



Module 3: Personal And Professional Insurance



MD Physician Services acknowledges the significant contributions of the author of this resource document, as well as the efforts of the MD Physician Services team.

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Key Learning Points

- ▶ *The importance of having personal and professional insurance*
- ▶ *Before you apply for insurance*
- ▶ *Your personal insurance requirements*
- ▶ *Disability insurance*
- ▶ *Life insurance*
- ▶ *Liability, household and other personal insurance*
- ▶ *Insurance requirements once you are in practice*
- ▶ *Taking ownership for protecting yourself and your significant others*

INTRODUCTION

No one likes to talk about insurance. Who wants to think of such depressing scenarios as loss, liability, disability or death? Many young professionals believe that the likelihood of personal or professional calamity befalling them is remote, and for that reason they do not place a high priority on insurance. A common assumption is that the cost of insurance outweighs the risk that a young person might need its benefits in the foreseeable future. So, is it okay for medical students or residents to defer buying insurance until they can more easily afford the premiums? Absolutely not!

The truth is that your insurance portfolio is the foundation upon which your financial plan is built. We need insurance most when we are deepest in debt, even though it may appear to be difficult to pay for it. Insurance provides financial protection for what we need, when we need it.

This discussion will examine the insurance application process, the personal insurance requirements that you should address now, and insurance requirements once you are in practice. Ask your financial consultant for objective advice about your insurance needs.

BEFORE YOU APPLY FOR INSURANCE

In the course of reading and completing any application for insurance, you may wonder how much detail to disclose about your medical history, health and lifestyle.

Insurance companies are extremely diligent when it comes to verifying the legitimacy of claims, especially those relating to disability and life insurance. There are many examples of claims not paid because further investigation by the insurer revealed that the insured did not completely disclose certain aspects of his/her past medical or personal history.

Suppose you have a medical condition or personal habit that would be of potential concern to the insurer. If you fail to disclose it to your physician and in an application for insurance, in effect, you are trying to defraud the insurance provider.

Case Example: A Social Smoker

The insurance application asks if you have ever used, or when you last used, tobacco products, including smoking cessation products, such as the patch or nicotine gum. You don't smoke regularly, but do sometimes have a social cigarette or cigar. The last occasion was three months ago.

Even if you smoke very infrequently, you should answer yes to using tobacco and identify when you last had a cigarette. The insurer may invite you to reapply in one or two years to have the smoker's status removed. Remember that, during the application process, urine and blood samples are tested for tobacco byproducts.

If you answer no to the use of cigarettes or tobacco byproducts in this scenario, you have misrepresented the facts according to the insurance industry's definition of tobacco use. When the insurance company discovers this fact, your contract might be rescinded, even if you are claiming for a totally unrelated condition.

Note that some insurers now permit non-smoker rates even in the case of occasional cigar use (one per month). If applicable, verify this in the contract.

Key Message

When applying for insurance coverage, be honest. Disclose all information about your health, lifestyle, behaviours and any known medical conditions.

Case Example: Medications Not On The Medical Record

During the fall and winter of your PGY-1 year you experienced significant anxiety and insomnia. You did not disclose this fact or seek counselling with your physician because you did not want the condition recorded in the physician's medical report that was part of your disability insurance application. Instead, you used samples of lorazepam for insomnia and an SSRI for six months to help you deal with the stresses of your first year. You now feel much more confident and are handling the rigours of residency better.

Any use of medications should be answered honestly, regardless of whether you used samples or had a prescription from your physician.

Even if you struggled through your first year without any professional help, you still suffered the symptoms and self-medicated to cope with anxiety and insomnia. Disclosing this information when applying for insurance is important.

It is, of course, professionally inappropriate to self-prescribe or use samples for personal purposes. You should always seek appropriate counselling and treatment for any and all medical conditions. Failing to do so makes you an increased liability to the insurer and, more important, to yourself.

Full disclosure and honesty are essential. The law is absolutely clear that the insured is obliged to disclose all information that may be material in allowing the insurer to assess the risk they are being asked to cover. The insurer determines what is material. Don't gamble with your insurance coverage by failing to disclose relevant information to your insurer, and don't risk your health by not seeking professional help for any and all medical conditions.

APPLYING FOR INSURANCE WHEN PREGNANT

If a physician is not adequately insured before becoming pregnant, she should still apply as soon as possible and not delay.

Insurance may be applied for during uncomplicated pregnancy, but disability insurers will accept applications only during the first two trimesters. An exclusion for "complications of pregnancy" will be applied and can be reconsidered for removal after return to work, provided that the pregnancy continued its course as "uncomplicated".

PERSONAL INSURANCE REQUIREMENTS

Regardless of profession, everyone should review the need for the following personal insurance protection against potential losses or liabilities:

- ▶ Disability or income replacement insurance
- ▶ Term life insurance
- ▶ Mortgage insurance
- ▶ Universal or whole life insurance
- ▶ Home and property insurance
- ▶ Automobile insurance
- ▶ Personal liability insurance
- ▶ Critical illness insurance

Assessing Your Personal Insurance Requirements

Insurance forms the foundation of your overall financial plan. Therefore, the first step in assessing how much personal insurance you need now and in the future is to seek objective advice from your financial consultant. The consultant will

conduct a detailed and unbiased evaluation of the types and amount of insurance you should purchase, which will prepare you to contact insurance providers.

