Evaluating a disability policy

Disability insurance policies vary greatly based on the quality and rating of the insurer, the definitions of disability they offer, the maximum benefit limits available and their premium rates. It is more important than ever for professionals to take the time to compare the contractual provisions of policies they are considering and to understand how and why they differ.

There are 3 important factors to consider when evaluating any disability insurance policy:

- The definition of disability
- The cost of coverage
- The additional riders available

Many other insurance terms and factors can influence which policy is the best fit for your needs and your decision to buy a policy.

Consult with a professional insurance adviser or financial planner who specializes in working with physicians or other professionals. They will be familiar with which policies are best suited to the needs of an individual physician or the physician’s practice. If you need assistance in finding a reputable adviser AMA Insurance’s Physicians Financial Partners program offers physicians access to vetted financial professionals all across the country.

Definition of disability

Professionals must pay careful attention to the definition of disability found in their policies because it ultimately determines how any claim for benefits will be judged. There are 3 definitions of disability commonly found in the insurance industry with significant differences between them.

- Specialty own-occupation: This may also be referred to as own-specialty occ. This means you are eligible to receive benefits if you’re unable to perform the duties of your own medical specialty—not just some other job in the medical profession.

- Own-occupation: Also known as true or pure own-occupation, this is a more specific definition of total disability available. It pays benefits if the insured is not able to perform the material and substantial duties of their occupation. The insured would collect full disability benefits if they could no longer work in their occupation, even if they decided to transition...
into another occupation. This definition provides the insured the same income as prior to disability.

Modified-own occupation: This is the most prevalent type of definition of disability and it typically pays benefits if an insured is unable to perform the substantial and material duties of their occupation *and are not working*. This definition will not allow an insured to continue receiving full disability benefits if they work in another occupation—but can help replace any lost income.

Any occupation: The most general definition of disability is called any occ. This is often found in employer-group policies. Under this definition, an insured is eligible to receive benefits only if found to be unable to work in a profession they are educated, trained for or experienced in. Being generally well-educated, professionals may find it very difficult to collect benefits under this type of policy.

**Costs of coverage**

A key component of an individual disability income insurance policy is the price (or premium). Premium rates are based on factors such as the insured’s age, gender, monthly benefit, waiting period, optional riders and the insured's occupational classification. As a general rule, the younger a physician is, the lower the cost. Policies with more specific definitions of disability are more expensive than those offering a broader definition—like a policy with a any occupation definition. In addition, other factors can influence the price of the policy, such as the type of plan being purchased:

- **Group Coverage:** Policies offered as part of an employer-group, for instance, are generally less expensive than other options. But these contracts typically have a very general (or broad) definition of disability and often provide the least amount of coverage.
- **Individual Plans:** Often referred to as IDI, these plans typically offer a level premium that’s guaranteed for the life of the policy. This ability to lock in the premium is attractive to many physicians, but it comes with a price—and can make these policies more expensive. These policies are also considered non-cancellable, so the coverage and rates are locked in and can’t be cancelled in the future, as long as premium payments continue to be made.
- **Association Plans:** These policies are often provided with an increasing rate structure. They typically offer less expensive premiums in the early years of the policy, and then premiums increase as you get older. These plans can be especially helpful to physicians looking for quality coverage at affordable rates while they’re on a limited income. These types of plans are typically available on a guaranteed renewable basis, meaning the plan is guaranteed to remain in force—but the rates are subject to change.
Policy riders

Residual disability policy: Adding a residual disability rider to the policy would allow a disabled person to continue receiving benefits proportionate to the loss of income if they returned to their occupation on a part-time basis.

Generally, to qualify for residual disability benefits, one must experience an income loss of 20% or more as compared to pre-disability earnings. Additionally, if the loss of earnings is greater than 75% or 80%, depending upon the rider’s provisions, 100% of the monthly disability benefit might be paid.

Catastrophic disability (CAT) rider: This rider was introduced by many insurance companies to pay additional benefits if an insured is unable to perform 2 or more activities of daily living (ADL) without human standby assistance, or if the insured suffers a cognitive impairment or an irrevocable disability.

Cost of living adjustment (COLA) rider: Designed to help an insured’s benefits keep pace with inflation after a disability has lasted for 12 months. The adjustment can be a flat percentage or tied to the consumer price index (CPI).

Future increase option rider: Offers the ability to increase an insured’s disability coverage, regardless of future health as income rises. It is important to know when coverage can be increased, and by what increments, on any given option date. This can be an especially attractive feature to young physicians, as they grow into their career.

Other policy terms to consider

Tax implications: According to IRC section 104(a)(3), personal disability insurance benefits are received free of income tax, provided that premiums are paid with post-tax dollars. This is generally the case when purchasing an individual policy. If an employer provides coverage and takes a tax deduction for the premiums paid on the insured employee’s behalf; however, the benefits are taxable when received. This means that an employee could lose as much as nearly 1/3 of the benefits when they are most needed. It is important to understand the difference.

Mental & nervous provision: Often referred to as M&N, this provision can exclude coverage or limit coverage if a mental disorder or substance abuse causes a disability. Many carriers place a 2-year restriction on benefits paid when a disability is triggered by this type of condition. Some carriers, on the other hand, will pay benefits to age 65—but that feature is likely to increase the policy’s premium.

Loan payoff provisions: Several disability plans now offer benefits that can help an insured pay off their student loans if they were to become disabled. This benefit can range from
$150,000 to $250,000 and is paid *in addition to* the monthly benefit specified in the policy. Maximum monthly benefit: Someone who has an old policy with a future purchase option rider might be subject to the rules that applied at the time the policy was purchased. In such a case, the insured might be able to purchase coverage in excess of the maximum monthly benefit.

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Disability insurance and other policies for physicians and their families

AMA Insurance Agency, Inc.