

4 disability insurance details physicians often overlook

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Compared with other professionals, physicians generally have a strong understanding of the critical importance that disability insurance plays in their overall plans for financial well-being and security.

But research from AMA Insurance Agency finds there are some disability insurance details—ones that can make a big impact on covering your bottom line should the need arise—that lots of doctors may overlook. Mike Hegwood is director of brokerage marketing at AMA Insurance Agency Inc., which is licensed as an insurance producer in all 50 states. He took time to review with this writer four of those fine points, and why they matter.

The tricky tax effect

How you get your insurance makes a huge difference to your potential disability insurance benefit, Hegwood explained. If your disability insurance premiums are paid by your employer, that is done with before-tax dollars. So if and when the time comes to pay out, your disability benefit will be considered taxable income—and subject to taxes at both the federal and state levels.

Depending on your circumstances, that could add up to a difference in the tens of thousands of dollars. But if you buy and pay for your own disability insurance with after-tax dollars, then the disability insurance benefit is typically not considered to be taxable income and you'd receive the full benefit—though, of course, you should consult with your tax adviser on the specifics of your situation.

The must-have definition

Not all disability insurance policies are created equal. For doctors, it's extremely important to have an "own occupation" definition that pays benefits if you cannot perform the work in line with your medical

specialty, Hegwood said.

Without that “your medical specialty” stipulation, you could be denied benefits if you’re unable to work in any job within medicine that you can physically perform.

The take-it-with you plan

One downside to employer-provided disability insurance coverage is that you may not be able to take it with you, without interruption, if you decide to join forces with another health care organization or physician group.

“The disability insurance that you buy individually will stay yours, with no interruption, regardless of whether you decide to strike out on your own or change employers. That gives you another layer of protection as you move through life in medicine,” Hegwood said.

The coverage question

Most physicians are assuredly aware of the amount of coverage on offer with varying disability insurance plans, but there are some nuances to even this part of the disability insurance puzzle. Usually, disability insurers will cover as much as two-thirds of your current income before taxes.

So if you’re earning \$250,000 a year, you could apply for \$166,650 in disability income insurance, or \$13,887.50 a month before taxes.

But there’s another limiting factor, which is the maximum monthly benefit an insurer is willing to offer. Those differ by carrier, but typically vary between \$12,000 and \$20,000 a month. That adds up to between \$144,000 to \$240,000 before taxes on an annual basis.

And you may have thought you took care of this years ago, so why worry? Well, the level of protection you put in place back when one of the Bushes was president may not cut it in today’s economy. You’re going to need occasional bumps in total coverage.