It is critical that you also learn and understand the basic definitions and conditions of the various insurance products. Once you have assessed your needs and understand the coverage that is available, the insurance product should sell itself. Then you can critically appraise various insurance packages and providers, based on quality, detail of coverage and cost.

Who To Talk To About Insurance Products

Anyone can buy insurance directly from an insurance agent or broker. Physicians can also buy insurance from their provincial medical association and MD Management.

Insurance agents. Agents are generally restricted to selling only one insurance company's products. Because agents are paid by salary and/or commission, it is not realistic to expect completely unbiased and objective advice.

Insurance brokers. Brokers, on the other hand, can represent more than one insurance company. Insurance brokers are paid a commission for both the initial sale of the policy and for the ongoing premiums you pay to maintain your coverage. Although insurance brokers can sell the products of several companies, they tend to favour one or two companies that are most likely to accept their recommendation to underwrite the policy. The broker will not, however, be able to negotiate the insurance premium.

Medical associations. Some medical associations do not have brokers or agents. This means that physicians must review the product information themselves and apply directly for coverage. Administrative personnel in the association's insurance department can generally offer information and clarification. In addition, most associations have a customer services representative who can respond to questions and inquiries. Keep in mind here that these representatives may not be licensed and, if not, cannot provide specific advice.

Manitoba and Alberta have licensed insurance advisors. The Ontario Medical Association (OMA) offers the services of licensed salaried insurance advisors to members in the four Atlantic provinces and Ontario. OMA Insurance has an alliance with MD Management and works closely with MD financial and insurance consultants to provide seamless insurance advice to members.

MD Management Insurance Consultants. These experts are an excellent option for physicians who want comprehensive insurance advice. The Canadian Medical Association created MD Management for the sole purpose of serving physicians and their families, and its insurance advisors, like its financial consultants, are in a unique position to offer completely objective and unbiased advice. Because these consultants are salaried, their recommendations are not driven by commission or premium volumes, but are customized for each physician. They will refer you to the insurance provider—whether affiliated with provincial association group plans, private insurance brokers or a combination of both—who will best meet your personal needs.

Who Underwrites And Sells Personal Insurance

Private insurance companies. Anyone can purchase insurance from a private insurer. Each company, traditionally, specializes in certain products, such as life insurance and disability insurance. A contract is made between the individual and the insurance company. Once a policy is established, it should be non-cancellable (by the insurance company) and fully portable, as long as the client continues to pay premiums.

Medical associations, through group insurance plans. Professional associations, such as provincial medical societies, often negotiate with private insurance companies to provide their members with a selection of insurance products. These products are generally available to members only. Exceptions are major medical and dental coverage, which will normally include the spouse and dependants, and life insurance, which is typically available to spouses. With medical association group plans, the insurance contract is between the association and the insurer. An insured member receives a certificate of insurance, verifying his/her coverage.

Portability

Portability of personal insurance is critical for physicians, who may move many times during their medical training and careers. Most provincial association group plans offer very affordable “associate memberships”, so that coverage is portable to wherever a physician moves, in or outside of Canada. For example, if a physician in Halifax is covered by the group plan offered by Doctors Nova Scotia (OMA Insurance), the physician can maintain coverage if he/she moves to British Columbia, or even outside of Canada, by continuing to pay “associate level” dues to Doctors Nova Scotia.

When considering association group coverage, confirm that the insurance is portable, and ascertain the cost of maintaining associate status with the provincial medical association. Deal directly with the medical association to learn the facts about portability of insurance. Don't rely on a private insurance broker to give you correct information about association plans.

Not all medical association group insurance plans are the same. When physicians apply for association insurance, they are restricted by their province of work or current training. Therefore, medical students and residents in some provinces may not have the same options available to them as their colleagues in other provinces. Each provincial medical association's (PMA) website provides easily accessible information to assist here.

But don't wait until you move to a “more favourable” province to insure yourself. Research and critically appraise your insurance provider options, based entirely on the province in which you are now living and working. Your provincial residents' association, provincial medical association, brokers for major private insurance companies and MD Management's financial and insurance consultants can help.

Insurance products are designed by the association to be as cost effective as possible. For this reason, the insurance premiums for an association plan are often less expensive than those for a similar plan offered by a private insurance company. The potential downside is that these premiums are not guaranteed; they are set annually and could increase if there is a bad claims experience. It is advisable to research the past history of the plan's performance and premium increases.

Regardless of who ultimately provides the insurance, you need objective, unbiased advice to ensure that the policy you buy offers you the most cost-effective coverage possible.

Key Message

Insurance is the foundation of your financial plan. Get objective advice to establish your personal insurance needs and identify the most appropriate products.

DISABILITY INSURANCE

Disability insurance should be thought of as income replacement insurance. Physicians should insure their income in the event they suffer a short- or long-term illness or disability.

