



WHAT EVERY
PHYSICIAN SHOULD
KNOW ABOUT
DISABILITY INSURANCE.

By J. Christopher Burke, FLMI
President, AMA Insurance Agency, Inc.

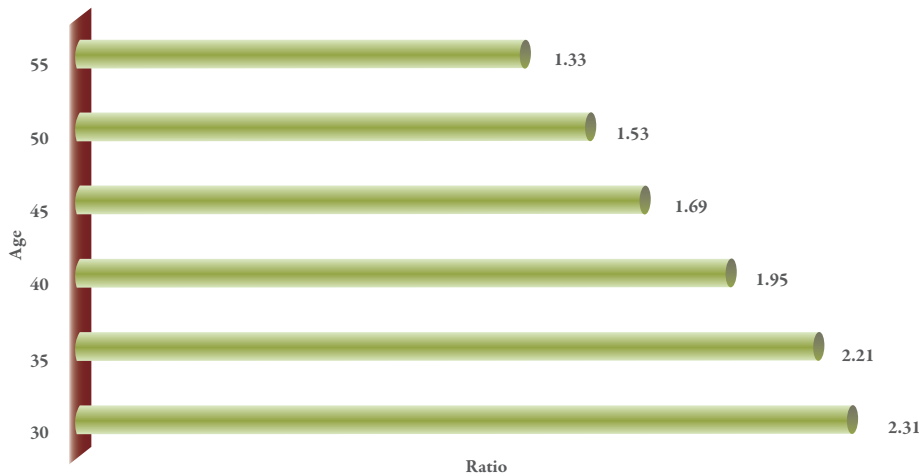
Traditionally, physicians are a financially conservative group. They ensure that life and health insurance are securely in place, manage investments wisely and plan for a golden retirement. However, more often than not, they may unwittingly put themselves in harm's way by overlooking or under-planning for the ramifications of a disabling illness or injury.

What if you could no longer perform surgery? What if your eyesight started to fade or you were confined to a wheelchair? A two-income household would certainly struggle with the loss of one paycheck. Even a family with one income may find it impossible to continue their lifestyle without additional financial support. In an economically unstable climate — or any economy — a disability can be financially devastating. Consider this: unexpected illnesses and injuries cause 350,000 personal bankruptcies each year.*

The first barrier to overcome is denial. Many white-collar professionals don't consider they will fall ill or get injured. But as the numbers reveal, the chance of a disabling illness or injury occurring is surprisingly high, demonstrating the need for a financial vehicle such as disability income insurance.

* www.disabilitycanhappen.org/chances_disability/disability_stats.asp, viewed on October 21, 2009

PROBABILITY OF DISABILITY VS. DEATH



www.disabilitycanhappen.org/chances_disability/disability_stats.asp, viewed on October 26, 2009

Disability Doesn't Just Happen to "Other" People.

A disability is simply defined as a sickness or injury that interferes with your ability to work. Unfortunately, disability occurs more often than most people realize, causing untold — and unpredictable — physical and financial hardship to a large segment of Americans.

CHANCES OF A DISABILITY OCCURRING

1 in 3 out of work 3 months or more

1 in 5 out of work 1 year or more

1 in 7 out of work 5 years or more

Life and Health Insurance Foundation for Education, 2008

DISABILITY: WHAT, WHERE, HOW.

With medical advances, people are living longer. As a result, there's a longer life expectancy and a greater risk of an extended disability during a worker's career than a possibility of premature death. Those afflicted with cancer, for example, are living longer yet may be unable to work during the treatment or recuperation period.

A long-term disability can last anywhere from a few months to a lifetime; a short-term disability is much like sick leave and can last a few months. Illnesses cause the majority of long-term disabilities.

Workers' Comp, Social Security Insurance and Savings May Not Be Enough.

