many advantages, Farmer added. In addition to often paying out a higher percentage of your income—depending on the parameters of the policy—these plans, unlike an employer-based plan, are portable.

“The coverage is yours, no matter how often you change employers, from residency to your first job and to any subsequent employers or private practice,” he said.

What’s more,  an individual policy allows you to grow into coverage as your income potential grows once you have completed your residency. An employer-based group plan may only protect your current income, said J. Michael Hegwood, assistant vice president of brokerage marketing at AMA Insurance,

“So, a first- or second-year practicing physician now making $250,000 a year can exercise options that allow him to increase the amount of coverage he has in his current plan to reflect his higher income,” Hegwood said. “An employer-based group plan typically won’t let you do that.”

It is fiscally prudent, Hegwood added, to purchase your policy at a younger age. That is because you can often lock into lower premiums that, in the longer run, will save you money over the length of your policy contract.