Case Example: No Income For A Year

A 33-year-old self-employed physician is diagnosed with aplastic anemia and, fortunately, can benefit from a bone marrow transplant. The physician is unable to work for nine months, then returns to half-time work for three months before being able to handle full-time duties. This physician has to make do without any income for the better part of one year. Still, she must meet her financial obligations.

Residents have some disability coverage included as part of their employee contract with their teaching institution, although it ends at the conclusion of residency. Upon completion of training, students and residents are offered guaranteed access to the PMA plans for a limited time (without requirement for evidence of good health).

Medical schools should be advising all trainees that it is never too early to obtain disability insurance. Statistics indicate that, during the course of their professional careers, physicians have a 30% chance of being disabled for at least three months. If, like most physicians, you are self-employed, you will have no paid sick leave. Consequently, you should ensure that you have alternative financial resources to replace lost income. If you are a salaried physician, it is still important to review the disability insurance coverage in your employment contract.

Addressing one's disability and life insurance needs is the first step in the overall financial planning process. Because disability insurance contracts are very complicated, it is essential to obtain expert advice from a financial consultant, as well as objective advice from insurance experts. Consult both advisors together, not independently.

This discussion will review the basics of a disability insurance policy and identify what questions to ask your advisors, so that disability insurance coverage can be customized for your individual needs.

I Plan To Work In An Institution That Offers Me A Salary And Benefits. Do I Need Disability Insurance?

All residents are advised to obtain personal disability insurance (DI) coverage, regardless of future practice prospects. Should you secure a long-term position that guarantees comprehensive short- and long-term disability benefits, you will be able to cancel your personal coverage. Before doing so, however, have an independent expert review the details of the employee benefits plan—especially sick leave and disability insurance—to ensure that your coverage is optimal and meets any eventual need. The option of providing your own DI should be looked at because, in the event you leave the salaried position, you will still have DI in effect. Tax issues of both options should also be reviewed with your accountant.

When Should I Apply For Personal Disability Insurance?

Medical trainees should purchase personal disability insurance coverage before they complete their residency—ideally, during medical school. There are three key reasons for making disability insurance coverage your top priority.

- ▶ The application process takes time. You need time to review options and obtain unbiased advice. The insurance provider also needs time to process and approve an application.
- ▶ Your health risk is better now than it will be in the future. Disability insurance policies are approved based on past medical history and the individual's current risk of becoming disabled (and you are therefore a financial liability to the insurer). You cannot guarantee that you will be as healthy in one year as you are today.
- ▶ Your health today can also secure you a guarantee that you will be able to purchase more insurance in the future with no further medical evidence.

What If I Have A Policy, But It Isn't Ideal For My Needs?

Even if you determine that your current disability insurance is inadequate, the policy should be secure. Applying for an upgraded policy will not negate or jeopardize your existing coverage, whether your application is accepted or turned down.

What If My Application For Disability Insurance Is Turned Down Or Modified?

Approximately 40% of disability insurance applications are initially turned down or modified by the insurer. If you are turned down, have an expert help you to reapply. MD Management's insurance consultants, your provincial medical association insurance department or an experienced insurance broker can assist you.

A modification is an 'exclusion' for coverage. For example, a resident who has had appropriate treatment for seasonal affective disorder may be accepted for disability insurance coverage for all medical conditions except those related to depression. Some residents may be restricted to obtaining coverage that has exclusions or modifications. This is better than no coverage at all, however. Depending on the medical exclusion, there may be a time limit after which you can apply to have the exclusion removed.

In some provinces, the medical associations are now partnering with the residents' association to offer disability insurance to all residents, regardless of health status. For example, the Ontario Medical Association has partnered with the Professional Association of Internes and Residents of Ontario (PAIRO) to create the Essentials disability and life insurance offer, which is available to graduating members of PAIRO, PARI-MP or PAIRN. These plans are precedent-setting because all residents can be guaranteed of being accepted, regardless of whether they have existing health issues. Medical clearance would be required if one wanted to upgrade the "Essentials plan", but the basic plan is guaranteed. Refer to your provincial medical association's or residents' organization website for more information.

Where Do I Buy Disability Insurance?

While the resources for personal disability insurance for residents will vary from province to province, physicians generally choose between two types of professional disability insurance.

Private disability insurance. A few major insurance companies across the country offer individual plans for physicians. The policy is sold by insurance brokers, who are paid a commission by the insurance company for the initial sale and your ongoing premium payments. The policy is portable wherever you go, as long as you maintain the payments. The premium structure can be a fixed rate, determined at the time of purchase, or a stepped rate that increases every five to 10 years. Disability insurance premium rates are determined by age, gender, smoking status and health risk at the time of application. You should review the short- and long-term financial implications of the premium rate structure with your financial consultant.

Medical association group disability insurance. All provincial medical associations offer a group disability insurance plan to physicians who are working in the province, although the coverage and cost can differ across the country. Generally, you need to live and work in the province, and be a member of the provincial medical association, to qualify for coverage. The exception is in the Atlantic provinces, where the Ontario Medical Association's disability insurance plan is made available through the provincial medical societies. Some physician associations also offer disability insurance for medical students.

