

A Practical Guide to Physician Disability Insurance



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Insurance policies can keep you financially whole if a disability reduces your earning potential, but it's important to choose the right combination of coverage.

Like all workers, physicians sometimes develop disabilities caused by physical or mental illness or trauma that reduce their earning potential. Disability insurance is a key tool to ensure financial security in those situations.

More than 25% of 20-year-olds in the U.S. will become disabled before reaching retirement age,¹ and professionals are more likely to suffer a severe disability that impedes their ability to work than to die prematurely, according to the American Medical Association (AMA).² Almost 3% (25,575 out of 954,830) of full-time employed physicians and surgeons in the 2017 Census reported a disability, such as hearing loss (50.3%), difficulty walking (27.9%), visual

impairment (24.5%), difficulty with independent living (10.1%) or self-care (9%), and cognitive difficulty (8.8%).³ More than half of physicians with disabilities were of retirement age, but almost 30% were under 45.³

The Americans with Disabilities Act (ADA) and its amendments require employers to provide “reasonable accommodations” to qualified applicants or employees with disabilities (see “Definitions” on page 12).⁴ Requesting accommodations may allow newly disabled physicians to stay in their position in some cases, but if they can no longer meet the requirements of their job description even with appropriate accommodation, they face possible termination.

Research has shown that becoming disabled limits physicians’ career choices and trajectories.⁵ This means that physicians with a new disability often have to cope with not only the loss of function but also sudden and significant income loss. At the same time, they may face additional expenses for treatment or rehabilitation. Adequate disability insurance coverage can ensure physicians don’t lose income.

The following is a guide to finding the right coverage, from authors who are themselves physicians with disabilities.

FACTS ABOUT DISABILITY INSURANCE

There is often confusion about the benefits, coverage options, and costs of disability insurance. Here’s what you need to know.

Types of benefits. Disability insurance benefits are classified as either short-term or long-term, with optional coverage often offered as “riders” to supplement basic policies, for an extra cost. Both short- and long-term disability insurance will replace income if you’re unable to work, but there are differences in the types of injuries or illnesses they cover, the duration of the payments, and the wait time to receive compensation (i.e., elimination period). (See “Short-term vs. long-term” on page 13.) Some physicians may think they can rely on sick leave for short-term disabilities, but many employers have reduced paid sick days to levels where they’re likely to run out long before the physician has fully recovered from even a short-term disability. Make sure you have both short-term and long-term disability insurance coverage.

Some insurers also sell “accident policies” that pay a lump sum either a designated number of times or over a specified timeframe for injuries listed in the policy. Accident policies also pay for medical devices such as prosthetic limbs or motorized wheelchairs. Be aware, however, that some policies distinguish between “basic dismemberment” and “catastrophic dismemberment” (see “Definitions” on page 12) and may have different coverage for each.⁶

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Even with short-term and long-term disability coverage and an accident policy, it is good financial planning to put three to six months of current salary into a savings account, depending on how long your plan takes to start paying out benefits after you become disabled.⁷

Potential need for more than one policy.

Most disability insurance policies cover only about 60% of a physician’s pay.² But that often applies only to the guaranteed portion of a private practice or academic physician’s base salary, not pay based on clinical productivity. If your employer increases the proportion of your salary that’s based on clinical productivity, you may have to purchase more disability insurance coverage to maintain the same reimbursement. It’s best to do this as soon as possible. Insurance rates rise as you age because your risk of disability increases.

If your primary disability insurance

KEY POINTS

- Physicians who become disabled may face a loss of earning potential that makes it impossible to retain their current standard of living. Disability insurance is key in those situations.
- There are several types of policies (employer-provided, association-provided, personal, etc.) and some may cancel out the benefits of others.
- Premiums are generally lower early in physicians’ careers, when they’re younger and less likely to have preexisting medical conditions.

