

Creative

wealth maximization strategies*

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INDIVIDUAL DISABILITY INSURANCE



Insurance is a decision to pre-pay a modest fee for something you hope never happens: You pay a premium hoping you'll never have an automobile accident, your house will never burn down, and you will never be incapacitated and unable to work. Given this framework for insurance, it's understandable that finding the lowest cost for coverage is often the predominant economic consideration.

But there are occasions where the greater emphasis should be *obtaining the best insurance*, rather than paying the lowest premium. This focus on insurance quality is essential when considering disability coverage, particularly for those with "specialized incomes," i.e., business owners, self-employed professionals, or anyone

whose income is dependent on sales, billable hours, or some other volume-of-work measurement (number of patients seen, inspections completed, etc.). For this subset of income earners, having an individually-owned disability insurance policy is the preferred approach to income protection. While other forms of disability insurance may offer some measure of income protection, they also leave the specialized income earner exposed to significant risks. Consider the following issues:

An employer can drop or change group coverage. A recent insurance industry publication highlighted the decision of a major player in group insurance to implement rate increases of 15 to 18 percent for long-term

disability insurance (LTD) in response to increased claims. Raising premiums has ripple effects – including the decision of some employers to cancel their group disability plan. At a recent conference call, the company's commercial markets president acknowledged, "We did not renew our largest account, effective January 1, after being unable to agree to terms."

Imagine your disability insurance was provided by this group plan. You now face two unpleasant scenarios: higher premiums for the same benefits, or no coverage at all. One of the frequently stated drawbacks of group insurance is the lack of *portability*, i.e., you can't take it with you when you change employers. But group coverage isn't *permanent* either. Both the employer and the insurance company have unilateral authority to discontinue the coverage.

Less-than-comprehensive coverage. It's not just the loss of personal control that makes group disability coverage problematic for specialized incomes. Group plans are less likely to offer favorable own-occupation definitions and residual benefits, features that can make a big difference in helping those with unique income arrangements weather the economic turbulence of a disability. While it may be possible to cobble together a disability insurance program that relies on a combination of Social Security Disability Insurance (SSDI) and group coverage, the consequences of buying disability protection "on the cheap" can be significant if a debilitating incident occurs.

WhiteCoatInvestor.com is a website started by an emergency physician to provide a forum for medical professionals to discuss various financial issues. Deciding what type of disability

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INDIVIDUAL DISABILITY INSURANCE: A Must-have for "specialized incomes"

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insurance to buy is a frequent and ongoing topic. In a recent post, a young ER doctor explained his decision to buy a modest amount of individual disability coverage, and supplement it with a group plan. In the 20 comments that followed his post, the overwhelming advice from other doctors: **you shouldn't rely on group coverage.** Here are two posts offering personal experiences:

Comment #1:

I too am an ER Doc and was employed by a stable group that had been around for 28 years. I had been with the group for 16 years when suddenly and without warning our group was forced to split into 2. We parted amicably, but my smaller group ended up joining a larger regional group. A good group, but a different group with very different benefits. Don't skimp on your individual disability insurance, assuming that your company can and will provide group insurance forever.

Comment #2:

You can rationalize all you want, but why not protect as much of your income as you can? It's nice to think you don't need all your income, but as my husband and I have found since his permanent disability 8 years ago, we really wish we had purchased an individual policy instead of having to rely on his group policy and SSDI - because all the associated costs of a disability are EXTRA and don't fall under income replacement... like paying for a caregiver or medical equipment/medicine not covered by insurance. He was highly compensated and young (mid-40s) and cannot work again - with group and SSDI we've lost over half his income, his bonus, cost of living increases AND contributions to his 401K. Now tell me again why you shouldn't protect as much of your income as you can?

A Checklist for Specialized Incomes

If you have a specialized income, the following is a short list of essential features that should be a part of any quality individual disability insurance discussion.

- Non-cancellable, guaranteed renewable
- Own-occupation definition
- Cost-of-living adjustments
- Residual and Partial Benefits
- Recovery Benefits
- Proportionate Benefits
- No limitations on Mental & Nervous disorders

The specifics will vary depending on the policy, and the devil is in the details, so be prepared for an in-depth evaluation. ●

Taking the time to obtain quality disability coverage today offers you the prospect of much greater peace of mind for the rest of your working years.

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