The medical association group plan is portable if you move from the province or the country, as long as you pay the premiums and provincial association "associate member" dues, which are significantly lower than the full membership fee. The premiums for the medical association group plans are generally less expensive than private policies, and the rates increase only every five to 10 years.

One significant concern is that trainees do not have the same access to medical association group plans in every province. Residents and medical students should investigate their options, based on where they are training at the time of their application. Your financial consultant will be able to tell you what is available in your province.

What Determines The Premium Cost Of Disability Insurance?

Premium rates are based on age, gender, occupation, smoking status, and past and present medical history. Annual premiums can be either fixed to age 65 or increased every 10 years at regular intervals, such as at 35, 45 and 55 years of age. The latter, known as "stepped rates", vary by company and plan.

Initially, it may seem advantageous to have fixed rates for life. Fixed premiums, however, are typically higher than stepped rates at the outset, which is when young physicians have more debt load and monthly expenses. Have your financial consultant project the long-term costs of higher rates now versus later, when the dollar value has deflated and you can afford to pay more. The cost of your disability insurance premiums is not deductible, and should be included in present and future cash flow calculations.

How Much Income Can I Insure?

It is wise to insure as much of your present and future after-tax income as possible. Insurance companies generally insure only 70%, or less, of your net take-home pay, because they want you to have a vested interest to return to work. When you want to increase your monthly benefits, you will need to justify that request based on net income, and apply for the increase or, better yet, exercise a future purchase option.

Although medical residents have limited monthly after-tax income, you can apply for entry-level disability insurance that will offer more after-tax coverage than your resident's salary would otherwise justify.

What Does "Totally Disabled" Mean?

It is important to clarify how your insurer defines "disabled" before you sign a disability insurance contract. Three general definitions exist.

- ▶ **Any occupation.** To meet the terms of this definition, you would be:
 - unable to perform the duties of any occupation for which you are reasonably suited by means of education, training or experience;
 - not employed elsewhere; and
 - under the care of a physician.

Physicians do not want this level of coverage, because it implies that one is not disabled unless one is unable to do any remunerative work. Residents should be aware that their present disability insurance coverage, in most institutional employment contracts, will revert to "any occupation" after one or two years of being disabled.

- ▶ **Regular occupation.** To meet the terms of this definition, you would be:
 - unable to perform the important duties of your regular occupation;
 - not employed elsewhere; and
 - under the care of a physician.

This is the definition that most physicians obtain. In this situation, you are not obliged to do non-medical work if you are not capable of practising medicine anymore. If you decide to do some remunerative work, your benefits will be reduced in proportion to the income you receive from the non-medical income. This is the standard definition under most association and private plans offered to professionals.

- ▶ **Own occupation.** To meet the terms of this definition, you would be:
 - unable to perform the important duties of your regular occupation; and
 - under the care of a physician.

Surgeons and sub-specialists often consider this coverage, but it is debatable whether it is worthwhile for a family physician. For example, if a plastic surgeon lost the use of a hand, "own occupation" could insure full benefits without penalty or reduction if the surgeon started another remunerative profession. Insurance companies review these cases in great detail, and the premiums for "own occupation" are significantly more than for "regular occupation" coverage. To determine whether the ongoing payment of the extra premiums is worth it, do a detailed projection of the cost/benefit and your risk of being totally disabled.

What If I Am Not Totally Disabled?

Most contracts contain clauses that address how your insurance company approaches disability. Insurers use either or both of the following:

Partial disability. This term generally refers to either one's inability to perform some of the duties of the job, or one's inability to perform normal duties for as much time as is normally required. Of the two key measures in defining disability, partial/residual disability will focus on either duties or time, or both. Every insurer will have a specific definition of partial disability.

Residual disability. This is based on the proportion of income that you have lost because of disability. You will receive a similar proportion of monthly disability insurance benefits. For example, if you suffer a 50% loss of income, you will receive a 50% benefit.

You may not need to be totally disabled before you can receive partial disability insurance benefits. It is important to clarify this before you sign a policy.

How Long Do I Need To Be Off On Sick Leave Before I Start To Receive Benefits?

The "elimination period" defines the number of days you must be disabled before you may submit your claim. Your claim must then be adjudicated and accepted, and the initial payout will be made at the end of the first eligible period. The longer the elimination period, the more time you will need to cover your expenses until your benefits start. Common elimination period options include:

- ▶ **30-day elimination period.** You will not receive any income or benefits for the first 30 days of disability. If you are unable to practise for 90 days, and you cannot submit your claim until after 30 days, you will not receive your first benefit payment until 60 days after you stop work. In total, you will receive 60 days of benefits. To prevent additional debt, you would need to set aside 30 days of after-tax income in a dedicated savings plan to self-insure (finance) the elimination period.
- ▶ **60-day elimination period.** Your first 60 days of disability are not covered, and you may receive your first benefit payment at 90 days. For a 90-day disability, you will receive only 30 days of coverage and will need to finance the first 60 days of your illness.
- ▶ **90-day elimination period.** Historically, most residents have chosen a 90-day elimination period, the term most often sold by insurance brokers and agents. In this scenario, you have no coverage for the first 90 days of disability and will receive your first cheque at 120 days. You are obliged to finance your ongoing expenses for 90 days, and hope that the cheque you receive at 120 days will cover your last 30 days of expenses.

