

“Understanding What Your Disability Insurance Policy Means”

By Ron Cohen, RHU, RR

You might never need to know anything that I am about to tell you, on the other hand, it could make quite a difference if you were to become disabled. Keep in mind, you don't get 2 chances.

Many physicians are familiar with the terms: “Regular Occupation” or “Own Occupation” disability policies. These are contracts that stipulate, in the event you are unable to perform the duties of either “Your Regular or Own Occupation”, you would be deemed totally disabled by the (terms of the contract) and the insurance company.

Well, that may or may not be the case. Here is what most insured's do not realize. Disability insurance contracts, might also stipulate the following requirements as part of the definition of disability:

- a) Medical Care Requirement: **That** you be under the care of a licensed practitioner (other than yourself).
- b) **That** you are not engaged in any occupation

a) The Medical Care Requirement is logical, as it prevents providing an annuity to those physicians (who might not be disabled) and just no longer want to work. It also prevents, malingering and so on. California has mandated (to the Insurance Companies) the REMOVAL of this provision from policies issued in that State. Regardless of your position, be aware of the provision as it may be a requirement of disability.

b) That you are not engaged in any occupation. This clause opens many more doors than most realize. So, what does it really mean?

First, the obvious response is, from the first part of the definition of disability: Your inability to do the duties of "Your Own or Regular Occupation" (b) and now are not engaged in any occupation and (a) under the care of a medical practitioner.

Some contracts only use the base definition and the medical care requirement. When (b) comes into play, it can mean:

If you are engaged in any other occupation, you are NOT totally disabled.

If you are engaged in any other occupation, you need to read further and see if there is a provision for Partial and or Residual Benefits in your policy. What you may find is that now, if you are engaged in another occupation, your INCOME becomes the determining factor as to your benefits, NOT YOUR Regular or Own Occupation.

Income loss will typically be based on: What your original income from your Regular or Own Occupation was vs. what it currently is now, in your new occupation. Without clause (b), if you could not do your regular occupation and were under the care of a licensed practitioner, you would have been paid total benefits. With the addition of clause (b) your policy now becomes (what we call) a Residual Contract, providing loss of income benefits vs. an "Own Occ" Policy.

When Residual Benefits comes into play, income verification is required. This can take time to gather. Typically, carriers will want the last 12 months of income and the last 5 years of tax returns. Using the last 5 years of tax returns, the carrier will generally allow you to choose the highest 2 consecutive years in determining your pre-disability income.

One should also be aware of the fact that, even in a "True" own occupation policy, residual benefits are normally provided. These benefits however, refer only to your returning to your normal occupation and suffering a "loss of income". When used in this case, the residual benefits are more of a recovery benefit as opposed to an income loss benefit. Why? The carrier wants you to get back to your normal occupation as opposed to paying you total disability benefits.

On the other hand, if you are working at another occupation, the benefits normally provided, if based upon percentages of loss, might be less. Here is an example: Let's take a physician that was earning \$120,000 per year. After being disabled and unable to return to his occupation, he decided to teach. His new income is now \$60,000. The percentage of loss here is obviously, 50%. If his policy provided residual benefits and was an Own Occupation policy, he would get 100% of his disability benefit. If the policy provided clause (b) and not engaged in any occupation (and residual benefits), his benefits would be 50% of the monthly benefit for "total disability".

The two policies are not the same. One is clearly based upon a definition of disability, while the other relies more upon income loss. Income loss within the definition of residual, can as well, provide 100% of benefits. If your loss of income (whether you have an own occupation policy or a residual contract), is typically 75% to 80% or greater, the benefits will generally be 100%. So let's look at another physician's disability using both types of policies.

This time, let's use a Radiologist that was earning \$500,000 and now is disabled and earning \$100,000 teaching. The income loss is 80%. Both policies would provide 100% of the Total Disability Benefit. Yet again, they are not the same. Why? The "Own Occupation" policy defines disability as the inability to perform the duties of your Regular Occupation. Nothing is mentioned about "NEW INCOME". Therefore, providing the carrier with income documentation is not a factor here, as opposed to digging up 5 years of income under the requirements of a RESIDUAL CONTRACT.

Whether your policy is an "Own Occ" or a "Residual" contract, most carriers do not force you to seek out another occupation. That choice is normally up to you. What that means, is that the definition of disability in both types of policies does define being disabled as: "Inability to perform the material and substantial duties of your regular occupation". Under the terms of the "Residual Contract", if YOU choose to work at another occupation, your income from that occupation "might result" in a percentage of benefits as opposed to "Total Benefits".

Conclusion: The best way to know, is simply read your policy and ask your agent. If you still have questions, write a letter to the carrier and ask them.

"One thing is certain....change. It is the preparation that makes all the difference." Ron Cohen, RHU, RR