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INSURANCE OPTIONS

Rest Insured, Rest Assured

Read about the types of insurance policies available to help protect against risk

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Death and taxes may be the only certainties in life, but at least you know when the taxman will come calling. Not so with the Grim Reaper — or any other messenger of calamity, for that matter. Which is why it's critical to protect yourself, your family, and your practice against with the right insurance policies.

Despite the importance of insurance, many experts say chances are high that you don't give insurance the attention it's due.

"When it comes to insurance, most retina specialists (along with most other physicians) don't pay much attention to details," says Lawrence B. Keller, CFP, principal of Physician Financial Services in Woodbury, NY, and a contributor to The White Coat Investor blog. "They're more concerned about saving money in income taxes, investing in the stock market, or looking for new opportunities to increase their income beyond the practice of medicine."

But having sufficient insurance protection should be considered "a fundamental component of a physician's financial plan," Keller says.

Setting basic health insurance aside, this primer hits the highlights of the most common types of other insurance that physicians should consider carrying to protect their lives, livelihood, family, and practice from life's trials and tribulations.

MALPRACTICE INSURANCE: BECAUSE MISTAKES HAPPEN

As a physician, you are likely — and understandably — most concerned about malpractice insurance. Malpractice insurance comes in two basic flavors: Occurrence and claims-made. Occurrence policies cover physicians for acts of malpractice that take place during the policy period, regardless of when they are reported to the insurance company — which can be years after the policy is canceled. Premiums, which can change at the beginning of each policy year, are determined by specialty, location of the practice, and policy limits, as well as the number of claims previously filed against a physician.

Claims-made policies, on the other hand, cover physicians for acts of malpractice that occur and are reported to the insurance company while the policy remains in force. They typically remain in effect for

60 days beyond cancellation. After that period, so-called Reporting Endorsement (aka "Tail") coverage is needed to cover acts of malpractice that occurred while the policy was in force but reported after cancellation of the policy.

How much malpractice insurance retinal physicians should carry depends on a host of factors, including not just where you practice, but where your patients come from. For example, generally speaking, retina practice is a low-risk profession whose specialists are ordinarily pooled with other ophthalmologists, says Robert Wang, MD, a private practice retina specialist who is also a Certified Financial Planner. Dr. Wang adds that choosing the level of coverage in most cases will depend on the state where you practice.

"If you have tort reform, like Texas, the damages for pain and suffering max out at \$250,000, but there's no limit on economic damages like lost wages or medical bills," Dr. Wang says.

"There is a limit of \$500,000 cap for noneconomic damages. So a \$1 million/\$3 million policy would most likely be more than sufficient to cover a retina specialist, and since multiple suits in a year are rare, \$3 million for all claims should be more than sufficient."

However, if the same Texas-based physician treats patients from a state without tort reform, the risks may be different. "A recent ruling stated that if you treat a patient from, say, New Mexico, where there is no tort reform, in the state of Texas, and get sued, you don't get the tort protection even though you treated the patient, and are based, in Texas," Keller says.

Then there's the cost of premiums. Claims-made policy premiums start out less expensive than occurrence policy premiums, but they increase each year until the policy reaches maturity. At that point, the risks associated with claims-made policies are comparable to those of occurrence policies.

"Comparison shop, look for discounts, and look to carriers that specialize in malpractice and your specialty," Keller says. "Take courses to reduce risks that may reduce your premium. And ask questions: Does the company offer discounts to new practitioners? Do you give the insurance company the right to settle a claim on your behalf without consulting you? Are malpractice legal defense costs included in or excluded from the policy's limits?"

LIFE INSURANCE: BECAUSE YOU'RE NOT IMMORTAL

Like most adults in general, the majority of physicians need life insurance to protect their spouse or other dependents in the event of an untimely death. But that's not the only purpose for life insurance.

"Life insurance policies can and do serve a number of different purposes within a broader financial plan," says Evan Powers, a senior financial planner with Cypress Financial Planning in Charlottesville, Va. "In the early years, life insurance is generally an income-replacement technique, protecting a physician's family if something should happen to him and his income stream.

"In the later years, though, it can take on other roles, including estate planning and investment functions."

Although many types of life insurance are available, most come in one of four basic flavors: Term Life, Whole Life, Universal Life, and Variable Universal Life. Which one and how much you need depends on your specific circumstances.

"The amount of life insurance required is largely a function of expected future expenses, and the other assets that are available to help cover those expenses," Powers says. "For a younger physician, a policy that covers 10 or even 20 times his annual income might be advisable. But for an older physician on a firmer financial footing, that may be way too much — at least until estate planning considerations start coming into play."