There appear to be three reasons why most residents choose the 90-day elimination period. First, the premiums are cheaper, which the resident may feel is more affordable when the application is made. Second, most medical students and residents do not understand the significance of "self-insuring" their elimination period. And third, most medical students and residents have not sought the advice of an expert to help them make informed decisions about their individual insurance needs.

An informal survey of 500 medical residents during the 2001-02 Practice Management Curriculum seminars indicated that:

- ▶ Approximately 85% of respondents chose a 90-day elimination period for disability insurance.
- ▶ 80% had not sought any objective advice before buying their coverage.
- ▶ Approximately 70% did not understand the concept and importance of self-insuring their elimination period. Most respondents assumed that they would simply be able to increase their personal line of credit.
- ▶ Most of the respondents failed to project that their cash flow requirements in two or three years would be significantly greater than their present monthly expense obligations as a resident.
- ▶ Most residents did not consider that their income would increase in the next few years, making the payment of the premiums for the shorter elimination period more affordable.

What Does Self-Insuring Mean?

Self-insuring means setting aside adequate and accessible funds to replace your lost income until the terms of the elimination period have been met. Generally, one is encouraged to set aside at least 90 days of projected take-home income as a contingency. Obviously, this is not possible for the vast majority of medical students and residents—which is all the more reason to apply for an elimination period that meets your projected financial needs in the event you are disabled.

Reasons to consider a 30-day elimination period:

- ▶ You need the most insurance when you have the most debt.
- ▶ If you want a shorter elimination period later on, you will need to reapply and medically requalify for the coverage.
- ▶ If you have a shorter elimination period now and, in a few years, can afford to finance a longer term off work, all it takes is a phone call to your provider to go from a 30-day to a 60- or 90-day elimination period.
- ▶ You can also split the elimination period coverage (e.g., 50% of coverage starting at 30 days and 50% at 60 days.)

Young physicians, residents and medical students need the most comprehensive disability insurance coverage, with the shortest elimination period possible, when they are young and carry significant debt. Your financial consultant should do a detailed projection of several “what if” scenarios to determine the most appropriate coverage for you.

Note that the guaranteed PMA DI plans, such as the Ontario Medical Association’s “Essentials” DI plan have a 90-day elimination period. To upgrade this to a 30-day elimination period, one needs to apply with a medical history review.

What Other Important Disability Benefits Should I Consider?

Additional benefits are often referred to as “riders”. Choosing the appropriate rider is part of your overall financial and insurance planning. While the following are important to consider, this is not a comprehensive list of the benefits and conditions that may be available. Seek expert advice on the current terms of disability insurance plans that you are considering.

FUTURE INSURANCE OPTION (FIO)/ GUARANTEED INSURABILITY BENEFIT (GIB)

The future insurance option/guaranteed insurability benefit (FIO/GIB) feature enables you to increase the amount of monthly benefit, without having to reapply and medically qualify for more coverage. FIO/GIBs are typically structured in fixed increments and are available on a predetermined schedule (e.g., every year). You should ask for the maximum benefit with the shortest time frame. When you apply to exercise your FIO/GIB, your income has to justify the request for increased coverage. You will need to submit tax summary statements, along with your request to exercise the FIO option.

Case Example: Future Insurance Option

Before completing residency, a dermatology resident obtains a disability insurance plan with a \$4,000 monthly benefit and a future insurance option/guaranteed insurability benefit (FIO/GIB) that allows for a \$2,500 additional benefit every year to age 55. After two years in practice, the physician's gross professional income is \$325,000. The overhead is 35% (\$113,750), which leaves the resident with \$211,250 net before-tax income.

Using the Income Ratio Guide from one of the provincial associations, this doctor could have a total of \$8,500 of monthly benefit from all sources. He already has \$4,000. He can financially justify an additional \$4,500. The FIO/GIB allows the doctor to purchase \$2,500 of the \$4,500 with no medical questions asked. For the remaining \$2,000, he either submits medical evidence now, or waits until the next option can be exercised.

In this example, the FIO/GIB provides part of the increase in income replacement coverage that the dermatologist requires without the insurer reassessing the doctor's medical risk. At any time, the doctor can apply for upgraded disability insurance income coverage that requires a medical risk reassessment. In the meantime, the existing FIO/GIB allows for increases in income replacement without medical evaluation.

Cost-Of-Living Adjustment

Ensure that your disability insurance coverage factors in a cost-of-living adjustment (COLA). If you have \$6,000 per month coverage and become disabled in three years, your benefits will be \$6,000 per month, then increase annually by a multiplier that factors in COLA adjustments. Note that, if you bought the \$6,000 coverage in 2012 and do not suffer a disability until 2015, your base rate does not automatically reflect a cost-of-living increase; the COLA clause kicks in only when the benefits start.

Retirement Protection

When you are disabled, you do not have any earned income—so you cannot contribute to your registered retirement savings plan. A retirement protector clause will add, for example, up to an additional \$1,500 per month over and above your monthly income replacement benefit. This particular benefit is invested in a non-registered fund on your behalf to help in retirement.