DEFINITIONS

Accident policy, basic dismemberment	Accidental loss of use of one limb, sight in one eye, or hearing in one ear.
Accident policy, catastrophic dismemberment	Accidental loss of use of both hands, both feet, or one hand and one foot; sight in both eyes; hearing in both ears; or speech.
Reasonable accommodation	“Any change to the application or hiring process, to the job, to the way the job is done, or to the work environment that allows a person with a disability who is qualified for the job to perform the essential functions of that job and enjoy equal employment opportunities. Accommodations are considered ‘reasonable’ if they do not create an undue hardship (usually financial) or a direct threat.” ¹
Recovery benefit	Payment matching the losses for a physician able to work but with an impaired earning potential due to a disability. It’s typically a full match for physicians who have lost at least 75% of pre-disability income and a half match for physicians who have lost less than 75%. The benefit is usually activated with a loss of 15% to 20% of pre-disability income and continues for six to 12 months (in rare cases longer).
Residual disability	Being able to perform one or more, but not all, of the material and substantial duties of your occupation, or being unable to work in your occupation for a set percent of time.
Riders	Policy provisions that add benefits to or amend the terms of a basic insurance policy (e.g., accident riders may include hospital stays, ambulance transport, and certain types of emergency care that aren’t covered by basic disability insurance policies). They may increase the number of times you can claim an injury for benefits or expand the timeframe for eligible injuries to be claimed.
Underwriting process	When a disability insurance company evaluates the coverage sought against the applicant’s risk of becoming disabled, to determine whether to offer a policy and at what rate.

1. Reasonable accommodations in the workplace. ADA National Network. Updated July 2021. Accessed July 26, 2021. <https://adata.org/factsheet/reasonable-accommodations-workplace>

coverage does not provide 100% of your income, consider purchasing an additional policy to fill in the gap. Having at least one private (personal) policy in addition to an employer-provided (group) policy ensures that if you change jobs, you will still have some coverage in the interim. Also, payments from policies purchased with after-tax dollars are not taxable, whereas benefits from an employer-provided or organization-provided group policy paid with pre-tax dollars are taxable.⁸ Physicians are better compensated if most of their long-term disability income comes from a private disability policy or policies.^{2,8}

The right coverage. The best disability insurance policies for physicians are occupation- and specialty-specific. These policies allow physicians who develop a disability to continue to receive 100%, or close to 100%, of their current salary, even if they are still able to work a lower-paying job. This is known as an “own occupation” policy (as opposed to an “any occupation” policy). The key words to look for are “You are not able to perform the material and substantial duties of your occupation, even if you are gainfully employed in another occupation.”⁸ A newly disabled physician who takes a different job with a lower salary will still usually have that salary subtracted from disability benefits, but the combination of the two should keep the physician financially whole. With an “any occupation” policy, a physician who

is able to take a different job may lose benefits entirely.

Own-occupation provisions may be included in a policy’s base coverage or available only as a rider. Only six companies offer own-occupation disability insurance for physicians: Berkshire Life (a Guardian Company), Standard Insurance Company, Principal, Ameritas, MassMutual, and Ohio National.⁷ It is rare even for own-occupation policies to provide full benefits to disabled physicians who can still practice their specialty in a limited capacity, so consider purchasing a policy or rider that includes “residual disability” benefits (see “Definitions”). Residual disability benefits usually include a “recovery benefit” — a monthly supplemental payment to fill the income gap when someone has returned to work after a period of total disability but has not yet returned to full earning potential. Physicians should assess the amount of the recovery benefit, when the benefit is activated, how long it is guaranteed, and whether they must return to their own occupation to receive it.

Other riders to consider. In the past, someone who acquired a disability could forgo paying student loans, but in 2020 those rules changed. Physicians with significant student loan debt should now consider purchasing a rider for their disability insurance policy to pay back all of their loans should they become totally disabled. These riders typically have minimum and

maximum monthly benefits and pay-off periods that begin from the date the policy is issued, not when the benefit period is activated, so they are mainly beneficial to those who become disabled early in their career.⁸

Residents, fellows, and other early-career physicians should also consider purchasing a “future increase rider.” This allows them to increase their coverage as their income grows, without having to buy a new policy and again go through the underwriting process (see “Definitions”). It may also allow them to increase their coverage annually (until a certain age), after a major life event (e.g., marriage or birth of a child), if they’ve gotten a raise of a certain amount, or if they’ve lost employer-provided disability insurance. There are usually limits on how much additional coverage can be purchased, and premiums generally rise along with the benefits.⁸

Most employer-provided disability insurance policies lack a cost of living adjustment (COLA). Physicians should consider adding a COLA rider if needed. Sometimes it can be included in a physician’s portion of the premium for employer-provided disability insurance.