As with malpractice insurance, life insurance premiums vary widely. Generally speaking, young and healthy physicians can expect to pay between \$500 and \$1,000 a year per \$1 million of coverage for a good 20-year term-life policy, says Powers, who adds a caveat: "Don't necessarily compute your life insurance needs just based on an income-replacement ratio," he warns. "Especially for young doctors with high debt loads, paying off those debts might be the most important role that insurance can play. Envision the problems that your family will be facing upon your death, and buy enough insurance to help solve those problems. Those problems are often unique to each individual; so don't just rely on industry rules of thumb (or the salesman's recommendation) when deciding how much to buy. It's your job to know how much insurance you need — not the insurance company's job."

DISABILITY INSURANCE: BECAUSE ACCIDENTS HAPPEN

Disability insurance comes in two basic types: "own occupation" and "any occupation." Own-occupation policies are the most protective for physicians, and will pay out benefits as long as the physician is unable to perform the duties of the occupation. Conversely, any-occupation policies are typically less expensive, but only pay out if the physician is unable to perform any job at all (or a job for which he or she is reasonably qualified).

"For most doctors — especially those whose skills are particularly specialized — an own-occupation policy is pretty much essential," Powers says.

Disability insurance can — and should — be customized with riders, or add-on coverage, and regularly reviewed and updated to protect physicians as their income and other circumstances change through the years.

"If you're making \$30,000 a month, but your policy is from your first year out of fellowship with a \$10,000 monthly benefit that you can no longer increase, this can come as a real shock if you do become disabled and realize that the benefit amount will barely cover your current lifestyles expenses," says Dr. Wang.

It's important to buy a policy that is flexible enough to grow and change along with the physician's needs, agrees Powers. "Having to go through a new underwriting process every time a change is needed can be inconvenient and potentially expensive."

Thanks to the levels of customization available, disability insurance premiums vary the most of all insurance types. Besides physician specialty, age, health, current income, and the riders chosen, premiums are based on the length of the payment term and the elimination period.

"This is the toughest part of disability insurance policies, because they typically cost the most and come as a huge sticker shock," Dr. Wang says.

"Although a basic, simple disability policy can often be purchased by a young physician for \$1,000 per year or less, additions of riders and options can easily double the annual premium or more," adds Powers. "For older physicians with higher incomes and worse health situations, it's not unheard of for the annual premiums to exceed \$10,000 or even \$20,000 per year."

Buying into a group policy can help reduce costs, but beware of unintended consequences. For example, some group policies aren't portable; a physician who changes employers or breaks off to start his own practice might find it prohibitively expensive to secure a new individual policy.

"Individual policies are much more flexible, more customizable, and are better able to grow along with the physician's needs," Powers says.

The amount of required disability insurance depends on the physician's expected future expenses, and how many other assets the physician owns to help cover those expenses.

"Typically, you want to carry around 70 percent to 80 percent of your monthly income," Dr. Wang says. "This is also typically the maximum amount for which policies will be written. Again, most policies have the ability to increase the benefit (with an increase in premiums) yearly for a fixed period of time. Take advantage of any increases so it matches your current salary and lifestyle expenses."

OTHER TYPES OF INSURANCE

In addition to malpractice, life, and disability insurance, several other types of insurance are worth considering.

- **Business overhead expense (BOE) disability.** For doctors who plan on running their own practice, simply replacing their own income isn't the only thing they'll need to worry about in the event of disability. There could be a number of overhead expenses (e.g., rent, staff costs, utilities) that must be covered even if the physician is unable to work for a period of time.
- **Business interruption.** This type of insurance would help to cover similar types of costs in the event of some disaster that interrupts operation of the business. It is typically available as an add-on to a property insurance policy, and can be considered as a supplement to a doctor's existing disability coverage — in this case, the covered risk is the possibility of the business (as opposed to the physician) being unable to run for one reason or another.
- **Umbrella.** Just as there are personal umbrella policies under homeowners and automobile insurance policies, there are business umbrella policies that can be written to cover all practice locations, business vehicles, and drivers. Stand-alone umbrella policies are expensive, and most

carriers generally won't sell you one unless they insure your automobile, says Keller, adding that it's generally easier to buy umbrella policies from the same broker to ensure coverage coordination and take advantage of multi-policy discounts.

NO SUCH THING AS ONE SIZE FITS ALL

No one looks forward to lawsuits, disasters, or other serious life challenges. But ensuring you have excellent coverage and the right kind of insurance based on your needs can help you weather such storms.

"Insurance policies are personal to each individual's situation," Dr. Wang says. "A policy that might be good for one person might not be appropriate for another. It's important not to fall into the trap of getting 'what my partner has.' Instead, choose the policies and coverage that are most appropriate for you."

The key to remember, notes Power, is that your insurance needs will change throughout your life. "Those needs are rarely static, and often dynamic. The types and amounts of insurance physicians require as residents will differ greatly from what they'll need later in life, as their incomes and goals grow and change. Securing policies that meet those goals while maintaining financial flexibility is key." **NRP**

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