Remember that, unless other terms have been negotiated, many disability insurance plans terminate when the insured reaches the age of 65 years, so the retirement protector clause is very important.

Special Consideration

Suppose your significant other is a legitimate employee of your medical practice, and is put out of work when you become disabled. Your insurance policy may allow you to factor in the earnings your significant other would lose in such a scenario. Ask your insurance advisor whether you can include such a provision as part of your disability insurance coverage.

A Tax Caution

Never deduct your income replacement disability insurance premiums as a practice expense. If you do, your disability insurance benefits would become taxable earnings and be significantly reduced.

DISABILITY INSURANCE ACTION PLAN

- ▶ **Research and apply for personal disability insurance as soon as possible.**
- ▶ **Investigate what your provincial medical association can offer.**
- ▶ **If you already have personal coverage, review your policy with an objective advisor and, if necessary, reapply for better coverage.**
- ▶ **Get the shortest elimination policy and the best future insurance option you can.**
- ▶ **Remember the importance of a cost-of-living adjustment clause and a retirement protector clause.**
- ▶ **Analyze the pros and cons of “own occupation” versus “regular occupation” coverage, and verify that your contract clearly defines what they mean.**
- ▶ **If your significant other’s employment depends on you, investigate whether his or her income would be covered by your disability insurance.**
- ▶ **Never deduct your income replacement disability insurance premiums.**
- ▶ **If you are salaried and your employer pays your disability premiums, have your accountant review whether it is in your best interest from a tax perspective. It may be preferable to pay for your own disability insurance.**

LIFE INSURANCE

Deciding how much life insurance to get is not simply a guess. Many factors, including your present and projected financial liabilities, family circumstances and dependants, savings and cash flow requirements, are part of a complex calculation that is best managed by sophisticated software and an expert advisor. Have your financial consultant analyze your situation, then calculate and customize your life insurance needs. MD Management, or your PTMA insurance advisor, can easily help you to calculate your life insurance needs—with no obligation to purchase their products.

Case Example: Providing For The Family

Beth is a 32-year-old female physician with children aged 1 and 3. Her significant other makes \$50,000 per year. Her present family debt load (remaining student loan and mortgage) is \$300,000. She wants to ensure that, in the event of her untimely death, her children will be provided for with the same standard of living,

Key Message

Calculating life insurance needs is complicated and requires expert advice from a financial consultant. Don't let the large sums scare you!

and will be able to obtain a postgraduate education. Beth plans for the probability that her significant other will be required to spend more time raising their children, that their family income will be significantly reduced, and that their child care expenses will increase. In the event of Beth's death, how much life insurance would she need to cover these costs?

Financial liabilities will include the immediate expenses related to Beth's death, funeral and legal activities, as well as all existing debt. Then the ongoing costs of daily living, housing, dental and medical expenses, extracurricular activities, leisure and travel must be projected, as well as the long-term costs of providing for university, and possibly postgraduate education, for the children. The possibility that her significant other's health may be compromised should also be considered.

What amount of money would be required to generate enough income, at conservative projections, to provide for all of these potential expenses? In this case example, Beth would be best served with a life insurance plan of well over \$1 million. For example, \$1.5 million, generating 5% per year, would provide the equivalent of about \$75,000 income before taxes.

I Am Single, With No Dependents. Why Should I Get Life Insurance Now?

There are two ways to look at this question. If you are simply planning for the present, then the answer would be that you don't really need life insurance now, as long as your estate can cover the costs of your funeral and debt obligations. What is the likelihood, however, that you will have dependents or a significant other in the next two to five years? Then you will need life insurance. Can you guarantee that you will be as insurable then as you are now?

If you are single and want to defer buying life insurance, make sure you consider your future needs, and make an informed decision. Research the cost and re-evaluate your circumstances annually so that you can proactively purchase adequate coverage when your personal situation is about to change.

What Is The Difference Between Term Life Insurance, And Universal Or Whole Life Insurance?

Term life insurance. Term life is like your car or house insurance: You pay an annual premium for a guaranteed amount of coverage. The premiums are guaranteed for a specific period (or term) and the insurance policy should be guaranteed renewable, generally until you reach the age of 75 or 80 years. The premiums are based on age, sex, smoking status, and past and present health.

Term insurance is relatively inexpensive at the beginning of the plan, especially when you are young, because your risk of dying is very low. As you age, the risk of dying increases, and so does your premium. Only about 3% of term insurance policies are actually paid out, because most people choose to let their policies lapse rather than pay the renewal premiums when they get older.

There is no investment portion to term insurance. If you cancel the policy before you die, you do not get any money back. If you die after the term insurance coverage expires, or if you fail to renew and pay annually, there will be no paid death benefit.

Think of term life insurance as a relatively inexpensive disaster plan that will provide for your dependents in the event you die before you have accumulated an estate that can provide for them. As your net worth increases, your need for life insurance actually decreases, unless you want to guarantee provision for your children whenever you die.