A few disability insurance companies offer retirement protection plans that continue paying what would have been your monthly contributions to your retirement account if you become disabled. This money is placed in a trust that can be invested until age 65, when it begins distributing payments. Monthly benefits up to \$3,800 are offered and can be added to existing disability insurance policies from many carriers.

Trust earnings are usually taxable because the insured is the beneficiary, so consult with an accountant or tax attorney to determine if this makes financial sense for you.²

Factors that affect cost. Physicians’ disability insurance usually costs about 1% to 4% of their current income and between 2%

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and 6% of the monthly disability benefit amount. Premiums increase with age and are 40% higher for women because, statistically, women develop more and longer-lasting disabling conditions than men.⁸ Women can avoid paying higher premiums by seeking plans with unisex rates.

Costs are also higher for those who have certain preexisting medical conditions, use tobacco, drink excessive amounts of alcohol, or have abnormalities discovered during an insurance examination and bloodwork. Occupation is also considered a risk factor for disability. Insurance companies assign professions a risk number (usually on a scale of 1-5 or 1-6) based on the workplace hazards, how difficult it is to return to the job following a disability, and the insurer’s claims experience with that particular profession. Physician specialties that perform surgery or interventional

SHORT-TERM VS. LONG-TERM

	Short-term	Long-term
Injuries or illnesses covered	Temporary, less serious, may prevent working for a few weeks or months	Permanent, more serious, may prevent working for several months or years
Full recovery expected?	Yes	No
Wait time before payments start	Usually 14 days after disability occurs	30 days to two years after disability occurs*
Duration of benefits	Six months to two years	Two to 10 years, or up to age 65 in some cases

* Plans with longer wait times usually have lower premiums, but beneficiaries will have to live off their savings if their short-term disability benefits don’t last for the entire elimination period.

procedures are generally deemed higher-risk than family physicians, but risk classes vary by insurer, so consider obtaining quotes from multiple carriers.⁸

Other factors that drive cost include the number of riders added to the policy, annual income, practice location, length of benefits, and length of the elimination

Make sure you have both short-term and long-term disability insurance coverage.

period.^{7,8} Although it is important to tie benefits to specific job duties, doing so may also increase premiums.

APPLYING FOR DISABILITY INSURANCE

Physicians should purchase disability insurance as early in their careers as possible, including during residency or fellowship training, when they're younger and less likely to have medical conditions that drive up costs.⁸ Discounted organization-provided policies may be available for up to 90 days after training is completed. These are considered group policies, so benefits

may be subtracted from future employer-provided disability insurance.^{2,6,7}

Choosing a carrier. Third-party financial ratings are a useful measure for determining which disability insurance companies are best. Ratings evaluate the insurer's ability to meet its current and future obligations to policyholders. Look for insurers that provide benefits specifically for physicians and offer coverage in your state of residence. If it's important to you to be able to keep your coverage if you move, choose a company that operates in all 50 states and Washington, D.C.^{7,8}

Choosing an agent. We recommend seeking a licensed independent agent or insurance broker who has contracts with multiple insurance companies. Agents who represent only one company are limited to selling that company's policies. They may be able to tell you more about those policies than an independent broker, but they won't be able to tell you if another company is a better fit. Research agents before enlisting their services by reading online reviews and checking biographical web sites that list agents' experience, the companies they represent, and how they are compensated. If you have a preexisting medical condition, speak to a few independent insurance agents to determine which one has the best range of options.⁸ Finally, look for an agent who understands disability insurance for family medicine physicians, specifically. Referrals from other family physicians are one way to find them.

ADDITIONAL RESOURCES

More information about choosing a disability insurance policy is available from the following sources:

- Why millennials should consider disability insurance. *USA Today* (2019). <https://www.usatoday.com/story/money/columnist/2019/01/29/disability-insurance-what-consider-when-buying/2595000002/>
- Buying disability insurance? Read this first! American Academy of Family Physicians Insurance Program (2020). <https://www.aafpins.com/2020/08/buying-disability-insurance-read-first/>
- Seven things to consider before buying disability insurance. *Entrepreneur* (2013). <https://www.entrepreneur.com/article/226687>
- Choosing disability insurance: top 10 things to consider. Marc Whitehead & Associates (2020). <https://disabilitydenials.com/long-term/choosing-disability-insurance/>
- Physician disability insurance. *The White Coat Investor* (2017). <https://www.whitecoatinvestor.com/what-you-need-to-know-about-disability-insurance/>

A COMMON EXAMPLE

Here's a fictional example of what can happen when a physician becomes disabled, based on a combination of actual cases.