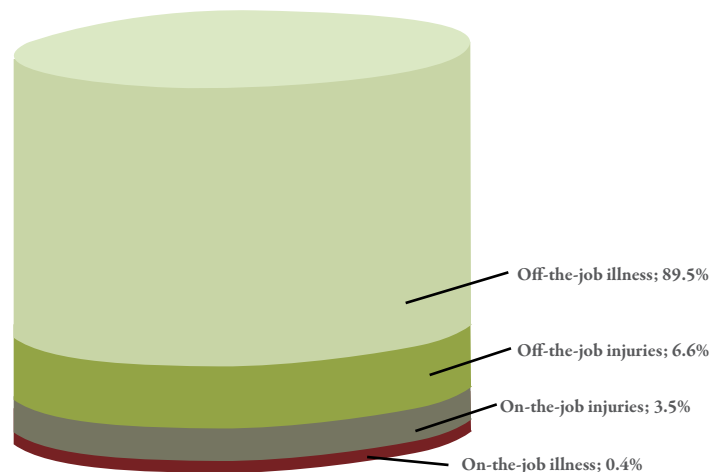
An "it will never happen to me" attitude is also met with a misconception that Workers' Compensation, Social Security or savings will pay the bills when you're out of work due to a disability. More often than not, this doesn't bear out:

- Most disabilities — almost 96%* — are not work-related and are not covered by Workers' Compensation.
- The majority of people who apply for Social Security disability are denied. To qualify for Social Security, you must be completely disabled with no hope of recovery for a period of at least one year, or have a disability expected to end in death. You must be unable to do any kind of work, not just your job.

Long-term disability income insurance with an "Own Occupation" definition of disability, however, offers paycheck protection, providing cash to help meet expenses such as mortgage payments, rent, or utilities — and in some cases, medical school student loan payments — if you're unable to perform the duties of your medical specialty.

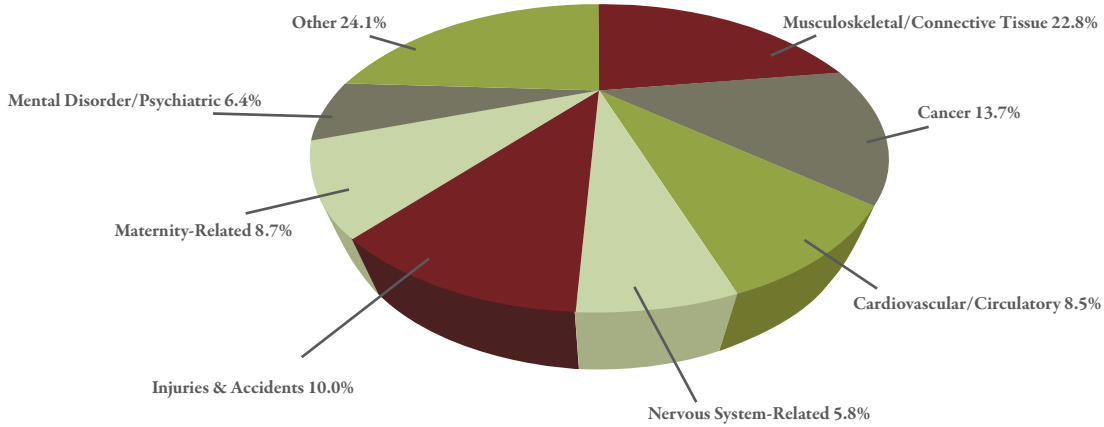
*www.disabilitycanhappen.org/chances_disability/disability_stats.asp, viewed on October 26, 2009

MOST LONG-TERM DISABILITIES ARE NOT COVERED BY WORKERS' COMPENSATION



National Safety Council; JHA U.S. Group Disability Rate and Risk Management Survey, viewed on October 26, 2009.

THE MOST COMMON CAUSES OF LONG-TERM DISABILITY



Council for Disability Awareness, 2008

What to Look For in Disability Income Insurance.

- A reputable and financially strong insurance company with a high rating from A.M. Best, Fitch Ratings, Moody's Investors Service, Inc., Standard & Poor's Insurance Rating Services, or Weiss Ratings.
- "Own Occupation" disability definition stating your occupation not only as a physician but further defining your occupation as your medical specialty.
- Option to increase coverage in the future.
- Payment of medical school student loans in addition to monthly benefit.
- Worldwide coverage.
- Portability — coverage continues if you leave your current job or become self-employed.
- Tax status — whether benefits are tax-free or taxable.
- Plan stability — can it be canceled or not.