Universal or whole life insurance. These policies guarantee a death benefit, as long as you continue to pay your premiums. If you pay more money than is required to meet your premiums, whole life policies can also provide you with an opportunity to invest in tax-sheltered investment vehicles. Extra money invested in whole life insurance may augment your death benefit, or become available to you later as tax-sheltered investment income to complement your retirement savings plan (RSP). Funds can also be withdrawn, tax free, if you or your significant other has a medical crisis or requires long-term care.

The appropriateness of these policies can be determined only after a consultation with a knowledgeable professional. As a general recommendation, however, medical residents and young practising physicians should buy as much term life insurance as they can reasonably afford. As your net worth increases, your need for life insurance to provide for dependants will decrease. Depending on your personal situation, in 10 to 20 years, you will aspire to be completely out of debt and continue to maximize your RSPs. At that time, you will have the option of reducing or maintaining your term life insurance.

Better still, when you are debt-free, consider a universal life plan as part of your financial and estate planning portfolio.

Where Do I Buy Life Insurance?

Private insurance and not-for-profit provincial medical association group plans (term life and disability income) are available to physicians and spouses (term life). Working closely with MD Management, provincial medical associations also offer a broad range of life plans (universal life, permanent and term plans), as well as private critical illness and disability income coverage to all CMA members and their families.

Mortgage Insurance

Mortgage insurance is a form of term life insurance in which the policy will cover remaining mortgage debt if you die. It is offered by the lending institution that holds your mortgage. The lender becomes the only beneficiary, and the coverage declines as you pay off the principal.

It is not mandatory for you to buy the mortgage insurance offered by the lending institution. In fact, it is often more cost effective to have a financial plan with adequate term life insurance to cover your mortgage and other capital needs (such as funeral expenses) that will arise at the time of your death. This way, the coverage does not decline and you have the option of keeping or ending the coverage.

LIABILITY, HOUSEHOLD AND OTHER PERSONAL INSURANCE

Personal Liability Insurance

Doctors are acutely aware of their need for medical malpractice insurance, but often neglect to adequately cover themselves from being sued for personal liability.

All household, automobile, cottage and office insurance policies will include a basic personal liability clause that covers you and your dependants for \$1-\$2 million. We strongly recommend, however, that you increase your personal liability coverage to at least \$5 million or more, because settlements for loss or injury are much higher than they once were. One effective way to do this is to purchase an “umbrella personal liability plan” that can raise the limit on all of your personal insurance plans. All of your insurance—household, auto, cottage, office—would need to be with the same insurance company that provides the umbrella plan.

Even if it is more cost effective for you to use different providers for your home and automobile coverage, still, verify that you have adequate personal liability coverage for you and your present or future dependants.

Key Message

Personal liability coverage of \$5 million or more is recommended, even for indebted medical residents. Future earnings are factored into increasingly higher settlements.

Case Examples: Personal Liability

A medical resident leaves the stove on in his rented apartment and a fire subsequently destroys the building and the possessions of his fellow tenants. A patient falls in your examination room and breaks her wrist. A mail carrier slips on the ice of your front stairs and breaks his leg. Your spouse is at fault in a car accident that injures the other driver. They all sue for damages.

In all of the above examples, the individuals will be protected if they have adequate personal liability coverage.

You may think that a medical resident with significant debt and little income would have no reason to have personal liability insurance of \$5 million. Note that it is not what you make now, but what you will make later that counts. Future earnings are factored into settlements.

Household, Personal Property And Automobile Insurance

Are you a medical resident who rents an apartment? If yes, have you purchased apartment insurance for fire, theft, contents and personal liability? If not, why not?

It is common sense to adequately insure your home, automobile and personal property. Shop around the many private and group association policies to ensure that you get comprehensive, cost-effective coverage. Don't over-insure, however; the insurance company will not pay \$500,000 to replace a \$300,000 home. You should also evaluate the pros and cons of higher deductibles to reduce premium costs.

Critical Illness Insurance

Critical illness insurance provides a predetermined lump-sum benefit payment (tax free) if the insured experiences one of the listed critical illnesses (typically, up to 24 covered illnesses). A definite diagnosis is required before the benefit can be received. Examples include:

- ▶ ALS and other progressive motor neuron diseases
- ▶ Alzheimer's disease
- ▶ Aortic aneurysm surgery
- ▶ Bacterial meningitis with permanent neurological deficit
- ▶ Blindness
- ▶ Cancer (some exclusions apply)
- ▶ Coma (greater than 96 hours)
- ▶ Deafness
- ▶ Myocardial infarction
- ▶ Heart valve replacement
- ▶ Paralysis
- ▶ Parkinson's disease
- ▶ Significant stroke
- ▶ Conditions may vary between policies.

When such an illness occurs, the insurance company will pay out a lump-sum one-time payment. Many policies, for example, offer \$50,000.

The risk of critical illness increases with age. Therefore, the consideration of such insurance is often deferred until one gets older. The potential benefits of such coverage, however, should be reviewed every time one conducts an insurance portfolio review. Many young professionals, for example, choose to carry enough critical illness insurance to pay off debt. As is the case with life insurance, critical illness coverage can be purchased with a renewable (increasing) or level premium. It is generally advised to choose the lower-cost renewable premium initially, with conversion to a level cost plan at a later date, when cash flow improves.