A.O., a 35-year-old family physician, was driving home when she swerved to avoid a deer and crashed into a ditch. She suffered a compound fracture of her left tibia that refused to heal and developed a severe osteomyelitis that was minimally responsive to antibiotics. After several failed debridement surgeries, she underwent an above-knee amputation, which required her to use a wheelchair. This prevented her from seeing patients at her clinic because she couldn't maneuver her wheelchair in the old building's small exam rooms. She requested that two exam rooms be

widened to accommodate her wheelchair per the ADA, but her request was denied because the building was on the National Register of Historic Places.

A.O.'s department chair asked her to resign, but instead she decided to go on long-term disability. A.O. expected her employer-provided disability insurance policy to pay 60% of the guaranteed portion of her salary and another policy offered by her medical association to pay for the remaining 40%. Unfortunately, she discovered her employer's insurance policy could subtract the benefits from her medical association policy. This resulted in A.O. receiving only 60% of her salary and experiencing financial difficulties during a very stressful time in her life. With more information and planning, A.O. could have avoided having her employer insurance effectively cancel out the benefits of her association policy.

PITFALLS

As A.O. learned the hard way, it's useful to have at least one private (personal) disability insurance policy, because group policies (including employer-provided policies) typically subtract any benefits from other group disability insurance sources, including Social Security Disability payments. Conversely, personal/private disability insurance plans are almost *never* subtracted from group policy benefits.^{2,8}

Here are more pitfalls to avoid:

- Physicians employed by hospitals are generally offered two different types of disability policies — one available to all staff and one specifically for physicians. The physician-specific policy probably charges higher premiums but, as mentioned, is more likely to keep you financially whole if you become disabled, by covering more causes of disability.

- Some disability insurance policies limit benefits for mental and behavioral health disorders, including substance use disorder, even though these are the most common causes of disability in the U.S.⁹ Watch for plans that cap the duration of benefits for mental illness, or clauses that deny coverage for people who have been treated for a mental disorder in the past. Companies usually require claimants of mental disability to be under a physician's care and demonstrate a desire to improve,⁸

so physicians in that situation must seek treatment regardless of how it affects their ability to obtain a medical license.¹⁰

- Very few disability insurance policies provide health insurance coverage. Unless physicians are able to add a health insurance rider, they will either have to have an employer-provided health plan or purchase a private plan until they become Medicare-eligible. Americans under 65 may qualify for Medicare after a 24-month period of disability, but they must have amassed a certain number of "work credits" that varies by age (for instance, if you become disabled in your 30s, you need 20 credits, or five years of work, to qualify).¹¹

- Physicians who become disabled at a young age may have their retirement compromised if the majority of their income comes from private disability insurance policies that don't include Social Security taxes (as opposed to employer-provided or organization-provided disability insurance, which do). Social Security retirement benefits are based only on taxable income, so physicians with less taxable income must save enough money to compensate for when they receive lower Social Security payments.

- Physicians may face some resistance from their employer, supervisor, or department chair when they decide to activate their disability insurance. Most employer-

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provided, long-term disability policies require physicians to use up their sick leave and short-term disability benefits first, which may take months or even years. During that time the employer will have to cover full or partial salary so, from a cost perspective, employers would rather have physicians resign than depart from their job on long-term disability. Physicians who face pressure to resign can seek help from their medical school, university, or hospital faculty ombudsperson, their human resources

department (if their employer has one), or an attorney who specializes in health law or disability law.

MOVING FORWARD WITH RESILIENCE

Combining a private (personal) disability insurance plan with one or more employer- or organization-provided (group) policies should provide adequate income replacement for physicians who become disabled. Riders can help customize your coverage to fit where you are in your career. (More information about choosing a policy is available from the “Additional resources” on page 14.)

Physicians who have become disabled should not lose heart. The road can be difficult at times, but having a disability has taught each of the authors about resilience, empathy, compassion, gratefulness, and the value of friends and family. It has also strengthened our connection with our patients. **FPM**

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