KEY FACTS

- Over 51 million Americans are classified as disabled — 18% of the population.*
- In the last 10 minutes, 490 Americans became disabled.**
- About 3 in 10 of today's 40 year-olds will become disabled before reaching age 65.†

*U.S. Census Bureau, November 2008

**National Safety Council, Injury Facts, 2008

†Social Security Administration, 2007

What Disability Costs.

Because a long-term illness or injury is often unexpected, it's important to examine the numbers to ensure you have sufficient financial resources in place. Although the bottom line is often sobering, it can help you prepare for a sudden loss of income.

Nearly 50% of all mortgage foreclosures are caused by disability.
 —www.disabilitycanhappen.org/chances_disability/disability_stats.asp, viewed on October 21, 2009

DISABILITY INSURANCE NEEDS WORKSHEET

The following provides a cursory look at your financial ability to survive a disability. If your resources are insufficient to meet your living expenses during a disability, disability income insurance can help close the financial gap.

Monthly Income Available

	Sample	You
Income from employer disability coverage	\$ 3,000	\$ _____
Income from other disability coverage	\$ _____	\$ _____
Income from spouse and/or other family members	\$ _____	\$ _____
Monthly investment income	\$ 500	\$ _____
Taxes on benefits (approx. -30%)	\$ -1,050	\$ _____
TOTAL MONTHLY INCOME AVAILABLE	\$ 2,400	\$ _____

Monthly Expenses

Mortgage (including property tax) or rent	\$ 5,000	\$ _____
Homeowner's or renter's insurance	\$ 50	\$ _____
Car payments and insurance	\$ 600	\$ _____
Utilities	\$ 350	\$ _____
Food and clothing	\$ 700	\$ _____
Child care expenses	\$ 1,000	\$ _____
Bank loan and credit card payments	\$ 500	\$ _____
Medical expenses	\$ 350	\$ _____
Health insurance premiums	\$ 300	\$ _____
Insurance premiums (life, disability, dental, etc.)	\$ 300	\$ _____
Savings, investment and retirement contributions	\$ 500	\$ _____
Home maintenance costs	\$ 200	\$ _____
Other (education, entertainment, etc.)	\$ 600	\$ _____
TOTAL MONTHLY EXPENSES	\$ 10,450	\$ _____
(INCOME - EXPENSES)	\$ 8,000	\$ _____
Need for additional income replacement due to a disability		

Buying Tips: Three Ways to Secure Disability Income Insurance.

1. *Professional organizations* offer disability insurance to individuals through a group plan. Coverage is typically individually underwritten by a reputable insurance company, and is less expensive than an individual policy purchased on your own. AMA Insurance Agency, Inc., for instance, offers coverage exclusively for physicians.
2. *Many employers* make short- and long-term disability insurance available to the employee. Because there is no underwriting, you automatically qualify for coverage. You may also have the option to increase coverage by answering a few basic questions about your health. But, once you leave that job, you most likely can't take the coverage with you.

If an employer doesn't offer disability income insurance, you may be able to purchase it on a voluntary, employee-paid basis through the employer. While you pay the full cost of the insurance, premiums are typically paid through automatic payroll deductions.

3. *Qualified insurance professionals* sell disability insurance directly to individuals. Unlike with a professional organization or employer, you have the opportunity to choose from several insurance carriers.

Questions to Ask a Disability Insurance Provider.

- What is their definition of "disability"?
- Does an accident or illness qualify?
- When does coverage start?
- What limitations and exclusions are in place with insurance?
- What types of disability qualify for a claim?
- How do premiums change over time?
- Can you increase your benefit in the future?
- When are premiums paid? Monthly? Semi-annually? Annually?
- Is the premium waived while the benefit is paid out?
- Is there a limited time period to the amount of benefit paid?
- Can the plan be canceled?

A Taxing Issue.

Not all disability insurance plans are created equal. In addition to varying benefits, it's important to consider the following tax implications:

TAX-FREE

- Disability income insurance plan — purchased through a group plan such as an association plan, or an individual plan purchased through an insurance professional. Because you pay the premiums with after-tax dollars, the benefits you receive are tax-free.

TAXABLE

- Employer-paid group disability insurance plan — If your employer pays the total premium and does not include the cost of coverage in your gross income, then your benefits will be taxable. If you purchase it on a voluntary, employee-paid basis through the employer and pay the total premium using after-tax income, then your benefits will be tax-free.