LIFE AND PERSONAL INSURANCE ACTION PLAN

- ▶ Buy as much term life insurance as you can reasonably afford.
- ▶ Have personal liability insurance of at least \$5 million that covers you and your dependants.
- ▶ Have comprehensive insurance for your house, automobiles, future cottage, etc.
- ▶ Shop around for the most comprehensive, cost-effective coverage.
- ▶ Evaluate your coverage annually to make sure you are adequately insured.

INSURANCE REQUIREMENTS ONCE YOU ARE IN PRACTICE

Once you start to practise, there are other insurance considerations that you should review regularly. Your professional insurance needs will depend on several variables, including where you work; with whom you work; and whether you are self-employed, in an alternative payment plan or fully salaried.

Self-employed physicians should consider *all* of the following insurance coverage provisions.

Practice Overhead Insurance

Any physician who is responsible for paying practice overhead expenses should apply for practice overhead insurance. This coverage complements your disability insurance and is often negotiated at the same time. Just as disability insurance is your income replacement, practice overhead insurance pays the rent, salaries and ongoing practice expenses when you are disabled. The coverage should have a short elimination period, such as two weeks, so that, even if you can manage with no income for a longer period, you won't need to pay practice expenses out of your personal savings for more than a short time. Coverage limits are based on actual practice costs, which you submit or project when you apply for the coverage.

You can insure for 100% of your average monthly practice overhead costs. If your overhead increases or decreases, apply for adjustments. Practice overhead insurance premiums are tax deductible; the benefit is taxable when received, but the expenses used to pay the premiums are deductible.

As with disability insurance, the practice overhead insurance plan has an elimination period. If you are a fee-for-service physician, directly responsible for all of your overhead costs, you should get a short elimination period. If you are part of an alternative funding plan (AFP), wherein you continue to receive capitation payments even when you are disabled, it may be in your best interest to have a longer elimination period for practice overhead insurance. Seek the advice of your financial consultant, accountant and insurance advisors before signing any contract under an AFP.

Office Insurance

While practice overhead insurance covers office operating costs if you are disabled, office insurance covers for fire, theft, loss of contents, and personal injury and liability. Physicians should have at least \$5 million of personal liability as part of their office insurance package.

Medical office insurance entails special considerations that differ from your home insurance. For example, in the event of fire, it would cost much more than the expense of paper and files to re-create all of your medical records. You should insure for the total cost of re-establishing all of your data: materials, staff time, computer and communication systems. If you do not currently offer Workers' Compensation Board compensation coverage to your staff, make sure you have adequate personal liability coverage as part of your office insurance.

Office insurance premiums are tax deductible. As with other insurance policies, there are many private and medical association-sponsored plans to choose from.

Malpractice Insurance

Most Canadian physicians cover their medical malpractice needs with the Canadian Medical Protective Association (CMPA). Most provincial governments offer a significant premium reimbursement package that is specialty specific. If you provide non-clinical professional services that are not covered by the CMPA, you should look into additional professional liability insurance. Verify whether your CMPA malpractice insurance will cover all of your professional activities.

Group Practice Insurance Considerations

A group practice arrangement can be an association (in which expenses are shared), a partnership (in which expenses, income and financial liability are shared), or a combination of the two. Whatever the situation, it is important to ensure that no member of the group is a potential liability to the others in the event of death or disability, or because of personal or professional misbehaviour.

Case Example: Group Practice

The rent for a four-physician group is \$50,000 per year and one member dies one year into a five-year lease. The three remaining associates are unable to find a locum or replacement associate for two years. The deceased's estate was liable for two years of rent and a pro-rated percentage of salary costs, which could be insured in a designated life insurance policy.

Follow these recommendations when negotiating your association or partnership agreement (more information is available in *Module 15. Setting Up Your Office*).

- ▶ Ensure that all group members have adequate and up-to-date disability and practice overhead insurance.
- ▶ Ensure that all members are co-insured and have adequate personal liability coverage in the office insurance policy.
- ▶ Ensure that all members are in good standing with all regulatory colleges and have up-to-date CMPA coverage.
- ▶ Ensure that all associates or partners have designated life insurance coverage to cover their present and future financial obligations to the group.

Key Message

*Ask yourself this question:
If I am not responsible
for insuring these issues,
who is?*

CONSIDERATIONS FOR PHYSICIANS ON SALARY OR ALTERNATIVE PAYMENT PLANS

If you are not responsible or liable for overhead costs, insuring the physical plant or personal liability issues, then you will not require personal overhead or office insurance. You will require malpractice insurance, however.

It is wise to verify the insurance coverage that your employer or institution provides on your behalf. Have a contract lawyer clarify that your vested interests are covered, and that you have no direct or indirect liability for what happens in the workplace.

PRACTICE INSURANCE ACTION PLAN

- ▶ **Have your financial consultant and lawyer review your employment circumstances and relevant insurance needs.**
- ▶ **Have at least \$5 million of personal liability as part of your office insurance package.**
- ▶ **Verify that your malpractice insurance will cover all of your professional activities.**
- ▶ **Review your insurance portfolio annually.**