Note: Workers' Compensation benefits for occupational sickness or injury are fully tax-exempt as long as you are off the job. In some cases, Social Security benefits are taxed. Please consult your tax adviser for details.

GLOSSARY: DISABILITY DEFINED.

Eligibility You must be under a specified age and actively at work full-time to be eligible for disability income insurance. You are typically required to provide a medical history, and in some cases, may be asked to undergo a medical exam, usually paid for by the insurance company.

Totally Disabled or Total Disability Your complete inability to perform the substantial and material duties of your Current Occupation beyond the end of the Waiting Period, and you are not engaged in any other occupation.

Own Occupation Disability An insured will be considered disabled if he/she is unable to perform the duties of his/her occupation, i.e., medical specialty.

Any Occupation Disability An insured will be considered disabled only if he/she is unable to work in any occupation for which he/she is qualified.

Waiting or Elimination Period A specified number of days that the insured chooses to wait before becoming entitled to benefits. Can be 60, 90, 120 or 360 days. It could also apply to the time an insured is required to wait before becoming eligible for a certain type of benefits. In some policies, the waiting period is only satisfied if you are not working in any occupation.

Maximum Benefit Period (Benefit Duration) The maximum length of time for which benefits are payable under the plan as long as you remain continuously disabled.

Monthly Income Your income from salary, wages, bonuses, commissions, fees or other payments, less customary business expenses, which you or your business receives or is entitled to receive for services rendered by you before Federal Income Taxes. It includes income earned but paid into pension or deferred compensation plans.

Maximum Monthly Benefit The highest dollar amount a disabled individual can receive on a monthly basis under the long-term disability plan. The maximum monthly benefit is a percentage of the insured's current income, up to a specified dollar amount.

Waiver of Premium When an individual becomes disabled and eligible for benefits, no further premium payments are required as long as benefits are being paid out to the insured.

Non-Cancelable Policy The insurance company cannot cancel the policy unless you stop making payments. Also, the premium schedule and benefits can never change. Whether your policy has scheduled rate increases every 10 years, or has level rates for the life of the policy, the insurance carrier cannot change the premiums stated in the original contract. You will pay more for a non-cancelable policy because you are paying for the protection against a premium increase.

Guaranteed Renewable Policy The insurance company cannot cancel the policy unless you stop making payments. If a policy is guaranteed renewable, the insurance company cannot change your benefits, but it can increase your premium on a policy anniversary as long as it makes a similar premium increase for your entire class of policyholders. This is generally a more affordable option, with lower premiums over the life of the policy.

Proof of Disability When filing a disability claim, most insurance companies require written notification within a specific time period from the disability onset. The insurance company may require the insured complete paperwork and a medical exam at the company's expense. In addition, most companies will require proof that you are under the regular care of a licensed physician.

Exclusions Certain causes of disability are excluded from disability insurance coverage. Most plans will not pay disability benefits if you become disabled as a result of an intentionally self-inflicted injury, attempted suicide, military service, participation in a crime, suspension of a professional license and pregnancy. Limited monthly benefits are typically paid for disability resulting from mental, nervous or emotional disorders, alcoholism and drug addiction, and a pre-existing condition — a condition that manifested itself before the policy was purchased.



ABOUT THE AUTHOR

J. Christopher Burke, FLMI
President, AMA Insurance Agency, Inc.

Chris Burke is President of AMA Insurance Agency, Inc., a subsidiary of the American Medical Association in Chicago, Illinois. AMA Insurance Agency is one of the largest association owned agencies in the U.S., and has more than 60,000 physician clients. Burke has extensive leadership and management experience in the areas of business-to-business and consumer marketing of insurance products including life, health, disability, Medicare supplement and annuities. He previously was Senior Vice President of Marketing with Forethought Financial Services, Inc., where his responsibilities included insurance company operations, strategic marketing, corporate communications, and sales and marketing for both the insurance and banking organizations. He was also an executive management team member, a board member of six Forethought subsidiaries, and a board member of Forethought Federal Savings Bank. Burke received a Bachelor of Science in Management degree from the University of Indianapolis and has achieved the Fellow, Life Management Institute (FLMI) professional insurance designation. He is currently pursuing an MBA at the University of Notre Dame.